Why does a business valuation matter?

Many businesses become successful through the careful care and feeding of the income statement. Whether your plan is to sell the business, sustain it and live off the income or pass the business on to a family member or partner, having a plan for building and monetizing a business asset well before leaving the company must be part of retirement strategy. For most owners, a large portion of retirement will be funded by business-related assets and cash savings. As you think about your eventual exit from the business, keeping your eye on growing business value and understanding how your business will be valued by others will serve you well until the time for your transition comes.

Key actions to take:

- **Meet with your financial advisors early on**: Don’t wait until the last minute to consult with your CPA or business valuation specialist about your company. It is imperative to begin planning early to create strategies and executions that maximize the value of your business and shore up the funds you will need to move on to the next stage of your life. Gaining a strong understanding of how your business is valued within three years of your transition (at the latest) will help with your personal retirement and business succession planning.

- **Develop a transition team**: Draw on the knowledge of those advisors who can help build your business assets, while also growing and preserving your personal investments. Advisors who understand both sides of your balance sheet, have specific knowledge of your industry and offer a range of advisory services to help you with retirement planning, credit, trust, cash and risk management will be vital to your team.

- **Understand the role that valuation will play**: Some owners ask, “Why do I need a valuation if I’m not selling my business?” Just about any changing of the guard at a business will benefit from a valuation. Valuations often help set the price and validate, from impartial sources, a fair deal for owners, management teams, investors and advisors in sale transitions. If you decide to borrow against the business’s assets to generate cash flow for retirement, a valuation can establish a value for the business and start working out a structure before involving bankers and/or investors. Even keeping the business in the family may require an ownership transfer where valuation is not needed.

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**Valuation**

Consult with a CPA or business valuation specialist at least three years before your planned business transition to understand the value of the business and the best way to transition.

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**Statistics:**

- 50% of small business owners relying on the business for retirement funding say it is their primary source.
- 58% of small business owners have not had a formal valuation on their business in the last three years.
needed for tax purposes. To plan for family tranquility, be transparent in showing family members — both inside the business and outside its operations — that a fair price was used in the transaction.

- **Focus on value levers**: Your valuation will give you a perspective on where others find value in your business and will define the levers that you can drive to maximize your business value. Using industry-based price to earnings ratios (P/E) is a common approach to value many businesses. Some businesses are valued on a multiple of revenues. Yet others may have special business components, like a production process, a technology or a customer list that provide primary sources of value. Understanding your sources of value and actively managing them will provide you with the funds you deserve when the time for transition comes.

- **Add clarity to your succession plan**: Determining the value of your business will help you put a framework around your exit from the business. Viewing your goals and aspirations through the lens of how your company is valued gives you a road map for how the business will proceed without you, whether passing onto family members or existing employees, putting new management in place or selling the business outright to another company.

Let SunTrust know how we can help your business.

- Drop by your SunTrust branch
- Call us at 800.752.2515
- Visit suntrust.com/bizbestpractices

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Click below for additional resources:

**Preparing to Let Go**
Plan an effective business transition.

**Building a Template for Transition**
Best practices to tackle transition, retirement and succession.

**Webinar: Tackling Transition**
Transitioning your business and securing your retirement.

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1 SunTrust conducted research with 532 small business owners ranging from $100,000 to $2,000,000 in annual revenue in the first quarter of 2018.

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