



## The Benefits of Valuing Your Business

A BUSINESS OWNER ADVISORY SPECIALIST ANSWERS QUESTIONS ON WHY TO VALUE YOUR BUSINESS TODAY, AND WHY DOING SO MAY BE EASIER THAN YOU THINK



**Business owners are a remarkable lot. At the risk of stereotyping, they work hard, embody the entrepreneurial spirit of our country, and pour their hearts and souls into helping their companies thrive. As many can attest, the hours can be long, the stress high and the decisions that need to be made difficult.**

Is it surprising then that a full 98% of privately held companies haven't been valued?<sup>1</sup> On the one hand, one would expect their owners to be laser-focused on the ultimate payoff for their hard work. On the other hand, the time and attention required to run a business leave little room to proactively undergo the valuation process before doing so is necessary.

In a recent interview, Hightower's Business Owner Services and Solutions group (BOSS) explored this issue and provided useful suggestions to help business owners recognize the value and feasibility of proactively and regularly valuing their companies.

Here are summaries of some of the team's answers.

### **Q: Why value your business before you're ready to exit it?**

**BOSS:** The list of reasons is long and important. First, your company's value should serve as the foundation of your financial plan, including your investment allocation. Ultimately, financial planning is about seeking to optimally align your assets, including future inflows, with your future liabilities — the expenses you will incur as you fund your lifestyle and other goals for your life and legacy. And if you don't know the value of what is likely the largest asset on your balance sheet, you can't accurately determine how much risk to take in your investment portfolio, how much you can afford to spend on discretionary expenses (e.g., buying another home, gifting assets to your children, etc.) or when you can afford to retire.

Second, you need a business value to properly insure yourself and your business. Only with a current estimate of your company's worth can you adequately insure against death, disability, property and casualty losses, key-man risk, and if relevant, the sudden loss of another owner in your business (with a buy/sell agreement).

Third, what if you were to receive an unsolicited offer? Even if this seems unlikely or if you think you wouldn't consider selling anytime soon, unexpected offers can throw you for a loop. Without being grounded by a recent estimate, you may be too quick to pursue or dismiss opportunities.



Fourth, without a value, you don't know how much opportunity exists to improve your company's performance, as you can't benchmark it against similar companies in your industry. Knowing your relative value can help you set better goals and identify strategies for improvement.

Finally, planning for your loved ones through your estate plan is also very difficult without a business value. Without an estimate, you're unable to accurately estimate how much of your assets you can transfer to family or charity or how much your loved ones may owe in estate taxes, for example. This can lead to unwelcome outcomes, including missed tax savings opportunities, liquidity issues, and the unintended, inequitable distribution of your wealth to family members.

#### **Q: What are the options for valuing a business?**

**BOSS:** In certain cases, a certified business valuation is needed, meaning one that adheres to the Uniform Standards for Professional Appraisal Practice (USPAP) guidelines. Examples of when you would need this level of analysis and authority include as part of sales negotiations, mergers and acquisitions, or divorce settlements.

But for proactive planning purposes, you don't necessarily need a certified estimate. In fact, certain tools now exist that make obtaining a valuation relatively quick and inexpensive. At Hightower, we have partnered with a patented, online business valuation service, which seeks to empower more business owners to regularly value their companies by reducing the cost and simplifying the process. This offers a nice 'happy medium' solution to business owners — between full-blown certified appraisals and back-of-the-envelope calculations.

#### **Q: Just how difficult is the process?**

**BOSS:** The timing and expenses associated with valuation vary widely based on the size, complexity and other variables specific to the company and reason for appraisal. But a traditional, certified process can cost more than \$15,000 and can take as long as two to three months to complete. However, this is time and money well spent — and required — in many situations.

But this level of commitment should not prevent you from proactively valuing your business for other purposes. The process can be shrunk to hours instead of months and hundreds instead of thousands of dollars by using certain valuation tools and by enlisting help from a financial advisor, accountant or other trusted resources with the collection of data points.

#### **Q: How often should you value your business?**

**BOSS:** A good rule of thumb is once a year. Although, again, this doesn't mean you need to undergo a full-blown certified appraisal each year. Unless you are getting ready to sell your business or experiencing another triggering event, you can simply update your prior year's valuation as much as possible by using a valuation tool to input updated data. At a minimum, even if you don't update your valuation based on current financials, revising it with current market/industry multiples still provides valuable insight.

**Q: What are some real-world outcomes when business owners proactively value their business?**

**BOSS:** Knowing the value of your business opens a range of possibilities. These include:

- Building a better-suited investment portfolio
- Reducing taxes
- Achieving significantly better business performance results due to being able to benchmark against peers and make adjustments where necessary
- Retiring earlier than previously thought possible
- Minimizing family conflict
- Better preparing the next generation to run the business and/or steward family wealth
- Reducing stress from uncertainty
- And the list goes on

**Q: If business owners reading this are interested in pursuing a valuation, what should they do?**

**BOSS:** Reach out to your financial advisor, who can connect you with the right tools and professionals. Financial advisors affiliated with Hightower Advisors have access to the valuation tool I mentioned. They also have access to a strategic network of investment banks and a variety of other resources, including those related to connecting business owners with liquidity, commercial real estate transaction services and solutions for managing concentrated equity positions.





## FOOTNOTES

<sup>1</sup> Early, Jason and Medico, Bill. “Jason Early and Bill Medico on Serving Small Business Owners,” BizEquity, <https://blog.bizequity.com/jason-early-and-bill-medico-on-serving-small-business-owners>. Accessed April 22, 2022.



## DISCLOSURES

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