

# VALUING YOUR COMPANY:

## Knowing Your Worth Makes It Easier to Plan Ahead

Ask business owners how much their companies are worth and they almost always get it wrong. Many owners undervalue their businesses and even more assume a value that's much too high, according to Spardata, a Maryland-based valuation firm.

"Owners invariably think they know what they've got," says Brad Davidson, Spardata's president. But actually they miss the mark by a wide margin. That kind of miscalculation can lead to big planning mistakes. Overvaluing a business, for example, can create retirement planning problems; undervaluing it can create estate planning challenges.

Knowing what you've got is a critical first step, whether the goal is preparing for expansion, creating an exit strategy, planning for retirement or simply putting together an estate plan. Yet many business owners never bother to get a valuation because they don't understand its role in the planning process.

Raymond J. Simoncini, owner of Raymond James Masonry, says the decision to get a valuation not only changed the way he is planning for the future, but also got him to rethink the way he's running his business. Still in his mid-30s, he was busy building his masonry restoration business when the arrival of his first child got him thinking about insurance. One thing led to another, and soon he was doing long-term business planning. "It evolved into an evaluation of the business," he says.

Valuation in hand, Simoncini realized that his business was unlikely to survive without him unless he made changes. Today, he is building a broader management team, separating his personal and business finances, and working to increase the value of the company. "Before, I would have just worked harder," Simoncini says. "Now I understand that I need to work smarter."

There are three ways to value a business. The market approach relies on the sales price of comparable businesses. The asset approach looks at all the tangible assets owned by a company ranging from trucks and machinery to real estate. Then there's the income approach, which uses past performance to calculate a future income stream and then convert it to present value. Each has its uses.

Indeed, good valuations are part science and part art, says Mike Moran, financial services professional with

Boston-based Commonwealth Financial Group, a general agency of Massachusetts Mutual Life Insurance Company (MassMutual). The different methodologies provide the science, he says. "The art comes in evaluating the key attributes of the business owner."

That's because owners, like Simoncini, typically build their companies on the strength of their talents, work ethic, energy and focus. In order for a company to increase in value and move to the next level of growth, however, an owner needs to find a way to replicate those same qualities in key members of the management team.

"It is really hard to teach desire, drive, motivation and work ethic," Moran says, "but we understand that's what makes a business successful in the first place."

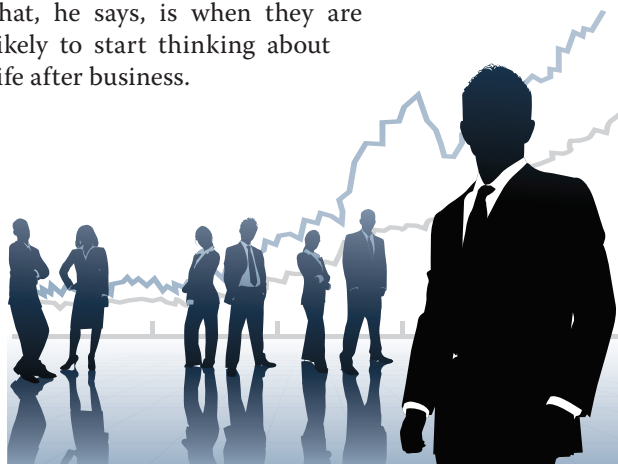
To obtain a true business valuation, business owners should hire a credentialed valuation firm or an appraiser holding a recognized valuation designation, such as CVA (Certified Valuation Ana-

lyst) or ASA (Accredited Senior Appraiser). While some firms offer basic valuations free as part of a broader package of services, comprehensive valuations can cost anywhere from a few thousand to tens of thousands of dollars.

The experts who specialize in valuations say they're getting lots of business these days. Some comes from business owners looking to take advantage of current gift tax laws before they expire; some is coming from owners starting to contemplate their own retirement.

As Davidson puts it, lots of business owners are getting greyer around the temples. And that, he says, is when they are likely to start thinking about life after business.

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