

Don't Shrug off a Business Valuation *Appraisals can help during tough times*

During tough economic times, it's understandable that many business owners look to cut any nonessential activities from their operations. And, assuming no specific circumstance warrants it, taking the time to assemble the financial documents and engage a qualified appraiser may not seem particularly essential.

Yet, in truth, business valuations shouldn't be shrugged off quite so quickly. When dark economic clouds threaten, an appraisal can provide just the information you need to find shelter from the storm.

Thinking strategically

As the credit market remains at the very least challenging, impressing investors and lenders will continue to demand timely, in-depth financial data regarding your company. For instance, an appraiser might opt to use complex discounted cash flow analyses to arrive at a value estimate for your company that mollifies investors and lenders wary about market conditions and looking for higher returns to compensate them for additional risks.

When performing such an estimate, an appraiser likely will consider a number of company-specific factors — such as management's awareness of market conditions, contingency planning and market exposure risks. In discussing these factors with your appraiser, you may be able to target ways to improve your company's operations in the eyes of investors and lenders.

Plus, going forward, your appraiser will already be familiar with your business. So you may want to consider regular valuations. Many management decisions may not even call for a full-blown valuation report; a calculation letter updating the valuator's previous work often suffices.

Selling the business

The economic slowdown might also have you thinking about selling your business and moving on to other endeavors. Maybe you're not to the point of posting a "For Sale" sign outside your office but simply wondering "What if?" Here a valuation can also be useful.

Persisting in holding equity in a business can actually deprive some owners of a substantial amount of investment income that they could put to better use elsewhere. An appraiser can determine the price you'll need to sell it for, so that the after-tax return on the invested sales proceeds will equal — or exceed — your current take-home pay.

What's more, you can ask your appraiser to include in the valuation report what types of returns your business is likely to produce in the future, once the economy recovers. This data can help increase the sales price when current results aren't so great but long-term prospects are good.

Preserving your estate

Your company's value is a major factor in determining the tax impact of bequeathing, gifting or selling ownership interests in the business. An inaccurate value estimate could leave your heirs facing a substantial estate tax bill that could even force them to sell the company after your death.

It's an appraiser's job to ensure you steer clear of any such inaccuracies. Plus, a valuation can also help assess the adequacy of life insurance coverage and plan an exit strategy for shareholder retirement.

Getting back to the unsteady economy: If you're already thinking about transferring ownership interests to your children, now may be a good time to do it. Why? Because if your business is worth less, you can transfer more shares for the same tax cost. Again, a valuation will help you substantiate a strategy like this.

Last, remember that a valuation may be required for filing an estate tax return and to satisfy any related tax liability in accordance with IRS regulations. So you could help your heirs by establishing a relationship with a qualified appraiser now.

Having an "A-ha!" moment

More than a few business owners have had an "A-ha!" moment following a valuation. Obtaining a comprehensively researched estimate and breakdown of your company's value may very well reveal a clear path forward. And when the economy is casting a fog over much of the business landscape, appraisals can be all the more valuable.