Will You Get Enough if You Sell?

Realistically, you're not going to exit your business unless you know you'll have the financial means to do so. The primary source of that independence will likely be the proceeds from the sale of your business. For that reason, the first thing an owner considering an exit strategy wants to know is, "What is my business worth?" The next question is, "How much do I need once I leave?" How much of a gamble are you willing to take when it comes to financing the next chapter of your life?

Let's look at fictional business owner Neal Thompson to see why a valuation - well before your exit date - is so important.

Case Study

Neal owned a distribution company doing $1 million in cash flow. For years he figured he could sell his business for more than enough money to retire comfortably. He based that belief on what his friend, Katherine, said she earned when she sold her business. His friend had owned a manufacturing business doing $3 million in cash flow. She told Neal she sold her business for $15 million, or five times cash flow. Using the same cash flow multiple, Neal calculated his company was worth about $5 million - more than enough to finance his post-exit life.

When Neal decided it was time to sell and met with a transaction intermediary, he learned that the value of his business was only $3 million. He discovered that the five times cash flow multiple did not apply to his business due to factors outside of his business (market conditions, industry standards) and inside his business (no management team, not enough customer diversity).

Because Neal relied on an incorrect assumption about the value of his business, he had wasted valuable time coasting along to his exit date. Had he retained a professional to estimate value or provide a range of likely sales prices before he was ready to exit, he could have spent his time focused on increasing the value of his business.

The Solution: Knowing the Value of Your Business

Neal failed in a critical aspect of ownership: knowing the worth of his business. By not getting a professional valuation or estimate of value, he never knew how far away he was from the amount he wanted to leave with. He had no accurate information on which to base a plan to grow value.

An accurate valuation of your current business resources:

- Tells you - objectively - how much value you need to add to the business.
- Provides you the ability to monitor your progress toward your ultimate financial objective. *For example, if Neal had discovered that his business was worth $3 million (pre-tax) instead of $5 million, he could have created and implemented a plan to increase value to $5 million by the time he wanted to exit. His plan could have included interim goals and laid out strategies to achieve each interim goal.*
- Determines whether and when you can reach your exit objectives.
- Provides a basis for estimating, and minimizing, tax consequences of exit path alternatives.

Getting Started

If you are ready to exit your business today, tomorrow, or in ten years, you need more than a thumbnail sketch of (or "rule of thumb" approach to) value. An experienced advisor should be able to answer the question: "Can your company be sold today for enough money, after-tax, to allow you to reach all of your exit objectives?" If the answer is no, you can use that knowledge as the basis for a plan to build business value.

For more information or to learn how L. Harris Partners can help you grow your business:

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