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Thursday, November 10

# How to Value a Business

Valuing a business you're looking to sell isn't something you should take on yourself. There's a lot more to it than putting up a For Sale sign, and it takes a long time for a sale process to run its course. And all that time, you're going to have to keep running your business while you're trying to figure out a bunch of numbers and negotiate with everyone from buyers to lawyers.

For **Achim Neumann,** president of A Neumann & Associates in Atlantic Highlands, helping sellers through the process is what he does. The firm is a mergers and acquisitions consultancy, which means Neumann and his staff know what mistakes business owners make when they try to steer their own ships. In short, they make a lot of mistakes — the first one being the belief that they can do it all themselves.

Neumann will present "How to Value, Sell, and Buy A Business for Maximum Success" on Thursday, November 10, from 8:30 a.m. to 12:30 p.m. at the Princeton Marriott at Forrestal. Cost: $155. Visit www.NeumannAssociates.com.

Neumann grew up in Germany, where his parents built a business manufacturing CDs and vinyl LPs. He helped at the business until he moved to Atlanta in 1979 to work in the entertainment industry. He earned a bachelor's in economics from Columbia University soon after and an MBA from Penn.

Neumann went on to work at Siemens, where he was an executive. The position taught him much about the M&A world, as did his other job, being president of two music companies based in New Jersey — da music and 1201 Music. Both were independent jazz labels that turned out some gold records and taught Neumann about the finer points of contracts, property rights, and business processes.

In 2003 he started A Neumann, where he and his staff guide mid-size companies through staff mergers, acquisitions, and business brokerage.

**"There are plenty of mistakes."** Over the past decade and a half, Neumann has seen many looking-to-sell companies make a lot of the same mistakes. First and foremost is that a lot of business owners don't consider the two main things behind their reasons to sell: the timeline it will take from "I'm selling" to "thanks for the check" and the actual motivation for selling in the first place. He likes to ask sellers a seemingly inconsequential (but entirely revealing) question: What are you going to do with all of your free time now?

A lot of would-be sellers don't stop to think that selling will mean you won't be in business anymore, and that causes a lot of second thoughts. So do split motivations between spouses.

"Maybe the wife wants to move to Florida, but the husband wants to stay and work on the business," Neumann says. He's thinking of selling to appease his wife, but what will he do without that business he clearly isn't ready to let go of? These are things you have to consider before you even think about selling your business, he says

**The DIY route.** Another major mistake business owners make is in how they come up with the value. The first thing most owners do is call their accountant and have him come up with a number. But a CPA doesn't have access to everything needed to put a real value on the business. Instead, "he comes up with some theoretical number that has no appeal to the buyer," Neumann says.

Knowing how much a company makes and what it's actually worth are two different things. Take, for example, an HVAC business that makes $500,000 a year. Whereas it might sound simple to make the value, say, $1.5 million, the reality is, it's the nature of how the business makes that money that a buyer will be looking at.

Let's say there are two HVAC companies of this size. One does commercial work mostly through government contracts and the other makes its money by servicing homes. The former business might only get three or four lucrative jobs, but there's a ton of work in finding those contracts — which usually are one-time only. The latter business won't have to scratch for competitive contracts, but the workload is much higher and the per-job income is far less.

These two companies, Neumann says, represent very different values to buyers. An investor may be turned off by the freelance nature of the former because he'll want something with a reliable business flow. So even though the two HVAC companies make the same money, the investor might value the former less.

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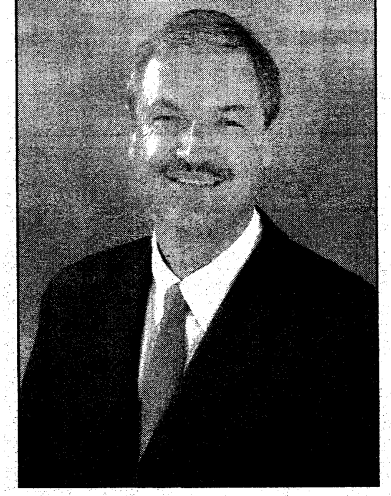
**Bad investors.** Bottom feeders always look for a bargain, Neumann says. This is why you need to have your business properly valued. You need to be able to show buyers (and their financiers) concrete evidence about why you say your business is worth as much as it is.

"If I say I want to sell for $2 million," he says, "with no backup, the buyer will start negotiating at $1 million."

There are also intangibles in play here. Business owners are good at their business, Neumann says, but not always with handling every aspect of the business. Confidential records, for example, are not something all business owners know what to do with in a negotiation. What can you reveal and what can you not? What does a buyer need to know about your tax history? And what about employees' records? If you sell, those will suddenly be the property of the new owners.



**Value Added:** *M&A consultant Achim Neumann gives tips on valuing, selling, and buying a business on Thursday, November 10, at the Princeton Marriott on College Road.*

**Negotiation and taxation.** One of the key advantages of having an outsider value your business is that doing so allows an evaluator to do her job while you continue doing yours. It also allows for some breathing room in negotiations, Neumann says. If you're at the table as the owner and ask for $1 million and the buyer offers $750,000, you have to decide on the spot whether you want to take it. An intermediary can say something like "I'll discuss it with my client."

If there's one thing business owners don't consider the impact of, taxation is it. So many, Neumann says, think "I'm selling for $2 million, I should get to keep $2 million." In fact, he's seen sellers try to back out of deals once they find out that the check they're about to get is half of what they thought it would be. The bottom line, of course, is that if you know what you're worth and how much your IRS business partners are going to ask for as their cut, you won't drop a major surprise at the signing table.

And remember, all this takes a year or so, on average. So that last-hour surprise is going to be especially damaging after months and months of work.

"Get a mediator," Neumann says. "You definitely want to do that. It takes a lot of time to sell a business."

*— Scott Morgan*