# A Valuation Toolbox for Business Owners and Their Advisors

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# Foreword:

As a business valuation professional with decades of experience, I have witnessed countless business owners face unnecessary challenges, often with dire financial consequences, due to a lack of understanding about their company's worth. Many of these situations are avoidable, and that is precisely why this valuation toolbox was created.

This compilation of articles, written over my career, serves as a guide for navigating the complex and often misunderstood world of business valuation. Each piece reflects my unwavering commitment to helping business owners avoid pitfalls and make informed decisions that safeguard their financial futures.

From exploring the importance of knowing your business's value, to demystifying valuation methods, and shedding light on common mistakes, this toolbox is designed to empower business owners with knowledge and insights. It also highlights innovative concepts like

unlocking value through human capital—an area that is often overlooked yet critical in today's business environment.

Understanding the true worth of your business is not just about numbers; it's about preparing for opportunities, protecting against risks, and ensuring the longevity of your enterprise. Whether you're planning for succession, considering a sale, or seeking growth capital, a clear understanding of valuation is your key to success.

## A Call to Action

The insights in this toolbox are a starting point, but every business is unique. I encourage you to reach out to me for a free consultation to discuss your specific needs. Together, we can ensure that you avoid the costly mistakes that so many business owners make and position your company for a prosperous future.

Let's work together to uncover your business's true value and create a roadmap to success. Contact me today—I'm here to help.

# Tool #1:

## 7 Reasons Why You Should Get a Business Valuation

Your house and your investment portfolio are significant portions of your liquid assets, and you probably have a general idea of what both are worth at any point in time.

But if you're a business owner, there's a good chance that you don't know the value of your business, even though it may be your largest source of wealth.

Many business owners, CEOs, and CFOs don’t engage in a formal business valuation exercise because they *think* they know the value of their business.

That can be a dangerous assumption.

The following are examples of why business owners and leaders should

engage in a professional valuation exercise.

**1. For potential sale or acquisition:** If you're considering selling your business or acquiring another company, a business valuation can help you determine a fair price for the transaction. It can also help you negotiate better terms and ensure that you're getting a good deal. And if you're not considering a sale at this time, remember that you can always be bought. Meaning that when that interested buyer calls you to explore your strategic options, you'll be at a disadvantage if you don't know your true value.

**2. For financing purposes:** If you're looking to secure financing for your business, a business valuation can help you determine the amount of equity you have in your company. This can help you negotiate better terms with lenders and increase your chances of getting approved for funding.

**3. For estate planning:** If you're planning your estate, a business valuation can help

you determine the value of your business and ensure that your assets are distributed according to your wishes. It can also help you minimize estate taxes and avoid disputes among family members.

**4. For partnership disputes:** If you're in a business partnership and there's a dispute over the value of the business, a business valuation can provide an objective assessment of the company's worth. This can help resolve disputes and ensure that all parties are treated fairly.

**5. For tax purposes:** A business valuation can also be useful for tax purposes. It can help you determine the fair market value of your business, which can be used to calculate estate and gift taxes, as well as capital gains taxes if you sell your business.

**6. For stock-based compensation:** Many companies forgo this valuable compensation tool allowed under Section 409A of the Internal Revenue Code due to valuation concerns. This section of the

Code contains a framework for private companies to follow when valuing their stock. The value of a share of your company's common stock also sets the strike price for stock options. An independent third-party 409A valuation can make this compensation tool accessible and help avoid non-compliant penalties for shareholders.

**7. For financial reporting purposes:** An analysis of an acquired company and its intangible assets may be required for financial reporting purposes. Acquired assets and assumed liabilities are recorded on the balance sheet at their fair value as of the date of acquisition. If you already have goodwill on the balance sheet from prior acquisitions, you may need to have it tested for potential impairment.

## Conclusion

Every business owner should know what their business is worth. Getting a business valuation is an important step in understanding the true value of your

company. If you've done a valuation in the past, it may not be representative of the current valuation, as valuations come with an expiration date.

As a planning tool, it can provide valuable insights that can help you make informed decisions about its future, whether you're considering a sale or acquisition, securing financing, planning your estate, resolving partnership disputes, or dealing with taxes.

# Tool #2

## What Is My Business Worth?

"What is my business worth?"

That's one I get a lot... "Give me a rough idea—back-of-the-envelope."

And as an old mentor of mine known as 'Dr. Value' would say: ***"It Depends."***

Most people don't wake up one morning and think: *"I wonder what my business is **really** worth?"*

Okay, some do. But then they usually lose that enthusiasm at the notion that they might need to spend a few bucks to get the answer.

The reality is that a valuation is typically performed because **someone else** will tell you that you need to have a valuation performed.

It's usually in order for you to complete some other task—**the real objective** if you will.

Here are just some of the reasons that might trigger the need for a business valuation:

**Objective #1:** You're trying to incentivize your key employees with stock-based compensation.

Your accountant advises that you need to have something called a **409A** valuation done.

**Objective #2:** You're trying to gift shares of your business to your children or grandchildren.

Your attorney advises you that you need a valuation to satisfy the requirements of the IRS.

**Objective #3:** You're trying to raise capital either through private equity or a public offering.

You're told by **both** your accountant **and** your attorney that you need to have those stock options valued.

## How to Value the Business

There are several methods used to value a business: the Income Approach, the Market Approach, and the Asset-Based Approach.

- **Income Approach:** Value is derived by discounting future cash flows available for distribution to present value at an appropriate rate of return. The Income Approach represents a quantification of the future dividend-paying capacity of the business.
- **Market Approach:** Value is derived by analysis of the prices at which shares of capital stock of reasonably comparable companies are trading in the public market or the transaction price at which similar companies have been bought or sold. This approach includes an analysis of any past sales of ownership interests in the business being appraised.
- **Asset-Based Approach:** Value is derived by analysis of the individual assets and liabilities comprising

the business. In this approach, the tangible and intangible assets of the business are individually appraised using the various approaches. The Asset-Based Approach involves estimation of the current reproduction cost of the asset, less an estimate of accrued depreciation to reflect physical, functional, and economic obsolescence.

The Asset Approach is best for asset-intensive business or companies facing liquidation. For most operating companies, there are two key fundamental ways to think about the value of your business:

1. **Valuation is forward-looking. The value of your business is equal to the present value of the future monetary benefits it can deliver. (Income Approach).**
2. **The value of your business is equal to what someone else is willing to pay for it. (Market Approach).**

Naturally, the only way to know for *certain* what someone is willing to pay for the business is to put it on the market, but knowing how similar businesses transact will give you the knowledge to make data-driven, informed decisions.

If you're not familiar with these valuation techniques and you'd like to learn a little more, you might enjoy taking a peek into these methods from the perspective of the TV show *Shark Tank*.

## Why It 'Depends'

The value of your business (or business interest) depends on **what** exactly needs to be valued, **why** it needs to be valued, **when** it needs to be valued, and **for whom** it needs to be valued.

A few things to consider:

**1. Is there debt on the balance sheet?** If the answer is 'yes,' the value of your business *depends* on how much. As an everyday example, if your house could be sold for $300,000 today but you have a mortgage (debt) of $200,000, your equity

interest is only worth $100,000. The same is true for the business.

**2. Is your valuation as of a recent date** or do you need to go back in time to say, the date of someone's passing for an estate matter? Markets and valuations change over time.

**3. If your needs pertain to a minority ownership interest** in the business, understand that it will generally be worth less than a controlling interest in the business because there is value associated with the prerogatives of control.

**4.** The value of the minority interest also depends on **what other classes of equity have preference** ahead of it.

**5.** Furthermore, **if that ownership interest is illiquid**, understand that it will be worth less than if it were traded on an exchange or otherwise lacked restrictions on liquidity.

**6.** Using the "back-of-the-envelope" to value a business with a rule of thumb is

not the solution. There is no Silver Bullet of Business Valuation.

## Bonus Tip for Business Owners

Have you been running the business with a strategic goal of trying to minimize your tax payments? If so, that means that your financial statements probably show that you aren't really all that profitable.

Saying it that way has a different feel about it, especially from a potential buyer's perspective, doesn't it?

## NOT. REALLY. PROFITABLE.

And what value might a **not-really-profitable** business have?

Five times zero is still zero.

If a sale or other liquidity event might be on the horizon, you probably should discuss this point with your advisers fairly soon.

So if you do wake up one morning wondering ***"what is my business worth?"*** remember that ***"It Depends."***

# Tool #3

## Top 12 Mistakes Business Owners Make When Valuing Their Company

Valuing a business is one of the most important tasks for business owners, yet many business owners and their CFOs have no idea of the true value of their company.

According to recent survey data published by CNBC, 98% of small business owners didn't know the value of their companies.

A business valuation determines the fair market value of the business, which is important for a variety of reasons including mergers and acquisitions, taxes, investment, and financing. Unfortunately, business owners and CFOs often rely on "back-of-the-envelope" valuations that result in critical mistakes that will either undervalue or overvalue the business.

*Fair Market Value: "the price at which the asset would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of relevant facts"*

Getting the valuation wrong can cost you time, money, and unfortunately in many circumstances, it can cost you a relationship. So be sure to avoid these top 12 mistakes that business owners and their CFOs make when valuing their companies:

**1. Relying on rules of thumb:** A business's industry and market trends influence its valuation, and it's important to rely on the ***right*** benchmarks for comparison. You may have heard that your business is worth 8 times EBITDA, for example. That may have been true at some point and it may even be true now, but markets change and so do the applicable multiples. Furthermore, that multiple is only helpful with some context regarding your company's performance as compared to others in your space. Getting

this wrong can significantly undervalue or overvalue a business.

**2. Overemphasizing assets:** Business owners and CFOs often focus on tangible assets such as equipment, inventory, and buildings, while neglecting intangible assets such as intellectual property, brand value, customer base, and most importantly, employees. These intangible assets can significantly impact the business's valuation, and intangible assets make up the lion's share of a company's value today as compared to previous decades.

**3. Not accounting for liabilities:** Business owners and CFOs often overlook or underestimate their liabilities such as overdue creditor invoices, long-term debt, and legal disputes in the valuation of the company. These liabilities can reduce the business's valuation.

**4. Neglecting the future:** Many business leaders have heard that valuation is done by simply using a Market-based method that relies on an EBITDA multiple.

However, valuation is a forward-looking exercise where future expected performance is key. The income approach values a business based on its future earnings potential, and neglecting this approach can lead to an inaccurate valuation.

**5. Relying on outdated financial statements:** A valuation is always as of a particular date—a snapshot in time. Business owners need to use financial statements that align with the date of valuation when valuing their company. Using outdated financial statements, or the wrong financial statements, can significantly misrepresent the value of business.

**6. Neglecting normalizing adjustments:** Certain extraordinary or non-recurring expenses may warrant adjustment. These 'add-backs' might demonstrate a better profitability picture, and neglecting such adjustments can lead to undervaluing a business.

**7. A lack of objectivity:** Business owners are emotionally attached to their company, and they oftentimes produce overly optimistic forecasts which could result in overvaluing the business. Assumptions that underpin the forecast should be reasonable and well supported. The classic "hockey stick" forecast won't pass the sniff test for investors.

**8. Not consulting professionals:** Valuing a business is a complex task that requires professional help that often includes disciplines like legal, accounting, and wealth management in conjunction with a valuation professional. Business owners who do not consult professionals can make critical mistakes by not considering the entirety of the circumstances or the ramifications of certain decisions from various lenses.

**9. Neglecting discounts:** Privately owned companies lack the liquidity that their publicly traded counterparts enjoy. Since a shareholder in a privately held business can't sell their shares on a stock exchange whenever they choose, a discount for this

lack of marketability reduces the value of their ownership position.

**10. Lack of clarity in the business plan (or no plan at all):** A business plan should outline the company's path forward with documented support for the growth and profitability assumptions. A lack of clarity in the business plan can lead to undervaluing or overvaluing a business, and the **absence** of a business plan could signal a red flag to potential investors.

**11. Believing everything you read on the internet:** This article was originally a "Top 10" list until I came across an article about how to value your business wherein the author recommends to *"multiply your company's annual revenue by your industry's Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) multiplier."* ***PLEASE don't do that! The EBITDA multiple is applied to EBITDA; a revenue multiple is applied to revenue.***

**12. Looking for Shortcuts:** Many business owners seek a "ballpark number," a "30,000-foot view," or a "back-of-the-

envelope" estimate of their business's value. They often turn to free online calculators, not realizing that they get exactly what they pay for—an incomplete and unreliable result. Imagine needing heart surgery: Would you trust the doctor offering a freebie? Yet, some business owners rely on shortcuts when selling their company, transferring ownership through gifts, or issuing stock-based compensation. In doing so, they risk undervaluing their business or giving away too much equity, often without realizing the long-term financial consequences. A proper valuation is not an expense—it's an investment in protecting your business's worth and ensuring sound financial decisions.

## The Cost of Not Knowing the Value of Your Business

Valuing a business is a complex process that requires careful consideration of various factors—many more than what is discussed here.

Not knowing the true value of your business can also lead to unforeseen risks. For example, if you are not aware of the value of your business, you may be underinsured, which can be a major issue if your business suffers a catastrophic event such as a natural disaster or cyberattack.

Additionally, not knowing the true value of your business can lead to operational and financial risks. You may be making decisions based on incomplete information which can ultimately harm your business. For example, if you don't know the true value of your business, you may not be aware of the financial risks associated with taking on too much debt, which can lead to cash flow problems down the line.

It is important to know the true value of your business in order to make informed decisions, attract potential investors, and protect your business from legal and operational risks. And since your business is likely your largest asset, you should monitor its value the same way that you

monitor the value of your house or portfolio.

# Tool #4:

## The Fallacy of Ballpark Estimates: Why a Proper Business Valuation Is Worth the Investment

Imagine you're making one of the biggest financial decisions of your life: selling your business, securing financing, or planning for succession, based on guesswork.

Yet, this is precisely what happens when business owners rely on “ballpark” estimates instead of a professional valuation. At first glance, the appeal of a quick, low-cost estimate is understandable. However, these estimates are riddled with risks, potentially costing you far more than they save. As a business valuation expert with decades of experience, I’ve seen firsthand the damage that a poorly informed estimate can cause.

## The Problem with Ballpark Estimates

The term "ballpark estimate" originates from the idea of a baseball stadium ("ballpark"), where a commentator might roughly estimate the crowd size during a game, giving a general idea rather than an exact count.

A ballpark estimate might give the illusion of clarity, but it is inherently flawed. By definition, it's a rough guess, often drawn from oversimplified calculations or generic industry metrics.

Here's where ballpark estimates fail:

### *They Overlook Critical Variables*

No two businesses are identical, even within the same industry. Ballpark estimates typically rely on generalized figures, such as applying revenue multiples or drawing comparisons to recent transactions.

But these fail to capture the intricacies that make your business unique, such as:

- Customer concentration risk

- Proprietary technology or intellectual property
- Workforce quality and retention
- Market positioning and competitive advantages
- Geographic and demographic influences

A formal valuation digs deep into these factors, offering a comprehensive picture of your company's true worth. Without this detail, you risk undervaluing or overvaluing your business, leading to bad decisions.

***They Ignore the Importance of Financial Quality***

Not all revenue is created equal. Recurring, contract-based revenue typically commands a higher valuation than one-time sales. Similarly, inflated revenue from temporary events or unsustainable practices may mislead potential buyers or investors. Ballpark estimates rarely adjust for financial quality, leaving you with an inaccurate picture.

### *They Assume Market Stability*

Ballpark estimates fail to account for external factors like market trends, industry shifts, or economic fluctuations. For example, a business that thrived under pandemic conditions may not retain its value as the world normalizes. Professional valuations incorporate these considerations, providing a realistic and future-oriented assessment.

### *They Undermine Strategic Planning*

Whether you're planning to sell, seek investment, or make internal decisions, inaccurate valuations can have ripple effects. Overestimating value can lead to unrealistic sale expectations, while underestimating can leave money on the table. Both scenarios result in wasted time and opportunities.

## The Hidden Costs of Ballpark Estimates

The irony of opting for a ballpark estimate to save time and money is that it can end

up costing far more in the long run. Here's why:

### *Mispricing During a Sale*

Imagine selling your business based on an inflated ballpark estimate. Once due diligence begins, buyers will uncover the inconsistencies, eroding trust and possibly derailing the deal altogether. Conversely, an undervalued sale cheats you out of years of hard-earned equity.

### *Higher Financing Costs*

If you're raising capital, lenders or investors will demand a credible valuation. Presenting a ballpark estimate as the foundation of your ask can lead to unfavorable terms or outright rejection.

### *Inadequate Tax and Legal Planning*

Valuations play a critical role in tax strategies, estate planning, and legal compliance. A poorly informed estimate can result in tax inefficiencies or legal disputes that are both costly and time-consuming.

### *Missed Growth Opportunities*

Without a clear understanding of your company's value drivers, it's difficult to allocate resources effectively. A professional valuation provides a roadmap for enhancing value, something a ballpark estimate simply can't offer.

## The Value of a Professional Business Valuation

Investing in a professional valuation isn't just about getting a number. It delivers actionable insights, credibility, and peace of mind. Here are the key benefits:

### *Accurate Benchmarking*

Unlike a ballpark estimate, a professional valuation examines every facet of your business. This includes historical financial performance, market conditions, intangible assets, and future potential. The result is a detailed and accurate reflection of your company's worth.

***Enhanced Credibility***

A professional valuation is conducted by a qualified expert, lending credibility to your numbers. This is particularly important when negotiating with buyers, investors, or auditors.

***Strategic Insight***

A thorough valuation report often highlights value drivers and areas for improvement. This empowers you to take targeted actions to enhance your business's worth over time.

***Peace of Mind***

Knowing your business's true value allows you to plan with confidence, avoiding the guesswork and uncertainty that come with ballpark estimates.

## The Misconception of Cost

The most common hesitation I hear from business owners is that a professional valuation feels like an unnecessary expense. But let me challenge that thinking:

- **It's Not an Expense—It's an Investment:** A professional valuation equips you with the knowledge to avoid costly mistakes, negotiate effectively, and maximize value. It's a tool for generating returns, not just a sunk cost.
- **The Cost of Inaccuracy Is Higher:** Relying on a ballpark estimate could lead to financial losses far exceeding the cost of a valuation. The price of a misstep in a sale, tax planning, or strategic decision-making can be substantial.
- **Professional Valuations Are Scalable:** Valuations can be customized based on your specific needs and budget. A good valuation expert will tailor their approach to provide the most value for your investment.

A professional valuation pays for itself by helping you avoid costly mistakes and capitalize on opportunities. It's an investment in clarity, strategy, and future profitability.

## Think About the Alternatives

Consider the financial and emotional costs of basing major decisions on an inaccurate estimate. How much would it cost you to recover from a failed sale? How would it feel to leave significant value on the table because of an undervaluation?

The cost of a professional valuation varies depending on complexity, but it's almost always less than the cost of a single misstep caused by a ballpark estimate.

## Know Your True Value

As a business owner, you've poured countless hours, resources, and passion into building your company. Don't shortchange that effort by relying on an oversimplified ballpark estimate. Your business is more than a multiple of revenue or a guess based on industry averages—it's a unique entity with its own story, risks, and opportunities.

Investing in a professional business valuation not only ensures you know what

your business is truly worth but also equips you with the tools to make smarter, more profitable decisions. In the end, the real fallacy isn't in the cost of a valuation, it's in believing you can afford to skip it.

***Take the time. Make the investment. Because when it comes to your business's value, "close enough" is never good enough.***

# Tool #5:

## In the Shark Tank, It's All About Valuation

Unless you do what I do for a living, "valuation" probably isn't a word you hear every day.

But it is a word you hear a lot on the TV show *Shark Tank*.

And it's usually a point of controversy.

But why do the entrepreneurs and the Sharks differ on valuation?

### The Pitch

The entrepreneurs are passionate about their business and believe their vision of the future will turn out exactly as presented. The Sharks, on the other hand, know from experience that a lot can go wrong and that most small businesses fail. Therefore, if the Sharks are going to write a big check to an entrepreneur, they will need to get a substantial rate of return

on that investment to compensate them for taking the risk.

Let's start with an example.

You already know that when the entrepreneurs ask for their desired investment, they've placed a value on their company. For example, asking $100,000 for a 10% stake in the company implies a $1 million valuation ($100k/10% ownership = $1M).

But if the Sharks feel that the business is really worth only half of that, they will counter with an offer of $100,000 for a 20% stake. ($100k investment/20% ownership = $500,000 valuation)

If the valuation isn't right for the Sharks, they will pass on the deal, but have you ever wondered how the Sharks determine their valuations?

Sharks are experienced investors and they arrive at their valuations very quickly. But don't let their speed fool you into thinking that they are simply guessing or just being greedy. Although not apparent to the

viewer, the Sharks are utilizing several methodologies in arriving at their valuations.

I'm going to explain what's behind their questions and how the Sharks arrive at their valuations.

## Income-Based Valuation Method

It all starts with the Sharks asking questions about recent sales and profits, but their real focus is on what the business is expected to achieve in the years to come.

This is because, at its essence, the value of a business is equal to the current value of what it is expected to earn in the future.

*In other words, valuation is less about "what have you done for me lately" and more about "what will you do for me tomorrow?"*

So the Sharks will estimate the earning potential of the business for the next few years, and with a Shark-like required rate of return to compensate them for risk, those estimated future earnings can be

converted into a current value through a mathematical technique known as discounting.

This is the premise of an Income-based valuation methodology known as a discounted cash flow analysis.

I won't get into the details, but the important considerations behind the math of a discounted cash flow analysis are:

1) the greater the risk of the investment, the higher the required rate of return to compensate the investor for taking that risk; and

2) the higher the required rate of return that is applied to expected future earnings, the lower the present value of those future earnings.

Without even doing the math, you can understand why the Sharks will not pay a high price for an extremely risky investment.

But the Sharks will do the math, so they know what the risk-adjusted value of the next few years of estimated earnings are

worth. However, those next few years of earnings only tell a part of the story and represent but a portion of the total value of the business.

To get the rest of the story, the Sharks also need to determine the value of the earnings in the years that follow these near-term estimates.

Trying to estimate future earnings for another 10 or 20 years is an exercise that can tax even the best crystal ball, but the Sharks can shortcut the process by considering how long they intend to remain invested in the business, and at what price they might be able to sell their investment at that time.

*To estimate the total value of the business, the present value of the exit price is added to the present value of the estimated near-term earnings or cash flow.*

All of this happens in mere minutes on television… but this is just one method for determining value.

## Market-Based Valuation Method

The Sharks will also use a Market-based valuation method, which is based on metrics by which similar businesses have transacted. If you've ever bought a house, you already understand the principles of comparison and substitution that are inherent in a Market-based valuation method.

For example, when comparing the relative value of different houses, you can calculate the price per square foot to help make an informed decision about what you're getting for the money. This is a type of valuation multiple.

Similarly, when companies are sold (or traded on a stock exchange) their valuation is expressed as a multiple of sales, earnings, or the most ubiquitous: the EBITDA multiple.

*When you hear the Sharks talk about "the multiple" when discussing the entrepreneur's valuation, they are referring to the implied multiple of sales or*

*earnings expressed in relation to the overall valuation.*

For example, if the entrepreneur's desired valuation is $1 million and the business generated $10,000 of sales last year, the price/sales multiple is equal to $1 million /$10 thousand, or 100 times last year's sales. The Sharks will assess these valuation multiples on a forward-looking basis as well (i.e., as a multiple of *next year's* estimated sales).

*When you hear the Sharks complain that "the multiple is ridiculous," you'll know that the lower the financial performance metric (the denominator), the higher the implied multiple; and the Sharks are not keen on paying high multiples for performance that may never materialize.*

Other factors that the Sharks might consider in their valuation include intangible assets, like the value of the brand, patents, and people.

Sharks will also assess how a particular business might fit in with other businesses they already own (synergies) as well as the

fact that their affiliation alone will likely enhance the value of the business, although investors are generally not inclined to pay for what they bring to the table.

Having considered Income-based and Market-based valuation methods, the Sharks have a good idea of what the business is worth, but they aren't done yet.

## Important Considerations for Private Companies

Unlike an investment in publicly traded stocks, an investment in the privately held companies that appear in the Shark Tank can't be exited in a matter of seconds with a sell order.

*All other things equal, the lack of a ready, liquid market to sell the investment reduces the value of the investment*.

The Sharks must also consider a discount for the lack of marketability associated with their investment.

Lastly is the matter of who calls the shots. The Sharks want control and the entrepreneurs do not want to give it to them.

*The controlling interest holder in the business gets the final say on all decisions, and there is real value associated with having that ability.*

The Sharks will also need to consider a discount for lack of control when taking a minority stake in a company.

## Feeding Frenzy Or... *"You're Dead to Me"*

The Sharks now have their valuations—and let the negotiations begin!

The next time you're watching *Shark Tank*, you can impress your friends with your knowledge of valuation.

That's all I have to say on this subject, so for that reason... **I'm out!**

# Tool #6:

## The EBITDA Multiple: The Silver Bullet of Business Valuation

"Valuations are up."

"Multiples are very attractive now."

These are comments that get business owners and shareholders excited, but what does it really mean for **you**?

If you're at a publicly traded company, you can check your firm's stock price and generally know what those comments mean for you, but if you're at a privately held company, you don't have that real-time feedback.

Private-company leaders will regularly tell me about the *"back-of-the-envelope"* valuation that they performed by using an EBITDA multiple that they got from a broker... or from somebody's brother-in-law *"who works in M&A."*

The multiple is usually 5x or 6x in this conversation.

***Although widely used and often relied upon, the Back-of-the-Envelope Method and the Back-of-the-Napkin Method are not accepted valuation techniques.***

Remember the expression: *"He who acts as his own lawyer has a fool for a client?"*

It's kinda like that with doing your own valuation—especially when the stakes are high.

## EBITDA - What It Is and Why it Matters

EBITDA is an acronym for *"Earnings Before Interest, Taxes, Depreciation and Amortization."*

This is just one measure of financial performance and unlike net income, EBITDA removes the cost of debt capital and its tax effects by adding back interest and taxes to earnings.

Let's consider a quick example where two companies have identical revenues but different expense profiles. As you can see

from the chart below, when comparing two companies with different capital structures and levels of investment, the *"I, T, D and A"* components can have a material impact on net income. Adding these elements back to arrive at EBITDA helps to level the playing field in the comparison.

| | A | B |
|---|---|---|
| Revenue | 1000 | 1000 |
| Expenses | 980 | 780 |
| Net Income | 20 | 220 |
| Interest | 120 | 10 |
| Tax | 60 | 10 |
| Depreciation / Amortization | 50 | 10 |
| EBITDA | 250 | 250 |

Although Company B shows more net income than Company A, on an EBITDA basis these two companies are equally profitable. For this reason, EBITDA is an extremely valuable financial metric to consider when valuing a business.

## Where do EBITDA Multiples Come From?

EBITDA multiples are derived from two possible sources: (i) multiples paid in the sale of comparable businesses; and (ii) the trading multiples of comparable public companies. It's critical to properly identify the right set of comparables from which to derive these multiples, just like you would when identifying market 'comps' when buying or selling a house.

It is important to note that there are differences between trading multiples and transaction multiples, but that's a subject for another time.

Multiplying a company's EBITDA by an appropriate EBITDA multiple results in what is called the Enterprise Value conclusion.

## Enterprise Value

Because EBITDA reflects the financial performance of a company **before** the deduction of interest, EBITDA is considered to be available for distribution

to both debt and equity holders. Accordingly, the application of EBITDA multiples results in value of the enterprise in its entirety.

Enterprise value is essentially equivalent to a takeover value.

The use of EBITDA multiples and enterprise value is a convenient way to think about the value of a company because it allows for the separation of the **investment decision** from the **financing decision**.

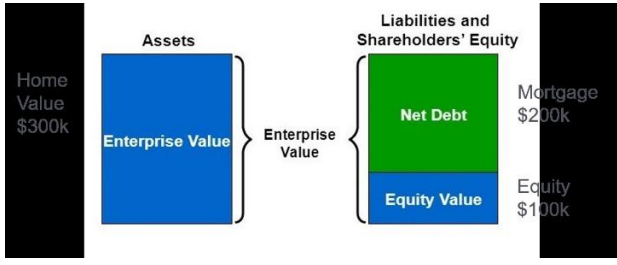
For example, let's think about this with the analogy of buying a house. The house is listed at $300,000 and you would like to buy it.

You now have two key decisions to make.

First, are you willing to pay $300,000 to buy the house (the investment decision) and what amount of money are you going to borrow to make the purchase? (the financing decision).

## Equity Value

In this example, if you are a cash buyer, you'd write a check for $300,000 and you'd own the house. If you can't pay cash or would prefer to take advantage of leverage, perhaps you would borrow $200,000 and write a check for $100,000. In that scenario, it's the **bank** that owns the house and you'd own a portion of the house based on your investment. This is your equity.




The same concepts are true with regard to a business. If the business has no debt, the enterprise value and the total equity value are essentially equal. If the business has debt, just like in the house / mortgage

scenario, the debt would be subtracted to arrive at the equity (ownership) value.

## The Downside of the EBITDA Multiple

The EBITDA multiple is often thought of as a reasonable heuristic or rule of thumb for valuing a business. And while EBITDA multiples are certainly a valuable tool in the context of valuing a business, and generally a key metric in any Market-based valuation methodology, it's important to understand that it is not the silver bullet of valuation techniques.

*Silver bullet: something that acts as a magical weapon; especially one that instantly solves a long-standing problem.*

Here are a few shortcomings to keep in mind when relying on an EBITDA multiple:

**1)** Valuation is a forward-looking exercise. Sure, past performance matters, but what the future holds is more important. Even forward-looking EBITDA multiples can't capture the entire growth picture.

**2)** Speaking of forward-looking EBITDA, is next year's performance going to be better or worse than last year? Which metric and which multiple are most applicable?

**3)** EBITDA is often thought to be representative of cash flow, but it isn't *really* cash flow. Working capital needs and capital spending are not captured in EBITDA and investors will want to understand these aspects of the business.

**4)** Although EBITDA helps in assessing companies with differing capital structures, be mindful that it can also be the proverbial "lipstick on a pig." Companies with large amounts of debt, especially expensive debt, may look a lot more attractive through an EBITDA lens. These companies don't always warrant the same multiple as their debt-free peers, however.

## Pulling it all Together

As a business leader, employee, or shareholder it can be exciting to hear that companies are selling at large multiples.

But before you begin to imagine "what's my business worth?" and what that math might mean for your retirement planning, it's important to remember that valuation is a forward-looking exercise, and the use of historic financial metrics don't tell the whole story.

Furthermore, relying on a single methodology, let alone a single metric, will likely yield unreliable results.

A robust valuation analysis would consider several methodologies, utilizing those that are most appropriate, with results being correlated and synthesized into a meaningful conclusion.

# Tool #7:

## Building a Financial Forecast for Your Business

One of the questions that I ask my clients as we are preparing to work together to perform a valuation of their company is *"do you have a three-to-five-year forecast –something that looks out beyond the current horizon?"*

I ask this because valuation is a forward-looking exercise, and a key element in valuing a business requires the use of an Income-based approach that considers the future cash flows of the business.

A great deal of the time, the answer to my question is "*no—we don't forecast*." Or maybe "*we have an estimate for the rest of this year, but that's it*."

This isn't just coming from small companies—many large and presumably more sophisticated companies are not forecasting in a meaningful way, if at all.

This really shouldn't surprise me after all this time, and yet it still does.

The ability to predict, prepare, and plan for the company's future is a critical skill set. I understand that predicting the future seems impossible, and forecasts may not be met, but the exercise of constructing a forecast is always worthwhile.

A well-constructed financial forecast can serve as a roadmap, enabling businesses to make informed decisions, allocate resources effectively, and better navigate uncertainties. It also is a critical component in assessing a company's value.

## Why is a Financial Forecast Important?

A financial forecast is essentially a projection of a business's future financial performance, including revenue, expenses, and profitability. It provides insights into potential growth, margin expansion / compression, capital needs, and other areas requiring attention. Here's

why a financial forecast is vital for any business:

- **Strategic Planning:** A forecast allows you to set achievable goals, make informed strategic decisions, and allocate resources appropriately.
- **Investor Confidence:** Investors and lenders often require a forecast to gauge the viability of your business and its potential for growth. Your ability to obtain funding may rest on the quality of your forecast. If you've got a loan, the forecast will also help with debt covenant compliance.
- **Cash Flow Management:** Forecasting helps manage cash flow effectively, ensuring that the business has enough liquidity to cover operating expenses.
- **Risk Mitigation:** By identifying potential challenges and risks in advance, you can take proactive measures to mitigate their impact.
- **Performance Assessment:** Actual results can be compared against forecasts to gauge a company's

performance and identify areas for improvement.

## Step-by-Step Guide to Building a Financial Forecast

### *Gather Historical Data*

Begin by collecting historical financial data from your business, including income statements, balance sheets, and cash flow statements. This data will serve as a foundation for your projections.

### *Define Assumptions*

Identify the key assumptions that will drive your forecast. These can include factors like sales growth rate, pricing strategy, customer acquisition costs, profit margins, and market trends. Ensure that your assumptions are realistic and can be easily explained when inevitably questioned by third parties.

***Pro tip: if you're using a spreadsheet to build the forecast, consider putting all of the assumptions on a separate tab to allow for flexibility.***

***Revenue Forecast***

Project revenue based on your key underpinning assumptions. Consider different revenue streams if applicable, and break down projections by product or service categories. Take into account seasonality and any potential external factors that might influence the assumptions. And no hockey stick forecasts, please.

***Expense Projection***

Estimate your operating expenses, including fixed costs (rent, salaries, utilities) and variable costs (materials, marketing, commissions). Categorize expenses and consider how they might change as your business grows. A convenient way to sometimes think about this is to estimate certain expenses as a percentage of revenue. Also consider any necessary capital expenditures.

***Income Statement Projection***

Combine your revenue forecast and expense projection to create a projected

income statement. This will provide a clear picture of your expected profitability over the forecast period.

***Balance Sheet Projection***

Forecast your assets, liabilities, and equity. This helps you understand how your business's financial position will evolve over time. Ensure that your balance sheet remains balanced (Assets = Liabilities + Equity).

***Cash Flow Projection***

Based on your income statement and balance sheet projections, create a cash flow forecast. This will help you manage your cash flow effectively and identify potential periods of cash needs.

***Sensitivity Analysis***

Perform a sensitivity analysis by adjusting your assumptions to see how changes in variables impact your forecast. This provides insights into the robustness of your projections and helps you prepare for different scenarios. Building the model in a way that allows for ease of adjusting

assumptions will allow you to pressure-test the business to understand a variety of potential outcomes.

***Review and Refine***

Regularly review and refine your forecast as you gather more data and insights. Think of it as a "living document" and adjust your assumptions based on actual performance and market conditions. A good test for the reasonableness of assumptions is to compare historic measures with what's being forecasted. Significant variations will identify areas to explore further, as will trend analysis.

***Communicate and Monitor***

Share your forecast with stakeholders, such as investors, lenders, and key team members as required. Keep them updated on actual performance compared to projections. If deviations occur, analyze the reasons and adjust your forecast accordingly. Sharing a robust financial model with investors can not only help you to get a deal done, but possibly get it done on better terms.

## Conclusion

A well-constructed financial forecast is a powerful tool that helps businesses to plan strategically, make informed decisions, and identify challenges. By following the step-by-step guide outlined in this article, you can build a robust financial forecast that serves as a roadmap to the future for your business. Remember that flexibility is key, as the business environment is constantly evolving, and your forecast should allow you to incorporate these changes and evolve with the business.

Don't get stuck in the trap of "*we can't project with accuracy so we don't do it*." It's important to understand **where** forecasts go astray.

# Tool #8:

## Thinking About Selling Your Company? Here Are 5 Things You Need and 1 That You Don't

"I'm thinking about selling my company. I need a valuation."

That's how many conversations begin. I had one again recently.

It was in a conference room with the president of a privately held company. The business was growing quickly and was very profitable. They had been approached by competitors in the past but the timing wasn't right.

Until now.

This person was lucky in that he didn't need to sell the company. There were no health issues or adverse circumstances that were triggering this conversation.

He just 'felt' that the business had reached a level of sustained success and it was time to maximize the valuation for the shareholders.

He was going to sell now.

*"How much will it cost and when can you start?"*

That's pretty much how it began in that conference room as we were still putting the creamers in the coffee. This guy was eager to become a client.

But this is not a story about a new client win. This is a story about doing the right thing—and that means trying to **help and add value**; not sell a service that may be had for free down the road. And that's why...

## You May Not Need A Valuation

There are many circumstances where a valuation in conjunction with a sale of a company makes perfectly good sense, especially with the luxury of time to properly plan and prepare. For example, as a part of a strategic plan, a valuation

analysis will help in identifying areas that require attention while also preparing you for the inevitable questions that arise in the due diligence process.

If you've received an offer and want to understand if it's reasonable, a valuation will help in this circumstance.

Many business owners aren't aware that selling a company is a 12-24 month process. Emphasis on **'process.'**

They typically want to know "What is my business worth?" but there's much more to do in getting a business ready for sale than just determining an asking price.

People want what people want and this person *really wanted* a valuation.

I've heard this request many times over the course of my career, but the reality is that very few people who are "in the moment" of selling their business need an independent opinion of value-**only**.

The valuation is just one piece of the puzzle.

Assuming that there is no one to succeed the current leadership team and the employees are not interested in, or able to purchase the company via an Employee Stock Ownership Plan (ESOP), that means the buyer will be an 'outsider.' Someone who doesn't understand the corporate culture or know the details behind the financial performance. You've got a lot of educating to do.

If there is no real deal experience among the team, a valuation alone won't be enough ammunition to use against the skilled negotiators of sophisticated strategic and financial buyers.

It's one thing to know the value of the business; but it's another thing altogether to **realize** that value. *That's* what we're talking about here.

And even if you 'get your asking price,' the details of the deal structure can make all the difference in the world as to whether you *actually receive those proceeds,* and in the amount and time frame that you expected.

## The Five Things You Will Need

So how did I handle this potential client's demand for a valuation? The same way I've handled every other such request—with the preceding conversation and the following advice and introductions.

### *1. Hire an Investment Banker*

Or business broker, depending on the size of the company. As a former investment banker, I learned firsthand the power of the auction process. A valuation analysis can provide very reasoned and supported conclusions of value, but until a potential buyer receives the confidential information memorandum (prospectus) on your behalf, they won't take you seriously. And when they do receive that document, they also know that others have as well. Perhaps their competitors.

If they want to buy the company, or keep it out of the hands of a competitor, they might just pay more than the valuation would suggest. And who doesn't love a bidding war?

Oh by the way, most intermediaries will provide you with a valuation analysis as a part of the sale mandate. Yes, the intermediary will charge a success fee when they sell the company, but they will guide you through the minefields of management presentations to maximize the sale price and **earn** that fee.

The key, of course, is to work with an intermediary that is more concerned about **your** success than their success fee.

### *2. Consider an Accounting Upgrade*

Many privately held companies are working with friends and family who act as part-time bookkeepers. Some are using small accounting firms and *maybe* they're having a review done. They probably aren't doing an audit.

Yet.

Getting the financial house in order is an important step in the process because if buyers can trust the numbers you're

providing them, you can spend less time 'explaining' them or 'normalizing' them.

***3. Get an Attorney on Board***

Not your brother-in-law, the personal injury guy. A deal attorney. Properly documenting the agreed-upon terms and conditions is as important as negotiating those points in the first place.

***4. Bring in the Investment Adviser***

One that acts as your fiduciary with your interests in mind. When you sell the company, you need to decide what's next for you. For some, it's retirement and travel.

But most of the business owners that I've met say that the biggest reason that they don't want to sell is because they don't know what to do next.

An investment adviser will work with you to understand your goals and circumstances to help ensure that the proceeds of the sale of the company will not only benefit you, but those for whom you've worked so hard and sacrificed.

### *5. Choose A Quarterback*

It's great to have all of these resources available to help you, but unless they are all talking to one another, the ball is likely to get dropped somewhere. That's why you need a quarterback to coordinate all of these efforts. I can't emphasize this need enough—it is imperative that all of your advisers know what the others are doing so that you can get the best possible outcome.

## In Conclusion

It's wise to start preparing and planning for a sale well in advance of when you may actually go to market. If an unexpected event were to occur that would necessitate a sale of the business, this plan will prove to be a critical piece to ensuring that your family and employees are protected.

There are many times when an independent valuation of your business is a valuable strategic tool. It can be much more than a compliance exercise if you're working with the right partner. But if you're

ready to sell, you might just need the help of other experts.

Like I said earlier, this is not a story about a new client win. This is a story about doing the right thing.

Every time.

# Tool #9:

## Unlocking Value Through Human Capital: A New Frontier in Business Valuation

In the world of business valuation, traditional models have long prioritized financial metrics such as earnings, assets, and cash flow. But as businesses evolve, especially in service and technology sectors, intangible assets, particularly human capital, have emerged as pivotal drivers of success. Despite the critical role of employees, conventional accounting and valuation methods fall short in capturing the true value that people bring to an organization.

This is where Irrational Capital's Human Capital Factor® meets the framework explored in *The NEW ROI: Return on Individuals®,* which emphasizes that employees are not just assets, but the

most essential source of long-term value creation. Both perspectives highlight the urgent need to rethink valuation in a way that properly recognizes the contributions of individuals—the lifeblood of any thriving business.

## The Shift Toward Intangible Assets

The largest companies today—Apple, Microsoft, and Google, derive much of their market value from intangibles such as intellectual property, data, and, critically, their people. The disparity between book value and market value illustrates the importance of these non-tangible assets in driving shareholder value. In fact, intangible assets comprised 90% of S&P 500 market value in 2020 as compared to just 17% in 1975.

While intellectual property and patents are well recognized in valuation models, the quantification of human capital—the skill, creativity, and productivity of employees—remains elusive.

CEOs often proclaim, *"Our people are our greatest asset,"* but financial statements

don’t back this up. The challenge has always been: How can human capital be systematically measured and monetized to reflect its substantial contribution to a company’s valuation and performance? This question is a call to action for recognizing the true Return on Individuals: The NEW ROI.

## Irrational Capital's Approach to Human Capital

Irrational Capital, an investment research and strategy development firm co-founded by behavioral economist Dan Ariely, provides a groundbreaking approach to this challenge. Through its Human Capital Factor® (HCF), Irrational Capital quantifies the impact of employee engagement, trust, and workplace culture on future equity performance. These often-overlooked elements directly correlate with enhanced productivity, innovation, and, ultimately, financial performance, affirming the principle that individuals’ contributions are not just meaningful but impactful on future equity value creation.

At the core of the HCF is the idea that human behavior and organizational culture are predictive of future equity performance. By analyzing the perspective of employees about their employer on factors such as engagement, trust, organizational effectiveness, leadership quality, innovation and more, Irrational Capital's model quantifies how these traditionally "soft" components lead to hard, tangible business outcomes.

Key elements include:

- **Trust and Psychological Safety**: Employees who feel safe to express their ideas, challenge assumptions, and take risks are more likely to innovate and contribute meaningfully to the company's success.
- **Engagement and Purpose**: Engaged employees aligned with the company's mission and values exhibit higher productivity and discretionary effort, leading to better business outcomes—an alignment that directly ties into the vision of **The NEW ROI**, where

individuals' passion and purpose translate into economic value.

- **Recognition and Fairness**: Organizations that fairly recognize and reward their employees see reduced turnover and increased loyalty, minimizing costs related to recruitment and training, and bolstering long-term financial performance.

## The Financial Impact of Human Capital Factors

The principles outlined in The NEW ROI are further validated by the financial performance of companies that excel in human capital management. Research from Irrational Capital shows that firms with high scores on the factors mentioned above consistently **outperform their peers**, generating superior future equity value. This highlights a clear financial benefit to adopting an employee-centric approach to business.

In today's competitive marketplace, businesses that cultivate strong,

supportive cultures have a significant edge. By embedding human capital insights into valuation models, investors and stakeholders gain a clearer picture of a company's long-term potential. This approach justifies **higher valuation multiples** for companies that excel in human capital, as their workforce provides a competitive advantage that cannot easily be replicated.

This is more than just a conceptual framework—it's an investable strategy with the Harbor Human Capital Factor US Large Cap ETF (ticker: HAPI).

HAPI seeks to track the CIBC Human Capital Index and uses the HCF® as a proprietary scoring factor to identify a market inefficiency and afford access to a new alpha factor with differentiated excess return potential.

These results have been on display since the ETF's inception in October 2022. Beyond simply value and growth, HAPI has provided an excess return stream uncorrelated across investment styles

and factors since its inception. The consistent lack of correlation or negative correlation to traditional styles and factors highlights the distinct nature of alpha driven by the HCF®.

## The Growing Importance of ESG and Human Capital

The rise of Environmental, Social, and Governance (ESG) investing has further amplified the conversation around the value of human capital. While environmental concerns have often taken center stage, the **social** component, particularly how companies treat their employees, is gaining more attention. Investors are increasingly recognizing that businesses prioritizing their workforce tend to exhibit greater innovation, resilience, and long-term viability.

The Human Capital Factor underscores the critical importance of social responsibility. Companies that invest in their employees are better positioned to attract and retain talent, adapt to market shifts, and maintain strong stakeholder

relationships. These are key factors in sustaining long-term growth and stability.

## Implications for Business Valuation

For valuation professionals, the inclusion of human capital in traditional models represents both a challenge and an opportunity. As data on human capital becomes more robust, it is increasingly necessary to adjust traditional discounted cash flow (DCF) models and multiple-based approaches to account for the economic contributions of employees.

One way to reflect human capital's impact in valuations is by considering it as a **risk-mitigating factor**. Companies with high levels of employee engagement, strong cultures, and low turnover may exhibit lower operational risks, justifying a reduction in discount rates.

Conversely, firms that neglect these areas may face higher risk premiums due to potential disruptions in productivity, elevated turnover costs, and reputational damage.

In relative valuation, companies within the same industry that have similar financial profiles but differ in human capital scores might command different multiples, reflecting their varying long-term growth prospects. This approach aligns with The NEW ROI framework, which advocates for acknowledging human capital as a key driver of future value creation.

## Embracing Human Capital as a Valuation Driver

Irrational Capital's Human Capital Factor offers a vital tool for recognizing the true value of people within an organization, complementing the principles of The NEW ROI: Return on Individuals. Together, they make the case for a new era in business valuation—one that fully embraces the economic power of individuals.

As the global economy continues to evolve, businesses that invest in their people will not only outperform financially but also cultivate lasting value for their stakeholders. By integrating human capital into valuation models, we take a

significant step toward validating what has long been professed: people are a company's most valuable asset.

You'd better get the human capital part right.

# Tool #10:

## How to Make Your Business More Attractive to Buyers and Investors

At some point, every business owner thinks about an exit—whether that's selling to a third party, transitioning to the next generation, or bringing in an investor. The key to getting the best valuation isn't just about revenue or profitability; it's about building a business that runs smoothly, generates predictable cash flow, and doesn't rely too much on you.

If you want to maximize the value of your business, here are a few things to focus on.

### *1. Make Sure the Business Can Run Without You*

Buyers aren't just looking for a successful business; they're looking for one that won't fall apart the minute you step away.

If you're the one making all the key decisions, holding the client relationships, and keeping things moving, that's a problem.

What can you do?

- Delegate more responsibility to your leadership team.
- Document your processes so your business isn't reliant on tribal knowledge.
- Put a plan in place for leadership transitions.

A business that doesn't need you every day is far more valuable than one that does.

### *2. Clean Up Your Financials*

If you're thinking about selling in the next few years, now is the time to tighten up your financials. Buyers and investors want to see:

- Clean, accurate financial statements.
- Consistent revenue and profit margins.

- Predictable cash flow.

Get a professional review of your books, eliminate unnecessary expenses, and make sure your numbers tell a strong, clear story. And get the "add-backs situation" right ASAP so that you don't have to talk about adjusted financial performance.

***3. Create Recurring Revenue***

The more predictable your revenue, the more valuable your business. Buyers love businesses with recurring or contract-based income because it reduces risk. If you don’t already have recurring revenue, think about ways to build it in:

- Subscription services or maintenance contracts.
- Long-term agreements with key customers.
- Licensing or royalty arrangements.

Even if you sell products instead of services, look for ways to lock in repeat business.

### *4. Diversify Your Customer Base*

If one or two customers make up a big chunk of your revenue, that's a big risk for a buyer. If those customers leave, the business takes a hit. Ideally, no single customer should account for a significant portion of your revenue.

If you're too reliant on a handful of big clients, it's time to expand your customer base and reduce that risk.

### *5. Reduce Liabilities and Risks*

Buyers don't just look at what's working, they look at what could go wrong. If they see too many red flags, they'll either walk away or use them to negotiate a lower valuation. Take a hard look at:

- Legal or compliance issues that need to be cleaned up.
- Vendor and customer contracts—are they solid?
- Intellectual property—are your trademarks, patents, or proprietary processes protected?

The fewer surprises in due diligence, the smoother your exit will be.

### *6. Invest in Your People*

Your employees are one of the biggest factors in your business's success and in its value. Buyers want a strong, engaged team that will stick around after the sale. The best way to make sure that happens:

- Develop your leadership team, so the business isn't dependent on you.
- Create incentives to keep key employees on board.
- Build a culture where people want to stay.

If you've followed me for a while, you know I believe people are a company's most valuable asset. A business with a great team is worth more. Period. Full stop.

### *7. Have a Clear Growth Plan*

Buyers aren't just buying what your business is today, they're buying its future potential. They want to know where it's going. What's your plan for:

- Expanding into new markets?
- Launching new products or services?
- Scaling operations efficiently?

The value of your company is equal to the present value of the economic benefits that it generates in the future. A business with a clear path for growth is far more attractive than one just coasting along.

***8. Get Your Paperwork in Order***

One of the biggest deal-killers in a sale is sloppy or missing documentation. If you're serious about preparing your business for sale, make sure your:

- Financials are reviewed or audited.
- Corporate records and contracts are up to date.
- Tax and compliance issues are resolved.

You don't want a buyer finding problems during due diligence that you could have fixed ahead of time.

## Final Thoughts

Building a valuable business doesn't happen overnight. But if you start working on these things now, you'll have more control over your exit and a higher valuation when the time comes.

Even if you're not planning to sell anytime soon, these steps will make your business stronger, more profitable, and easier to run. And that's a win no matter what your long-term plan looks like.

# Tool #11:

## The Cost of Turnover: Why It's Not Just an HR Problem, It's a Valuation Problem

When business leaders talk about turnover, the conversation usually centers on HR metrics—things like hiring costs, onboarding time, or employee engagement scores. Those are important, but they only scratch the surface.

The real cost of turnover shows up in the value of your business.

Here's why.

### Direct Costs

Replacing an employee is expensive. Recruiting, training, and onboarding costs add up quickly. For skilled or leadership roles, the cost of replacement can be anywhere from 50% to 200% of that person's annual salary according to The Society for Human Resource Management

(SHRM). Multiply that by a few key roles and the financial hit becomes significant. There's also the lost productivity during the vacancy and the ramp-up time for a new hire. Yes, you're not paying someone in that role, but there's also no one in that role contributing to the organization's goals.

## Indirect Costs

But it doesn't stop there. There are also indirect costs associated with replacing employees that aren't fully captured in the statistics. Such things include: (i) the lack of productivity that the employee exhibits once they've made the decision to disengage, (ii) the impact on remaining employees' morale as they question the reasons behind the departures / terminations, and (iii) the real cost of lost productivity.

## Operational Disruption

The real cost of lost productivity refers to the fact that while estimates can be made regarding when a new employee comes up the learning curve to a reach a satisfactory

level of performance, it doesn't account for the replacement of the institutional knowledge learned over time. These are what I call "the intangibles within the intangible." High turnover creates instability. Processes break down when institutional knowledge walks out the door and remaining employees shoulder more of the burden.

## Disruption of the Talent Pipeline

According to SHRM, perhaps the largest indirect cost is the impact of departures on the disruption of the talent pipeline. SHRM estimates the inclusion of indirect costs to employee turnover to be between 100% and 300% of the annual salary. There are also the opportunity costs of replacing an employee—a bad hiring decision can cost up to five times that employee's salary according to SHRM.

## Impact on Customer Relationships

When turnover affects client-facing roles, relationships can suffer. Customers don’t like having to “start over” with someone new, and that can weaken loyalty.

Turnover isn't just a cost issue; it's a red flag. If a customer sees high turnover on their account, they start asking questions, like: Why are people leaving? Is leadership unstable? A business with fragile customer relationships carries more risk, and risk depresses value.

## The Human Capital Factor

At the end of the day, your people are the ones who generate revenue, serve customers, and innovate for the future. If you're losing them faster than you can replace them, you're eroding the very asset that underpins business value.

## Pulling It All Together

Turnover is not just an HR issue—it's a valuation issue. Every lost employee chips away at profitability, disrupts operations, increases risk, and ultimately lowers what your business is worth in the eyes of a buyer or investor.

If you're thinking about maximizing value; whether for planning, shareholder issues,

gifting, or a potential exit, paying attention to retention is critical.

# Tool #12:

## The Coming Wave of Business Transitions: Why Valuation and Planning Are Imperative

A recent article in *Entrepreneur* titled "Millions of Small Businesses Will Soon Be for Sale. Here's How Smart Entrepreneurs Are Cashing In" highlights a major shift in the small business landscape. Over the next decade, a significant number of small businesses are expected to change hands, creating unprecedented opportunities and challenges for owners, investors, and advisors alike.

### Key Trends Driving the Transition Boom:

- **Lack of Succession Planning:** Roughly 70% of small business owners have no formal succession plan, even though nearly a third intend to exit within five years.

- **Accelerated Transitions:** About 26% have fast-tracked their exit timelines, underscoring the growing urgency to identify buyers before retirement looms.
- **Legacy Over Price:** Nearly 43% of owners prioritize legacy and continuity over maximizing sale price—seeking successors who will honor their values and community ties.

These trends underscore a clear need: business owners must prioritize comprehensive valuation and transition planning.

## Why Valuation and Planning Matter:

- **Informed Decision-Making**: A thorough valuation provides clarity on a business's worth, enabling owners to make strategic decisions about succession, sale, or growth.
- **Attracting the Right Buyers:** Accurate valuations and well-prepared transition plans make

businesses more appealing to buyers who align with the owner's vision and values.

- **Ensuring Legacy Continuity**: Planning ensures that a company's legacy—its people, culture, and community presence, remains intact under new ownership.
- **Maximizing Value:** Identifying and enhancing key value drivers, such as customer relationships, brand equity, operational efficiency, and human capital, can significantly increase market value and buyer interest.

As we navigate this coming wave of ownership transitions, it's imperative that business owners make valuation and strategic planning a priority. This isn't just about being exit-ready, it's about controlling the narrative of your business's future.

## Enter the Acquisition Entrepreneur

With millions of businesses expected to come to market, a new breed of buyers

has emerged. These 'acquisition entrepreneurs' are skipping the risk of starting from scratch in favor of acquiring well-run, profitable businesses. They're savvy, data-driven, and focused on long-term value creation.

By understanding their company's worth and having a transition strategy in place, sellers can attract these modern buyers, negotiate from a position of strength, and maximize outcomes. Strategic planning not only ensures a smoother handoff but also protects the legacy the owner has spent years building—positioning the business for continued success under new stewardship.

In a market poised for significant activity, those who prepare thoughtfully will be the ones who create meaningful outcomes for themselves, their employees, and their successors.

# Tool #13:

## The Power of Coaching: Why Business Owners Should Embrace Professional Guidance

Running a business is a dynamic journey filled with challenges, opportunities, and continuous learning. While many entrepreneurs possess strong vision, passion, and determination, the complexities of the business world can often be overwhelming. This is where the role of a business coach comes into play. Business owners, whether new or experienced, can greatly benefit from the insights, guidance, and personalized support that a professional coach provides. In this chapter, we'll explore the compelling reasons why business owners should consider working with a coach to enhance their entrepreneurial journey.

## Objective Perspective and Insights

A business coach offers a fresh, unbiased perspective on your business operations. They are not emotionally tied to the company in the same way you are, allowing them to objectively analyze situations, identify blind spots, and offer valuable insights. Their experience and expertise can shed light on aspects of your business that you might not have considered, helping you make well-informed decisions.

## Personalized Guidance

Every business is unique, and the challenges each business owner faces can vary widely. A business coach tailors their guidance to your specific needs and goals. They work closely with you to understand your strengths, weaknesses, and aspirations, enabling them to provide personalized strategies and solutions that align with your vision.

## Skill Enhancement

Business coaches are often experts in various areas of entrepreneurship, such as leadership, marketing, finance, and operations. By working with a coach, business owners can enhance their skill set and knowledge base. Coaches provide valuable resources, share best practices, and offer practical advice, helping entrepreneurs become more well-rounded and effective leaders.

## Accountability and Goal Setting

One of the key benefits of having a business coach is the accountability factor. When you set goals and action plans with a coach, you're more likely to follow through and achieve them. Coaches provide the necessary push to keep you on track and hold you accountable for your commitments. This level of accountability fosters consistent progress and prevents complacency.

## Confidence and Self-Awareness

Navigating the challenges of entrepreneurship can sometimes erode a business owner's confidence. A coach acts as a supportive partner, boosting your self-assurance and belief in your abilities. They also facilitate self-awareness, helping you recognize your strengths and areas that need improvement. Improved self-awareness leads to better decision-making and overall personal growth.

## Problem Solving and Decision-Making

In the business world, tough decisions and unexpected problems are inevitable. A business coach serves as a sounding board during critical moments. They help you analyze situations from multiple angles, evaluate potential outcomes, and arrive at well-considered decisions. This can significantly reduce the stress and uncertainty that come with important choices.

## Shortening the Learning Curve

Learning from one's mistakes is important, but learning from the experiences of others can be equally valuable. A business coach has likely encountered challenges similar to the ones you're facing and can offer insights that could save you time, money, and resources. Their guidance can help you bypass common pitfalls and accelerate your learning curve.

## Conclusion

In the rapidly evolving landscape of business, having a skilled guide by your side can make all the difference. Business owners who choose to work with a coach gain access to a wealth of knowledge, experience, and resources that can help them navigate challenges and seize opportunities with confidence. The partnership between a business owner and a coach is a powerful collaboration that fosters personal growth, business development, and long-term success. So, if you're an entrepreneur looking to thrive

in the competitive business world, consider embracing the transformative potential of a professional business coach. Your journey to success might just become smoother and more rewarding with their guidance.

# Tool #14:

## The Hidden Factors That Drive Business Value

When business owners think about valuation, the focus is usually on revenue, profitability, and EBITDA. And while those numbers matter, they don't tell the whole story.

The reality is that two businesses with similar financials can have very different values based on what's happening behind the scenes. Here are some of the hidden factors that influence what your business is really worth—things that don't always show up on a financial statement but can make or break a deal.

### Industry Position & Competitive Advantage

Where your business stands in the market affects its value. A company with a strong competitive advantage, whether that's

brand reputation, unique expertise, or proprietary technology, will always command a higher price.

## Key factors that impact value:

- Market share: Are you a leader in your space or competing in a crowded field?
- Barriers to entry: How easy would it be for a competitor to replicate what you do?
- Pricing power: Can you charge a premium, or are you in a race to the bottom?

A strong position in the market makes your business more resilient and attractive to buyers.

## Intellectual Property & Proprietary Assets

For some businesses, intellectual property (IP) is a major factor in valuation. If you own patents, trademarks, proprietary software, or specialized processes, these assets can create long-term competitive advantages.

Even outside of tech or manufacturing, IP can add value:

- Unique business processes or methodologies.
- Customer data and analytics capabilities.
- Proprietary recipes or formulas.
- Exclusive supplier agreements or licensing deals.

If your business has something unique that others can't easily copy, that's a hidden asset that increases value.

## Brand Reputation & Customer Trust

A strong brand doesn't just attract customers, it reduces risk. Businesses with a trusted reputation, strong online presence, and high customer satisfaction tend to have more stable revenue and better long-term prospects.

Factors that contribute to brand-driven value:

- Customer reviews and Net Promoter Score.

- Social proof like media mentions, thought leadership, industry recognition.
- Brand awareness within your target market.

A well-established brand can drive higher valuations, even if it's hard to quantify directly on a balance sheet.

## Data & Technology Infrastructure

The ability to leverage data and technology can make a business more scalable, efficient, and resilient. Buyers and investors will look at:

- CRM and customer insights: How well do you know your customers?
- Automation and operational efficiency: How reliant is the business on manual processes?
- Cybersecurity and data protection: Are there risks that could cause problems later?

Companies with strong data assets and technology-driven efficiencies tend to be

more valuable because they can scale more easily and operate with lower risk.

## Supplier & Vendor Relationships

Most owners focus on customer relationships, but supplier and vendor agreements also play a role in valuation. A business that has:

- Exclusive or favorable supplier terms
- Long-term vendor contracts that provide stability
- Multiple sourcing options to reduce dependency risks

... is seen as lower risk by buyers. A business that's overly reliant on one or two key suppliers, or one that operates on shaky terms, will be considered a riskier investment.

## Business Resilience & Crisis Management

One of the biggest hidden value drivers is how well a business can handle unexpected challenges. Buyers want to know:

- How the company performed in downturns (e.g., COVID pandemic, recessions).
- If there are contingency plans for supply chain issues, leadership transitions, or major customer losses.
- Whether the business has strong relationships with lenders, investors, and key stakeholders.

A business with a track record of resilience and adaptability is inherently more valuable than one that thrives only in perfect conditions.

## Final Thoughts

Business value isn't just about revenue and profit, it's about what's happening behind the numbers. The strongest businesses have something that sets them apart, protects them from risk, and positions them for future success.

What's your secret sauce?

# Tool #15:

## Why Two Companies with the Same Revenue Aren't Worth the Same

Business owners often benchmark their success by revenue. It's an easy number to point to and on the surface, it feels like a fair measure of size and strength.

But here's the reality: revenue alone doesn't determine what your business is worth.

Two companies can both generate $25 million in annual revenue and yet have vastly different valuations.

Why? Let's break it down.

### Profitability and Margins

Revenue is only the starting point. Buyers and investors focus on cash flow—typically measured as EBITDA (earnings before interest, taxes, depreciation, and

amortization). A company with a 20% EBITDA margin is far more valuable than a competitor scraping by at 5%. Net income is important too, but EBITDA is often the yardstick for valuation because it strips out non-operating noise and focuses on the core earnings power of the business.

## Quality of Revenue

Not all revenue is created equal. Recurring revenue from long-term contracts or subscription models carries more weight than one-off sales. Predictable, sticky revenue streams reduce risk, and in valuation, lower risk translates into higher value.

## Customer Concentration

If 60% of your sales come from one customer, your business carries more risk than a competitor with a diversified client base. Customer concentration is a red flag for buyers and can drag down value significantly.

## Operational Efficiency

Two companies with the same revenue can have very different cost structures. Strong systems, scalable processes, and efficient operations boost profitability and create confidence in future performance—key ingredients in a higher valuation.

## Management and People

This one is often overlooked, but it's critical. A business that depends entirely on its owner is worth less than one with a strong management team in place. Human capital, the knowledge, skills, and leadership of your people, is a major driver of enterprise value.

## Market Position and Growth Potential

Current revenue is important, but buyers also pay for the future. A company with a growing market share and strong pipeline is more valuable than a competitor with flat sales in a shrinking sector. Expectations about where the business is

going are often more important than where it's been.

## The Bottom Line

Revenue is important, but it's only part of the story. What ultimately determines the value of your business is a mix of profitability, quality of earnings, customer base, scalability, people, and growth potential.

If you're thinking about your company's future, whether for planning, shareholder issues, gifting, or preparing for an eventual exit, understanding the true drivers of value is critical.

# Tool #16:

## How Not to Select Your Service Provider: The High Cost of Low Price

Have you ever gotten bids from three contractors or auto mechanics and presumed that they are all equally qualified and capable so you selected the lowest bid?

***How did that work out for you?***

We all know someone who has been burned by selecting the low-cost provider ("LCP"). If you've experienced it once, you probably won't seriously entertain the low bid again. You now understand that there are reasons behind that low price, like less-qualified workers, sub-standard materials, or inexperience with the task at hand.

In the world of professional services where accountants, lawyers, valuation professionals, and others are usually

recommended in a group of three, the buyers of professional services make the same assumptions about capabilities and often suffer the same result as the person who chooses to work with the "cheapo" electrician.

The LCP exists in every industry and for certain items, the LCP is a perfectly reasonable solution. However, the LCP is particularly challenging in the professional services space because it is difficult to immediately identify how or where the LCP is lacking.

*History shows that buyers of LCP services are not receiving the same quality of service, and those buyers usually come to understand that fact at the worst possible time—when the LCP needs to be relied upon most.*

I've heard that story many times from folks who believed that they were getting a great deal on professional services only to wind up spending multiples of the perceived savings cleaning up the mess left behind by the LCP.

## How Does The LCP Operate?

**1.** Some use certain services as **loss leaders** for other services. So, if they are really interested in selling you the **other** service, how committed are they to providing what you actually need?

**2.** Some will service your matter with inexpensive (read: **inexperienced**) staff. Sometimes even the senior staff are inexpensive because the firm can't pay sufficiently to attract and retain the best talent. Classic examples of **"you get what you pay for."**

**3.** Some are simply **buying your business**. For whatever reasons, they aren't particularly busy and the pipeline needs to be filled. You have to wonder why they weren't busy in the first place, right?

**4.** Some are **learning on your dime**. They aren't regularly involved in a particular area of the market or niche but want to develop the expertise, so they price the engagement to "buy" the experience. *(And then bill you for the "extra" time it took to complete the endeavor!)*

***5.*** Some don't take the time to understand the true scope of exactly what is needed—or worse—**they don't understand** the true scope of exactly what is needed.

***When clients take the opportunity to do an apples-to-apples comparison of proposals, invariably the low-cost provider is missing critical elements of scope that will cost the client thousands of dollars.***

**6.** Some are operating as sole practitioners while they are in transition. Working from their kitchen tables and happy to pick up any work they can get, their cost structure is essentially zero. These are the **lowest**-cost providers.

But because they aren't with a firm, they don't have access to the same resources that they used to, and that can compromise the quality of their work. And that will be costly to you! Also remember that while they're working on an assignment that is critical to you, **their primary objective is to find a job.**

So, when you need these folks, will they be responsive or will they be at an interview? And when they **do** land that new job, can you be certain that they'll be there for you to answer questions or help with updates and revisions?

The cost of selecting a professional based on price can be very high—like when deliverables that were believed to be nothing more than "file stuffers" suddenly need to be pulled from the desk drawer only to be exposed as deficient for the purpose it was prepared. Or the costs associated with delays in completing transactions, filings and audits.

***These all result in more time and money spent than if it was just done right the first time.***

The LCP model is not sustainable. When everyone competes on price, it becomes a race to the bottom and the LCPs are usually the first ones there, so there is a good chance that they won't be around when issues arise.

***Can you imagine selecting your doctor on the basis of price?***

Don't make that mistake when you need other professional services because you rationalize that it "isn't really that important" or "it's just a formality" or even the dreaded "they're all the same."

Dig a little deeper.

If you receive a fee estimate that appears too good to be true, it usually is... and remember that **there's a reason why you don't buy everything at a dollar-store**.

# Tool #17:

## The Buy-Sell Clause That Causes More Problems Than It Solves

I was on a call recently with a group of partners working through the buyout provision in their shareholder agreement. Smart group. Good dynamic. Doing this early, which is exactly when it should happen.

And then this came up: “In a buyout, we’ll each hire an appraiser.”

I hear some version of this all the time. I’ve reviewed a lot of buy-sell agreements over the years, and this is one of the most common provisions I see. It almost always makes sense when it’s drafted. The problems don’t show up until someone actually has to use it.

## Why This Breaks Down

On its face, it feels fair. Each side hires their own appraiser and nobody feels boxed in. In practice, it tends to create a different set of problems. You have assumed disagreement from the start. You have doubled the cost and the time, and you still do not have a clear way to resolve it. Because if the two appraisers come in at different values, which they usually do, you are left asking the same question you started with. Now what?

I have been pulled into situations like that after the fact. At that point, the agreement is not helping. It is part of the problem.

## One Appraiser, Binding

When this is done well, it is usually simpler. One appraiser. Jointly selected. Independent. Properly credentialed, typically ASA or equivalent. The conclusion is binding. That structure forces alignment upfront on who is trusted to do the work. It also keeps the process from turning into a negotiation disguised as an appraisal. For partner groups that

expect to act in good faith, this tends to hold up.

## If You Want a Backstop

If relying on a single opinion feels like too much, a second layer can be built in. One appraiser to start. If someone disagrees, they can obtain a second appraisal at their own cost. If the two values are far enough apart, a third appraiser is brought in.

This is where I see a lot of agreements get tripped up. I have seen two qualified appraisers land 12 to 15 percent apart and both be completely defensible. That is just the nature of valuing an operating business. If you set the trigger at 10 percent, you are almost guaranteeing a third appraisal every time. Something closer to 15 percent is more practical.

## What the Third Appraiser Actually Does

You also need to define exactly what the third appraiser is supposed to do. For example, in a baseball-style approach, the third appraiser chooses between the

two submitted values rather than creating a new conclusion.

Another variation is to average the third appraiser's conclusion with whichever of the first two is closer, effectively discarding the outlier. The agreement needs to specify exactly which mechanism applies.

That detail matters because it keeps everyone anchored to reasonable conclusions instead of extreme positions.

## The Decision That Gets Deferred

One item that is often left undecided is whether valuation discounts apply (i.e., discount for lack of control and discount for lack of marketability). This is not just technical language. It can move value in a meaningful way. I have seen entire disputes center on that question after the fact.

If the agreement is silent on this issue, you are leaving that decision for a future version of yourselves to work through.

That conversation is rarely a collaborative one.

## The Method Should Stay Flexible

Another provision I see quite a bit is language that specifies the valuation method upfront. That is not how this should work. A credible appraisal should consider the income, market, and asset approaches and then apply the ones that fit the facts. Locking the appraiser into a single approach can create more room for disagreement, not less.

## How the Buyout Gets Paid

The valuation is only part of it. How the buyout gets paid matters just as much. In most operating businesses, you do not have the liquidity to fund a lump sum outside of insurance situations.

Most agreements land on the same structure. Death or disability is covered with insurance and paid quickly. Other buyouts are paid over time, often three to five years. The time to decide is before you need to.

## Where This Really Gets Tested

The irony is that everyone agrees to these provisions when relationships are good. The clause gets tested when they are not or when something happens that no one planned for, like a death, a falling-out, or a partner wanting out fast.

A buy-sell agreement is one of those documents you hope never gets used. But if it is, it will likely be during one of the most stressful moments in the life of the business. That is not the time to discover the valuation process was not clearly thought through.

Good agreements do not eliminate disagreement. They provide a clear path through it.

# Tool #18:

## Friendly Deal, Serious Price: Why Trust Shouldn’t Replace Valuation Due Diligence

When a buyer and seller like each other, a business transaction can seem refreshingly simple. So when the conversation turns to price, the thinking can be: "We know each other. We both know the business. Let's just come up with a number that feels fair."

I understand the appeal, but trust between the parties doesn't eliminate uncertainty about the value of the business. In fact, when the relationship is good, there is a compelling reason to introduce some objectivity into the process—not because anyone is acting in bad faith but because neither party necessarily knows what the business is worth.

## Not a Fairness Opinion

Let me make an important distinction. I'm not suggesting that every friendly business transaction requires a fairness opinion. I'm talking about something much more basic: Before buyer and seller agree on a purchase price, they should have some independent perspective of what the business is worth.

That could involve a formal valuation or, depending on the circumstances, a more limited valuation analysis. The point is not to tell the parties what price they must accept. The point is to give them an informed starting point.

## Why $6 Million?

Suppose the seller believes the business is worth $7 million, and the buyer thinks it's worth $5 million. They like each other and neither wants to take advantage of the other, so they split the difference and agree to $6 million. Everyone is happy.

But here's the question: Why $6 million?

It might be a perfectly reasonable price. But it might also be too high or too low. Splitting the difference between two opinions doesn't make the resulting number any more accurate. A business has economic characteristics that can be analyzed: revenue, profitability, cash flow, growth, customer concentration, owner dependence, industry conditions, assets, liabilities, risk, and many other factors that can affect value. Those things don't become irrelevant because the buyer and seller have a good relationship.

Which raises a more fundamental question: What's the difference between value and price?

***Value is an analytical conclusion. Price is a negotiated outcome.***

They can be the same, but they don't have to be. A buyer may willingly pay more than an indicated value because the acquisition provides strategic benefits that are unique to that buyer. And a seller may accept less because certainty,

speed, or other terms are more important than maximizing the price.

There can be legitimate reasons for the parties to agree to a price that differs from an independent valuation conclusion. That's perfectly fine. The valuation isn't there to eliminate negotiation; it's there to make the negotiation more informed.

## Objectivity Protects the Relationship

There's an irony here. People sometimes assume that bringing an independent valuation professional into a friendly transaction suggests that the parties don't trust each other. I think it can mean exactly the opposite.

If buyer and seller genuinely care about maintaining their relationship, why not give both of them the same objective information before they agree to a number? Consider what happens if, several years after the transaction, one party discovers that the business was worth substantially more or substantially less than the price they agreed upon.

Even if nobody acted improperly, one party may feel that they got the worse end of the deal. That's when a friendly transaction can become a source of resentment. An independent valuation doesn't guarantee that nobody will ever disagree about the price, but it can help to ensure that the parties aren't making a significant financial decision based primarily on assumptions, optimism, or an arbitrary number.

***Trust the person. Verify the economics.***

## Right-Sizing Diligence

The appropriate level of diligence depends on the size and complexity of the business, the circumstances of the transaction, and the needs of the parties. The point is that the more significant the transaction, the harder it is to justify choosing a purchase price without first understanding the economics behind it.

A buyer shouldn't have to wonder whether they're overpaying and a seller shouldn't have to wonder whether they're leaving substantial value on the table. And neither

party should have to rely on the other person's estimate of value simply because they have a good relationship.

## Valuable Questions

A good valuation doesn't have to produce a number that causes everyone to say, "That's the price." Its value may be in the questions it raises:

- What assumptions are driving the value conclusion?
- How sustainable are the company's earnings?
- What risks could affect future cash flow?
- What does the market say about comparable businesses?
- How dependent is the business on the owner?

Once those questions have been addressed, the buyer and seller can negotiate with considerably more information than they had before. And if they ultimately agree on a price above or below the valuation conclusion, that's

their decision. At least they know what they're choosing to pay or accept, and why.

The goal isn't to make a friendly transaction more complicated. It's to make an important decision more informed. Buyer and seller can still agree on whatever price they believe is appropriate. They just don't have to arrive at that number by guessing.

# About the Author



Dave Bookbinder is known as an expert in business valuation and the person who business owners and entrepreneurs reach out to when they need to know what their most important assets are worth. Dave has served thousands of client companies of all sizes and industries, working closely with business owners, CFOs, Controllers, and CEOs, to build relationships that add value for the long term.

Dave is also the host of the business talk show, *Behind The Numbers*. The show is enjoyed in more than 100 countries and ranks among the top podcasts globally.

Dave is the author of two #1 best-selling books about the impact of human capital (PEOPLE!) on the valuation of a business enterprise called *The NEW ROI: Return on*

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This book, *A Valuation Toolbox for Business Owners and Their Advisors: Things Every Business Owner Should Know*, is designed to enlighten and provide practical insights and tools to help understand what really drives business value, how to prepare for an exit, and just make better decisions.

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