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## VALUING A BUSINESS

### QUESTIONS TO ANSWER BEFORE BEGINNING THE VALUATION PROCESS

A valuator not only needs to see a business's financial information, but needs to know many other details about a company in order to properly appraise it. Below is a list of questions that you will likely be asked as part of the evaluation. Not all questions apply to all types of businesses.

#### **Business Organization**

- How is the business legally organized (corporation, sole proprietorship, partnership, etc.)?
  - ✓ If the business is a partnership, how many partners are there, and who are they?
- If the business is a corporation:
  - ✓ How many shareholders are there?
  - ✓ Who are the major shareholders, and what percentage of the total outstanding stock does each own?
  - ✓ Is the stock publicly traded? If so:
    - On which market?
    - What is the recent market price for shares?

#### **Business History**

- How long has the business existed, and for how long under its present owners?
- Is the company engaged in any joint ventures or similar undertakings?
- What are the company's major accomplishments? What are its failures?
- How is the business regarded by its customers, competitors, suppliers, employees, its bank, the financial community, the community in which it is located, and government agencies with which it interacts?
- What government agencies have regulatory or other control over the business? Is the business currently in compliance with all requirements?
- Does the company's success depend heavily on one or more key employees?
- Are there any potentially threatening situations in connection with management, products, services, finances, legal obligations, etc.?
- What is the company's litigation history?
- What is the business's or its principals' history with regard to anti-discrimination regulations, anti-trust laws, securities laws, etc.?

#### **Products and Services**

- What are the company's main products and/or services?
- How long has the company been selling each product/service?
- What has the sales volume been for each product/service within the last five years?
- What are the costs and gross profit of each product/service?
  - ✓ What portion of the cost is attributable to labor?
  - ✓ What portion of the cost is attributable to overhead?
  - ✓ What portion of the cost is attributable to materials?
- What is the forecast for future sales of these products/services?

- What other products or services could be offered with the current facilities and staff?
- Which products/services are proprietary?
- What distinguishes your company's products/services from those of competitors?
- How does the company's price and quality differ from its competitors' similar products/services?
- What warranties does your company provide?
- Which products does the company purchase from others for resale?
- What sorts of agreements does the company have with these suppliers?
- How much does the business rely on outside vendors?

## **Marketing**

- What are the main uses and markets for each major product/service?
- How far are these markets established?
- What are the prospects for growth in these markets?
- Who are your current principal customers?
- What percentage of sales for given major products do these principal customers represent?
- What major potential customers have not yet been secured as customers?
- How do sales break down geographically?
- Who are your main competitors?
  - ✓ What are their major strengths and weaknesses?
  - ✓ What is their estimated sales volume?
  - ✓ What is your company's position among its competitors with regard to sales volume?
  - ✓ What is your company's position among its competitors with regard to reputation?
- Does your company have a backlog for any of its major products/services? What has been the history of backlogs for the last three years?
- Has your company's sales growth been ahead, with, or behind the industry trend?
- What is the forecast for industry-wide sales for each of your company's major products/services?
- What is your company's forecast for sales of the major products/services?
- Does your business regularly use any advertising or public relations firms? Which?
- Are your marketing efforts aggressive and skillfully performed?
- Who is responsible for market research?
  - ✓ Does your company use outside consultants for market research or similar work?
  - ✓ If so, who? What has their record been?
- Who is responsible for advertising and sales promotion?
- Who is responsible for exploiting new markets?
- How is your direct selling group structured (if any)?
- How is your distribution and/or sales representative group organized?
- Who is responsible for providing various services (installation, service, etc.)?

## **Finances**

- What are the business's sales and earnings for the past five years?
- What salaries/dividends have been paid to owners/stockholders for the past five years?
- What is the state of inventory?
  - ✓ What is the normal inventory level, and where is it presently?
  - ✓ What is the condition of the existing inventory?
  - ✓ Is any inventory on consignment? If so, how much, to whom, and on what terms?
- What are the details of the accounts receivable and accounts payable?
- What loans are outstanding, to whom are they payable, and on what terms?
- What is included in accrued expenses payable, and what is the current amount?
- Are all taxes current?

- What overhead rates are used in determining costs?
- What are the company's departmental budgets?
- What is the advertising and promotion budget?
- What is the total payroll?
- Does the company own equity in any other businesses?
- What liabilities exist in connection with warranties?
- Are there any existing claims or known liabilities?
- Are there any contract disputes or negotiations?
- Are there any outstanding stock options or the like?

### **Facilities**

- Is real estate owned or leased?
- If owned:
  - ✓ What is the appraised value?
  - ✓ When and by whom was the appraisal made?
- If leased, what are the terms of the lease?
- What are the zoning restrictions on the current real estate?
- Is any equipment leased? Which?
- Is there excess or idle capacity? How much?

### **Personnel and Organization**

- What are the roles of key executives and personnel?
- How many employees does the company have?
- Has the company established standard pay rates for its various positions?
  - ✓ How do these compare with pay rates of other similar employers in the area?
  - ✓ What is the salary review policy?
  - ✓ What are the employee benefits?
  - ✓ Does the company pay all benefits, or do employees pay part? If so, how much is the employer contribution?
- Are any employees relatives of the executives or owners? If so, what are their duties and how much are they paid?
- Are there any employees on the payroll for special reasons (friend of the owner, long-term service, etc.) who do not pull their weight?
- Are workers unionized? If so:
  - ✓ Which workers?
  - ✓ What are the details of the labor contracts?
  - ✓ Have there ever been any strikes?
- What has been the turnover rate?
- Does the company provide formal job training?
- Are there written personnel policies?
- Is labor generally available in the area?
- Are any employees or management under contract? If so, what are the terms?

### **Management**

- What are the key management members' backgrounds?
- What are the key management members' salaries?
- Does management receive any "perks?" If so, what, and how much are they worth?
- What are the management capabilities of persons in charge of key departments?

- Are there strong differences of opinions between management members? What are they?
- Do various departments work well together, or is there friction?
- Is management willing to take appropriate risks?
- Who is dominant in the organization?
- If the business is a corporation:
  - ✓ What control do major stockholders exercise over the business's policies and activities?
  - ✓ Have there been proxy fights or attempts to take over the company?

**If the Business Is For Sale**

- What assets and liabilities are expected to be included or excluded from the sale?
- If the business is a corporation, will the sale include the capital stock or just the assets?
- What are the preferred payment terms?
- Do you expect a broker to be involved? If so, what is the fee and who will pay it?
- Are key management staff aware of the sale?
- Will a sale require substantial management reorganization?
- Which management members would remain following the sale?
- Will management cooperate in the sale and post-sale activities?
- Will the sale significantly impact union labor?
- What licenses, contracts, etc. must be transferred to the buyer?
- What contracts will have to be changed or terminated because of the sale?
- What are the potential problems connected with the sale?
- What would insure continued business success after the sale?
- What amount of money would the buyer need to invest in the business, and why?
- Are any partners or major shareholders opposed to a sale, and who big a hurdle will this create?