Welcome!

Don't Just Think. Know the Value of Your Business.

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Business Valuation

"The process of determining the economic value of a business."



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Economic Value

Economic value should not be confused with market value.





Economic Value

If you were dying of thirst, how much would you pay for a bottle of water?

\$2?

\$5?

\$10?

\$20?



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Economic Value

Economic Value is the value a person places on something based on the benefit they will obtain from it.



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Economic Value

Economic Value is subjective.





Economic Value

Economic Value takes into account intangible factors such as:

brand name,
goodwill, and
sentiment.



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Economic Value

Economic Value depends on a person's intentions.



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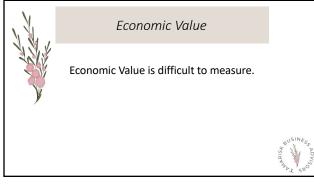


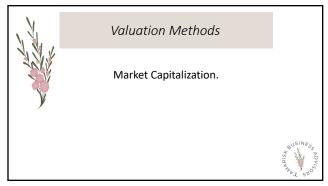
Reasons for Valuation

Sale, Merger, Acquisition, Buy-Sell Agreement, Bank Requirement, etc.



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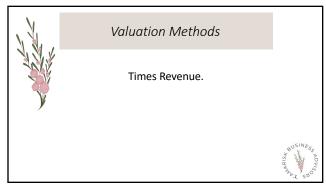


Valuation Methods

Market Capitalization.

- ➤ Great for publicly-traded businesses.
- ➤ Share price x number of shares outstanding
- ➤ Example: ABC Corp's stock price as of yesterday was \$100. There are 1 million shares outstanding. The market cap value is \$100 million.
- ➤ Market cap value fluctuates daily.







Valuation Methods

Times Revenue.

- ➤ Annual revenue x multiplier.
- > Multiplier based on a number of factors, including the industry and economic environment.
- ➤ Multiplier may be greater or less than 1.0, depending on the industry and specifics.



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Valuation Methods

Earnings Multiplier.





Valuation Methods

Earnings Multiplier.

Annual profit x multiplier.

- ➤ Profit is EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization).
- Multiplier is based on a number of factors, including the industry and economic environment.



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Valuation Methods

Discounted Cash Flow.



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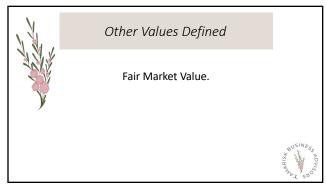


Valuation Methods

Discounted Cash Flow.

- ightharpoonup Based on projections of future cash flows.
- ➤ Uses discounted cash flow financial modeling to determine present value, taking into account inflation.
- Similar to Earnings Multiplier method but with a factor built in to adjust for projected inflation.







Other Values Defined

Fair Market Value.

The price that a willing buyer and willing seller would agree on if neither were under any compulsion to buy or sell and both had reasonable knowledge of the facts.



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Other Values Defined

Book Value.





Other Values Defined

Book Value.

The value of an asset as shown on a company's balance sheet.

Buy asset for \$10,000

Depreciation of \$5,000

Book Value is \$5,000



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Other Values Defined

Liquidation Value.



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Other Values Defined

Liquidation Value.

Net cash received if assets are sold and liabilities are paid off immediately.





Simple Valuation Method

Step 1

Determine EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization).

Consider earnings trend over 3-5 years and extraordinary items.



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Simple Valuation Method

Step 2

Determine the owner's benefit.

Consider any expense paid by the business for the benefit of the owner and that will not be present after the sale.



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Simple Valuation Method

Step 3

Add EBITDA and owner's benefit.

This is the anticipated profit after the sale.





Simple Valuation Method

Step 4

Determine the applicable Earnings Multiplier.

Consider industry-specific multipliers, premiums, and discounts.



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Simple Valuation Method

| Enterprise | Up to | \$500,000 to | \$1,000,000 to | \$2,000,000 to | \$5,000,000 to |
|------------|-----------|--------------|----------------|----------------|----------------|
| Value | \$500,000 | \$1,000,000 | \$2,000,000 | \$5,000,000 | \$50,000,000 |
| Multiplier | 2.0 to | 2.5 to | 3.0 to | 4.0 to | 5.0 to |
| Range | 2.5 | 3.0 | 4.0 | 5.0 | 6.0 |



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Simple Valuation Method

Step 5

Multiply Adjusted Earnings (EBITDA + Owner's Benefit) by Earnings Multiplier.





Simple Valuation Method

- 1. EBITDA = \$250,000
- 2. Owner's Benefit = \$150,000
- 3. EBITDA + OB = \$400,000
- 4. Earnings Multiplier = 3.0
- 5. \$400,000 x 3.0 = \$1,200,000



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Value Drivers



Financial Performance

Your history of producing revenue and profit combined with the professionalism of your record keeping.



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Value Drivers



Growth Potential

Your likelihood to grow your business in the future and at what rate.



| | | | _ |
|----|--|-------------|---|
| | Value Drivers | | |
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| | Switzerland Structure | | |
| | on any one employee, customer or | | |
| | supplier. | | |
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| | Value Drivers | | |
| | | | |
| - | Recurring Revenue | | |
| | The proportion and quality of automatic, annuity-based revenue | | |
| | you collect each month. | | |
| | | ANSINESS P | |

Value Drivers Monopoly Control How well differentiated your business is from competitors in your industry.

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Value Drivers **Customer Satisfaction** The likelihood that your customers will re-purchase and also refer you.

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Value Drivers Hub & Spoke How your business would perform if you were unexpectedly unable to work for a period of three months.



Protecting Your Legacy

Two-thirds of all businesses today are owned by Baby Boomers, born before 1964, but...

- Exit Planning Institute



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Protecting Your Legacy

Fewer than 30% of these businesses will make it to the next generation or be sold.

- Exit Planning Institute



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Protecting Your Legacy

80% of business owners intend for the succeeding generation to take over, but...

- Family-Owned Business Institute



