



Pharr Valuation and Business Services, LLC

Business Valuation Selling Your Business

Given the impact of recent and continuing economic conditions on the jewelry industry and the decrease in value of many companies and companies related to our industry, many business owners are considering the option of selling their business. This is especially true if the owner has no children or other relatives who are interested in carrying on the family business.

When considering the sale of your business, having a valuation of your business performed by an accredited valuation analyst can accomplish several purposes. First and foremost, it will give you a realistic estimate of the value of your business. That value estimate can help you finalize the decision as to whether you should sell the business now or work to increase the value and sell at a later date.

In many closely held family owned businesses, especially where the family ownership goes back several generations, there is a perception that the business is worth more than it often is. The business owner looks at the hard work he and past generations have invested in the business. Part of the value assumption and expected sales price comes from that “sweat equity”. While there is a value for the goodwill the company has established over the years or generations, its value is determined within the business valuation process. A prospective buyer may appreciate the past hard work put into a company, but he or she will only pay for the return they expect to get going forward. A business valuation will provide you with a realistic value from which you can establish your selling price.

Generally, the business will be sold using Fair Market Value or Investment Value as the appropriate standard of value. Fair Market Value is most commonly defined as the price at which the property or interest would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of the relevant

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facts. The definition assumes an arm's length transaction with a hypothetical buyer and seller, both having the means and authority to conduct the transaction. The buyer would be a person or entity with no special relationship to the company or possibly the industry.

Investment Value, or as it is often referred, "the value to the holder" is the value of the business to a specific person or entity. A specific person or company may want to buy another company for several reasons. He or she may want to eliminate a competitor and gain market share. They may want to add to or complement their product lines with the seller's products. The purchaser could be looking for an additional channel of distribution or to expand into compatible segments of the industry where it does not currently compete. In many of these situations, the buyer can realize some economies of scale. Back office operations can often be combined, thus eliminate a significant amount of administrative overhead. If the buyer has excess space, manufacturing can be combined, eliminating the need for two locations. Over the years we have seen this happen many times within our own industry. When one or more of these advantages and synergies exist, it gives the buyer a more compelling reason to buy and therefore may enable the seller to sell at a higher price than he otherwise would have.

If a company has a large inventory of precious metals and/or diamonds and gemstones, the assets of the company may have a higher value than the company has as a going concern. This area must be considered when examining the highest and best use of the assets of the company.

If a business owner sets an unreasonably high selling price, he will lose the interest of potential buyers. If the price is too low, he leaves money on the table. A business valuation will give you a reasonable estimate of the value of your company. From there you can first decide whether to sell and then have a reliable basis for setting your selling price.

Determining a business value is both art and science. Selecting a valuation analyst who has knowledge of the industry is an important factor. The valuation consultant should be credentialed by the American Institute of Certified Public Accountants, the National Association of Certified Valuation Analyst or other qualified organization.

Daniel Pharr is the President of Pharr Valuation and Business Services, LLC. He is a CPA and Accredited in Business Valuation (ABV) by the American Institute of Certified Public Accountants. He is a Certified Valuation Analyst (CVA), a certification awarded by the National Association of Certified Valuation Analyst (NACVA). Dan has 30 years of jewelry industry experience as an auditor, EVP and CFO of a manufacturing company, and business valuation analyst. His practice focuses business valuation and financial consulting for family owned and closely held companies within the jewelry industry. He may be contacted at Dan@PharrValuation.com or 804-332-5458.