A CEO COMMENTS:

I'm more cynical, more cautious. If you tell me something is rated AAA, I'd say 'whoopee', that's meaningless.

Fact: The less faith you have in the future, the more you need to turn to systems and methodologies that can provide certainty.

The future isn't what it used to be aptly applies to business. The before and after shock of the economic downturn has affected entrepreneurs in a more profound way than downturns before.

What was a "it's just part of the normal business cycle" sentiment that business owners and leaders have typically held may not reflect the true scope of the reality that exists today.

"History's memory can be very short-term", says Eleanor Joy, an associate Partner at PricewaterhouseCoopers in Vancouver. She is also a Chartered Business Valuator and the incoming Chair of the Canadian Institute of Chartered Business Valuators. "I don't think anyone expected the recession to be as severe as it turned out to be. For a lot of younger entrepreneurs, it was the first time they saw something like that happen."

"It's created unpredictability", says one CEO of a noted commercial real estate company.

For business leaders looking at their sunset years, that uncertainty also means seeing the value of their company erode.

Setting a value of a business is the practice of Chartered Business Valuators (CBVs) like Joy.

"A valuation is always a value at a point in time," explains Joy. "In the stock market, if you buy 100 shares of a company and it's trading at $50 a share at the moment and you went forward three months, in all likelihood, that trading price would have changed. But it's highly unlikely anyone can tell you what the trading price is going to be three years from now."

How does one put a price on any business asset without being able to forecast future cash flow effectively or having a past upon which to rely?

"Using historic sales information to value a company is not useful anymore because poor sales over the past couple of years would result in understating the true value." says the President of a Canadian-based machinery manufacturer.

The question on many entrepreneurs' minds is whether we can return to a state of certainty.

"I think people would be foolish if they thought the future could be certain, indefinitely," says Joy. "But I'm seeing more confidence coming back in owners' perspectives of the future than we have over the last couple of years."

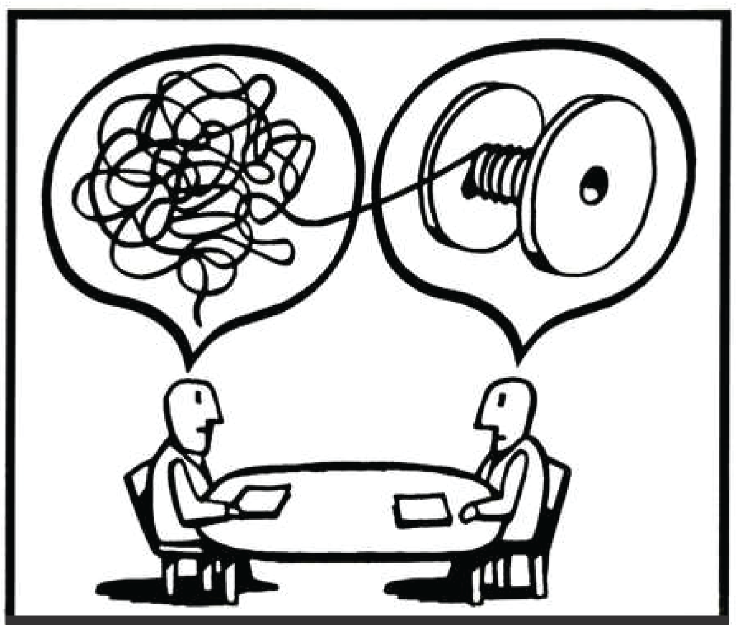
With a retiring generation of business owners, the value of their companies has never been more of a concern. That's because the final payday may be less to celebrate.

"When the recession first hit and we were being asked to do valuations in December of 2008, there was chaos around interest rates and nobody wanted to predict what was going to happen to exchange rates. We just had to simply say, 'What do I know about this business? What do I think is going to happen in the future?' It's using professional judgement to ascribe a value to that business."

And it's not just value, but also the shelf life of a valuation.

"Unless there's been a significant change in your business, the value of the business shouldn't really change over a 6-month period. But in and around December 2008, we shortened that to three months with a pretty heavy caveat."

Now the tone is more hopeful. "My feeling is that we're going back to six months now. This recession has been worse than some of the other ones we've seen in recent history," Joy says. "But if a business is properly positioned, it should be able to recover from the recession more quickly than when it's not."



Over 66% of business leaders interviewed agree that instability is the new norm.

ABOUT:

CHARTERED BUSINESS VALUATORS™

Chartered Business Valuators are designated experts who quantify the worth of all, or part, of a business or its securities, using comprehensive analysis to determine the value of tangible and intangible assets, including brand and intellectual property for business, finance and litigation purposes.

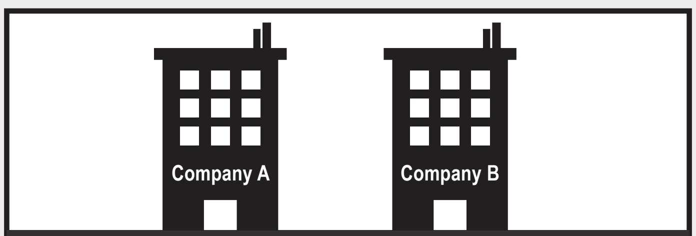
Visit cicbv.ca for more information.

What has changed during the economic downturn?

"Things that people once saw as having value no longer do. When money gets tight, they don't give you anything for concepts. People don't invest in concepts any more." says the CEO of an energy resource company.

Buyers and investors are definitely looking for tangibility. On the surface two companies can appear to have the same value.

Both Company A and Company B are producing earnings before interest, taxes, depreciation and amortization (EBITDA) of $1 million a year. However Company A has no net hard assets in its business. Company B has $5 million in hard assets. There's less risk associated with Company B because of the $5 million of hard net assets that a buyer is willing to pay for.



Two companies with the same EBITDA may in fact not be worth the same.

The analysis of value would use a higher multiple of earnings for Company B than Company A.

THE CANADIAN INSTITUTE OF CHARTERED BUSINESS VALUATORS (CICBV) commissioned a research study which surveyed 156 business executives and conducted 40 in-depth one-on-one interviews. This is the first of a 4-part series that focuses on entrepreneurs and the value of their businesses.

THURSDAY: Succession and the value of your company.

A CEO SPEAKS:

“ Business owners are spooked about what’s going on and that makes them ready to sell sooner than they are prepared for. They thought their cash cow would go forever.

Fact: Succession is about more than passing the torch. It’s about planning and diligence.

Business leaders and owners have come of age. Based on current studies, the majority of Canadian entrepreneurs are between the ages of 50 and 75. Most are thinking of retirement but as many as 50 percent do not have a succession plan in place.

For most companies, the most valuable asset is its people but many owner-run businesses may just have one major resource – the owner.

Most business leaders spend their career building up their companies, not thinking about life without them.

And when customer contacts, specialized knowledge or even the company brand resides primarily with one person, it can affect the sustained value of the company.

Denys Goulet is a Chartered Business Valuator and Associate Partner with PricewaterhouseCoopers in Quebec City. He is also on the Board of Directors at The Canadian Institute of Chartered Business Valuators.

In Goulet’s view, a succession plan is in the interest of the company. “You need to prepare your people to live without you. Then there is greater value to transfer or sell.”

This can be difficult for those who have grown their enterprise from zero. “It can be a pride thing but they should look at the bigger picture,” Goulet says. “A company so dependent on a key individual can be worth less. It’s actually in the business owner’s interest to be expendable.”

“A good succession plan should be top of mind. It could take as long as two or three years to prepare your whole organization for a transfer in leadership or ownership.”

50 percent of business owners have no succession plan and are unprepared as they and key managers begin to exit.

Making succession part of your strategic plan

- Make it an ongoing topic at the management table
- Set in-house standards for share pricing
- Get objective advice
- Agree to a formula in partnership buyouts

Ask yourself: “Is your goal to transfer your organization to your family, to your management or do you simply want to get in the market and sell to whoever wants to buy? The goal of a succession plan is to create a clear path and add certainty for a buyer.”

But a not uncommon challenge is to find people who can fill some unique shoes.

One CEO of a national real estate developer agrees, “The biggest challenge will be executive talent moving on due to age,” he says. “We are a lean organization and we will struggle to have someone fill in.”

“It’s about knowledge transfer,” says another CEO. “I’m afraid to death of losing the legacy of the organization. As a result, it becomes more about transitioning than simply leaving.”

And then there are the family-owned businesses. “Actually, the transfer of a family business to another family member is more challenging than to someone outside,” says Goulet. “It should be strictly a business transaction but when you have family involved, it becomes a very emotional experience.”

Another challenge is determining the right time to sell. With the latest economic rollercoaster ride, business leaders have seen revenue and resulting value of their business drop just as they were planning to exit stage right.

ABOUT:

CHARTERED BUSINESS VALUATORS™

Chartered Business Valuators are designated experts who quantify the worth of all, or part, of a business or its securities, using comprehensive analysis to determine the value of tangible and intangible assets, including brand and intellectual property for business, finance and litigation purposes.

Visit cicbv.ca for more information.

“Business owners need to understand that value fluctuates over time.” says Goulet. “There are two components in a valuation. The internal and external. If the external hasn’t changed much and the internal has not changed much either, that means your value can last for a longer period of time.”

In the end, business owners need to prepare but will ultimately sell when they’re ready to sell – financially and emotionally.

THE CANADIAN INSTITUTE OF CHARTERED BUSINESS VALUATORS (CICBV) commissioned a research study which surveyed 156 business executives and conducted 40 in-depth one-on-one interviews. This is the second of a 4-part series that focuses on entrepreneurs and the value of their businesses.

JUNE 22: Putting a price on your business.

A CEO SPEAKS:

Putting a price on your business now is much harder; it's a crapshoot. Clients and organizations are changing. Industry is changing. How do you value a company like mine? It would take a brave individual.

Fact: When it comes to valuation, courage is not a prerequisite, but methodology, analysis and standards are.

There's one thing that is clear among business owners. Those looking to sell their company and stroll off into the sunset are now facing a new reality.

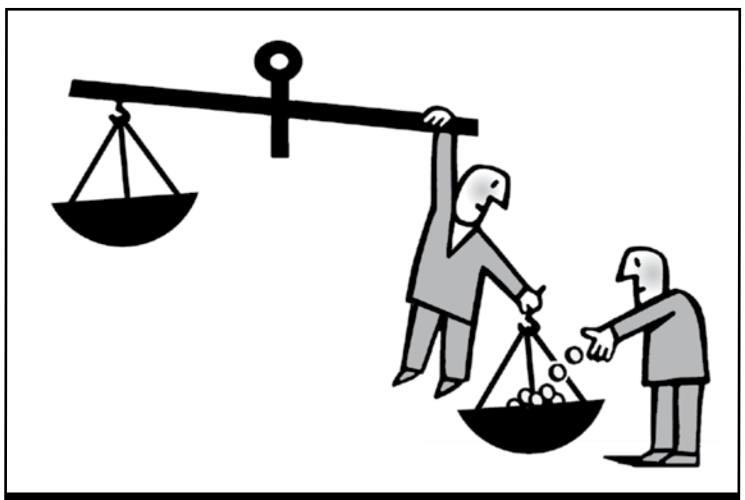
There was a time when businesses were bought and sold just based on an idea and not necessarily based on a comprehensive assessment of the assets and their value.

"Back when we sold (2005), it was more of a cowboy approach to acquisitions. If a senior executive had an eye on your company, then they'd do it at almost any price. Today, it would be much more rigorous," says a business partner at a machinery company, one of over 40 heads of companies interviewed.

That reality was of course the recession. Post fallout, many are facing the challenges of rebuilding the value of their company that was ravaged by the economic tornado.

"The recession has clearly had a profound affect. Your string of comparative years has a major discontinuity and you can't simply call it a V-shaped recession, followed by a recovery and we'll just rejoin the old trajectory. Those lines are irrelevant now. What is a fair estimate of future cash flows under this new world situation? And the answer to that is you don't know because forecasting is broken too." CEO, Energy Company.

So if you can't forecast, how can you plan? Or for retiring business owners, how can you properly put a price on your company when valuations are based on recent history?



In the past, 80% of business valuations were carried out by internal management. Today, without certainty and a rigorous process, that would not be enough.

"You cannot place a value on a company that has been struggling over the past couple of years," says the owner of a manufacturing firm. "Today, business is unforecastable, unplannable. If someone wanted to buy my company today based on [current] sales, I would say, 'no way'."

Finding that fair price between the buyer and seller has never been easy but it's apparent that the art of buying and selling a company should be more of a science.

Brian Keough is President of Keough and Associates, an independent firm of Chartered Business Valuators. He also sits on the Board of Directors with the Canadian Institute of Chartered Business Valuators. He advocates following a process and methodology. "Standards are key," says Keough. "The turmoil has obviously affected the value of a company. And perhaps that's why standards in valuation have become more important."

Keough adds, "Because what is the opposite of standards? It may be a quick and dirty valuation. Obviously, that may be fairly risky because you're not giving it the appropriate thought process and discipline it needs. A business can't afford to have those risky propositions anymore. You can get away with a lot when the market is buoyant and everything's going well but when things aren't going as well, you have to be careful."

This also suggests that timing is an issue. And begs the question, when is the right time to sell?

"Knowing when to cash in your chips is an important part of the puzzle. It's more than crunching numbers. This is about reading the tea leaves to get an approximate time to maximize your value," says a CEO of a food processing company.

We've all read the fine print: "Past performance is no guarantee of future gains" and understand the relevancy. Looking deep into the eyes of the numbers is absolutely critical. But if you can't look back, how about looking forward?

One business owner lamented that he could only plan the next six months. Then the question is: How can a company create a valuation if they can't foresee or forecast where they are going in the future?

"If you can't forecast that far into the future, it could be no fault of your own," says Keough. "It could be uncertainty in a customer relationship. If you're dependent on a couple of clients for 50% of your business, a buyer is not going to pay as much because there's too much risk."

The goal is to create certainty. "Uncertainty creates lower values. The more certainty that you can put into the revenue flow and the margins, the higher the value you're going to get in transactions."

And that would appear to be the theme playing in business leaders' minds.

Selling without selling out

Maximizing value for your company requires diligence:

1. Secure all significant contracts, including employment, union, and client agreements. This is especially important if you're dependent on three or four major clients.
2. Optimize your business. Stabilize your financial performance to improve profitability and cash flow. And as well be prepared to demonstrate potential growth.
3. Clean up your balance sheet. Shed assets that are not needed in ongoing operations. If you have overcapacity with staff or some capital assets, consider making them redundant.
4. Reduce dependence on key individuals within your company. The value of the company is greater when it relies less on non-transferable assets such as you or your management team.

ABOUT:

Chartered Business Valuators are designated experts who quantify the worth of all, or part, of a business or its securities, using comprehensive analysis to determine the value of tangible and intangible assets, including brand and intellectual property for business, finance and litigation purposes.

Visit cicbv.ca for more information.

THE CANADIAN INSTITUTE OF CHARTERED BUSINESS VALUATORS (CICBV) commissioned a research study which surveyed 156 business executives and conducted 40 in-depth one-on-one interviews. This is the third of a 4-part series that focuses on entrepreneurs and the value of their businesses.

JUNE 29: Professional advice and your business.

A CEO SPEAKS:

We're going to need more than a number scribbled on a page. In the past, you could just look at statements but with the creative things people are doing today, you need to study more.

Fact: Few people have the thousands of hours of training and experience to objectively assess the worth of a company.

There is no shortage of opinions and approaches when it comes to valuing and selling a business.

Fact is, and almost as a rite of passage, the majority of the 200 business owners and executives surveyed and interviewed have been through or headed up a valuation of their business.

One would think it would be a simple proposition. Party A agrees to sell at a price and Party B agrees to buy at that price. So what can be the problem?

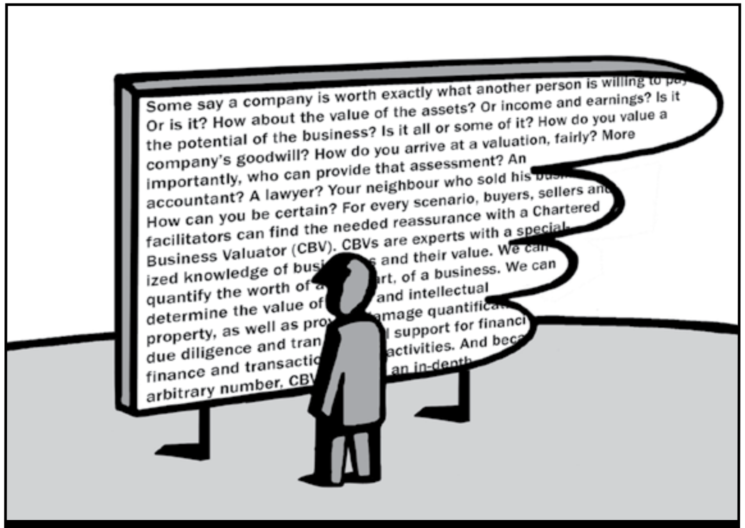
In today's market, putting a price on business assets has never been more difficult. It takes more than one transaction to be an expert. With the erosion of trust, uncertainty in forecasting and exodus of leadership, what worked in the past no longer applies.

So who best to help determine the right value for your business? Your lawyer? Your bank? Your neighbour who sold his company?

Executing the sale of a company is perhaps the most challenging and complex transaction in a business leader's career. For anyone entering today's murky waters of selling a business, a clear understanding of valuation is a start.

Farley Cohen is a principal in the firm Cohen Hamilton Steger & Co. He is a Chartered Accountant as well as a Chartered Business Valuator and is the past Board Chair of The Canadian Institute of Chartered Business Valuators.

He explains the process. "Chartered Business Valuators (CBVs) take into account the future profits of a business and when you can expect those profits to be earned. Then you factor in the risk of actually achieving them. You're assessing the likelihood of what profits will be made and when they will be made. You reflect that in today's dollars."



40% of business leaders don't seek outside advice when valuing their companies.

The inside look at outside advice

Engaging a Chartered Business Valuator can benefit you in the sale of your company. Here's how to work with one:

1. Ensure the CBV understands your business philosophy.
2. Check for experience relevant to your needs. Acquisitions, estate, succession planning, tax planning and litigation require different expertise.
3. Discuss and confirm acceptable engagement terms such as fees, timing, confidentiality of information, and reporting requirements.
4. Ask for references from previous clients who you can contact.

There's no madness. Just a lot of method. And that's not something just anyone can do. That's why seeking outside unbiased advice is more commonplace. Real world experience and expertise can help business owners.

"What we try to do as Chartered Business Valuators is to identify the key value drivers and assess the risk attached to those drivers," says Cohen.

A Chartered Business Valuator can help in a number of areas, one of which may be to give business leaders a range of prices that different buyers may be willing to pay. It's these insights that a CBV like Cohen can offer.

Says Cohen, "A company may be forced to sell. They might accept less. Or two potential buyers may have very different resources available to buy. One might have cash in the bank whereas the other needs to borrow. Or they may be willing to pay a different price depending on their situation. One might be an industry player and one may be a financial buyer who's not in the industry at all. Two different people with different reasons and different motivations would pay different prices."

There is also the ability to navigate financials. It may be something any MBA can decipher but it's more than just understanding the numbers.

"If you just look only at financial statements, you won't get the true value of the assets," warns Cohen. "You'll only get the historic view. A building that was bought many years ago will be on the books at the original purchase price. It may be worth much more today. A patent may be on the books with out-of-pocket costs but it won't reflect the intangible value – future profits."

Statements are really only a starting point. Valuation is also applying standards to the process.

A CBV ensures valuations meet set standards. For the buyer, there is comfort knowing how the valuation was prepared, what information was used, what approaches were considered and how calculations were applied.

And though a seller may want to get as high a price for their business as possible, diligence should be as important to them.

"Just because both sides agree to a price doesn't make it right," says Cohen. "You want to be an informed buyer. Both parties want to minimize the risk of future litigation or buyer's remorse. The more you know, the less likely you'll have a problem in the future."

At least one CEO agrees. "I may not like the price or agree with it, but a professionally-valued asset or business quantifies the data so you can make better decisions," he says. "That's a much more comfortable position than just guessing."

Because when it comes to valuing and selling your business, arriving at the right value is all about creating certainty.

ABOUT:

CHARTERED BUSINESS VALUATORS™

Chartered Business Valuators are designated experts who quantify the worth of all, or part, of a business or its securities, using comprehensive analysis to determine the value of tangible and intangible assets, including brand and intellectual property for business, finance and litigation purposes.

Visit cicbv.ca for more information.

THE CANADIAN INSTITUTE OF CHARTERED BUSINESS VALUATORS (CICBV) commissioned a research study which surveyed 156 business executives and conducted 40 in-depth one-on-one interviews. This is the last of a 4-part series that focuses on entrepreneurs and the value of their businesses.

Read all 4 parts of this series at cicbv.ca/thought-leadership