

Using A Valuation Specialist In The Sale Or Transfer Of Your Business

In order to leave your business successfully, you must not only know what you want (when you want to leave, how much money you will need and who you want to sell to) you must know how much your business is worth. For example, if you told your advisors all about your objectives but you couldn't tell them with any certainty what your company was worth, how could they help you reach your destination? It would be similar requesting a map but not knowing if you planned to take a plane, a boat, a car or walk to the destination.

Knowing the value of your business is critical no matter who you plan to sell or transfer to. The primary three exit paths are:

1. Transfer your company to a family member
2. Sell the business to one or more key employees or co-owner(s)
3. Sell to an outside third party

Third Party Sale

Let's look first at sales to third parties. If you plan to sell to an outside third party, you will need an accurate valuation to determine if, after the business is sold and taxes are paid, you will have enough money to achieve your financial goals. A valuation performed in advance will help you decide whether to begin the time-intensive and expensive sale process.

You will also need a business valuation based in reality; rather than on rules of thumb, or what your neighbor sold his business for or any of the other many sources of misinformation. Without a realistic, objective business valuation, how can you make a sound decision?

Retaining a certified valuation specialist to perform this valuation gives you an unbiased valuation. These specialists do not try to sell you a "bill of goods" only to encourage you to list the business for sale.

If you learn that the business is not valuable enough to achieve your definition of financial independence, the



**Michael Wildeveld, CEPA, M&AMI,
CM&AP, CM&AA, CBI, CBB**
michaelw@veldma.com

Veld Mergers & Acquisitions
www.veldma.com
1 Park Plaza, 600
Irvine, CA 92614
[310-652-8066](tel:310-652-8066)

valuation specialist should be able to point out areas where the business performance could be improved. Following his or her advice, you can then work to increase the value of the company.

Insider Sale

If you plan to sell the business to an "insider" (a child, employee or co-owner), a valuation provides all parties with a sense of the true fair market value of the business. Based on the valuation, your advisors can create a plan to provide you with the full value while describing the most tax-advantaged method of how the insider and business can use the cash flow to pay for the business.

Often, to facilitate these sales, minority discounts or marketability discounts are used to place the largest possible amount of total after-tax cash in the departing owner's hands. If discounts are used, they must be substantiated by a certified valuation specialist.

Transfer to Child

If you plan to give even part of the business to children, be aware that the IRS wants to know what valuation method was used. It is concerned that the gift may be undervalued. Therefore, a valuation specialist should substantiate these gifts in anticipation of an IRS inquiry.

In short, in all but the very simplest and low value scenarios, successful Exit Planning requires a valuation that can be relied upon by you, your advisors, and often, the buyers.

The information contained in this article is general in nature and is not legal, tax or financial advice. For information regarding your particular situation, contact an attorney or a tax or financial professional. The information in this newsletter is provided with the understanding that it does not render legal, accounting, tax or financial advice. In specific cases, clients should consult their legal, accounting, tax or financial professional. This article is not intended to give advice or to represent our firm as being qualified to give advice in all areas of professional services. Exit Planning is a discipline that typically requires the collaboration of multiple professional advisors. To the extent that our firm does not have the expertise required on a particular matter, we will always work closely with you to help you gain access to the resources and professional advice that you need.

This is an opt-in newsletter published by Business Enterprise Institute, Inc., and presented to you by our firm. We appreciate your interest.

Any examples provided are hypothetical and for illustrative purposes only. Examples include fictitious names and do not represent any particular person or entity.