



Business Valuation for Closely Held Businesses: Making Dollars and Sense

How much is your business worth? You likely know the approximate value of your home, your car, and your retirement account, but like many closely held business owners, the value of your largest asset – your business – eludes you.

As a closely held business owner, you don't have the luxury of looking up your business' value on one of the public exchanges. So, how are you supposed to know what your business is worth?

Working with a Guardian Financial Representative, you will learn about different business valuation techniques, best practices, and the multiple financial and tangible benefits that flow from having an accurate estimate of your business' value.

Why Business Valuation Matters

The foundation of many sound business strategies - as well as many aspects of personal financial strategies - is built upon an accurate estimate of the value of your business.

Whether you overvalue or undervalue your business, an incorrect estimate of your business' value can lead to less than optimal business and personal financial strategies. The effects of such misjudgment could be felt most severely at your retirement, disability, or death.

Let's explore how having or not having an accurate estimate of your business' value can impact you and your family at your retirement, during your disability, or at your death.

A Financially Confident, "Full-Time" Retirement

Whether you plan to liquidate, sell, or simply "unhang" your shingle, not assessing your business' value at any point prior to your retirement may delay your anticipated retirement date and prevent you from experiencing the kind of retirement that you envisioned.

If you plan on retiring, an adequate gauge of your business' value - and thus how much money you can realistically expect to get for it if you sell it or liquidate it - will inform appropriate contributions to qualified and nonqualified retirement plans so that in conjunction with the proceeds from the disposition of your business, you can be confident that your income stream in retirement will support your desired lifestyle.

Taking a part-time job because you have to and considering a reverse mortgage are probably not on your bucket list.

Buy-Sell Planning For Disability and Death

Many closely held business owners execute buy-sell agreements (or rely on the transfer provisions in their business' governing document) to protect their families, their co-owners, and their businesses in the event of their disability or death.

Having a buy-sell agreement is good, but you're only halfway there - you also need to consider whether you or your family will be able to sell your business interest and get fair value for it if you became disabled or at your death. By failing to fund a buy-sell agreement, it remains unknown how much money you or your family will receive for your business interest - and when you may receive it - if you become disabled or at your death.

Appropriately funding these agreements is essential. The level of funding is directly related to the value of your business. Without an accurate estimate of your business' value you have no way of knowing whether your buy-sell agreement is adequately funded or whether you or your family will receive fair value for your business interest if you become disabled or at your death.

Estate Planning For Your Spouse and Children

Understanding what your business is worth is paramount in making adequate provision for your spouse after your death.

Your spouse's lifetime income needs may or may not be met from the sale or disposition of your business interest.

If you anticipate leaving your business to one of your children and leaving other assets to another child or children, knowing the value of your business is essential if you are going to treat each of these children the "same" and leave them each assets of equivalent value.

Without an adequate estimate of your business' value your estate plan can engender family disharmony and may be vulnerable to IRS attack. Further, an accurate estimate of your business' value will allow you to craft an estate plan with more confidence that your intentions will be carried out after your death.

Business Valuation: Getting Started

There are many different ways a closely held business may be valued. By working with your team of financial professionals, including your Guardian Financial Representative, the appropriate method of valuation will be chosen for the particular business or personal financial strategy under discussion.

Fair Market Value & Professional Valuations

Depending upon the complexity and size of your business, often, a professional business valuation is appropriate. A professional business valuation is normally performed by a business valuation firm or it may be performed by certain certified public accountants who have satisfied professional training and education requirements such as by earning an Accredited Business Valuator (ABV) or Certified Valuation Analyst (CVA) designation.

The fair market value of your business is required if you plan on selling your business to an outside third party, if the purchase price in your buy-sell agreement is tied to fair market value, or for personal planning purposes, including estate planning.

Accounting Techniques

It may be appropriate to use an alternative valuation

technique for the particular planning you are going to undertake. Alternative business valuation techniques include certain accounting methodologies. Some accounting methodologies that may be used to derive a value of your business include book value, adjusted book value, discounted cash flow, and capitalization of earnings.

An accounting method arrives at a value of your business, but note that this value is not necessarily indicative of fair market value.

Accounting methodologies may be appropriate for smaller businesses, businesses that plan to liquidate after the owner's retirement, death, or disability, or businesses looking to implement various employee or executive compensation programs.

Conclusion: Business Valuation Makes Sense

So how much is your business worth? Although there is a cost to requesting a business valuation be it an accounting technique or fair market value, it may cost you and your family a lot more by not knowing the answer to this question.

Important business and personal financial strategy decisions should be approached with a clear and credible estimation of your business' value.

Investing in a professional business valuation or utilizing an alternative business valuation approach will depend on the particular characteristics of your business and on what you are trying to accomplish (i.e., retirement planning, buy-sell planning, estate planning, etc.).

Your Guardian Financial Representative is in a position to help you engage the necessary professionals in order to obtain the most appropriate valuation of your business.

Please consult with your Guardian Financial Representative if you have any questions concerning this document.

**The Guardian Life Insurance
Company of America**

guardianlife.com

New York, NY

PUB8033 (10/20)
2020-110174 (Exp. 10/22)

The foregoing information regarding personal, estate, charitable and/or business planning techniques is not intended to be tax, legal or investment advice and is provided for general educational purposes only. Guardian, its subsidiaries, agents and employees do not provide tax, legal, or accounting advice. Consult your tax, legal, or accounting professional regarding your individual situation.

Guardian® is a registered trademark of The Guardian Life Insurance Company of America.
© Copyright 2020 The Guardian Life Insurance Company of America

Guardian Financial Representatives may call the Business Resource Center at 800 871 7780, option 3, for additional information.