Cowan, Gunteski & Co., P.A.
Certified Public Accountants & Consultants

THE TRUE VALUE OF A BUSINESS VALUATION

Although valuations are particularly important for fuel merchants considering an ownership transition or business sale, they serve many other purposes as well. You should seriously consider a valuation when seeking loans, establishing an employee stock option plan, creating a buy-sell agreement, contemplating a merger or acquisition; or engaging in estate and gift planning.

Factors that can enhance the value of your company include a seasoned management team, trained and established workforce, viable business plan, effective management information systems, stable revenues and profits; and well maintained equipment and facilities.

Estimating the value of a closely-held business is much more complex than merely guessing at a dollar amount a potential buyer may be willing to pay for the business. The value placed on a business is related to the purpose for which the value is being determined. For example, a business valuation for estate and gift tax purposes may differ from one for a minority shareholder. Regardless of the purpose in most cases the valuation of an on-going business is determined from the economic benefit derived by the use of its tangible and intangible assets.

There is an array of internal and external factors which affect the value of a business, making the valuation process multifaceted. Each valuation is unique and requires a comprehensive understanding of the facts, a detailed analysis of the financial data specific to the business, benchmarks on similar businesses, as well as a complete understanding of the state of the industry and its economic outlook.

STANDARDS OF VALUE

The value of your business will be determined by many factors including which sector of the fuel industry you do business in and the standards used. It defines the "value to whom." Among the most commonly utilized standards are:

Fair Market Value – The price at which a business would change hands between a willing buyer and a willing seller when neither is acting under compulsion and both have reasonable knowledge of the relevant facts.

Fair Value – Typically defined by state statute. It is commonly used in dissenting shareholder actions without application of discounts for lack of control and lack of marketability.

Investment Value – The value to an investor based on his individual investment requirements. The value can differ among investors because of perceived differences in risk, growth, earning power or tax status.

Liquidation Value – In general terms, the net amount that an owner could realize if a business is terminated and the individual assets are sold off.

APPROACHES TO DETERMINING VALUE

An appraiser will likely rely on one of several commonly used approaches to determine your company's value. These fall into three well known and commonly utilized approaches as follows:

Asset-based approach – Is the cost to replace or replicate your business. With this method, the valuator adjusts your business assets and liabilities to their fair market value equivalents. The sum of those assets, less the liabilities, yields your company's overall fair market value before the application of discounts and/or premiums. Each component of the business entity is valued individually and aggregated. The asset-based approach is often favored for capital-intensive enterprises in which revenue and earnings are difficult to forecast.

Income-based approach – Estimates the value of your business based on its future earnings. Here the valuator develops an income stream to capitalize at a rate of return deemed appropriate for an investment in your company. In other words, this method looks at the present value of your company's future economic earnings or cash flows, discounting that income stream at a rate commensurate with alternative investments of similar quality and risk. This method is considered appropriate for valuing a closely-held business because they tend to be earnings or cash flow driven. It estimates the value of the entity as a whole, including tangible and intangible asset values.

Market-based approach – A valuator using this method would compare your business to similar fuel companies. The ratios used will generally center on your business's earning power, assets or both.

No matter which method a valuator uses, certain factors are bound to play key roles. These include management quality, annual profit margins, historical growth, future revenue projections, and your company's name and reputation. In addition, expect a valuator to look at union contracts, insurance coverage and any environmental disputes in which you may have been involved.

THE BOTTOM LINE

Ultimately, your business is worth only what an independent, objective party would pay for it. In other words, the bottom line on valuations is, in fact, your bottom line. It is recommended that you engage a professional with the proper credentials to ensure that your valuation represents the actual net worth of your business. These credentials include a Certified Public Accountant (CPA), Accredited in Business Valuations (ABV), Certified Business Appraiser (CBA) or Certified Valuation Analyst (CVA).

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Best regards,
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