



As a Business Owner, Why is it Important to Understand the Value of Your Company?

There are approximately 6 million companies in the United States with revenues from \$1 million to \$150 million. Baby boomers own roughly 50% of these businesses. Typically, the perceived value of the business by the owner represents 75% or more of their personal net worth.

More often than not, a business owner has a much higher perception of value versus what a buyer (either internal or external), or investor is willing to pay for it. Even if the owner has no intention of selling the business, the owner's perceived risk profile of the business is typically much lower than the actual risk profile of the business. This is to say that any areas of the business that are underdeveloped could result in an interruption of cash flow which, in turn, could have a negative impact on the company value. A lower company value may then adversely affect the owner and their family's financial future. If the value of the business represents the majority of an owner's personal net worth, and the owner is making future financial planning decisions around this perceived value, this oversight could be a dangerous approach to long-term personal financial planning.

If you are someone that advises a business owner, such as an attorney, CPA or wealth management advisor, you should be discussing with your client the following:

- the need to truly understand the value of their business,
- how to protect their business value, and
- how to integrate their business value into their family's long-term financial security.

This is not a discussion that happens six months before an owner plans to leave the business, when there is a health issue or some other unplanned event. At that point, it is too late.

With most other financial assets there is transparency of value. At any given point we know what publicly traded stocks and fixed income securities are worth. As it relates to real estate assets an appraisal is obtained prior to purchasing and is updated when the real estate is refinanced. By understanding the value of the business, an owner can appropriately plan to protect, maximize and diversify the value of their largest asset.

Business owner planning around understanding the value of their business, protecting value, maximizing value, and integrating that into long-term financial security is a proactive process. Unfortunately, too many owners tend to be reactive, which is generally too late. The daily operations of a business are always coming at the owner. A business owner will do well to have a trusted advisor make the planning process as important as the daily operations of the company. The result will be a significantly increased probability of a successful financial future for the business owner.

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