

# ‘To value or not to value?’ – that is the question

*Many people know the value of their house and pick up tips and advice on what they can do to increase it. But how many business owners can say that they know the value of their business, never mind what they could do to improve it? HWB director Richard Hurst believes that there are a significant number who don't consider the value of their business early enough, which can prove costly when they come to negotiate its sale*

Planning ahead is likely to help the owner realise more on the sale of the business than if the decision to sell is a sudden one. Businesses can be sold with little notice but they rarely give the return that the owner expects.

The problem is that valuing a business is more of an art than a precise science and is often not understood by owners. As it is subjective, valuers, purchasers and vendors will often arrive at different figures.

Business valuations are often not about bricks and mortar, but a number of other less tangible factors are considered such as:

- customer base and retention
- the quality of staff
- capability of management
- sustainability of profits

Unfortunately its value cannot be increased by simply adding a new room or changing the décor.

However, value does not equal the price the business may be sold for, as ultimately the business is only worth what a willing buyer is prepared to pay and a vendor is willing to accept.

As this is often the only time that the owner will sell a business, it is imperative that the right price is achieved. A key part of the selling process is to have a clear idea of the valuation of the business in the first place on a basis that is accepted and understood by others.

Richard Hurst, from the Southampton-based independent accountancy firm, who specialises in providing strategic advice to businesses from entrepreneurial start-ups to substantial private companies, says it surprises him that so few owners know the value of their business which is often their life's work.

"They often don't take the time away from the day-to-day running of their business to focus on

where it is going and when they will exit," said Hurst. "I see many people who wait to sell their business and it isn't worth anything like they had imagined. Owners sometimes over value their business because of vanity or because of emotional matters that result from the hours that they have devoted to it.

"It is a shame because if they had considered and set out a plan say two to five years earlier, the value they had in their mind, could have realistically been achieved.

"At HWB we have developed a process that is easy for owners to understand and will lead to a clear plan of how to increase value.

"We recommend that the first step in the process is to value the business.

"It acts as a benchmark and helps quantify the increase in value in the future. Increasing the capital value of a business is motivating and means there is a better chance of making further improvements.

"In many cases the value of a business for strategic purposes is based upon a multiple of maintainable EBIT (Earnings Before Interest and Taxation).

"For a privately-owned business, the multiple can typically vary from two to 10 and will depend upon a number of factors including:

- the industry sector
- where business is in its life cycle (developing, mature, decline)
- dependency on any particular individuals
- the quality of the managerial team and staff

"We meet with the owner and discuss the factors that affect the multiple and the level of maintainable profits of their business.

"Maintainable profits will be based upon historic performance



Richard Hurst

and projected results (although this will be dependent upon the reliability of the forecasts). Adjustments are made to profit to take account of unusual or exceptional items and to include a commercial charge for certain costs.

"These might include emoluments and related benefits of directors, pension costs, repairs and maintenance, depreciation policies and rent. Results are then averaged on a weighted basis with more emphasis on current performance.

"Once the value has been established, we then look at the areas which can improve it," added Hurst.

"It may be as simple as putting in a new management to drive the business forward, or looking to develop more profitable sectors.

"We see many owner managed

businesses with lack of time, no clear succession plans, dependency on key individuals, lack of timely reporting.

"Many owners are willing to change, which is very important to the process, but developing a clear written action plan which has been correctly prioritised is vital to implementing changes.

"Owners don't want to look back and say 'I wish I had done something about this before now'. As we all know we cannot turn back time, but we can do something now so there are no regrets in the future."

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