

## A Quick Guide to Business Valuations

Every business owner will need to know, sooner or later, the value of their business. Here's a thumbnail guide to the what, how and why of business valuations.

Anyone who owns a business will sooner or later have reason to know what that business is worth. Maybe you're interested in selling, or taking on new partners, or taking out a loan to expand. Or maybe you just want to make sure the value of the business will be enough to give you the quality of retirement you're seeking.

If you've been thinking about getting a professional valuation of your business, here are a few things to keep in mind:

### **WHY WOULD I NEED A VALUATION?**

The most immediate need for a valuation would be when you are considering selling the business. Your valuation will help you set reasonable expectations, and will help you get a fair price.

There are several other reasons for a business valuation:

- **Creating a succession plan:** If you expect your children to succeed you in the management and/or ownership of your business, a valuation can be an essential part of your estate and gift planning. Even if they don't wish to continue owning the business after you're gone, knowing its value will be helpful in planning your estate and divvying up the assets for them.
- **Adding partners:** If you're considering bringing on a new owner, you'll need a current valuation to assess the reasonable buy-in price, a comfort for both the new partner and the existing owners.

## A Quick Guide to Business Valuations *continued*

- **Securing financing:** A lender may require a valuation to give you the funds to expand operations or open a new location. A valuation is typically required for an SBA loan.
- **Owner's death:** If an owner or partner dies, the remaining owners or heirs may want to purchase that equity at fair market value.
- **Divorce:** If you're going through a divorce as a business owner, your business will likely be part of the division of your assets.

### WHAT WILL I NEED TO EXECUTE A VALUATION?

The documents that a valuation professional would want to review might include:

- **Business plan**
- **Organization documents**, including article of incorporation, bylaws, etc.
- At least the **last two years of your business tax returns**
- **Financial statements**, including the balance sheet, income statement, and cash flow statement for the last few years and a budget/projection for the current year
- If applicable, any **licenses and permits, deeds, and certifications** available
- **Contracts** with key customers and vendors
- A **list of material intangible assets**, such as copyrights, patents, email or other customer lists, even records of a robust social media presence

### WHEN SHOULD I GET IT?

A valuation is not the kind of thing you can do once and keep in your back pocket until you need it. Your business and the market are always changing, and that can affect the value of your business. Wait until you have a need for the valuation before you hire a professional to execute one for you.

### HOW WILL MY BUSINESS BE VALUED?

Business appraisers use three primary approaches:

- **Income Approach:** Basically, the expected economic benefit of an investment in the business, accounting for current cash flow, potential changes in revenue growth, and future expected capital expenditures.

- **Market Approach:** The evaluator looks at similar businesses' selling prices to estimate your company's value, similar to a home's value appraisal.
- **Asset Approach:** Measures the fair market value of a company's assets minus its liabilities, similar to the concept of book value.

### HOW DO I FIND A BUSINESS APPRAISER?

- **Ask** your Baird Financial Advisor, CPA or business attorney
- **Look** for one with experience in your industry
- **Make sure** they have relevant experience and have the appropriate credentials, which should be CFA, ABV, CVA, CBA or ASA

Valuing a business is a complicated yet critical step for many small business owners. Baird's Business Owner Solutions group can help; talk to your Baird Financial Advisor about getting started with them.

Please reach out if you or anyone you know would benefit from discussing this topic further.

Find additional financial planning content on [BairdWealth.com](https://www.bairdwealth.com).

©2022 Robert W. Baird & Co. Incorporated. Member SIPC. MC-854585.