Video transcript: "One Question: Business Valuation with Regions' Bryan Koepp"

Video source: YouTube

Note: Fun, upbeat music begins to play.

On screen: Regions logo appears

On screen: Bryan Koepp appears

[Voice-over] Welcome to the One Question. I'm your host, Bryan Koepp.

Many say that beauty's in the eye of the beholder. The meaning of this phrase is that the perception of beauty is subjective; that people can have differing opinions on what is beautiful and what is not. So, how does the eye of the beholder impact your One Question and the potential completion of a business transition?

I can sum it up in three words: Your business valuation. So, why should business valuation be important to you? Business valuation, for a period of time, provides direction toward the answer of "What is my business worth?" This valuation-perceived worth may be important on numerous levels. A business value calculation may affect your access to capital, provides a measurement regarding current income, growth of assets, impact of liabilities, and the perceived value of other intangibles.

In essence, business value is a revelation of what you are today and how that may impact your tomorrow. An important point to remember is that unlike your investment management or banking account values that you can see online and update daily and actually by the minute in some circumstances, your business valuation is not updated instantaneously, even when a formula is used.

A best practice to consider is that business values should be seen as a snapshot in time that becomes less accurate from the moment the picture is taken. The calculation of your business may be simpler. Complex business value may be calculated a variety of different ways. There's book value, calculating the difference between assets and liabilities on multiple revenue streams; Price to earnings ratio; or the application of a cash flow analysis to determine Net Present Value.

Additionally, there are intangibles besides revenue that may affect the value of your business. An example of a business intangibles is goodwill. Goodwill measures value associated with customer loyalty, reputation and branding. Also closely held businesses made be valued based upon a chosen transition strategy. If your goal is to sell your business to a third party, a focus on valuation for pricing purposes may be proven.

If your intention is to transition your business to the next generation via gift or family sale, the application of a discounted defensible valuation may be advisable. In this example, discounts for lack of marketability and lack of control may maximize your federal gift exemption and provide estate planning efficiency. A question I often get is, “How do I maintain focus when my business valuation is subjective and doesn't reflect what I feel it's worth?”

There are a number of tactics you can employ to keep focus. First, engage a valuation professional. It's highly advisable to have an accredited valuation professional value your business in conjunction with your legal counsel. Discussion of your valuation methodology with your professional team may provide insight into how to move closer your transition goals.

Do not forget why you're having a valuation completed. It's simply a snapshot in time, which can fairly change, and the strategy for which you transition your business may also change. Modeling evaluation results and involved planning exercises will also provide additional data regarding the probability of achieving your goals based upon the evaluation provided.

Secondly, maximize what you can control. You may control many aspects of what goes into your valuation, because decisions which impact revenue, perceived goodwill, and investment in value drivers, may solidify business value. Third, focus on the big picture and your priorities. These include the potential to ask, “Who am I going to transition my business to, when as far as the timeline, and why am I doing what I'm doing?”

These big picture issues are the pillars in answering your one question. The business valuation is important in the eyes of the beholder. However, another beholder may see your value as you see it. Instead, if you’re open to the big picture and process, you can use valuation as an assessment, which can strategically apply to your advantage.

Until next time, I'm Bryan Koepp.

On screen: Text appears on screen that says, “Talk to your Regions Wealth Advisor today” and regions.com/wealth-management/private-wealth-management, as well as disclosures.