Business Talk

with Michael Cannon, President & CEO of MCOM Corporation

Business Valuations: An Excellent Way to Understand and Guide the Closely Held Business

The best definition for Business Valuation is the one provided by NACVA (the National Association of Certified Valuation Analysts) and it goes like this;

> "A Business Valuation establishes a value for an entire or partial interest in a closely held business or professional practice, taking into account both quantitative and qualitative tangible and intangible factors associated with the specific business being valued."
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> "One of the most common mistakes business owners make is to confuse Business Valuations with Appraisals. Where a Business Valuation establishes a value for all or part of a complete business, an appraisal focuses on specific tangible assets based on special market knowledge, education, and vocational training possessed by the appraiser."
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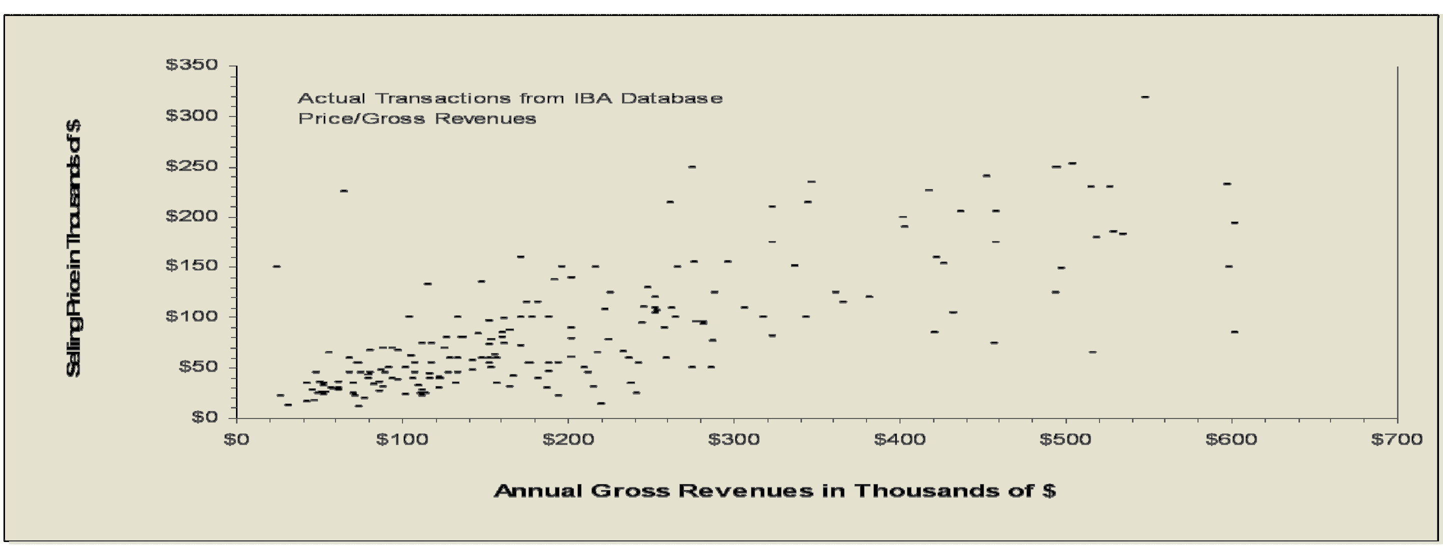
> *NACVA Fundamentals, Techniques & Theory*

The Best Time to do a Business Valuation is *before* you need one.

Many business owners have valuations performed for specific purposes when they are requested by third parties. These can include Tax purpose reasons (Estate Tax, Gift Tax, S Election -net unrealized built-in gains) or other reasons (Dissolution of Marriage, Buy/Sell Agreements, Sale/Purchase, M&A, Goodwill impairment testing, Dissident Shareholder, Litigation or other). But the most important reasons for conducting a Valuation of a business are more related to the life of the business and how to take it to its next step of development; whether it is reorganization, expansion, divestiture, merger or acquisition. A Business Valuation does much more than determine a company's true objective financial value. It gives careful analysis to a whole series of competitive and internal factors that help the owner analyze what course of action is most appropriate to take his company forward.



Common Myths Relating to Business Valuations

Industry multiples or rules of thumb are all you need to value your business.

Many studies have been done that show that businesses with similar revenues are valued at widely varying amounts. This is due to individual circumstances that cannot be accounted for in rule of thumb estimates or industry averages.

Businesses that are losing money are not worth much to anyone.

There are many reasons why a company may show financial statement losses. This can be due to excessive management compensation, improper valuing of intangible assets, or simply because the owner chooses to show as small a profit as possible for tax purposes. A Business valuation will uncover the true FMV value of the asset regardless of what the financials show.

There is a legitimate buyer out there just waiting to pay me what I believe my business is really worth.

Many owners have the erroneous belief that when they put their business on the market buyers will flock to it and pay the price as listed. Most industries where closely held businesses thrive are highly fragmented industries (ex. Medical practices, consulting firms, manufacturing, contractors, retailers, services, etc.) that are full of competitors in some state of acquisition or divestiture. Getting noticed and standing out in a crowded market place is more likely if a proper Business Valuation is used to highlight the legitimate attributes of the company.

The Value of a Business will always remain the same and I can count on getting that amount whenever I decide to sell it.

Timing has everything to do with the sale of a business. A proper Business Valuation will identify the major market and competitive factors that affect a sale and will indicate to owners when is the best time to put it in play.

The Value of the Business will vary according to why it was done.

Some owners believe that the purpose of a valuation will affect its FMV. For example a valuation for an estate tax issue will likely want to see a value as low as possible to pay as little tax as possible. On the other hand a valuation to make a charitable contribution will likely hope for as high a number as possible to increase the size of the tax deduction. All of these intents will not cloud a valuator's judgment and he will follow the IRS guideline of objectively determining the FMV of the business as it objectively stands.

Do you need a Business Valuation? Take the following quiz to see if you already have a clear understanding of what your business is worth.

Is the value of the business estimated based on industry averages or rules of thumb?	Have all asset values been accounted for, including the intangibles?
Have analyses been done for market position, competition, SWOT, or future trends?	Have financial statements been normalized to reflect true company value?
Have litigation and other potential material factors been considered?	Do financial statements show a progressive history and tell a compelling story?
Have Key Man succession strategies been made?	Is there a reliable forecast of future earnings?
Has the company articulated a clear, actionable mission statement to clients and the market?	Have you defined the next stage of your company development and are you staffed for it?
Has a management succession plan been set up?	Do you have a list of potential buyers?

Who We Are

MCOM Corporation is a company specialized in the performance of Business Valuations for a wide variety of industries and business services. MCOM Corporation executives are certified valuation analysts under the National Association of Certified Valuation Analysts (NACVA).

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References Furnished Upon Request.