

## **Business Valuation**

Considered a part of the annual strategic planning process, business valuation is the process of determining the estimated market value of a business enterprise. It is a valuable tool for business owners, stockowners and investors. Business valuation is used for a variety of purposes such as buy/sell agreements, mergers and acquisitions, estate planning, bankruptcies and pension plans.

### **1. Why is business valuation important?**

Business valuation is very important as it is regarded as the heart of a buy-sell agreement instituted between business owners. It is important not only for a business owner preparing for a sale, but also for numerous business and legal situations that need a detailed valuation.

Business valuation is conducted while buying or selling shares to employees, planning gifts to heirs, retiring and selling to other family members, providing adequate key man insurance coverage and creating a basis for compensating key non-family management.

### **2. What are the different business valuation methods?**

There are several methods to determine the market value of an enterprise. Business valuation methods are categorized as market-based methods, income-based methods, asset-based methods and hybrid methods. One can select the method depending on the particular valuation need.

### **3. What are the reasons for conducting a business valuation?**

Business valuation is conducted for the valuation for tax purposes and ownership transfer. Besides, it is necessary for financing or insurance purposes and is an integral part of the individual financial planning process.

### **4. What are the factors to be considered in a business valuation process?**

Business earnings, availability of assets, nature of the business, history of the enterprise from its inception, the enterprise's goodwill and other intangible values, economic outlook in general, outlook of the specific industry, book value of the stock, and the financial condition of the business are some of the factors to be considered during a business valuation process.

### **5. How much do business valuation services cost?**

The cost of business valuation services varies significantly with the size and complexity of the business being evaluated. Other factors such as business cash flow, age of business, owner involvement, revenue, availability of vendor financing and profitability also determine the costs. In general, the cost of business valuation services range from a minimum of \$1,500 to thousands of dollars depending on the size and complexity of the underlying business.