

# Gathering the numbers

## The importance of a business valuation for owners nearing retirement

INTERVIEWED BY ADAM BURROUGHS

**B**aby boomers, a generation that is said to own more than half of all U.S. businesses operating today, are reaching retirement age in waves. Most of these aging business owners have the majority of their wealth tied up in their business. And most of those who own privately held businesses don't know what they are worth.

"Effectively planning for retirement is difficult, if not impossible, without understanding the true value of a business as an asset," says Sean R. Saari, a partner at Skoda Minotti. "Without a solid understanding of the value of their business, owners may be making a life-altering decision about how and when to retire without having all the necessary information. The most important number may be missing in that analysis if the value of the business is not known."

*Smart Business* spoke with Saari about the importance of a business valuation in the retirement equation.

### Why is a valuation important for business owners nearing retirement?

Having a business valuation sets the stage for effective retirement planning. It's difficult to know if owners have sufficient assets to retire if they don't know the value of their company.

It's not uncommon for owners to have a perspective of their company's value that's higher than what it actually may be. Having insight into a company's value helps owners devise strategies to increase the value of their companies in order to hit the target they need to retire.

Additionally, knowing the value of a business is good from a management standpoint, as it helps owners understand the strengths and weakness of their companies

and how the performance of their businesses are trending.

### How often should a valuation be performed when planning for retirement?

Business values change regularly because of many factors — the economy, the industry, a company's individual performance. Best practice would be to perform a valuation annually. Failing that, it should at least be done at some point during an owner's retirement planning process to provide the owner and his or her retirement planning team with a complete snapshot of the owner's wealth.

There can be a difference between the sale price and the determined value. What a company sells for depends on the market and the buyers who bid on it. The value may be established, but the market will dictate the sale price based on the conditions at the time. An outside valuation can help set appropriate expectations for the potential sale price of the business to allow for more accurate long-term financial planning.

### What should a business owner look for when selecting a valuation expert?

The first step should be to make sure that the valuation expert is credentialed. There are a handful of different valuation credentials in practice — Certified Valuation Analyst (CVA), Accredited in Business



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Valuation (ABV), Accredited Senior Appraiser (ASA), Chartered Financial Analyst (CFA) and others. Being a CPA doesn't make someone qualified to do valuation work. Even those with valuation credentials may not devote a significant portion of their practices to valuation work. Make sure the valuation expert you select doesn't just do this work on a periodic basis — it opens the door for errors and mismanaged expectations.

### What should business owners know about executing a valuation?

It's best to get a valuation at the outset of the planning process, or at minimum, when in-depth planning starts.

The time spent on getting a valuation done will hinge on how long it takes to gather all the information needed to perform the valuation — financial statements, tax returns, legal documents, etc. Once those have been gathered and handed over to the valuation expert, it typically takes a few weeks to put the valuation together.

As business owners near retirement, they should give consideration to the fact that their business may be the most valuable asset they own. In order to effectively plan for retirement, business owners need to know what that asset is worth. Owners shouldn't allow the biggest number in their financial equation for retirement to be an unknown. ●