SPARDATA
SECURITIES PRICING AND RESEARCH, INC.

Advisor Guide

How To Succeed With Business Owners

1. **Raise the valuation issue.**
2. **Disturb the owner.**
3. **Extend a *"call to action"*.**

RAISE THE ISSUE: "How much is your business worth?"

- Say: *"**I heard a valuation expert give a speech recently. He said owners usually don't know what their companies are worth. He shared some horror stories. As he was talking I kept thinking of you. How much do you think your business worth?**"*
- "***Do you have that in writing? Because if you don't, you may have a problem***." If a written valuation doesn't exists, the owner is just guessing (and odds are strong the guess is wrong).

DISTURB THE OWNER: "You have a problem."

- Top 5 reasons owners should know what their companies are worth:
  1. Their retirement nest-egg may be a lot different than they think.
  2. Estate taxes may force their heirs to sell the business at a fire-sale price.
  3. If they try to sell they may scare away potential buyers – or else leave money on the table.
  4. If there is a buy-sell agreement, it may be pegged to a bad number.
  5. They may accidentally trigger family conflict by treating one child better than others.
- Selected Tax Court cases show the IRS values companies ***271% higher*** than their owners do.
- Also see Common Owner Objections (and Suggested Responses) on reverse side.

CALL TO ACTION: "Let's find out how much it is *really* worth."

- Probe to discover the owner's "exit plan" for the business, then tee up your call to action with a *Power Phrase*:
  - If owner plans to sell the company: "***This will be the biggest liquidity event of your life.***"
  - If owner plans to give it to kids etc.: "***You certainly want to realize the value of your life's work.***"
- Your call to action: "***Let's find out how much your business is really worth. The valuation expert I use does free consultations. Why don't I schedule one for us?***"
- If owner agrees, pick a date and time (or two) when both you and the owner can do a one hour consultation with a SPARDATA Valuation Consultant. Then contact Carol Curley at SPARDATA (800-895-4100 x101 or ccurley@spardata.com) to schedule your consultation.
- Here is what happens in a consultation with a SPARDATA Valuation Consultant:
  - Your only job: introduce the owner and Valuation Consultant. Then just sit back, listen and learn!
  - The VC will ask the owner to describe the business. This gets the owner talking and feeling comfortable.
  - The VC will answer the usual questions (i.e. cost, how long does it take, how is my company valued, etc.)
  - The purpose is to educate, not to sell. The VC is VERY low-key. There is *never* any sales pressure.
- Owners always thank you afterwards for helping them how their appraisers value businesses like theirs. It is as if you gave them a free golf lesson with Tiger Woods or a free cooking class with Rachael Ray!

Common Owner Objections (and Suggested Responses)

I know what my business is worth.

- ***"That's great. Do you have it in writing? May I see a copy?"***
- Never rely on a value unless it is documented by an IRS-compliant valuation. Otherwise who will defend the value if the owner is not there?
- Owners guess wrong. Selected Tax Court cases show the IRS values companies *271% higher* than their owners do.

- *Motivator*: give owner the Tax Court one-pager and say: "***like you, these owners thought they knew what their companies were worth. Look what happened to them!***"

My CPA valued my business.

- ***"That's great. Do you have it in writing? May I see a copy?"***
- Never rely on a value (even if the owner claims it came from a CPA) unless it is documented by an IRS-compliant valuation. Otherwise who will defend the value if the owner is not there?
- 95% of the time the CPA told the owner the company's book value, not its fair market value.
- Don't use a value unless it is documented in an IRS-compliant valuation.

- *Motivator*: say "**The IRS uses my valuation firm. They know the IRS. Let's get a 2nd opinion from them to make sure your CPA's appraisal meets IRS requirements**".

Companies in my industry are worth "2 times sales" (or some other rule-of-thumb).

- Every business is unique, no two are alike -- but rules of thumb treat them all the same.
- Two companies in the same industry, in the same town, with identical revenues -- can have sharply different values. One may be trending up; the other trending down. Rules of thumb never catch this.

- *Motivator*: say "**what makes your company different than your competitors? Rules of thumb ignore those features; that's why we should not use them.**"

My business has no value without me – I am the business.

- This (false) opinion is common among doctors, dentists, architects, lawyers, consultants etc.
- The business' reputation, client list, referral sources and location do not disappear when the owner leaves at night. Buyers pay good money for these "intangible assets".

- *Motivator*: Give them a sample valuation from the *Valuation Library* and say "***Actually, businesses like yours can have lots of value. You have "intangible assets***".

How can an out-of-town appraiser value my business?

- Local knowledge is good, but experience is better. Since 1990 SPARDATA has valued over 27,000 entities.
- SPARDATA appraisers are employees, not contractors; and are credentialed (CVA, ABV etc).
- Site visits are performed as needed but most businesses do not require a physical inspection. Interviews with key personnel, tax returns, photos etc. give the appraiser sufficient information.
- Sometimes owners actually prefer using an out-of-town appraiser – eliminates gossip, more confidential.

- *Motivator*: say "**is there something specific you need to show the appraiser that can't be shared over the phone, in an email or through a picture?**"

I had it valued a few years ago.

- People change over time; so do businesses. If the company's sales have gone up or down 30% or more since it was last appraised, the old valuation is obsolete.

- *Motivator*: say "**is the business exactly the same as it was __ years ago?**"