

Knowing What You're Worth?What's a valuation and why should you get one?

Before you even consider putting your business on the market, you'll want to get a professional business valuation report. More than just an appraisal, a valuation report uses technical, industrial, geographical, and financial information to help to assess a business' current and future worth. It includes economic conditions, financial analysis, and other information that is then analyzed to assess a business' value on every level—from book value to liquidation value. It's an important resource for business sellers and buyers.

Determining the value of a business is a more of an art than a science. It requires the determination of its future earnings potential, the risks inherent in those future earnings, an analysis of its mix of physical and intangible assets, and the general economic and industry conditions. There's an element of predicting the future, which is why the process isn't fool proof.

So why do you need a business valuation? There are actual several advantages to having a professional business valuation. You're probably considering one in anticipation of selling your business, and in that circumstance, it is certainly a valuable tool. But there are also other business and legal situations that require a detailed valuation—for instance, when a seller is considering a merger, sale, or acquisition, or a shareholder wishes to buy-out other shareholders. Furthermore, government or judicial authorities often require a business valuation for legal matters such as shareholder disputes, divorce proceedings, eminent domain takings, employee stock ownership plans (ESOPs), S corporation election, or breach of contract disputes. Taxable events, such as estate and gift planning, or charitable giving also necessitate a valuation. And finally, a detailed valuation can help identify what's needed to increase the value of the business, attract new capital, or project potential proceeds from an initial public offering (IPO). With so many potential situations requiring a business valuation, it's important to have an up-to-date professional estimate of the value of your business.