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### **Valuing the Business: Some Difficult Issues**

Business valuations are almost always difficult and often complex. A valuation is also frequently subject to the judgment of the person conducting it. In addition, the person conducting the valuation must assume that the information furnished to him or her is accurate.

Here are some issues that must be considered when arriving at a value for the business:

**Product Diversity** – Firms with just a single product or service are subject to a much greater risk than multiproduct firms.

**Customer Concentration** – Many small companies have just one or two major customers or clients; losing one would be a major issue.

**Intangible Assets** – Patents, trademarks and copyrights can be important assets, but are very difficult to value.

**Critical Supply Sources** – If a firm uses just a single supplier to obtain a low-cost competitive edge, that competitive edge is more subject to change; or if the supplier is in a foreign country, the supply is more at risk for delivery interruption.

**ESOP Ownership** – A company owned by employees, either completely or partially, requires a vote by the employees. This can restrict marketability and, therefore, the value.

**Company/Industry Life Cycle** – A retail/repair typewriter business is an obvious example, but many consumer product firms fall into this category.

Other issues that can impact the value of a company would include inventory that is dated or not saleable, reliance on short contracts, work-in-progress, and any third-party or franchise approvals necessary to sell the company.

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