

## Ask a VR Intermediary



**Eduardo Sosa, Owner**  
VR in Coral Springs, FL

### Why Should I Have a Business Valuation?

**Neal Hutton**  
Denver, CO

Dear Neal,

A business valuation helps determine what the market price for your business should be, and shows a qualified buyer the value of owning it. At VR, we will assist you in determining the value of your business when you are considering selling.

When you consult with a VR business intermediary, we will examine a variety of different areas, starting with your business' financial information. This will include profit/loss statements, balance sheet and tax returns, which should be recast to reflect the true earning power of a privately-held business. We will also take into consideration your company operations, customer base, goodwill and intellectual property.

#### Analyzing and Recasting Financial Statements

At VR, we analyze the previous three to five years of how your business performed, and make future projections. We analyze the balance sheet and income statement as these figures relate to other businesses in their industry. Other metrics are examined such as book value and customer retention.

Recasting your business' financial statement is an important tool to present the real earnings history to prospective buyers. Since most small businesses will report net income as low as possible to minimize the taxes, it's critical to ensure we are able to arrive at an accurate value for your business. It will also provide a qualified with a common baseline in *Discretionary Earnings (DE)* to compare earnings from different businesses to yours as well as a way to calculate potential earnings after they purchase the business.

If you own a mid-market business, we will utilize the *Earnings before Interest Taxes, Depreciation and Amortization (EBITDA)*. This is a good earnings measure for large corporations where the professional management team is operating the business with no owner benefits being expensed through it.

#### Examining a Business' Strengths and Weaknesses

With a business valuation, you can examine the business' strengths and weaknesses in order to help improve its infrastructure and marketability. For example, a business that manufactures and sells mattresses retail may show they are making an overall profit; however, it could be losing money from the manufacturing side. Therefore, the solution would be to shut down the manufacturing operation and convert the facility space into another use that the business could benefit.

A strong advantage to having a valuation is that it forces the owner to re-evaluate the direction that they are going; not only with the business but with themselves. If you're putting a lot of time and energy into the valuation process, leaving no stone unturned, you will be able to see how the business is doing financially and operationally compared to other competitors in the market.

What many people don't understand about business valuations is that they are not only for generating a fair market price. A business valuation shows how your business can be run better. You can look at it as an annual checkup from a physician. The worst thing to happen is to have a qualified buyer approach your business, and you don't have an accurate analysis of its worth.

Each VR office worldwide assists businesses in performing extensive and thorough valuations, which will not only situate them better in the long-term but achieve the maximum fair market price.