

# What is the value of business valuations?

Some practice owners question the need for an official independent business valuation. However, Mark Ridout, director of RA Valuation Services, claims there is a need to have a current valuation at all times for a multiplicity of reasons.

I'd suggest there are seven people who will require a valuation to be made on your business.

## First, you do...

It is important that you are aware, at any time, of the conceivable value of your business. Even if you have no immediate intention of selling, buying or making changes to your business and its ownership, you should always have an accurate valuation, particularly for goodwill, clearly in mind. In this way you will be ready to react efficiently and without delay to any new – and maybe unexpected – business opportunity that presents itself. You should be in a position to react swiftly and professionally.

## Secondly, your bank manager does...

Whilst your bank manager will have an indication of how well you are trading on a day-to-day basis through your bank account transactions, he only sees part of the story. He may not, however, be aware of the value of many balance sheet items such as stock, reserves and, of course, goodwill. You should be in a position to present your bank manager with a current valuation, as and when the need arises.

## Thirdly, your potential purchaser will...

If you are selling or planning to go on the market, you must be ready to react quickly to the inevitable request from a serious potential purchaser for a fully detailed valuation report. Often purchasers are in a hurry to do a deal. They may have several prospective businesses under review. Being ready and prepared with the required information in a professional form may well result in you being the front-runner.

## Fourth, your selling agent will...

If you are appointing a selling agent to market your business, they will need a formal valuation in order to price the business for the market and to be ready to react to any interested potential purchaser with all the supporting detail they will require to help make a successful sale.

## Fifth, your financial adviser will...

Whether you are buying, selling or changing the ownership of your business, you will need, sooner or later, help from an accountant or financial adviser. He or she will be responsible for verifying all the details of the accounts for the business – the so-called due diligence. This can be a lengthy process often taking weeks to complete. A formal valuation report will answer many due diligence questions and speed the



whole process up.

## Sixth, your legal adviser will...

Similarly, the legal aspects of a sale, purchase or ownership change are unavoidable and can result in considerable delays. A detailed and accurate valuation report will address some of the legal aspects and expedite the legal process.

## And last, but not least your lender will...

If you are purchasing a practice or buying into another business, you may well need to seek funding from a bank or other financial intermediary. A formal valuation report will give a clear outline of the business, its historical trading record and other essential information for a lender to consider when making an offer of finance. In the current economic climate lenders are being more cautious with backing and therefore an independent professional valuation is an essential tool in positively influencing their decision.

Whatever the current business positioning of your practice, commissioning a professional business valuation is a prudent decision as it is inevitable that sooner or later one will be required.

- RA Valuation Services Limited is the sole accredited valuer under the Association of Optometrists' Practice valuation scheme.

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