CFIB
CANADIAN FEDERATION OF INDEPENDENT BUSINESS
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BUSINESS VALUATION

Measuring a company's value — "valuation" — is a complex and critical process in succession transactions. A business valuation is an important piece of data that underpins the overall succession plan and strategy.

No matter which option you choose, putting a valuation on your business is a critical and complicated step. This guide will help you get started!

WHAT IS A BUSINESS VALUATION?

An independent valuation of the shares and/or assets of a business may be required for a variety of reasons, including selling the business. To determine the value of your business, a professional valuator or an accountant can help you examine all the assets and liabilities that contribute to the value — this includes both tangible assets (such as property), and intangible ones (such as patents or trademarks).

THERE ARE A NUMBER OF FACTORS THAT DRIVE VALUE:

Positive	Negative
❑ Track records and growth expectations	❑ Reliance on a few key customers/employees
❑ Contractual relationships vs. handshakes	❑ Union issues/contingencies
❑ Higher tangible asset value	❑ Outstanding litigation
❑ Proprietary technology/intangibles	❑ Other contingencies
❑ Niche markets	❑ Business risks
❑ Barriers to entry	❑ Economic/industry risks
❑ Strength/depth of management	❑ Not willing to commit to a transition period

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DIN10026-1909

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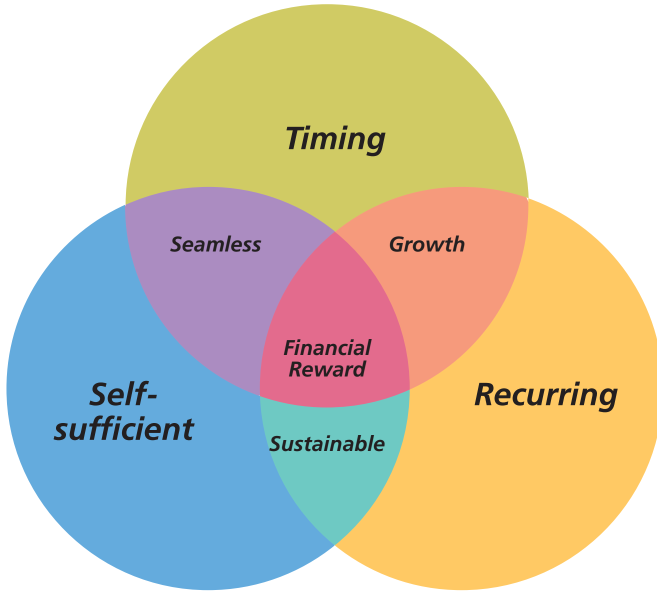
CONSIDER THE FOLLOWING MODEL



Timing: Know when to sell and when not to sell based on the economic landscape. Does it make sense to do it right now? Do you *need* to do it right now? These are valid questions. Also, it is crucial that family, key management and key stakeholders are all aware of your exit plan. Communication and transparency is critical to selling as it can be a benefit or deterrent to selling effectively and efficiently.

Self-Sufficient: Create a business that is not dependent on 1 leader, 1 employee, 1 supplier or 1 customer.

Recurring Business: Create a business that has profitable, growing and recurring revenues year-over-year. Most buyers want to see 3–5 years of financials in order to apply some sort of normalized projection.

Financial Reward: This is the payout you will receive when you sell because you created an excellent, valuable company.

Seamless: Knowing when to sell a self-sufficient business creates a seamless transition. This means any business savvy person can walk in and operate the business with limited to no issues.

Sustainable: When you create a business that is self-sufficient and has healthy recurring revenues, you've created a business that is sustainable. This means the traction to date can be upheld for the foreseeable future.

Growth: When you create a business that has healthy recurring revenues and the markets are leaning in your favour (*great timing within your industry*), you are capitalizing on selling a business with healthy growth — something any and all buyers should want!

WHEN PREPARING FOR A VALUATION, HERE'S THE INFORMATION YOU WILL NEED TO PROVIDE THE VALUATOR / ACCOUNTANT:

Information to be provided	✔
The full reason(s) for the valuation including any legal or regulatory requirements	
Full names of all interested parties to the valuation (to determine conflicts of interests)	
The proper recipient(s) of the report	
The exact property being valued	
The valuation date(s)	
Five years' complete financial statements for all companies or entities involved, if applicable, including details on non-recurring or extraordinary amounts of all non-arm's length or discretionary expenses and transactions such as shareholder remuneration, dealings with related parties (rent, financing, etc.) during this period. (Interim statements at or about the valuation date should also be included, if available.)	
Description of the business	
Current business plans, budgets and projections	
Description of all major fixed assets, including year of acquisition, original cost, depreciated cost and any offers or appraisals available (it is important to obtain a clear understanding of the purpose and basis of value for any appraisal as differing approaches may give widely different results)	
Copy of incorporation documents and access to corporate records	
Copy of any major corporate agreements	
Copy of all shareholders' agreements and a list of shareholders	
Names of various persons to contact for additional information of all types	
Disclosure of all prior valuations and information on sale/purchase discussions and/or offers	

Get in touch.

We're here to help.

Any questions? Call our business counsellors today .

1-888-234-2232 or cfib@cfib.ca