

# **Business Valuation for Purchase Accounting & Exit Planning**

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# About FairValue Advisors



## Executive Team



- ✓ 60+ yrs. valuation experience
- ✓ Advanced business degrees
- ✓ Business ownership
- ✓ Top designations/certifications
- ✓ Diverse industry experience
- ✓ Expert witness testimony



## Services



- ✓ Business Valuation
- ✓ Intangible Asset Valuation
- ✓ Disputes & Litigation
- ✓ Economic Analysis



## Clients | Referrals



- ✓ Fortune 500 Companies
- ✓ Middle Market
- ✓ Small Businesses
- ✓ Attorneys
- ✓ CPAs
- ✓ Owners & CFOs
- ✓ Private Equity Groups



# Agenda – Valuation for Purchase Accounting

## The Big GAAP vs. Little GAP Decision

Intangible Assets to Book | Treatment of Goodwill

01

02

## Determining Purchase Price

Fair Value Definition | Non-Cash & Contingent Consideration

## Intangible Asset Valuation Methods

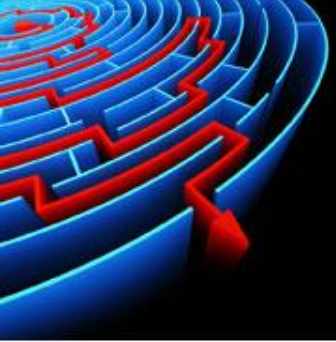
Appropriateness | Steps | Assumptions

03

04

## Goodwill Impairment Testing

Steps to Testing | Methodology Employed | Critical Assumptions



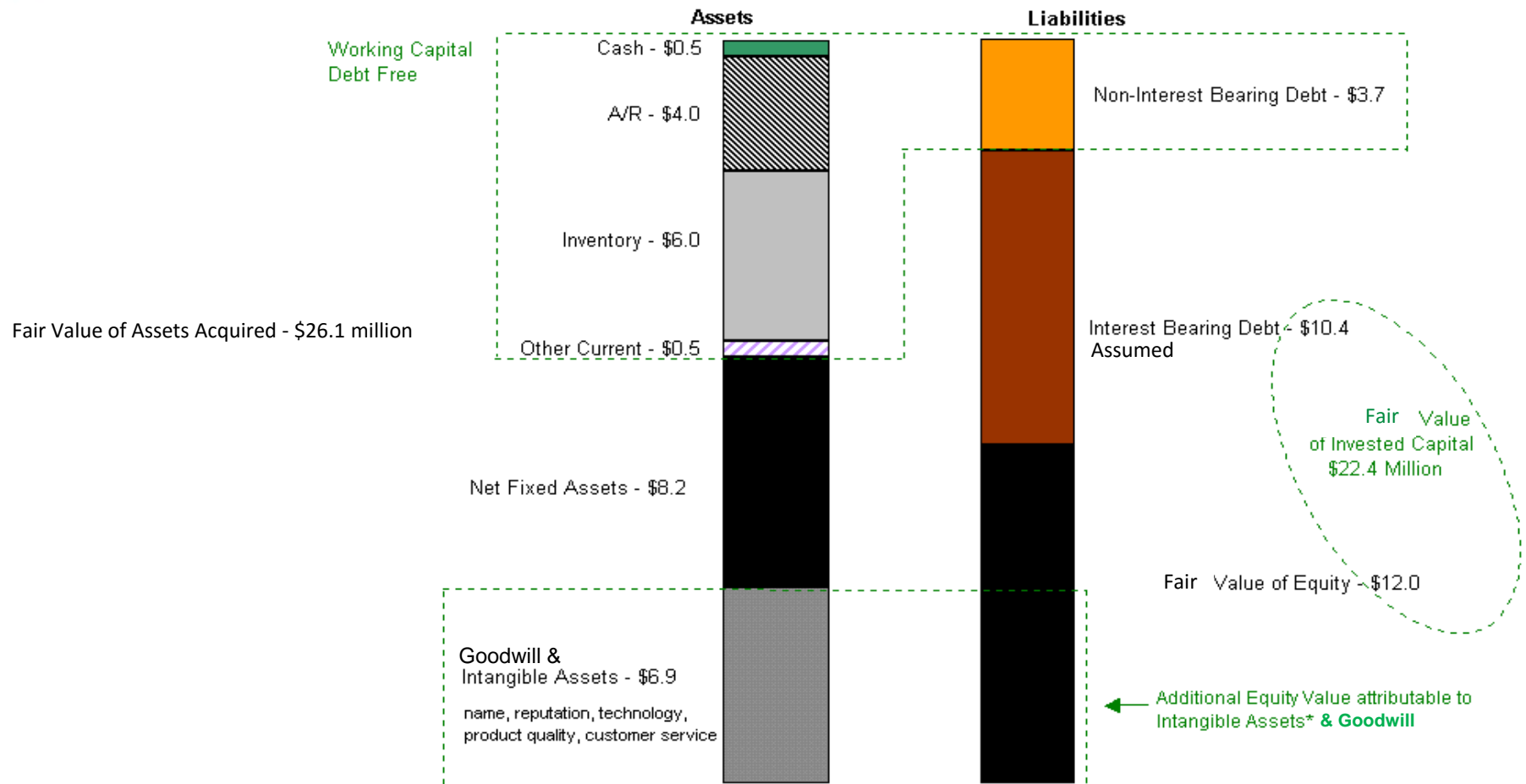
# Purchase Price Allocation Goodwill

## ❖ *Goodwill acquired in an acquisition*

❖ Goodwill Value booked based on a residual calculation

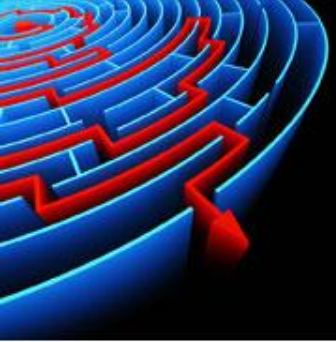
- Purchased Goodwill = Fair Value of Assets Acquired less Fair Value of Tangible Assets & Identified Intangible Assets

# Business Valuation for Goodwill Impairment Testing



\* Example assumes that book value of working capital and tangible assets approximate their respective fair market value.





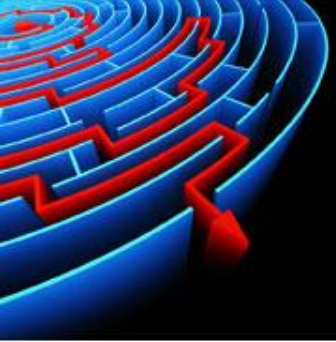
# Big GAAP – ASC 805

## Purchase Price Allocation

❖ Book acquired identifiable intangible asset if  
arises from contractual or other legal rights

**OR**

- is separable, capable of being separates,  
transferred, licensed, rented or exchanged, either  
together or with a related contract

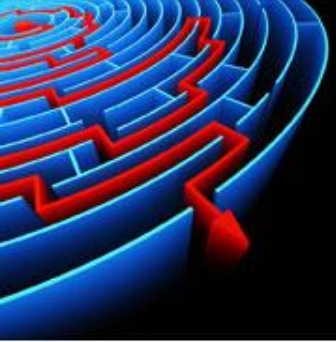


# Big GAAP– ASC 805

## Purchase Price Allocation

### ❖ *Commonly* Booked Intangible Assets (Big GAAP)

- Trade Name/Brands
- Non-Competition Agreements
- Customer Contracts & Relationships
- Technology – Patented & Unpatented
- In Process R&D
- Assembled Workforce (intermediate step, not booked)

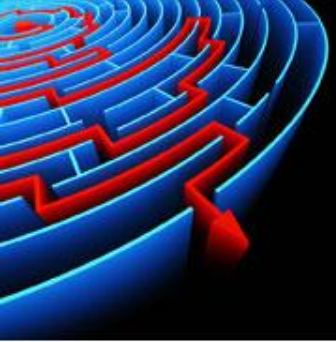


# Big GAAP - ASC 350

## Goodwill Impairment Testing

- ❖ Goodwill is not amortized
- ❖ Goodwill is tested for impairment annually
- ❖ More frequent testing based on triggering events
- ❖ Qualitative test Step “0”
- ❖ Quantitative test – Step 1 & 2

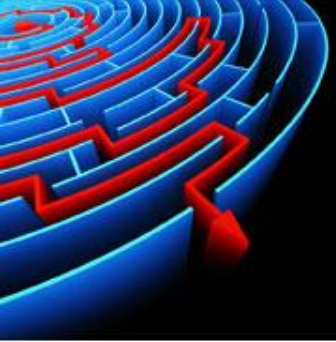




# Big GAAP - ASC 350

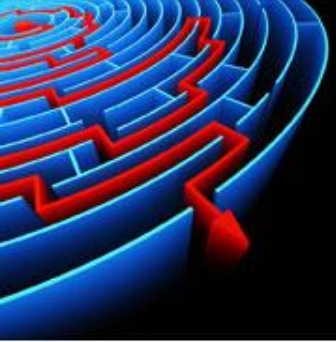
## Goodwill Impairment Testing

- **Option** to first perform a qualitative test (Step “0”), if ***more likely than not*** that goodwill is impaired, quantitative test is required
- Step 1 Quantitative Test:
  - Carrying Value of Entity or Reporting Unit > Fair Value, Step 1 test failed, proceed to Step 2
- Step 2 Quantitative Test: Hypothetical Purchase Price Allocation with residual goodwill value used to calculate goodwill impairment



# Goodwill Impairment Testing

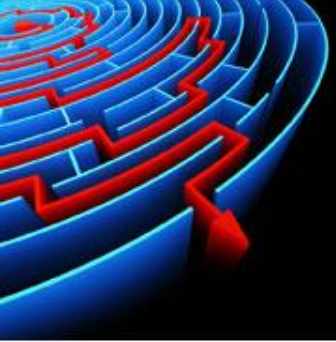
- ❖ Examples of Typical Events Triggering a Goodwill Test:
  - Macroeconomic conditions
  - Industry & market considerations
  - Cost factors, such as raw materials, labor & other costs
  - Overall financial performance, such as negative or declining cash flows or related projections
  - Changes in other entity-specific events, such as management, key personnel, strategy, customers, contemplation of bankruptcy, or litigation



# Little GAAP - ASU 2014-18

## "The Accounting Alternative"

- ❖ Customer-related intangible assets are not booked separately from Goodwill unless they are capable of being sold or licensed independently from the other assets of the business.
- ❖ Non-Competition Agreements are not booked separately from goodwill.



# Little GAAP - ASU 2014-18

## "The Accounting Alternative"

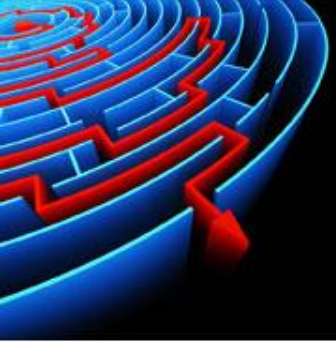
- ❖ All other intangible assets continue to be recognized
  - ❖ Trade Name/Brands
  - ❖ Technology – Patented & Unpatented
  - ❖ In Process R&D
  - ❖ Assembled Workforce (may be needed as intermediate step, but not booked)



# Little GAAP - ASU 2014-18

## "The Accounting Alternative"

- ❖ Goodwill amortized straight-line annually for 10 years, unless reasonable argument for a shorter period based on another useful life
- ❖ Goodwill testing only when a triggering event occurs.

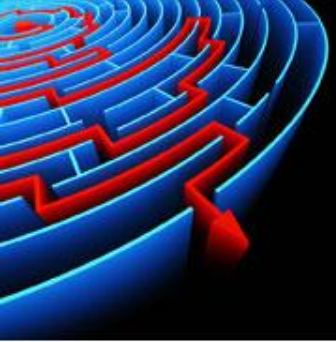


# Little GAAP - ASU 2014-02

## Goodwill Impairment Testing

- ❖ Goodwill Impairment Steps – Little GAAP
  - Goodwill tested only when a triggering event occurs
  - Option to first perform a qualitative test, if more likely than not that goodwill is impaired, quantitative test is required
  - Quantitative Test:  $\text{Impairment} = \text{Carrying Value of Entity or Reporting Unit} - \text{Fair Value of Entity or Reporting Unit}$
  - Goodwill Impairment recorded is no greater than the carrying value of goodwill

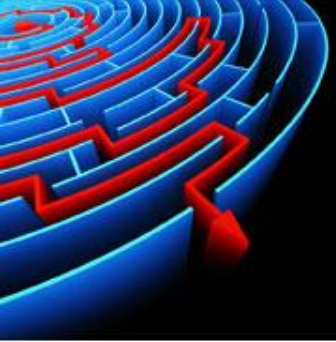




# Purchase Accounting

## ❖ Big GAAP Advantages over Little GAAP

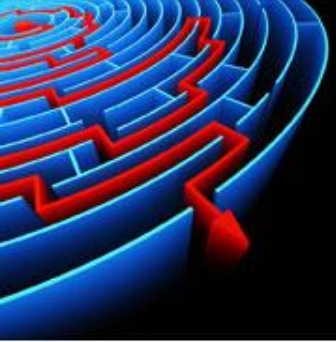
- More informative to stakeholders
- Goodwill testing is more rigorous
- Required for public companies
- May still be adopted by private companies
  - *Are there good reasons to adopt Big GAAP anyway?*



# Purchase Accounting

## ❖ Little GAAP Advantages

- Less costly & Less time consuming:
  - Fewer intangibles appraised in allocation
  - Less frequent goodwill impairment testing
  - Shorter goodwill impairment testing process



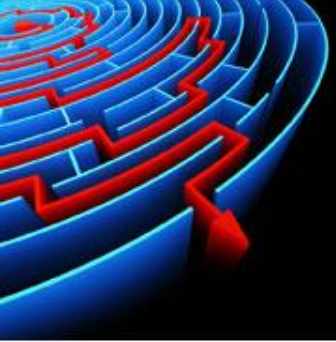
# Purchase Accounting

## What is Fair Value?

### ❖ Fair Value

- ASC 820, fair value is defined as:

“the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.”



# Purchase Accounting Determining Fair Value

- ❖ All Cash Deal (confirm reliance as Fair Value)
  - Back-solve for IRR based on cash price & business cash flow projections for reasonableness
  - Compare IRR to independent weighted average cost of capital estimates based on market participants



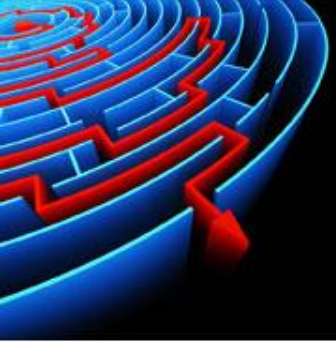
# Purchase Accounting Determining Fair Value

## ❖ Non-Cash Deal (e.g. stock in Buyer or Notes)

- Appraise the equity security received
- Confirm market interest rate & terms on Notes

## ❖ Contingent Consideration

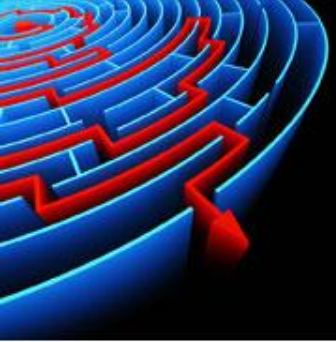
- Present value of future anticipated consideration
- Discount rate based on likelihood of achieving or probability adjust



# Intangible Assets Valuation Methods

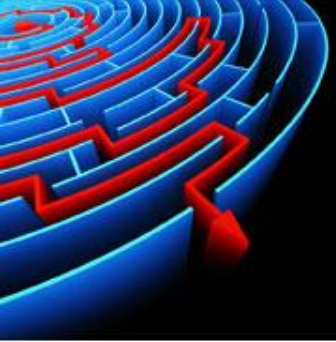
- ❖ Cost Approach - Value based on the cost of reproducing or replacing the property, less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable.





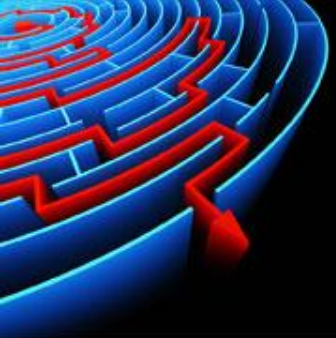
# Intangible Assets Valuation Methods

- ❖ Income Approach - Value based on converting anticipated benefits into a present single amount.
  - ❖ economic benefit stream is estimated
  - ❖ benefit stream is discounted to present value with an appropriate risk-adjusted rate of return



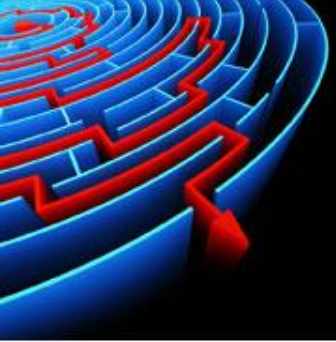
# Intangible Assets Valuation Methods

- ❖ Market Approach - Value based on comparison to a similar asset that has sold.
  - Consider key metrics for comparison



# Intangible Assets Valuation Methods

- ❖ Multi-Period Excess Earnings Method (MPEEM)
  - ❖ DCF/Income Approach orientation
  - ❖ Capital charges for the use of contributory assets
  - ❖ Typically used of key/core intangible such as customer relationships or technology
  - ❖ Consider attrition & remaining life of the asset
  - ❖ Discount rate (required rate of return) based on risk
  - ❖ *See Example in Handout*



# Intangible Assets Valuation Methods

## ❖ Relief from Royalty Method

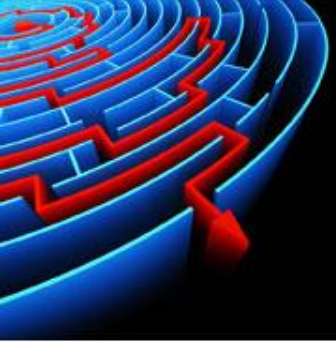
- ❖ DCF/Income Approach orientation
- ❖ Commonly trade names and technology
- ❖ the present worth of the required royalty (economic rent) for licensing the asset in lieu of ownership
- ❖ royalty rate supported by market data & profitability
- ❖ discount rate (required return) based on risk
- ❖ *See Example in Handout*



# Intangible Assets Valuation Methods

## ❖ With & Without DCF Method

- ❖ Used primarily in the valuation of Non-compete agreements
- ❖ DCF assuming absence of CNCs & adverse impact
- ❖ Present value of cash flow difference between with & without CNC's represents a gross value indication of CNC
- ❖ Probability-weight for the likelihood of competition
- ❖ *See Example in Handout*

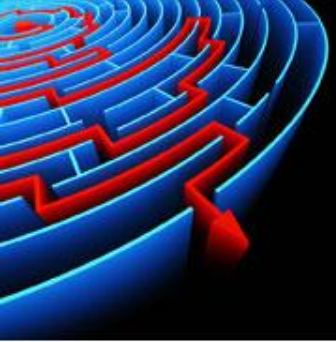


# Intangible Assets Valuation Methods

## ❖ Greenfield Method / Build-Out Method

- ❖ Assumes no supporting assets
- ❖ Start-up costs
- ❖ Capital investments for supporting assets
- ❖ Income based DCF
- ❖ Discount rate (required return) based on risk





# Intangible Assets Valuation Methods

## ❖ Cost Approach

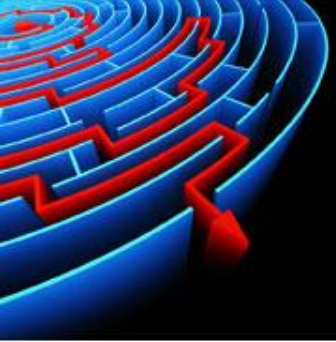
### ❖ Assembled Workforce

- ❖ cost to find, interview, hire & train assembled workforce
- ❖ needed for contributory asset charges in MPEEM

### ❖ Also common for secondary intangibles such as “back-office processes/technologies, web presence

### ❖ Less common for trade names & customer relationships

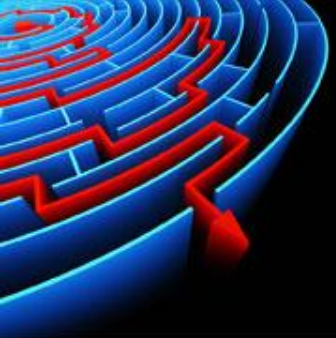
### ❖ *See Example in Handout*



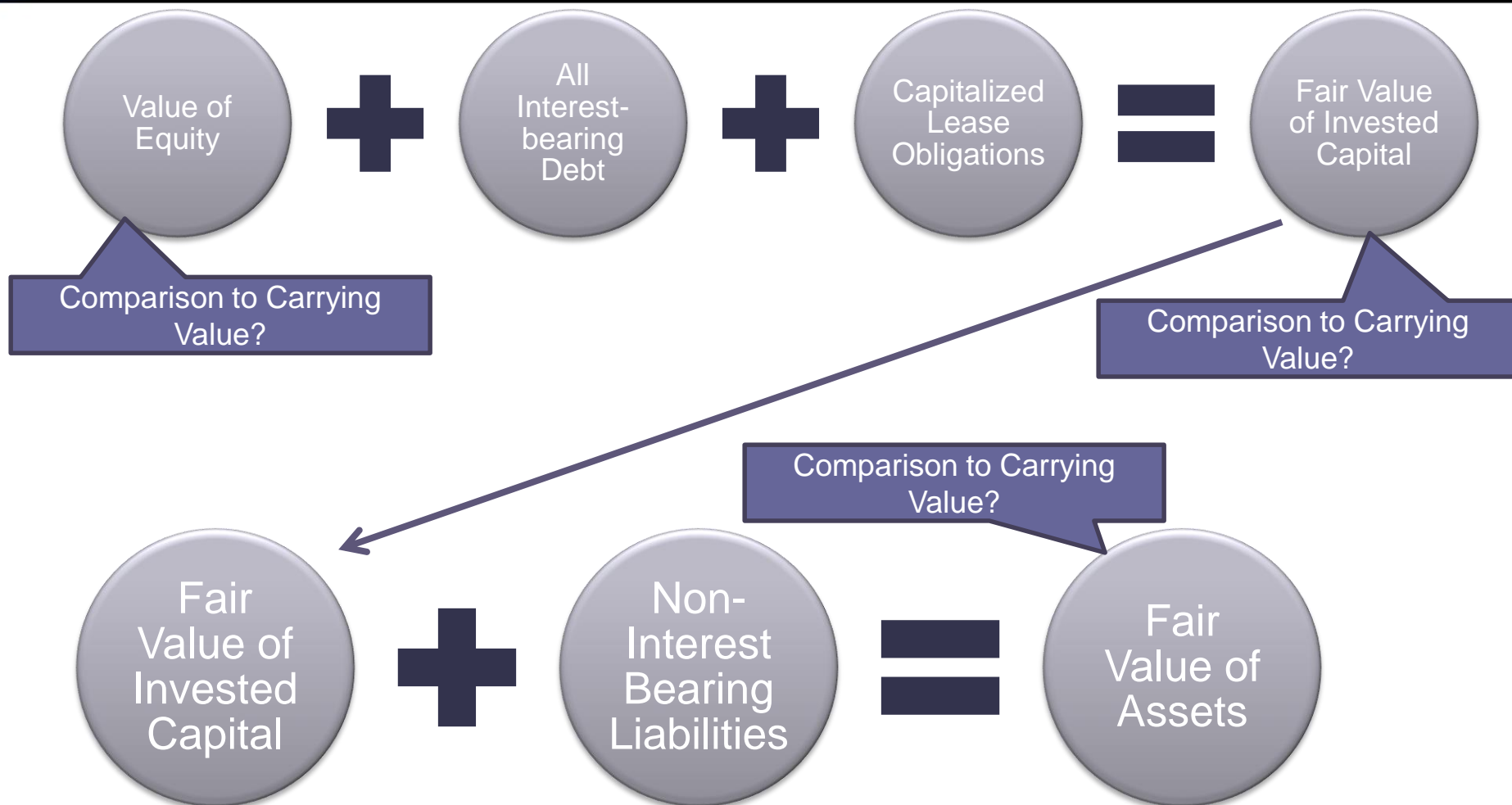
# Intangible Assets Valuation Methods

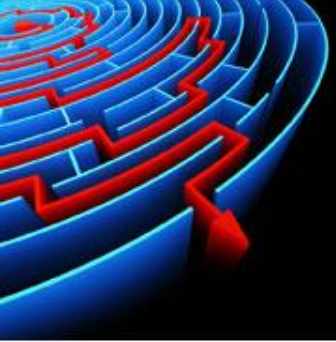
## ❖ WACC / WARA Analysis

- ❖ Reconciliation of the rates of return on the asset classes to the weighted average cost of capital (“WACC”) of the business
- ❖ *See Example in Handout*



# Business Valuation for Goodwill Impairment Testing





# Business Valuation for Goodwill Impairment Testing

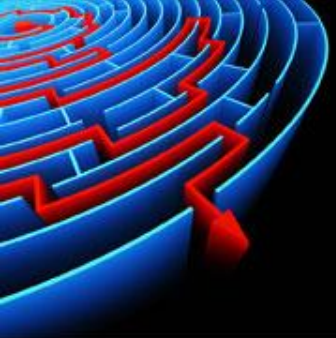
## ❖ Financial Statement Adjustments

- Market participant perspective
- Non-recurring/abnormal revenue & expenses
- Management fees
- Market-based compensation & discretionary expenses
- Allocation of shared or holding company expenses
- Balance sheet at entity or reporting unit level?

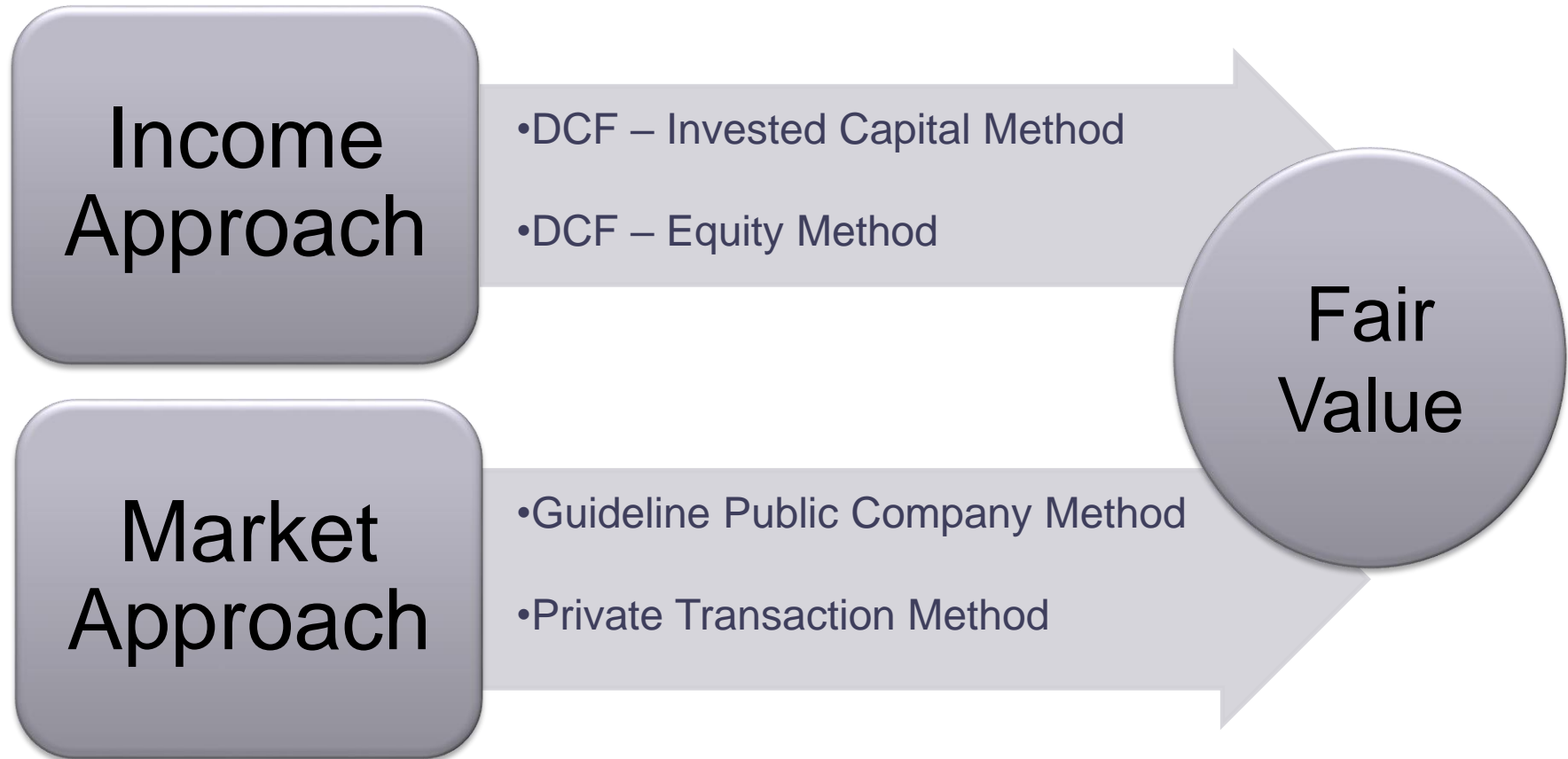


# Business Valuation for Goodwill Impairment Testing

- Cash Flow – Future expectations of investors
- Potential for growth in cash flow
- Risk - Uncertainty of receiving future cash flow
- Return required by investors for taking the risk
- Comparison to similar public companies & private transactions

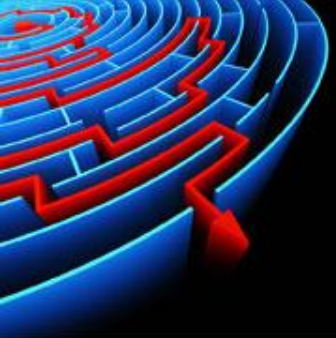


# Goodwill Impairment Testing Prevalent Valuation Methods

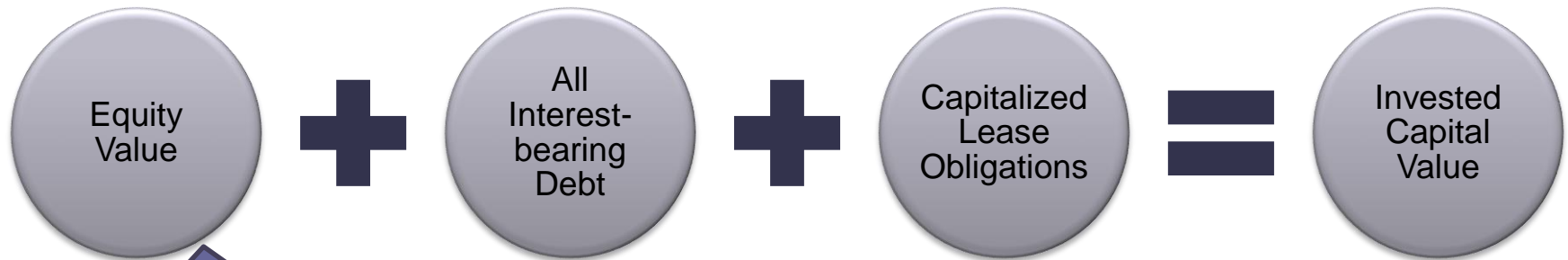


Cost approach typically employed for distressed businesses and asset holding companies





# Capital Structure – Value Perspective



P/E Multiple & DCF-Equity Method

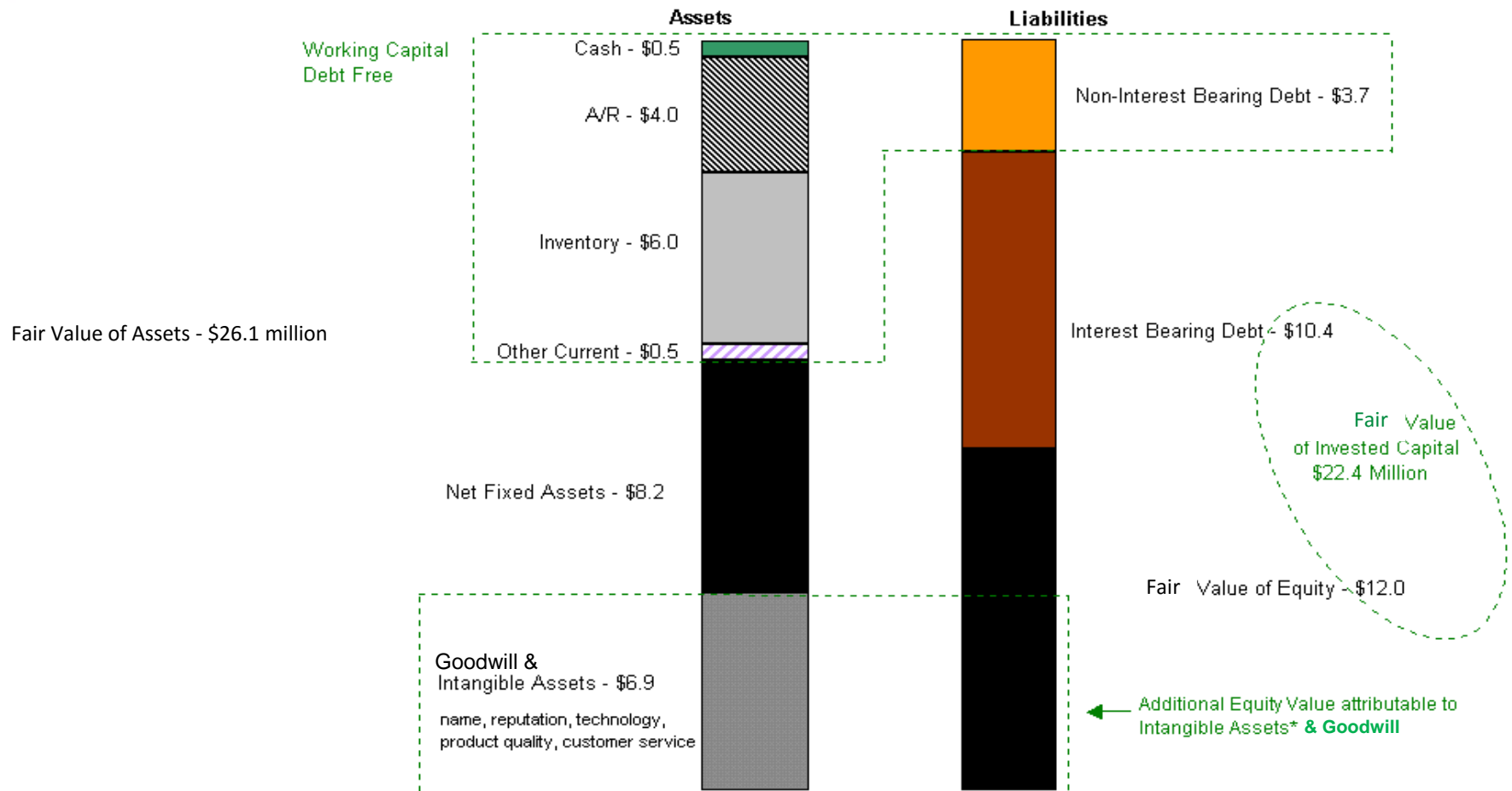
DCF- Invested Capital Method



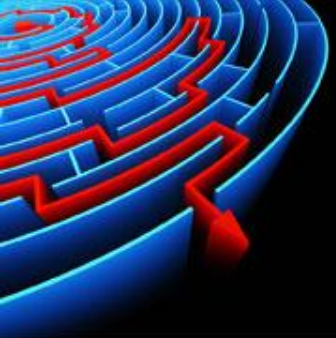
EBITDA Multiples\*

\*For private transactions, EBITDA multiples are reported net of cash, in most cases

# Business Valuation for Goodwill Impairment Testing



\* Example assumes that book value of working capital and tangible assets approximate their respective fair market value.

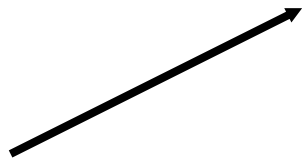


# Business Valuation for Goodwill Impairment Testing

$P/E \text{ Multiple} = 1 / \text{Capitalization rate}$

$\uparrow \text{Cap. Rate} = \downarrow P/E \text{ Multiple}$

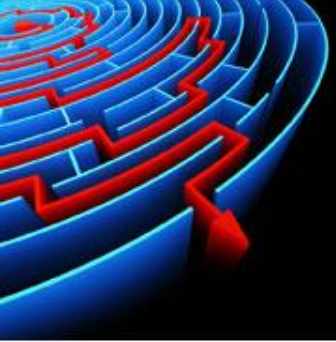
$\uparrow \text{Cap. rate} = \text{Required return} - \text{growth}$



Adjust upward for additional risk



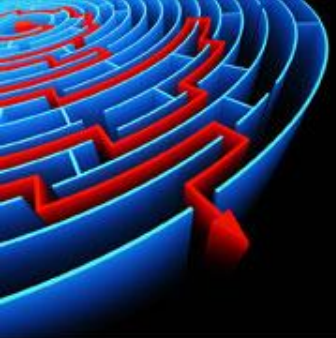
Adjust downward for lower growth



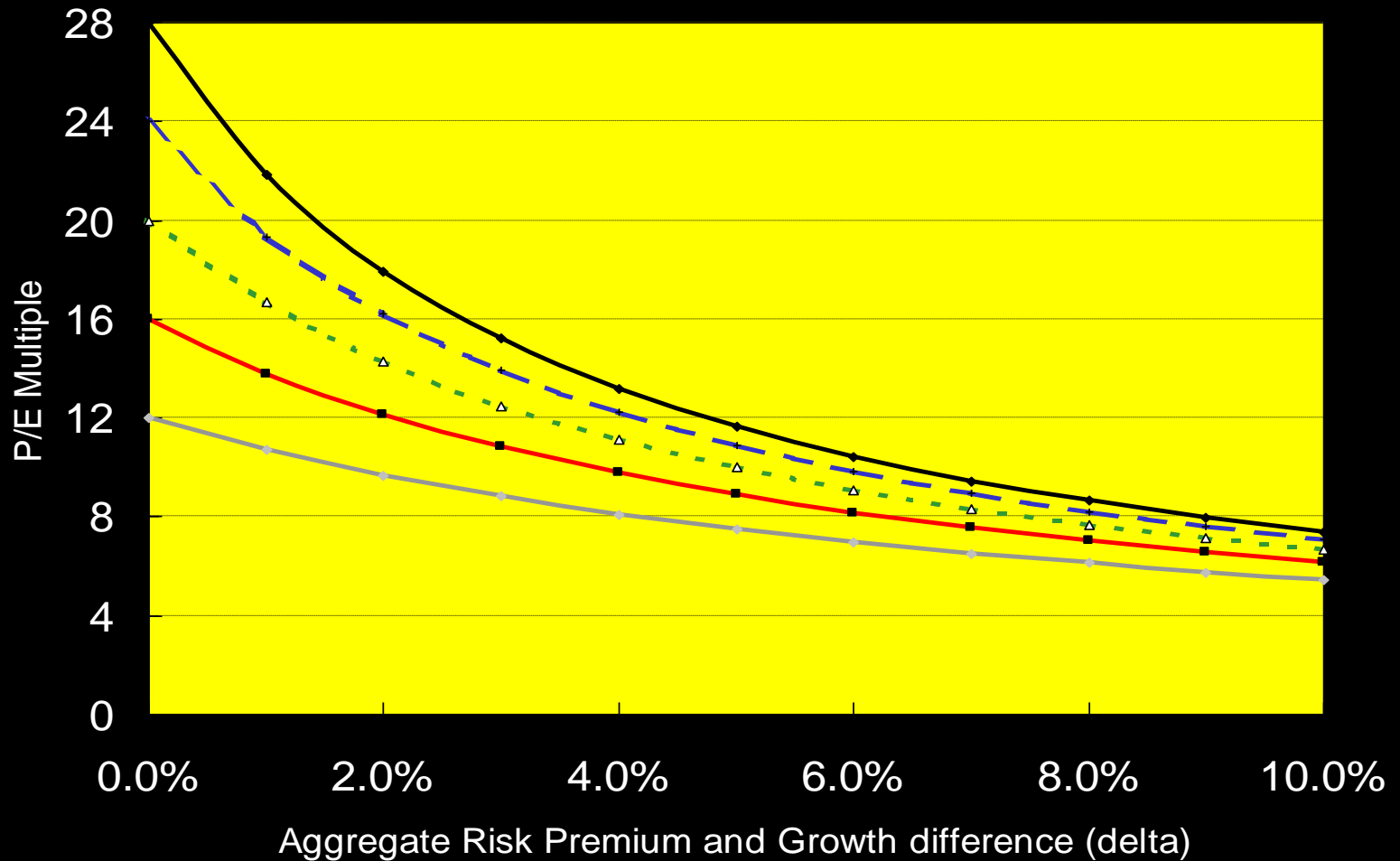
# Business Valuation for Goodwill Impairment Testing

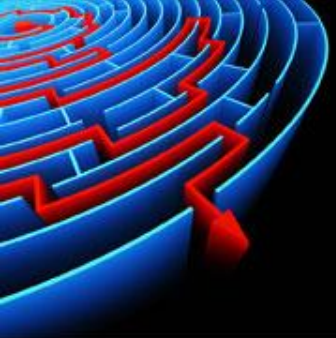
Adjusting Market Multiples for Risk & Growth

See Schedule in Handout



# Business Valuation for Goodwill Impairment Testing





# Business Valuation for Goodwill Impairment Testing

## Applied Guideline Public Company Method

	Applied Multiple	x	Metric	+	Cash	+	Int. Bearing Debt	=	Invested Capital Value	x	Wt.	Wt'd.
<b><u>Total Enterprise Value/EBITDA:</u></b>												
Next 12 months	4.20	x	\$3,414	+	\$3,750		n/a	=	\$18,090	x	25.0%	\$4,523
Trailing Twelve Months	5.10	x	\$2,720	+	\$3,750		n/a	=	\$17,624	x	25.0%	\$4,406
<b><u>Price/Earnings:</u></b>												
Next 12 months	7.30	x	\$1,745	+	n/a	+	\$4,000	=	\$16,736	x	25.0%	\$4,184
Trailing Twelve Months	13.40	x	\$904	+	n/a	+	\$4,000	=	\$16,109	x	25.0%	\$4,027
<b>Value Indication for Invested Capital from Operations</b>												<b><u>\$17,100</u></b>

\* Based on valuation conclusion for 100% Equity Interest, excluding non-operating adjustments if any.

Invested Capital = market value of equity, plus book value of all interest bearing debt & capitalized lease obligations.

Total Enterprise Value (TEV) = Invested capital minus cash. Cash is not included in the calculation of EBITDA multiples as report by the Capital IQ Database.



## Discounted Cash Flow - Invested Capital Method

Reflects 12-month Periods ending June 30th (\$ thousands - U.S.)

	6/2013F	6/2014F	6/2015F	6/2016F	6/2017F	6/2018F	6/2019F	6/2020F	6/2021F
Revenues - net	\$48,103	\$54,116	\$59,528	\$63,993	\$67,192	\$70,048	\$73,025	\$76,129	\$79,364
Cost of Sales	39,276	44,185	48,604	52,249	54,862	57,193	59,624	62,158	64,800
Gross Profit	8,828	9,931	10,924	11,743	12,331	12,855	13,401	13,971	14,564
Total Cash Operating Expenses	5,413	5,842	6,228	6,555	6,882	7,175	7,480	7,798	8,129
EBITDA	3,414	4,089	4,696	5,189	5,448	5,680	5,921	6,173	6,435
Depreciation	439	474	513	554	597	640	683	911	949
Operating Profit	2,976	3,615	4,184	4,635	4,851	5,040	5,238	5,262	5,486
Other income - net	51	55	58	60	62	64	66	69	72
EBIT	3,027	3,670	4,241	4,695	4,914	5,104	5,304	5,332	5,558
Less: Taxes <sup>1</sup>	1,135	1,376	1,590	1,761	1,843	1,914	1,989	1,999	2,084
After-tax Income (EBIT) <sup>1</sup>	1,892	2,293	2,651	2,934	3,071	3,190	3,315	3,332	3,474
Plus: Non Cash Items	439	474	513	554	597	640	683	911	949
Gross Operating Cash Flow	2,331	2,767	3,163	3,489	3,668	3,830	3,999	4,243	4,423
Less: Addt'l Debt-free Working Capital (Needs) <sup>2</sup>	(667)	(964)	(868)	(714)	(498)	(445)	(463)	(483)	(504)
Less: Capital Expenditures	(800)	(899)	(989)	(1,064)	(1,117)	(1,164)	(1,214)	(1,265)	(1,319)
Net Cash Flow to Debt & Equity Holders <sup>3</sup>	864	904	1,306	1,711	2,053	2,221	2,321	2,494	2,600
Time Period <sup>4</sup>	0.50	1.50	2.50	3.50	4.50	5.50	6.50	7.50	8.50
Present Value Factor Kwacc = 14.4%	0.9349	0.8173	0.7144	0.6245	0.5459	0.4772	0.4171	0.3646	0.3187
Present Value (PV)	\$808	\$739	\$933	\$1,068	\$1,121	\$1,060	\$968	\$909	\$829
Sum of PV of Yearly Cash Flows	\$8,435				Twelve-month Est. Cash Flow for 2022F				\$2,711
Plus: PV of Perpetuity	8,512				Required Rate of Return ( $K_{wacc}$ )				14.40%
Invested Capital from Operations <sup>5</sup>	\$16,900 rounded				Less: long-term growth (g)				4.25%

Capitalization Rate ( $K_{wacc} - g$ )	10.15%
Value of Perpetuity in Terminal Yr.	\$26,708
Periods to Discount	8.50
PV Factor with Kwacc = 14.4%	0.3187
Present Value of Perpetuity (Terminal Value)	\$8,512

### Range of Value / Sensitivity Analysis

	Long-term Growth				
$K_{wacc}$	3.75%	4.00%	4.25%	4.50%	4.75%
13.40%	\$18,400	\$18,700	\$19,000	\$19,300	\$19,600
13.90%	\$17,400	\$17,600	\$17,900	\$18,200	\$18,500
14.40%	\$16,500	\$16,700	\$16,900	\$17,200	\$17,400
14.90%	\$15,700	\$15,900	\$16,100	\$16,300	\$16,500
15.40%	\$15,000	\$15,100	\$15,300	\$15,500	\$15,700

Numbers may not foot due to rounding.

1) Tax savings associated with interest expense is accounted for in the development of the weighted average cost of capital. Tax rate estimated @ 37.5%

2) Excludes short-term interest bearing debt or capitalized lease obligations.

3) For additional detail, see Forecast of Projected Income Statement, Working Capital and Fixed Asset Schedules located in the addendum of this report.

4) Time periods adjusted (.5) to reflect cash flow estimated to be received evenly throughout the year ("mid-year convention").

5) Does not include the impact of the tax amortization of goodwill & intangible assets or any non-operating assets & liabilities.



## Discounted Cash Flow - Equity Method

Reflects 12-month Periods ending June 30th (\$ thousands - U.S.)

	6/2013F	6/2014F	6/2015F	6/2016F	6/2017F	6/2018F	6/2019F	6/2020F	6/2021F
Revenues - net	\$48,103	\$54,116	\$59,528	\$63,993	\$67,192	\$70,048	\$73,025	\$76,129	\$79,364
Cost of Sales	39,276	44,185	48,604	52,249	54,862	57,193	59,624	62,158	64,800
Gross Profit	8,828	9,931	10,924	11,743	12,331	12,855	13,401	13,971	14,564
Total Cash Operating Expenses	5,413	5,842	6,228	6,555	6,882	7,175	7,480	7,798	8,129
EBITDA	3,414	4,089	4,696	5,189	5,448	5,680	5,921	6,173	6,435
Depreciation	439	474	513	554	597	640	683	911	949
Operating Profit	2,976	3,615	4,184	4,635	4,851	5,040	5,238	5,262	5,486
Other Income - net	51	55	58	60	62	64	66	69	72
EBIT	3,027	3,670	4,241	4,695	4,914	5,104	5,304	5,332	5,558
Interest Expense	236	262	289	314	336	355	374	392	408
Pre-tax Income	2,792	3,407	3,952	4,381	4,578	4,750	4,930	4,940	5,150
Less: Provision for Income Taxes	1,047	1,278	1,482	1,643	1,717	1,781	1,849	1,852	1,931
<b>After-tax Income</b>	<b>1,745</b>	<b>2,130</b>	<b>2,470</b>	<b>2,738</b>	<b>2,861</b>	<b>2,968</b>	<b>3,082</b>	<b>3,087</b>	<b>3,219</b>
Plus: Depreciation & Amortization	439	474	513	554	597	640	683	911	949
Gross Operating Cash Flow	2,184	2,603	2,983	3,293	3,458	3,608	3,765	3,998	4,168
Less: Addt'l Debt-free Working Capital (Needs) <sup>1</sup>	(667)	(964)	(868)	(714)	(498)	(445)	(463)	(483)	(504)
Less: Capital Expenditures	(800)	(899)	(989)	(1,064)	(1,117)	(1,164)	(1,214)	(1,265)	(1,319)
Increase/(Decr.) in Net Debt Financing <sup>2</sup>	472	486	470	428	356	339	348	293	306
Net Cash Flow to Equity Holders <sup>3</sup>	1,189	1,226	1,596	1,943	2,200	2,339	2,435	2,543	2,651
Time Period <sup>4</sup>	0.50	1.50	2.50	3.50	4.50	5.50	6.50	7.50	8.50
Present Value Factor Ke = 18.7%	0.9179	0.7733	0.6514	0.5488	0.4624	0.3895	0.3281	0.2765	0.2329
Present Value (PV)	1,091	948	1,040	1,066	1,017	911	799	703	617

Sum of PV of Yearly Cash Flows	\$8,193
Plus: PV of Perpetuity	4,454
<b>100% Equity Value from Operations<sup>5</sup></b>	<b>\$12,650</b> rounded
<b>Plus: Interest Bearing Liabilities</b>	<b>4,000</b>
<b>Value of Invested Capital</b>	<b>\$16,650</b> rounded

Twelve-month Est. Cash Flow for 2022F	\$2,763
Required Rate of Return (K <sub>e</sub> )	<b>18.70%</b>
Less: long-term growth (g)	4.25%
Capitalization Rate (K <sub>e</sub> - g)	14.45%
Value of Perpetuity in Terminal Yr.	\$19,124
Periods to Discount	8.50
PV Factor with Ke = 18.7%	0.2329
Present Value of Perpetuity (Terminal Val)	\$4,454

Range of Value / Sensitivity Analysis					
K <sub>e</sub>	Long-term Growth				
	3.75%	4.00%	4.25%	4.50%	4.75%
17.70%	\$17,420	\$17,520	\$17,630	\$17,740	\$17,850
18.20%	\$16,930	\$17,020	\$17,120	\$17,220	\$17,320
<b>18.70%</b>	\$16,480	\$16,560	<b>\$16,650</b>	\$16,740	\$16,830
19.20%	\$16,050	\$16,130	\$16,210	\$16,290	\$16,370
19.70%	\$15,660	\$15,730	\$15,800	\$15,870	\$15,950

Numbers may not foot due to rounding.

1) Excludes short-term interest bearing debt or capitalized lease obligations.

2) Includes all changes in interest bearing debt balances, including capitalized lease obligations, based on normalized use of debt.

3) For additional detail, see Forecast of Projected Income Statement & Balance Sheet, as well as supporting schedules located in the addendum of this report.

4) Time periods adjusted (.5) to reflect cash flow estimated to be received evenly throughout the year ("mid-year convention").

5) Does not include the impact of any non-operating assets & liabilities.





# Agenda - Valuation Issues in Exit Planning



## Value vs. Price

The Exit Option Selected Will Impact Deal Price  
Deal Terms Will Impact Value Received

01



## Valuation Methods

Appropriateness of Each Method  
Benefits & Drawbacks

02



## Key Value Drivers & Value Enhancement Strategies

Revenue Growth | Profit Margins | Asset Utilization  
Financial Leverage | Risk Profile | Market Conditions

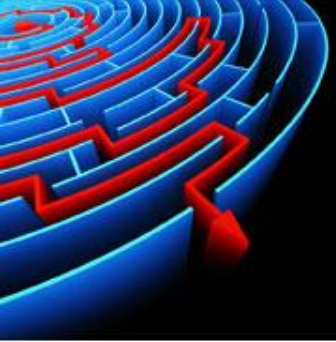
03



## Red Flags in Business Valuation

Qualifications | Due Diligence | Report Format | Methodology  
Financial Adjustments | Projections & Assumptions  
Company Comparability | Risk & Rates | Reconciliation

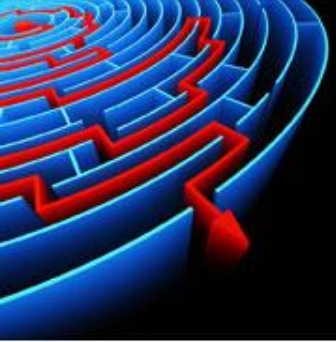
04



# Exit Options

## ❖ Sale to a competitor/industry participant

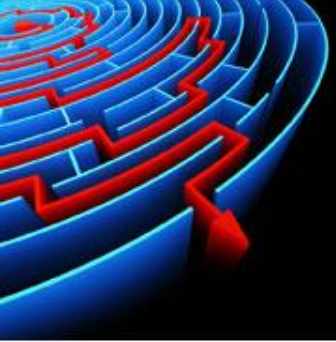
- familiar with business model
- lower perceived risk?
- potential strategic price premium
- comparison of corporate culture



# Exit Options (continued)

## ❖ Sale to a financial buyer

- less familiar with business model
- higher perceived risk?
- longer transition period



# Exit Options (continued)

## ❖ Transfer next generation

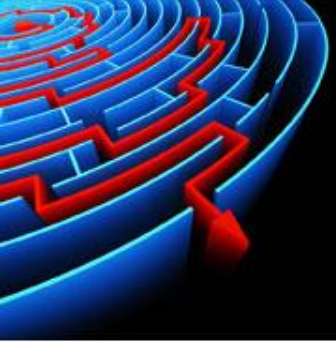
- familiar with business
- established trust
- lower perceived risk?
- non-price considerations



# Exit Options (continued)

## ❖ Sale to existing shareholders/management

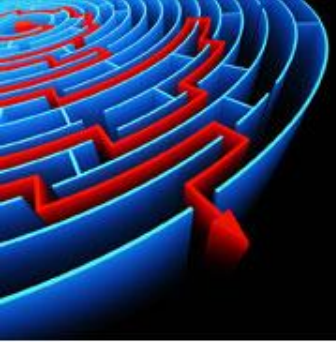
- familiar with business
- qualifications / experience
- ability to obtain financing



# Exit Options (continued)

## ❖ ESOPs

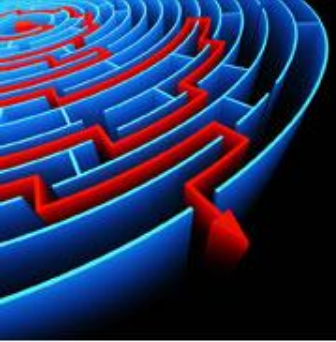
- favorable tax consequences
- possibly longer transition period
- cost considerations



# Exit Options (continued)

## ❖ Turn out the lights / liquidation

- minimal effort | failure to plan
- adverse operating conditions | losses
- minimal value

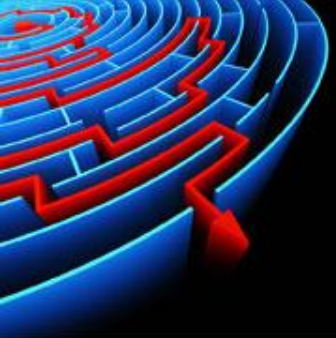


# Impact of Deal Terms

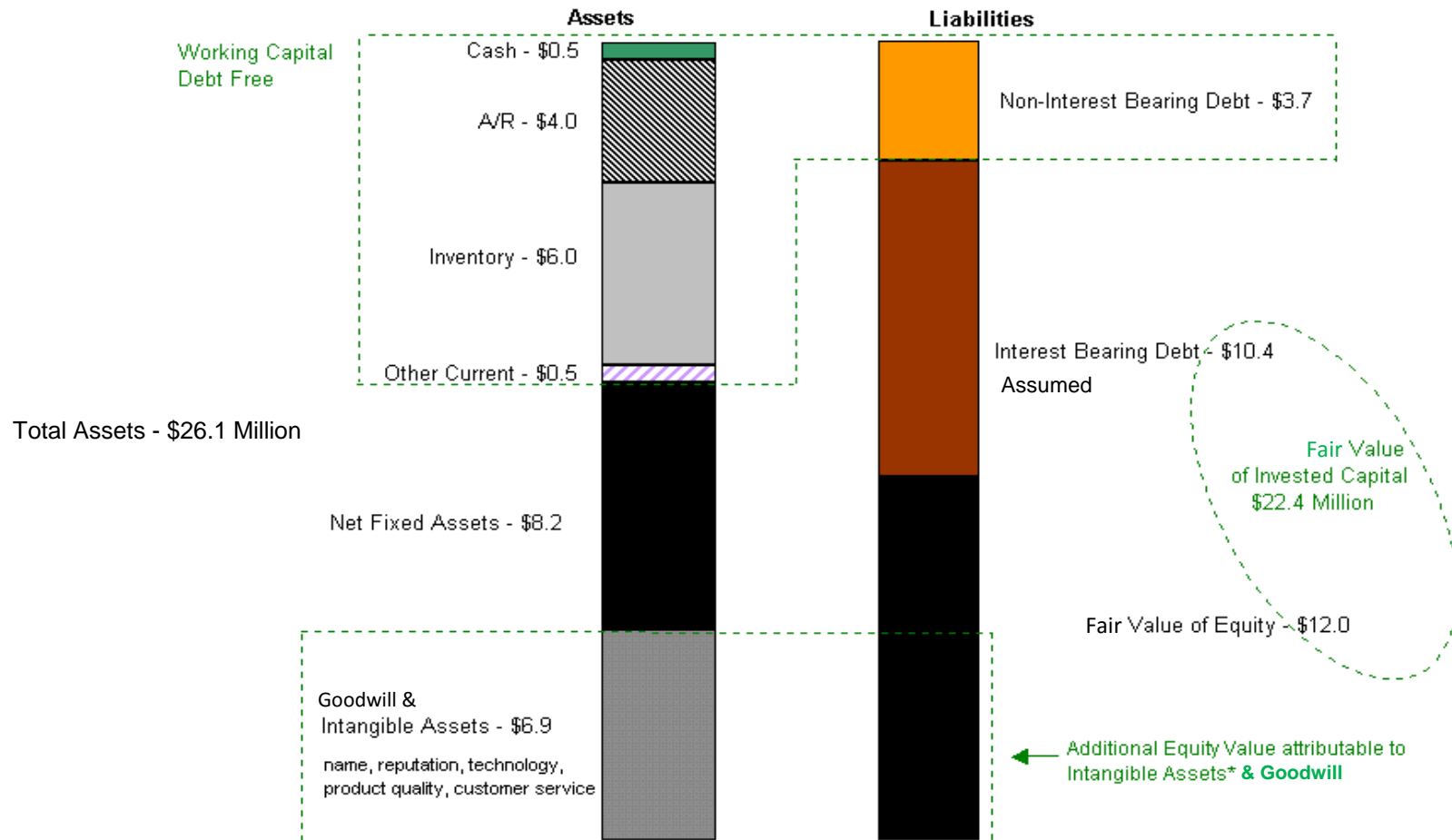
- ❖ All cash deal
- ❖ Seller's note
- ❖ Earn-out
- ❖ Claw-back provision
- ❖ Employment & Non-compete agreements
- ❖ Asset v. Equity transactions



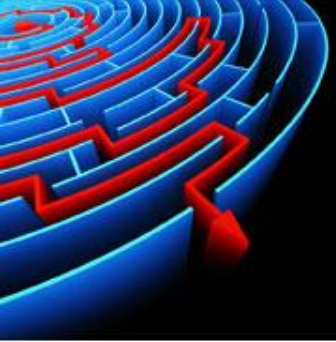




# What is being purchased?



\* Example assumes that book value of working capital and tangible assets approximate their respective fair market value.



# Valuation Approaches

## ❖ Cost approach

- to establish a floor value
- financially distressed or high risk businesses

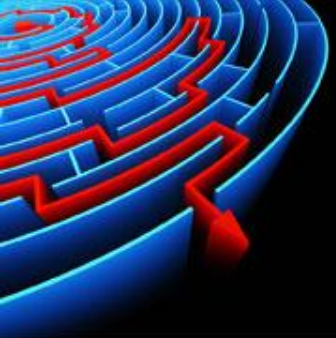


## ❖ Market approach

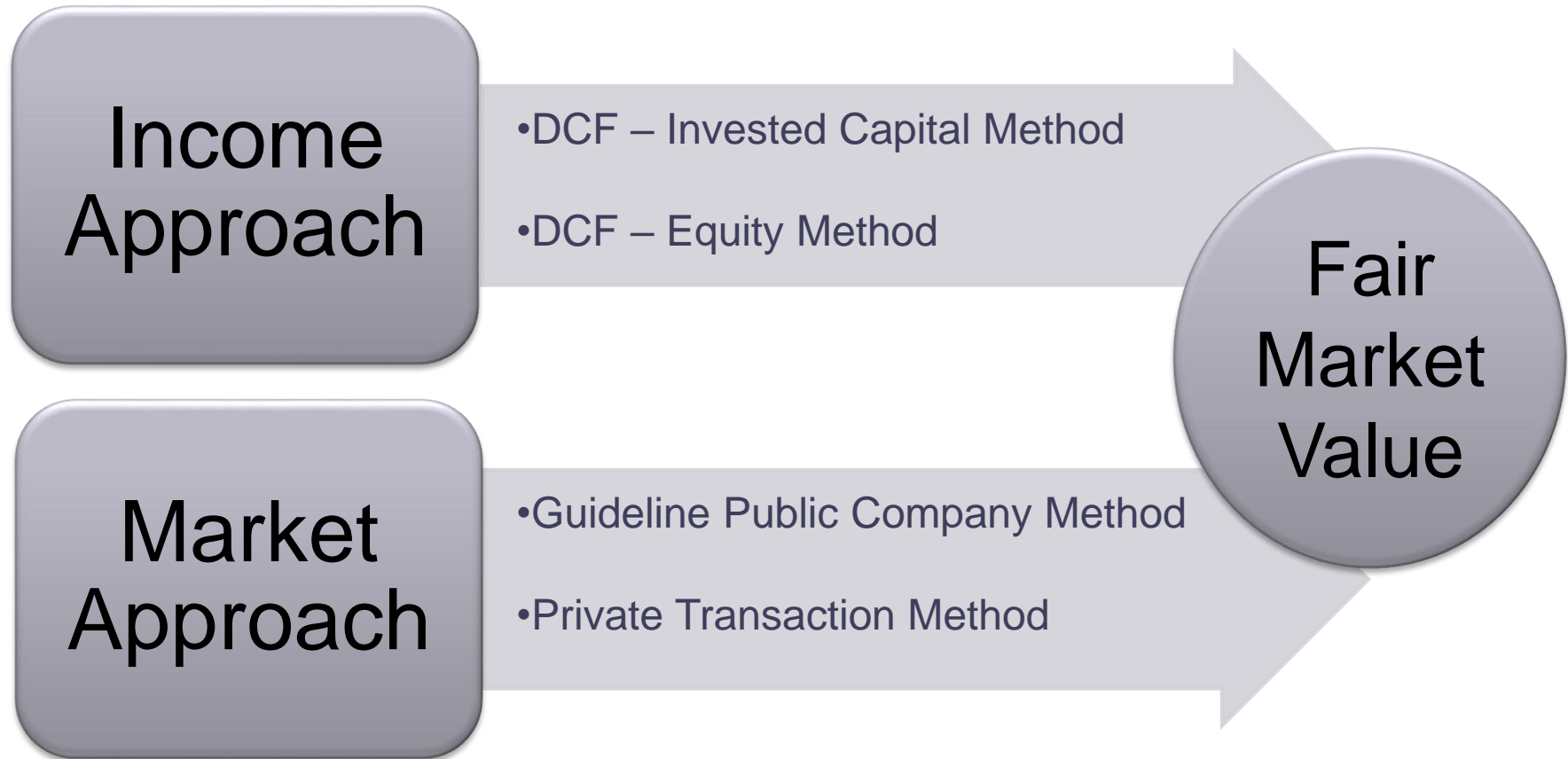
- comparison to similar businesses sold

## ❖ Income approach

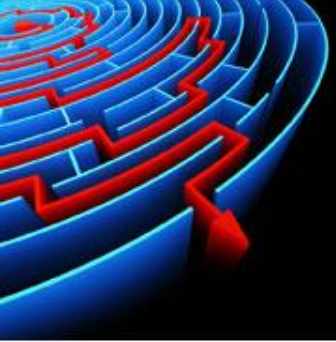
- present value of future expected cash flow



# Prevalent Valuation Methods



Cost approach typically employed for distressed businesses and asset holding companies



# What is Risk?

What is Risk?

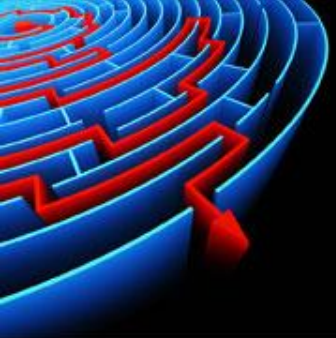
See Schedule in Handout



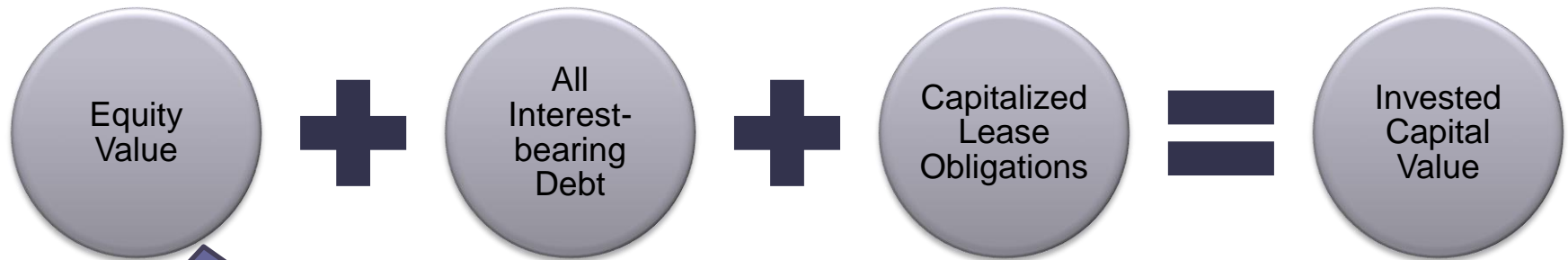
# What is Risk?

Required Rates of Return

See Schedule in Handout



# Capital Structure – Value Perspective



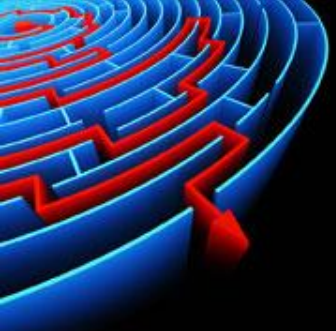
P/E Multiple & DCF-Equity Method

DCF- Invested Capital Method



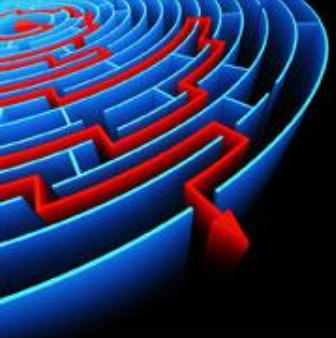
EBITDA Multiples\*

\*For private transactions, EBITDA multiples are reported net of cash, in most cases



# Guideline Public Company Method

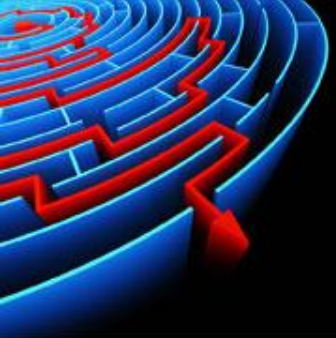
STRENGTHS	WEAKNESSES
15,000+ U.S publicly-held companies	Often very large companies
Access to historical financials	Lack of pure plays
Financial analysis comparison	Market sentiment - “Irrational Exuberance?”
Market multiples are easy to calculate	Risk - implicit in price multiples
Popular: P/E & EBITDA multiples	Growth - implicit in price multiples
Analysts’ earnings & growth forecasts	Asset needs - implicit in price multiples
Forward multiples (next 12 months)	



# Private Transaction Method

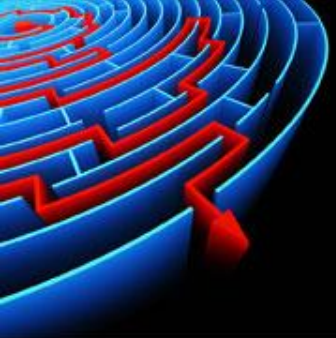
STRENGTHS	WEAKNESSES
Based on actual private transactions	Need for robust transactional databases
Market participants	No information about risk & growth
Large # of transactions = market?	No historical financial performance information (trend data)
Popular – Focus on EBITDA multiples	Value perception of a specific buyer
	EBITDA multiples are often unreported, w/ or w/o adjustments?
	Asset needs - implicit in the multiple





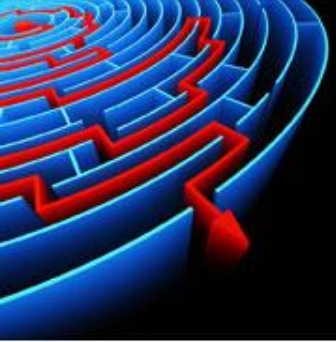
# Discounted Cash Flow Method

STRENGTHS	WEAKNESSES
Highly flexible – Business lifecycle	Supportability of assumptions
Multi-year projections	Specific vs. market participant
Explicit assumptions (more auditable?)	Opinions about risk & growth
Risk is addressed explicitly (Ke;Kwacc)	Potential for lots of details
Growth explicitly forecasted	
Direct impact of asset needs	

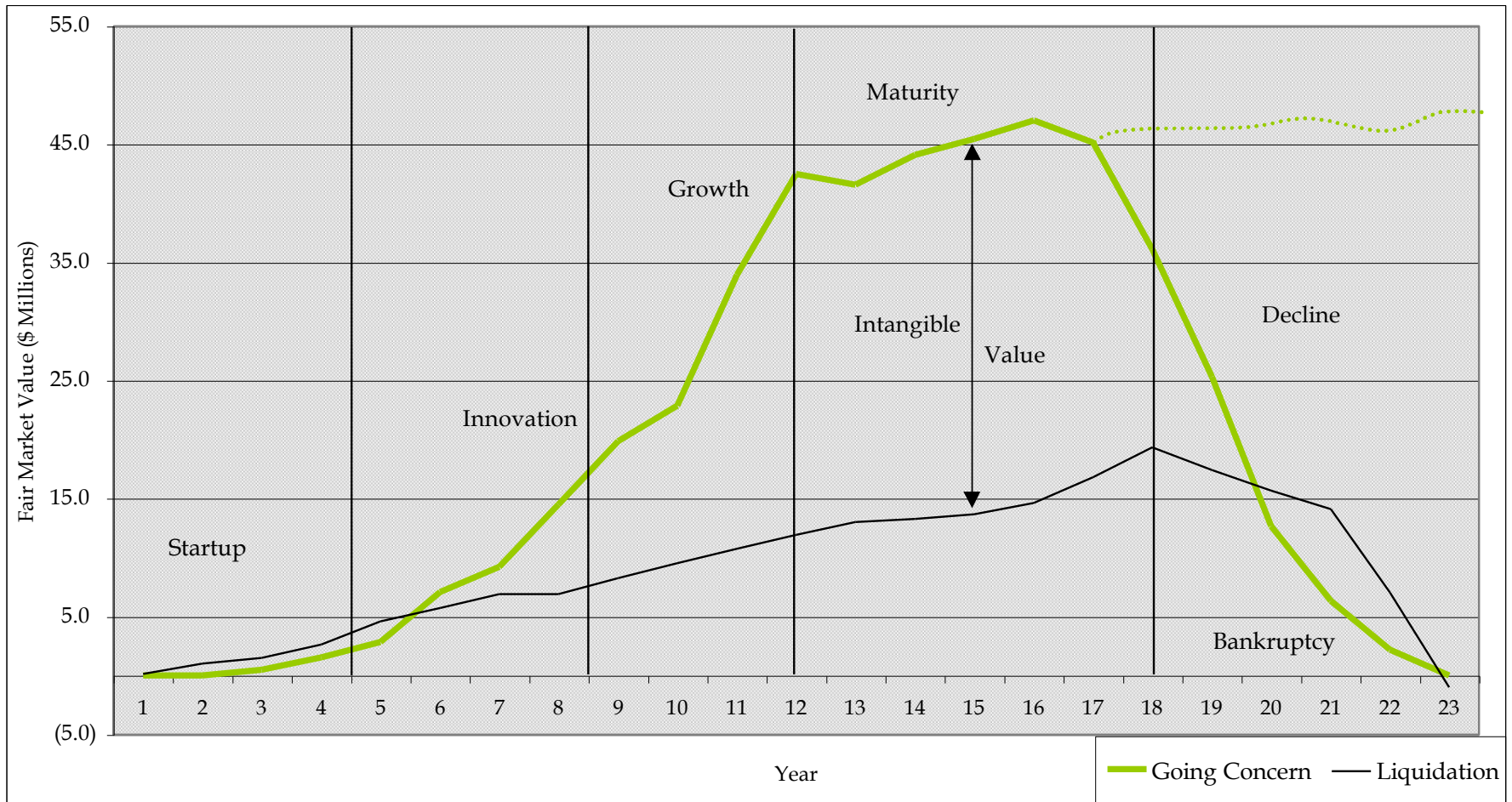


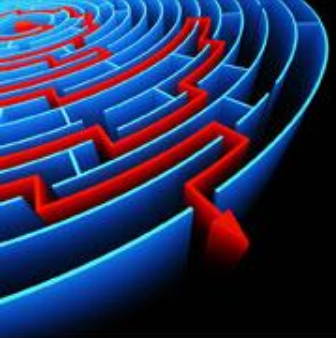
# Value Drivers & Enhancement Strategies





# Typical Business Life Cycle



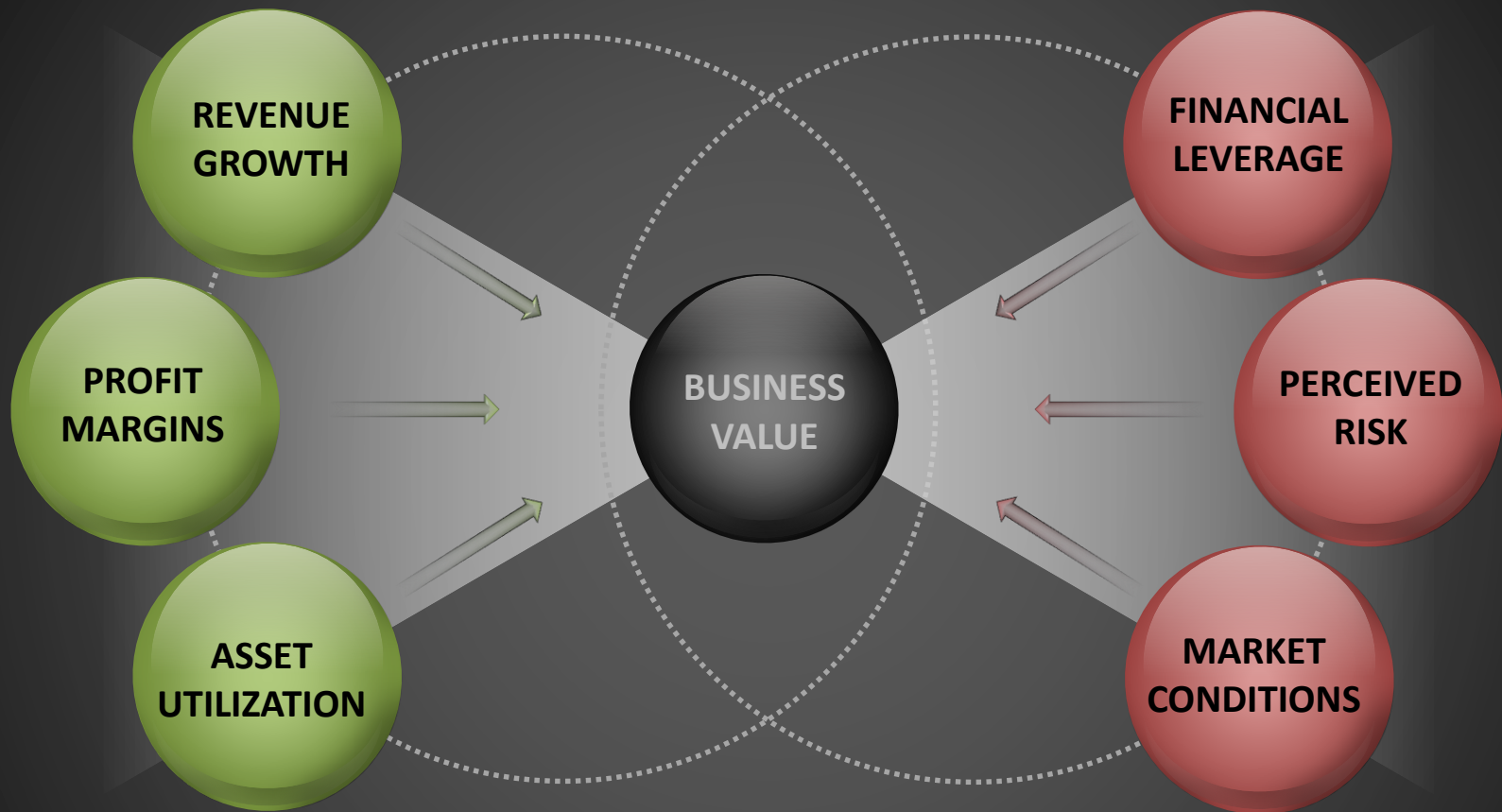


# Value Plummets Ahead of Performance Drop

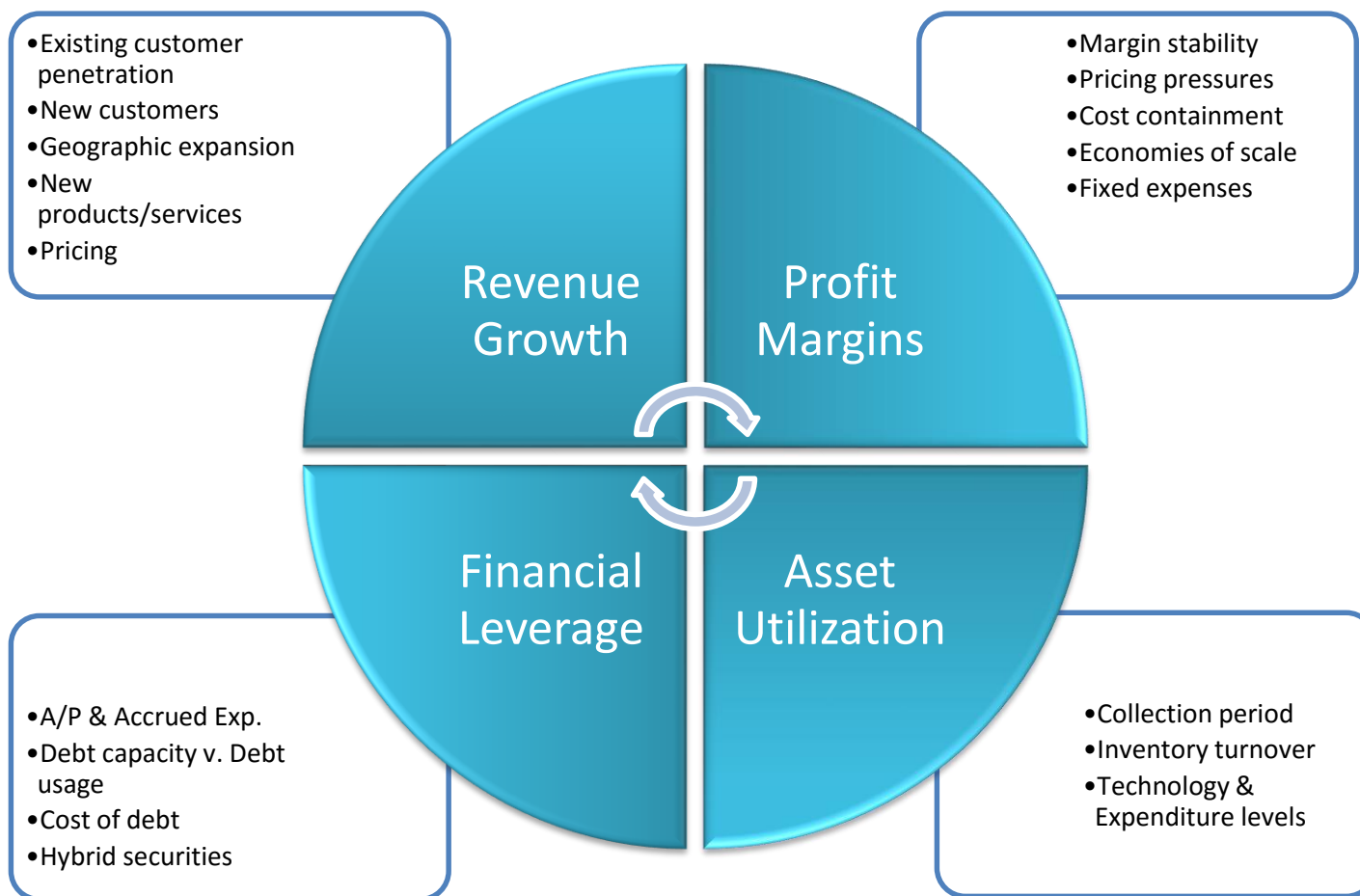
## Crocs, Inc. - CROX

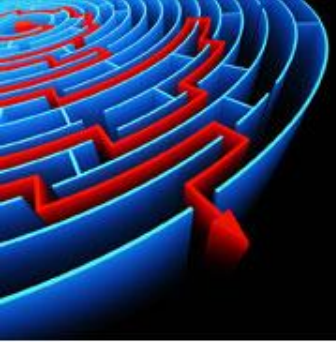


# Key Factors Impacting Value



# Key Financial Metrics Impacting Value

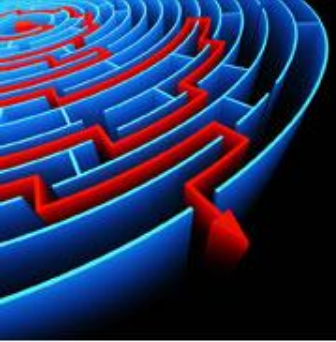




# Value Enhancement - Revenues

## ❖ Increase Revenue Growth

- marketing efforts - volume from existing customers vs. new customers
- pricing strategy
- new product/service introductions
- geographic expansion
- economic & industry conditions

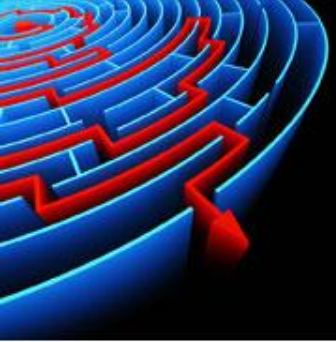


# Value Enhancement - Margins

## ❖ Improve Profit Margins

- pricing
- cost containment
- fixed vs. variable expenses
- labor vs. technology & capex



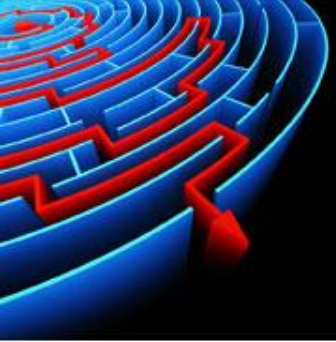


# Value Enhancement – Assets & Financing

## ❖ Improve Asset Utilization

- shorten collection period
- increase inventory turnover
- reduce capital expenditure levels

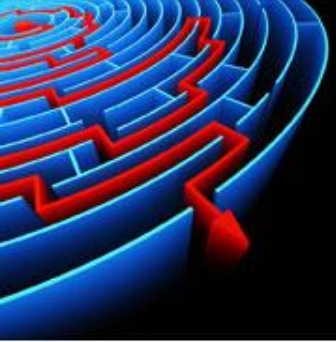
## ❖ Use Optimal Debt Levels



# Value Enhancement - Risk

## ❖ Decrease Risk

- reduce key person dependence
- diversify the customer base (lower customer concentration)
- increase product/service portfolio
- extend life of existing product/service offerings
- reduce supplier dependence

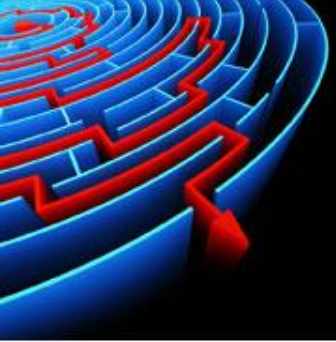


# Value Enhancement - People

So what really drives business value?

Intellectual capital....

**YOUR PEOPLE!**



# Red Flags

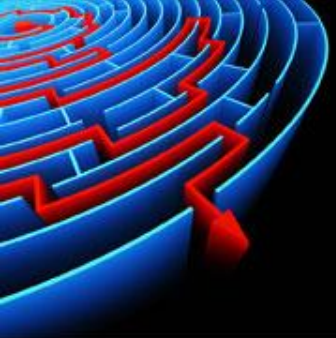
## Reviewing the Valuation Analysis





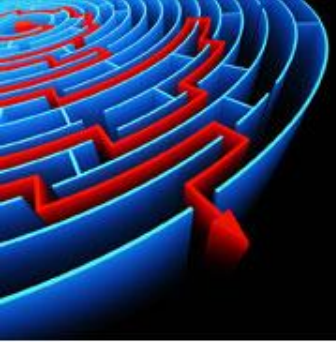
# Red Flags

- ❖ Qualifications
- ❖ Due diligence
- ❖ Report format
- ❖ Financial statement adjustments
- ❖ Methodology employed



# Red Flags (continued)

- ❖ Peer group comparability & selection of market multiples
- ❖ Projections & Assumptions
- ❖ Perceived risk & Discount rates
- ❖ Reconciliation of value
- ❖ Lack of control & Lack of marketability



# Questions & Contact Info

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