

# Valuing your company

How to be ready to sell when the opportunity arises **Interviewed by Jerry Roche**

**O**wners should operate their companies to maximize their selling value, regardless of whether they plan to sell in the foreseeable future.

“You may unexpectedly find yourself in the mode of wanting to sell your business, either because market conditions are great or because the industry is going through mergers,” says Michael O’Rourke, a partner in the accounting firm of Berenfeld, Spritzer, Shechter & Sheer. “You want to be sure you understand what drives the value of your business well before you want to sell.”

*Smart Business* talked with O’Rourke about valuing a business and some of the more important factors that drive value.

## What drives corporate value?

A lot of people — especially owners of small, closely held companies — think of their company in terms of assets. But the company is generally worth a lot more than its assets.

The key is knowing what will drive somebody to buy your company. Sometimes it’s your customer base, sometimes it’s your cash flow, and sometimes it’s your employees.

The company’s intangible value is generally worth more than the tangible value (assets). Some of the elements that contribute to your intangible value are factors like the experience and capability of your work force and managers. Another value driver is how people in the marketplace perceive your company’s worth. Another is efficiency: Is it a well-run machine or a disorganized group of guys chasing their tails? That can make a big difference to a potential buyer, because implementing systems to make a company run smoothly is an extra cost that the purchaser will have to factor into the purchase price.

A consultant or a good accountant can make a preliminary assessment of what he thinks are the important elements for valuation purposes. If you can maximize your value drivers in the ordinary course of business, then you’ll be in a lot better shape when it comes time to sell than



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somebody who is operating without their mind on what drives value.

## What about service businesses?

There’s a difference in the way a service business is valued versus a manufacturer, distributor or importer. The metrics we focus on to determine what a buyer will pay are different. The value of service-oriented businesses — like law firms and architects — is sometimes keyed into the value of the individuals who are participating in the business.

## Is there a right price for every transaction?

Fair market value might be a starting point. It is an objective but hypothetical determinant of what a business should be priced at. Theoretically, the transaction should be based on this hypothetical universe of all potential transactions that takes into account the vast marketplace.

But your ending price may be significantly different from fair market value or theoretical transaction value, neither of which take into consideration your smaller context. Every individual transaction is made up of two people who

have their own motivations and desires. In the end, the right price is what comes out of negotiations between buyer and seller.

## Does the ideal buyer really exist?

Some transactions are financially based, some others are efficiency based. Generally, your ideal buyer is going to be your synergistic buyer, who generally will be able to meld your operations into an existing structure.

For example, there was a big rollup of roofers in this area. All the companies had their own bookkeepers, accounting departments, bidders and other infrastructure. When a buyer has that infrastructure in place, he knows he will get a bottom-line savings, because after the purchase he won’t duplicate overhead costs.

## Is it that important to plan ahead?

One way to look at the sale of your business is as a potential exit strategy. That’s very viable for a lot of entrepreneurs. If that’s the case, you’ve got to start planning for 10 years down the road. If you wait, your options can be very limited and you may miss opportunities along the way.

Another reason to plan ahead is because an unsolicited offer might come your way. Most business owners routinely get unsolicited sales offers or expressions of interest. You can capitalize on offers that come up if you’re aware of how you’re operating your business with a view toward optimizing its value to a potential buyer.

So it really is important to know what your business is worth today, even though you don’t expect to sell it.

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