

# WHAT'S MY business worth?

Getting valuation advice by an expert will help you understand the true value of your business – and could save you money.

Every business owner will, at some point, have asked themselves the question: 'How much is my business worth?'. For many, the answer is simple: 'I don't know!'

And, even if someone does arrive at a figure, their estimates are often either grossly over-exaggerated or wildly inaccurate. Many of these mistakes are not designed to be deliberately misleading but rather borne out of ignorance about what actually contributes to their business's value. Kenton May, partner at leading South East accountants Burgess Hodgson, is increasingly finding himself called in to help provide a 'true' valuation for firms – whether as an expert witness in a divorce case or because the owner is preparing to sell the company.

One recent example saw him giving evidence in a case where a business had already been valued by a national firm of accountants, which was acting for the business owner in a divorce case. The wife and her solicitor had concerns that the company had been significantly undervalued. "We were instructed by the solicitors representing the wife, to provide a more accurate picture of the business's value," said Kenton. "There is often a dip in the performance of companies during divorce proceedings: this can be because the management are not spending as much time as they should be on the business or there may even be a desire to suppress the results.

"However the difficulty is in establishing what the company will earn on an ongoing basis: Burgess Hodgson has significant expertise in this area." The worth of a business depends on the return that a purchaser can achieve and the risks involved. Past profitability and asset values are starting points: intangible factors, such as key business relationships, can also provide value.

To determine these 'intangibles' means using an expert like Kenton: "You look at the financial information available and try and quantify how much that company is worth in global terms," explains Kenton. This can be done by using known values for comparable businesses in a similar field. It is often difficult with owner-managed businesses to find direct comparables. Alternatively a Stock Market comparable could be used, the price/earnings ratio established, and a discount applied to arrive at a value for the company.

"You can get an idea of what the company itself is worth, and then you have to look at the shareholding itself, and understand how much the size of the shareholding can influence decisions made by the Board", said Kenton.

There are a number of reasons why someone would want to know the value of their business. The most obvious one is to help buy or sell the firm – understanding the valuation process can help owners choose the right time to sell, negotiate better terms or complete a purchase more quickly. "There is a better chance of a sale being completed if both the buyer and seller start with realistic expectations," adds Kenton.

"Ideally you would look at the last five years' results and at the forecasts," explains Kenton. "Often forecasts with small businesses aren't available, so you would have to try and make some assumptions as to what you think that business could do going forward - with the best indicator being past performance."

It always makes good business sense to make sure that you are buying what you think you are buying. A recent deal that Burgess Hodgson was involved in required Kenton to examine the finer details. Initially it looked like an obvious purchase because it provided access to a lucrative overseas market.

However, on closer inspection, Kenton found that the target company's marketing strategy had shifted away from the market that was so appealing to the purchaser.

"There had been a significant change in the business" explains Kenton. "I raised the point with the vendor and talked through the issues about how it affected the proposition. As a result, our client paid substantially less for the business than it would have done."

And it's not all about buying or selling. Knowing how factors affect the value of your business can be a driver to enable you to focus your energies on those areas which can improve the marketability of the company and ultimately increase your shareholder value.

Whether buying, selling or simply wishing to increase your company's value, understanding the real value of your business and those factors which affect it, is an important commodity in an increasingly competitive market.

Make sure you bring in someone who understands the finer details of business valuations– or you could find yourself losing out.

Burgess Hodgson: forward thinking business advice

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