



A Preliminary Valuation of The Company

The fourth element of a successful Exit Plan is to know what the current value of your company. To accomplish this, you should retain (if you haven't already) a valuation specialist to give you and your advisors a good idea of what your company is worth.

As you know, any Exit Planning Process should be owner-based. Its foundation is your goals—one of which is how much money you want when you leave your company. The other part is knowing what type of vehicle you'll be driving to that destination. You and your advisors need to know whether your company is a dependable, high-performance road warrior or a temperamental vehicle prone to periodic breakdowns. If it is the latter, incorporate that knowledge into your Exit Plan. Part of the necessary planning includes minimizing or eliminating any weaknesses, making your company more desirable to buyers—thus more valuable.

Preliminary valuations are also important in designing incentive plans for key employees. Stock Purchase, Stock Bonus and Non-Qualified Deferred Compensation Plans (such as Phantom Stock Plans and Stock Appreciation Rights Plans) are all designed to motivate employees to increase the value of your company. All are based on a valuation of your company. Once you determine current value, these plans can motivate employees to increase that value to the level you require for a successful exit.

If you are considering a transfer to insiders (key employees, co-owners or family members), your advisors will likely recommend that you begin transferring ownership in advance of the transfer of your controlling interest. So that you receive more money (and the IRS less), these initial sales are usually made at a discounted value. Of course, the IRS will carefully review the reasons you reduced its take, thus highlighting, once again, the need for a certified valuation specialist.

No matter your desired target successor, or target departure date, an independent valuation provides a solid basis for future planning. Of course, it costs money—typically between \$5,000 to \$15,000. In Exit Planning, valuation occurs in two phases: the preliminary valuation and the complete valuation. The preliminary valuation:

- Consumes about 60 percent of the total valuation fee;
- Is the basis for the complete valuation but
- Lacks the supporting information contained in a written opinion of value.



Add to these great reasons for securing an accurate value the dangers of failing to do so. Imagine that, after spending many months and thousands of dollars on planning your exit, you learn that the value of your company can not support your exit—either on your timetable or for the amount of cash you wanted. Alternatively, you could find that all the months, even years, of working toward your departure were simply unnecessary in light of the lately-discovered value of your company.

Would you put your home on the market without knowing its value? Your business is likely far more valuable and the conversion of that value into cash is far more important to your financial future. For all these reasons then, determining a reliable value is essential before planning your exit can truly begin.

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