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**INSIGHTS**

# **MORE THAN A SALE PRICE: COMMON SITUATIONS IN WHICH A BUSINESS VALUATION SHOULD BE CONSIDERED**

*by Travis Fonderson*





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***Business value matters more often than you think – knowing when is key.***

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Most business owners have an intuitive sense of what their company is “worth”. Ask them to put a number on it, however – and explain why – and things quickly become less certain.

Many people assume a business valuation is only necessary when selling a company. In reality, valuation issues arise much more frequently and in a much broader range of circumstances than many realize. A valuation can be highly relevant in resolving shareholder disputes, transferring shares to family members, supporting tax planning, raising capital, and complying with financial reporting requirements.

In these moments, relying on informal estimates, rules of thumb, or gut instinct can lead to disputes, unexpected tax consequences and costly mistakes. A business valuation provides an independent and structured assessment of value, helping business owners and advisors make informed decisions with confidence.



# Valuation Beyond a Transaction

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Determining what a business is worth is not only important when a company is being bought or sold. It can also be critical in a range of situations, including shareholder transfers, litigation and dispute resolution, tax and succession planning, capital raising, and financial reporting. By providing an independent and structured assessment of value, a business valuation can help owners, advisors, investors, and other stakeholders make informed decisions, reduce uncertainty, manage risk, and avoid costly disputes. Knowing when to consider one is an important part of protecting and preserving long-term business value.

## 1. Buying or Selling a Business (Including Shareholder Transfers)

Buying or selling a business is the most familiar context in which valuation arises. In third-party transactions, a valuation helps establish a reasonable range of value and provides a structured framework for negotiations. Even where the final deal price is negotiated, an independent valuation can help both buyers and sellers assess whether expectations are grounded in economic reality.

Valuation is equally important in internal transactions between shareholders. These situations often occur without a competitive market process, making it more difficult to determine a fair and defensible price.

Common valuation triggers include:

- Sale/purchase of a business to/from an external buyer/seller;
- Transfers of individual shareholder interests to external buyers;
- Retirement or death of a shareholder; or,
- Internal restructurings involving ownership changes.



## 2. Valuation for Litigation and Dispute Resolution

Valuation frequently plays a central role in legal disputes involving businesses. In such cases, the value of a business or ownership interest can directly affect the financial outcome of the dispute. For example, a business valuation may be used to determine the purchase price for a contested minority shareholder buyout or to support a financial loss claim arising from actions alleged to have caused a reduction in business value.

Litigation-related valuations are often time-sensitive and adversarial. Generally, under such circumstances, valuation experts are retained by each party involved in the dispute or jointly retained by both parties. It is important to note, however, that these experts owe their duty to the court or adjudicator and must therefore act independently of the parties retaining them.

Common triggers include:

- Shareholder or partnership disputes;
- Oppression claims;
- Family law proceedings involving business interests;
- Claims involving alleged loss of value;
- Disputes arising from buy-sell agreements; or,
- Expropriations.



### 3. Valuation for Tax Purposes

Many tax-related events require a determination of business value even though no cash changes hands. These situations often catch business owners by surprise, particularly when valuation is viewed solely as a transactional exercise.

In practice, valuations for tax purposes commonly arise in the context of long-term planning and corporate structuring, where ownership interests are transferred or reorganized.

Common triggers include:

- Estate freezes and succession planning;
- Transfers of shares to family members;
- Corporate reorganizations;
- Share redemptions; and,
- Employee stock options/ownership programs.



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### 4. Raising Capital or Admitting New Investors



When a business raises capital or admits new investors, valuation helps determine how ownership is allocated and how future risks and rewards are shared. These discussions often arise in growing or early-stage businesses, where expectations of value may differ significantly among founders, investors and/or creditors.

Common triggers include:

- Raising equity/debt financing;
- Admitting strategic or financial investors;
- Management buy-ins;
- Growth or expansion initiatives; or,
- Preparing for institutional capital.

## 5. Valuation for Financial Reporting Purposes

Financial reporting requirements increasingly require valuation input, even for private companies. Business owners may encounter valuation issues as a result of accounting standards rather than strategic decision-making. These valuations support amounts recorded in the financial statements and may be subject to audit or review, emphasizing the importance of objectivity, consistency and transparency.

Common triggers include:

- Business acquisitions or mergers;
- Impairment testing;
- Issuance of share-based compensation; or,
- Changes in ownership or capital structure.



### ***Conclusion: Valuation Is About Clarity, Not Just Price***

A business valuation is often viewed as a transactional exercise undertaken only when a sale is imminent. In reality, valuation plays a much broader role in managing risk, resolving uncertainty, and supporting sound decision-making.

Whether dealing with shareholder matters, litigation, tax planning, raising capital, or financial reporting, understanding business value can help avoid disputes, improve outcomes, and provide clarity at critical moments.

Importantly, the best time to consider a valuation is often before a triggering event occurs, not after positions have hardened or deadlines are looming. Engaging a Chartered Business Valuator early can provide objective insight, support defensible decisions, and allow business owners and advisors to focus on what matters most—building and preserving long-term value.

# More Than a Sale Price: Common Situations in Which a Business Valuation Should Be Considered

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