**What Is My Business Worth?**

*Today’s climate demands having current, accurate and reliable valuation information available to you at a moment’s notice.*

Business valuations can serve many useful purposes such as developing succession plans/exit strategies, devising shareholder/partnership agreements, evaluating minority interests, merging and acquiring a business, reorganizing a company, or creating incentive stock options. In legal controversies, a valuation analyst and expert witness can assist the legal team in marital dissolutions, estate-related matters, compensatory damage cases, government actions, and much more.

For business owners, business valuations can also be a dynamic strategic planning tool that can enhance, document and support many aspects of a company’s strategic planning process. We, at Asset Stream Advisers often hear the question, “How much is my business worth?” The answer to this question is rarely an easily-available one. This is due in large part to the fact that business valuation practice and theory are still in relative infancy. Also, over the years, the valuation of closely held businesses has unfortunately developed into more of an “art” than a “science.” Partially, this is because of the extreme positions of advocacy many valuators have taken in the past and continue to take today.

Fundamentally, a business valuation provides the value of a certain business interest on a specific date for a particular purpose, and must clearly and convincingly establish how the valuation analyst reached his conclusion. Value is a worthless term by itself because it can mean so many different things. A value found for one purpose can be entirely different from the value for another. Examples of value are: book value, fair market value, minority value, marketable value, investment value, fair value.

In its simplest form, the value of a business can be expressed as follows: V = BS (Benefit Stream) divided by R (Risk). In order to arrive at the numerator, the analyst must determine the type of income to use (definition of income), and project this income over an appropriate time. In order to derive the denominator, a capitalization/discount rate must be computed.

Depending upon the purpose(s) of the engagement and the specific facts and circumstances, the valuation will estimate these key variables by following appropriate steps, collecting credible resources, and ensuring that the data conforms to accepted standards. Some of the factors that the analyst will consider include competition, management ability, financial strength, profitability/stability of earnings, and industry and economic factors and how they affect the business.

The valuation process normally includes five major steps: defining the engagement, gathering necessary information, analyzing the information gathered, estimating the value of the enterprise, and preparing the written valuation report. Throughout this process the valuator must follow and comply with applicable pronouncements and standards. The standards may come from legal precedence, the IRS (tax matters), the US Department of Labor (ESOP’s), and professional certifying associations, such as the National Association of Certified Valuation Analysts (NACVA), Institute of Business Appraisers (IBA), American Society of Appraisers (ASA), and the American Institute of Certified Public Accountants (AICPA).

One of the most difficult, and perhaps one of the most challenging, responsibilities for a valuator is knowing how to combine all the factors that have been gained in the entire process and reach a meaningful conclusion of value that will withstand any challenges. An experienced valuation person will possess professional training, along with experience in taxation, finance, management, and accounting.

The primary purpose of this and future articles is to explore the “scientific” aspects of business valuations, while accepting that valuations include subjective and qualitative factors that will lend themselves to differing opinions and values. Hopefully, as the profession matures and more standards are developed, the difference in values that can result between two experienced professionals will become narrower. *Robert Doughty is President/Founder of Asset Stream Advisers, headquartered in Anchorage, Alaska. He has extensive experience in M&A, Investment banking, business valuations, audit, accounting and tax issues, and business performance/profitability consulting. Bob is a Certified Public Accountant, Certified Valuation Analyst, and holds the FINRA/SEC Series 79 (Limited Investment Banking) and Series 63 (Alaska State Registration)*.

