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Valuate your business

Whether you're developing an exit strategy or responding to the IRS, an appraisal can offer vital data for making decisions

Charlotte Business Journal - by [Bea Quirk](#) Contributing writer

There are several reasons to have your business valuated, or appraised, and the reason that applies to your particular business can affect the type of professional you hire.

"It can be for tax-related purposes, estate planning, change of ownership or if the owner wants a documented third-party point of view," says Ben Howatt, managing partner of **The Howatt Group**, a Charlotte-based business brokerage firm.

Some lenders may also require a valuation before they provide financing, if they are seeking an equity stake.

Howatt notes the Internal Revenue Service often requires a detailed analysis regarding the value of a business, with documentation included.

But a limited analysis may be adequate to use as a basis for negotiation when dealing with a buyer.

"A company is only worth what someone will pay for it, but you need to have a general idea of what it is worth from a third party," Howatt says. "A valuation can be a good starting point."

If you are splitting a company among shareholders or are involved in a legal matter, a more formal valuation may be needed.

"Then you'll have to pay a higher fee," says Kelly Katterhagen, president of **IOA Corp.**, which advises private companies on creating equity value.

For those complex purposes, you'll want to turn to a certified professional.

The National Association of Certified Valuation Analysts (www.nacva.com) or the Financial Industry Regulating Authority (www.finra.org) are good places to start. It also can be helpful to ask for referrals from business colleagues, your accountant or a lawyer.

Meanwhile, your accountant can help you with a less formal analysis.

"It comes down to the current and future earnings of your company," says Justine Tobin, managing partner at locally based **Tobin Solitario Investment Banking**.

Unless you're looking to sell your business, Katterhagen says, "it may be tough to get the attention of



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Make sure the professional who conducts your valuation has experience in your particular industry, advises Ben Howatt, managing partner of The Howatt Group.

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investment bankers."

Professionals typically charge a percentage of your company's valuation.

Whatever kind of valuation you need, there are basic characteristics to look for.

"Valuations are critical to major strategic decisions, so you need to do your homework on a provider," Katterhagen says. You want someone "who is in the market every day."

Adds Howatt: "Make sure they have experience in the field."

A valuation also requires research, Tobin notes. What have similar-sized companies in your industry sold for recently? What are the profit margins for comparable firms?

You need to have your house in order, too. "All your financial information needs to be cleaned up -- and that can be the single most challenging thing facing you," Howatt says. You'll need to provide the valuator with:

- Five years of financial data, including tax returns;
- Information on how you and other key employees are compensated; and
- A history of the company and its industry.

"The time and expense of the valuation can be impacted by the responsiveness of the client," Howatt says. "If you don't provide the data needed, it's going to take longer and cost more."

The process can help you build value into your company and develop an exit strategy. "You always want to understand the value of your company so you can understand what you need to do to maximize profits," Tobin says. "It's like owning a house -- you don't spend 15 to 20 years in one without maintaining it and then sell it."

TOPTIPS

- Seek a professional who has a background appropriate to the kind of valuation your company needs.
- Look for a valuator who has experience in your industry and has knowledge of your market.
- Be prepared to provide in-depth financial information covering at least five years.
- Recognize that a valuation of your business can be a useful tool for making strategic decisions and maximizing your profits.

Bea Quirk is a Charlotte-based free-lance writer who can be reached at beawrites@aol.com.

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