

It's Your Money: What's Your Business Worth?

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YOU'RE WATCHING IT'S YOUR MONEY, AND TODAY WE HAVE IN THE STUDIO CHARLIE COLE, WHO IS A CERTIFIED BUSINESS BROKER AND APPRAISER. AND YOU'VE HELPED PEOPLE BUY OR SELL MORE THAN 150 BUSINESSES IN YOUR LIFETIME. THAT'S INCREDIBLE.

AND SO WHAT'S ONE OF THE FIRST QUESTIONS PEOPLE ASK WHEN THEY WANT TO GO SELL THE BUSINESS.

THE EASIEST ONE OF ALL. WHAT IS IT WORTH?

AND HOW DO YOU FIGURE THAT OUT?

WELL THE BEST WAY IS AN APPRAISAL. YOU DON'T HAVE TO HAVE AN APPRAISAL TO SELL YOUR BUSINESS BUT IT'S BENEFICIAL IF YOU DO.

WHY IS THAT? WHY WOULD YOU REALLY WANT ONE?

WELL IN AN APPRAISAL YOU'RE GONNA LEARN A LOT OF THINGS ABOUT YOUR BUSINESS. FOR EXAMPLE, IS THE VALUE HIGH ENOUGH TO EXIT RIGHT NOW. ANOTHER EXAMPLE IS, IT COULD ALSO UNCOVER SOME DEFICIENCIES. PERHAPS SOME DOCUMENTS AREN'T IN ORDER OR SOME RECORDS AREN'T IN ORDER. AN APPRAISAL WILL FIND THAT FOR YOU. AND MOST IMPORTANTLY. ARE YOU READY TO GO AT THAT PRICE. AN APPRAISAL IS A DEFENSIBLE ESTIMATE OF VALUE, AND WHEN YOU'RE SELLING AN APPRAISAL IS NOT ABOUT WHAT IT'S WORTH IN YOUR HANDS IT'S ABOUT THE TRANSFERABLE VALUE. SO IT'S DIFFERENT THAN WHAT YOU THINK AND THAT'S WHY YOU NEED TO GET ONE.

THAT'S GOOD ADVICE. NOW YOU CAN DO BUSINESS APPRAISALS? DO YOU HAVE TO BE CERTIFIED? OR WHAT ABOUT A REAL ESTATE APPRAISER? CAN THEY DO THAT?

WELL REAL ESTATE APPRAISERS ARE IN DIFFERENT LINE OF WORK. YOU CAN, YOU DON'T HAVE TO BE CERTIFIED TO APPRAISE A BUSINESS. IT'S HELPFUL BUT A GOOD RESOURCE FOR YOUR VIEWERS WILL BE THE SMALL BUSINESS ADMINISTRATION. THE SMALL BUSINESS ADMINISTRATION IN THEIR SOP, THEIR PROCEDURES, THEY LIST WHO'S QUALIFIED TO WRITE ONE OF THOSE REPORTS AND THERE'S QUITE A FEW OF THEM ACTUALLY.

ALL RIGHT AND WHAT'S IN AN APPRAISAL? WHAT DO YOU GO THROUGH? WALK ME STEP BY STEP.

SURE. THE FIRST THING A BUSINESS OWNER WANTS TO DO IS TO DETERMINE WHAT ARE YOUR DISCRETIONARY EARNINGS. IN OTHER WORDS, IT'S GREAT TO KNOW WHAT YOUR ASSETS ARE WORTH AND IT'S GREAT TO KNOW THE MARKET, AND THE INTEREST RATES, AND THE STOCK MARKET BUT THE BUYERS AND THE LENDERS WANT TO KNOW WHAT DO YOU MAKE. IN OTHER WORDS WHAT IS THE TRUE BENEFIT OF OWNERSHIP IN THE BUSINESS AND THAT IS DESCRIBED AS SELLER'S

DISCRETIONARY EARNINGS. SELLER'S DISCRETIONARY EARNINGS ARE YOUR NET PROFIT PLUS NON-CASH EXPENSE, SUCH AS AMORTIZATION, DEPRECIATION, INTEREST, OWNER SALARY, AND OWNERS PERKS. IT'S SIMILAR TO EBITDA. IF YOU DEAL WITH LARGE COMPANIES YOU'LL HEAR THEM TALK ABOUT EBITDA. IN SMALL BUSINESS ITS SELLERS DISCRETIONARY EARNINGS. SO YOU DETERMINE THAT AND THAT WILL HELP YOU DO THE APPRAISAL.

AND WHAT TYPES OF APPRAISALS DO YOU DO FOR BUSINESSES?

WELL THERE ARE SEVERAL TYPES. YOU CAN DO A FULL APPRAISAL. THAT'S GOVERNED BY USPAP. YOU WRITE IT TO CERTAIN STANDARDS. (YOU DON'T) THOSE ARE TRADITIONALLY MORE EXPENSIVE AND IF YOU'RE THINKING OF SELLING FIVE YEARS FROM NOW IT YOU MAY NOT WANT TO SPEND THE MONEY. YOU COULD ALSO GET A CALCULATION REPORT. A CALCULATION REPORT IS A MUCH MORE CONDENSED VERSION OF AN APPRAISAL BUT IT STILL GETS YOU CLOSE TO THE SAME AS A RESULT. YOU DON'T NORMALLY STUDY COMPETITION. YOU DON'T WANT TO KNOW WHAT WALL STREET, HOW WALL STREET AFFECTS YOUR SMALL BUSINESS HERE. BUT THE OTHER METHOD IS CALLED A RULE OF THUMB. NOW YOU'VE GOT TO BE CAREFUL WITH RULES OF THUMB BECAUSE, WHAT I TELL PEOPLE IS, YOU WANT TO, YOU DON'T WANT TO VALUE YOUR BUSINESS WITH MATH A 10 YEAR OLD CAN DO IN THEIR HEAD. THAT'S DANGEROUS. BUT THEY'RE INEXPENSIVE IF NOT FREE. YOU CAN FIND THE INFORMATION EVERYWHERE AND IT CAN BE HELPFUL FOR THE BUSINESS OWNER TO ESTABLISH A VALUE.

WHEN IS IT APPROPRIATE TO DO AND APPRAISAL? I MEAN, IT SEEMS TO ME THAT IF YOU WANT TO BE ABLE TO SELL AND YOU'RE LOOKING AT THE VALUE, YOU WERE TALKING ABOUT THIS EARLIER, DOES THAT OFTEN GIVE THE BUSINESS OWNER A SET GOAL TO WORK TOWARD TO GET READY FOR SELLING SAY FIVE YEARS DOWN THE ROAD? SO WHERE WOULD YOU WANT TO DO ONE? WHEN IS IT BENEFICIAL?

WELL WE RECOMMEND KEEPING THE COST DOWN IN THE BEGINNING. IT'S BENEFICIAL THREE TO FIVE YEARS BEFORE YOU WANT TO EXIT. YOU NEED TO KNOW BECAUSE YOUR EXIT PLANNING IS GOING TO DICTATE, YOU KNOW, ARE YOU GOING TO WORK AFTER YOU SELL? ARE YOU GOING TO KEEP PART OF THE BUSINESS? ARE YOU GOING TO WORK FOR THE NEW OWNER? SO THREE TO FIVE YEARS IS A GOOD STARTING POINT.

WELL THANK YOU VERY MUCH FOR YOUR TIME AND EXPERTISE REALLY APPRECIATE IT IF YOU WANT TO KNOW MORE ABOUT BUYING AND SELLING YOUR BUSINESS OR GETTING AN APPRAISAL CONTACT CHARLIE COLE AT COLEPARTNERS.NET I'M DEBORAH URODA FOR IT'S YOUR MONEY