Business valuation: A look into *Shark Tank*

Have you seen the ABC television show *Shark Tank?* The show grabs its audience with the entrepreneurial spirit of gutsy business owners who pitch their businesses to the "Sharks," five millionaire/billionaire tycoons looking for opportunities to put their money to work in companies with good money-making potential.

There are many aspects of the show that are entertaining: the business ideas, the personalities of the entrepreneurs, their rehearsed "pitch," and most of all, the value they place on their businesses.

The entrepreneurs come to the show to request a certain amount of investment in exchange for a percentage of their company and it's always interesting when an entrepreneur offers the Sharks 10 percent of their company's ownership for $100,000 and don't understand that they've assigned their company a value of $1 million.

Sometimes it's warranted. Some have proven sales histories with more customers just waiting for them to expand. In other cases, a wannabe business owner has little more than an idea, and they're putting an extremely high valuation on a notion with no proven value. Those who have done their research and know how a prospective investor or buyer is likely to see the value of a company garnish a much higher level of respect. Their homework lets the potential investors know they're dealing with a serious business.

Most businesses don't plan to pitch their companies on *Shark Tank*, but there are more reasons to know the value of a company than attracting celebrity investors. For example, a group of producers had an opportunity to purchase the food processing subsidiary that had been processing and marketing their commodity for years. Attracted by the potential for additional value-added returns and wishing to avoid the possibility of unknown parties acquiring this critical business, the producers asked Morrison & Company to determine its value.

After extensive analysis in which we used a number of methodologies, we found that the business was worth less than half of the $40 million asking price. At $40 million, the payback period likely would have exceeded 20 years, with a negative net present value. Armed with this knowledge our client avoided a potentially disastrous investment. The last we heard, the owner still wants $40 million – and still has no takers.

When a well-known Japanese company sought potential US investments in a particular industry, Morrison & Company was engaged to identify candidates and determine preliminary value ranges. We identified the companies with the highest potential and estimated their values, allowing our client to develop an appropriate and informed purchase strategy.

After the owner of a professional service firm approached a key broker about purchasing his business, Morrison & Company was engaged by the potential buyer to determine the value range. Finding comparable assessments and running various likely financial scenarios, we were able to help our client make an informed decision on the value, risks, and rewards of the potential purchase.

Other reasons to obtain a professional business valuation include settlements between business partners, division of property in divorce cases, consideration of a merger or acquisition (from either side), taxable events like estate and gift planning, and yes, attracting financing or investors.

A professional business valuation helps determine value, identifies risks and rewards, and provides the due diligence and independent assurance needed for a successful "eyes open" transaction. Along with our staff of financial professionals, Morrison & Company can provide experienced attorneys, engineers, market researchers, and other professionals needed to assure a thorough assessment. If you're going to swim with the "Sharks," it's good to get the help you need to ensure you don't end up financially sleeping with the fishes!