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FINANCE

Justifying a sale price

In selling a business, firms seek validity

BY KEN TARBOUS

Business valuations often are the first step in the process of selling a company, and according to one business appraiser, there's been an evolution in the client base hiring firms to find out what companies are worth.

"Traditionally, we would get engaged by mergers-and-acquisitions firms, and now, moreso, we're getting approached by sellers and buyers that are trying to either sell their business or looking for a better opportunity to buy a business," said **Michael Saccomanno**, a partner at **Friedman LLP** who values small to midsize companies.

Many aspects of the valuation process help owners become more prepared for a sale, but because the entire process can take months, or even years — from thinking about selling a business to closing a transaction — starting the planning sooner, rather than later, is money well spent, said **Thomas W. Farrell**, a financial adviser at **RegentAtlantic Capital LLC**, in Morristown, who helps companies sell their businesses.

"As a seller, you're going to have an asking price, so if you're dealing with one or multiple buyers, you want to be able to justify your sales price — and to be able to do that, you need to have done all the due diligence up front," Farrell said.

And engaging the right team of professionals, such as attorneys and accountants, for example, helps ensure the company's records and documents, like contracts and leases, are in proper order, Farrell said.

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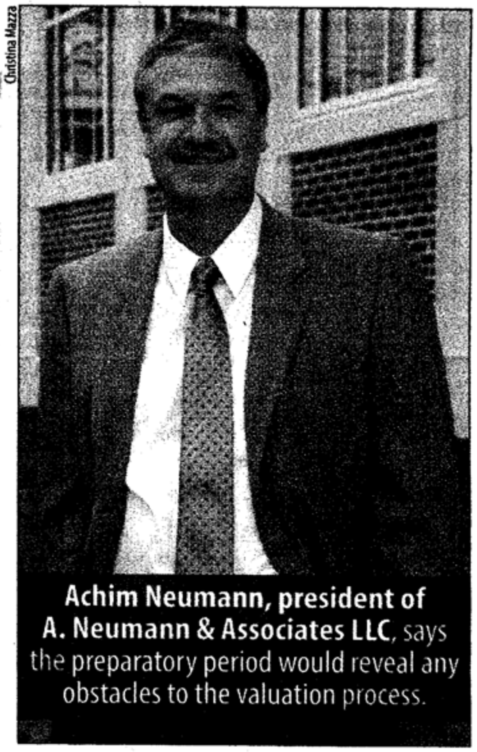

Achim Neumann, president of A. Neumann & Associates LLC, says the preparatory period would reveal any obstacles to the valuation process.

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Having those experts on board, who know the details of a business, provides resources for the outside consultants doing the valuations, said Saccomanno, who is based in his firm's Marlton office.

"Being a business appraiser, we can't operate in a vacuum. We have to utilize what we know, but also what we don't know. And what we don't know, we need to get assistance," Saccomanno said.

The preparation phase can also expose a company's weaknesses early in the process, so they can be dealt with, said **Achim Neumann**, president of Atlantic Highlands-based business brokerage **A. Neumann & Associates LLC**.

"The preparatory time period serves the purpose to discover red flags that ultimately the buyer is going to see," said Neumann, who specializes in middle-market mergers and acquisitions. "These are ultimately all tumbling spots an owner's going to trip over in any type of deal."

Neumann said he discovers obstacles doing two types of valuations:

A strategic valuation determines a fair market value and establishes the key drivers of the company's value, even though the owner has no immediate intent of selling the company, Neumann said. A transactional valuation is done when an owner

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of a business. Since cash flow is the most important element of a business for buyers and sellers, the income statements and balance sheets are analyzed, with particularly close attention paid to collectibles and receivables, to see if the company is collecting its money and paying its bills on time.

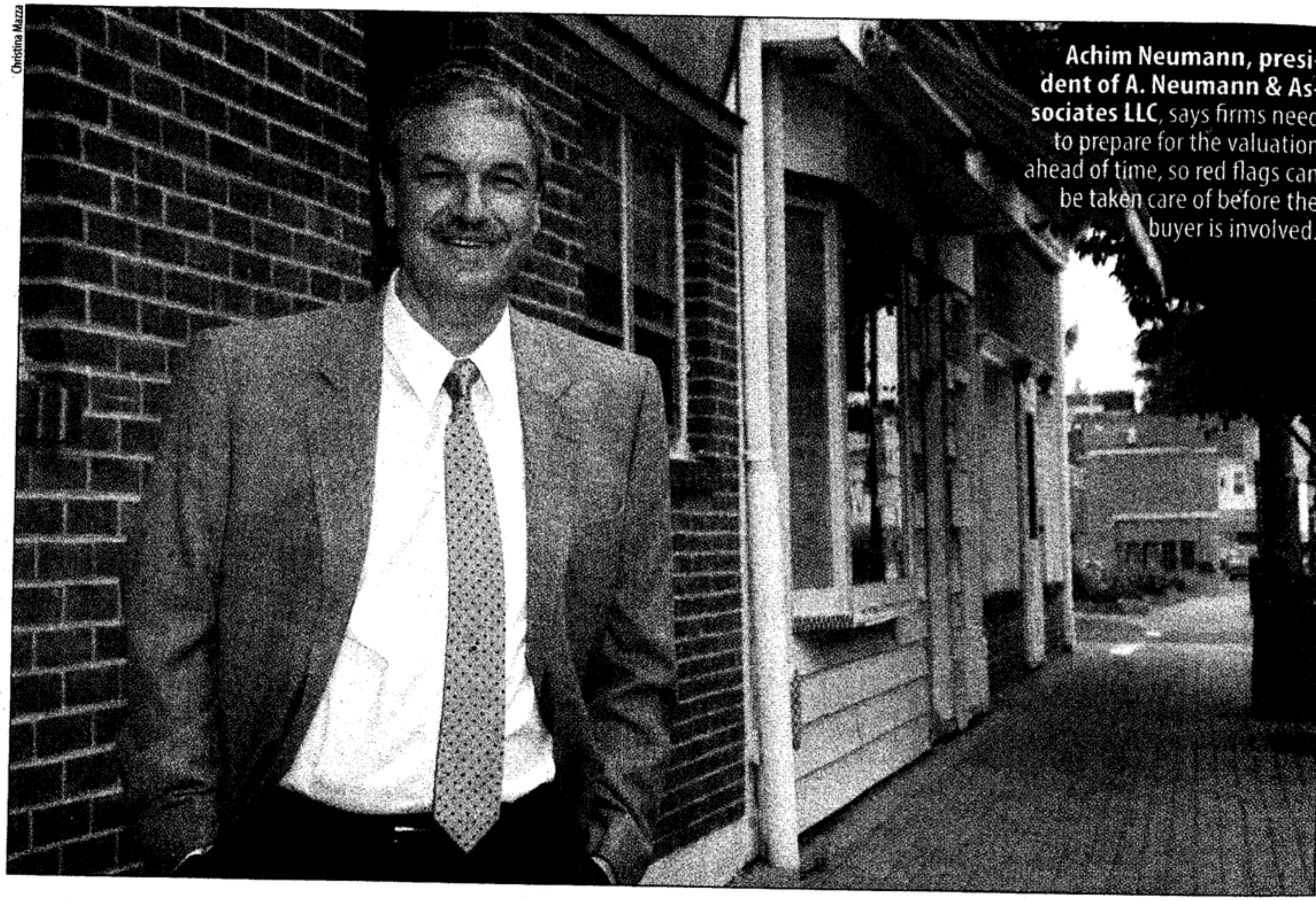
Saccomanno said he has run into situations — usually only with family-owned or closely held companies — where records haven't been kept properly, or taxes haven't been filed for some time, presenting problems for appraisers.

"The reliability of the financial statements directly impacts the valuation of any business," Saccomanno said.

When a private business is involved, Saccomanno said, he uses databases of private company sales transactions to compare the subject company to similar businesses in their industry, and weigh the pros and cons to see where the particular business fits. In addition to finances, appraisers look at goodwill and, in some circumstances, key people and their impact.

Part of the valuation process is determining a discount rate, which assimilates all the risk factors of owning a business and evaluating key personnel, reliance on management — and reliance on a single key person, a significant risk factor, Saccomanno said.

Closely held and family-owned businesses might often have fewer layers of management, or heavy dependence on one individual who carries much of the goodwill.



Christina Mazza

Achim Neumann, president of A. Neumann & Associates LLC, says firms need to prepare for the valuation ahead of time, so red flags can be taken care of before the buyer is involved.

"If you remove a partner of a major accounting firm, how do we know the clients are going to continue to come?" Saccomanno said. "If you remove that key person, you have to assume a good portion of the business will leave, as well."

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