

How to Prepare for a Business Valuation

You have decided to have your business valued. Now what?

Most Importantly

Most smaller businesses serve a niche that large companies cannot or will not compete in. You may provide a product or service that is just too difficult or costly for large companies to provide. You can react to changing customer and market needs much quicker than a large competitor. You are the speedboat that stops in seconds. The Goliaths are the tankers that require up to 20 minutes to come to a halt.

What Should I Expect From My Valuation Report?

You and your professional advisor require a *timely*, *fair*, and *defensible* valuation.

Timely

Few valuations are prepared on an emergency basis. But waiting months is not what you or your advisors want. Follow up with your chosen valuation firm should not be by on the to-do list of either you or your advisor.

Fair

Fair means fair to all parties. If your valuation supports a filing with a regulatory agency such as the IRS or the Department of Labor, the valuation's conclusion must pass the fairness test to any reviewer. The valuation opinion cannot be biased in any way. Any conclusion deemed unfair can lead to a long and costly audit.

Defensible

While a valuation is an opinion, all opinions are backed by facts. Lack of defensibility may cause the valuation to fall apart under a stressful, costly and time-consuming audit. Our expertise guides us to ask the right questions and gather the necessary facts to provide a valuation report that stands up to an audit.

What Data Will I Need to Gather?

At JBVal, we typically we ask clients for data such as financial statements, tax returns, financial forecasts, agings of receivables and payables, schedules of sales to key customers and purchases from key suppliers. Data gathering should be a simple process. The information we request can be easily obtained directly from your in-place accounting system or your outside CPA.

Why do we need this information?

Historical financial statements and tax returns tell your story. Forecasts speak of the future. Are sales rising, declining or flat? Are your margins improving?

Your receivable and payable agings point out potential difficulties in collecting invoices or in paying bills.

Sales to key customers and key suppliers show customer and supplier concentrations. Both are potential risks to the business.

It is imperative to work with a valuation firm that can analyze this data and write a report to narrate the story behind it. Let's say you have a concentration in customers and no long-term contracts. Compared to another competitor having similar earnings but no customer concentration risk and long-term contracts in place, your company may be worth less, all other factors being equal. Maybe you are one of the few players in your market and have long-term customer relationships backed by contracts. In this case, when compared to similarly profitable but riskier competitors, the company may be worth relatively more.

What Happens After I Submit This Data?

Your valuation professional will analyze this data and compile a list of questions for you in the due diligence interview. These questions are geared to find the story we reference above. Possible questions are:

- Who holds the customer relationships?
- Does one person make all sales and operating decisions?
- What products and services do you provide? To what markets? Why these products, services, and markets?
- Is your customer base changing? Is the need for your products and services growing? Why?

We compare your company's financial data to data of similarly sized companies in your industry. This financial comparison to your peers often spurs questions. For example, if you are more profitable, we'd want to know why and if that higher level of profitability will last.

Since we at JBVal are well prepared, our due diligence interview typically lasts at most an hour or two. If in person, there may be a facility tour. If by video conference, this tour may be virtual.

After the interview, our valuation professional will complete the valuation. Almost all valuations must comply to the same IRS standards. Revenue Ruling 59-60 is the most important of these if you care to look!

We issue a draft report to you and your professional advisors to review for factual accuracy.

The Final Step

The report is issued!

We receive feedback from our clients we are timely, our process is organized and our data requests reasonable and meaningful. As a result, our process should not require much of your time or your staff's time. The report should be completed in no more than 20 to 25 working days.