



Unlocking the Benefits of a Valuation

There are several situations in which a valuation could benefit your decision-making around your business and even its marketability.

1 Preparing for a Sale

Knowing what your business may be worth can be extremely valuable if you are considering a sale in the future. Planning for a sale is advisable and as an owner, you should allow time to carefully consider the factors that may enhance or improve the value of your business over time.

In today's active transaction market, it's not uncommon for owners to receive an unsolicited call or have a casual conversation that starts a discussion with a supplier or competitor about selling. It's advisable to be prepared by having relevant valuation information in hand to assist with these discussions.

2 Estate and Financial Planning

Knowing the potential value of a business can help with financial and estate planning. This can include estimating the potential income tax consequences for an estate, should you become ill or see a life change that leaves you unable to function in the business.

A natural next step can be determining the level of life insurance necessary to fund a payment to the estate for the value of the business on death or to pay potential income tax liabilities arising on death.

It is also important to know the value of a business and how important the value is to your family's overall net worth. This is very relevant for retirement and cash flow planning.

3 Business Performance: Comparing Industry Performance Benchmarks

Part of the analysis conducted in a valuation commonly involves a comparison of year-over-year results for the business and a comparison to budget and forecast results. This can lead to a review of trends in the performance of the business. For example, if a manufacturing business has declining gross profit margins, the valuation analysis can explore the root causes and other factors.

In addition, in a valuation assignment, your business may be compared to similar businesses in the industry based on published industry statistics and the valuator's knowledge.

This type of information and review can provide invaluable insight for you as an owner regarding your business' performance.

4 Industry Information and Trends

The valuation assignment may include obtaining background information on the industry, recent trends, growth opportunities, the competitive landscape and other major business influences. You can benefit from a comparison of your business within your industry and against your competitors, if that information is available.

5 Succession Planning Considerations

The potential value of a business usually explores the question of how the value will be realized, perhaps through an eventual third-party sale, transition to a family member, to management or other non-related shareholders. The valuation exercise usually includes a focus on what will happen with the business in the future and can lead to a greater focus on the plan for succession.

6 Review of Leverage and Financing Alternatives

The valuation assignment can include a review of the current debt structure, cash flow and assets of the business, in comparison to available leveraging terms from financial institutions involved in the industry and relevant comparable capital structures.

The result may be that you consider a change in business leveraging and financing, to free up capital in the business for growth or to provide more funds for personal use or wealth accumulation.

7 Comparison to Industry Transactions

Depending on the level and scope, the valuation assignment can provide useful information regarding transactions in the industry through a review of published transactions, public company filings and information or general industry knowledge that might be available through research or inquiry by the valuator.

Information in a valuation report can provide an overview of industry transactions in terms of sales of businesses, consolidations, and mergers and acquisitions.

If the businesses involved in the transactions are comparable to the business being valued, this can add to the reasonableness of a value conclusion and provide key competitive information to business owners.

8 Improving the Value and Marketability of the Business

The valuation exercise can point out areas where your business' performance might improve or for example, how the business might change to be less dependent on the owners' involvement (a concern for potential buyers) or how the financial information systems have to provide more timely information which can help to make the business more marketable at some point in the future.

9 Shareholder Agreements and Minority Shareholders

The valuation of the entire "en bloc" interest in a business is the typical valuation approach. However, the focus may also include the value of different shareholdings and specifically minority interests.

The assignment can involve reviewing the shareholder agreement to understand how the overall value is to be realized amongst shareholders if there was a sale or an owner dies or becomes disabled.

Also, if an interest in a business is not a controlling interest, but a minority position, the value of the interest may be discounted because the shareholder is not in a position to control the business, its profits and cash flows (dividends).

Valuators can be engaged to provide information on reasonable minority and marketability discounts for shareholders that are not in a position to control the business either alone or as part of a group.

This understanding could be extremely important for shareholder relations and managing shareholder expectations in a potential share transfer situation.

10 Strategies for Acquisitions or Divestitures

The valuation assignment can also provide insight into trends within an industry and offer the potential for an expanded view of acquisition and divestiture strategies. For your business, you may want to focus on growth through mergers and acquisitions as a result of a valuation.

Alternatively, there may be parts of a business or its subsidiaries where consideration may be given to selling or combining with other industry players.

11 Canada Revenue Agency (CRA)

Transactions between your family members and related parties can be subject to review by CRA to address whether the value used approximated "fair market value".

The same term is relevant if a taxpayer uses a common tax planning strategy to conduct an estate freeze designed to pass future growth in value of a business to the next generation of family members

Having a valuation performed and a reasonable conclusion and report available to support the transaction price or the estate freeze value, can assist in explaining to CRA the basis for the values used and help with discussions with CRA if they disagree on value.