Business Valuation Overview and Hot Topics

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Primary Reasons for Business Valuations

- Estate Planning
- Estate and Gift Tax Returns
- Litigation (divorce, shareholder disputes, etc.)
- Financial Planning
- Transactions
- Lending
- ESOP Valuation Compliance
- Financial Reporting for Business Combinations (Purchase Price Allocations and Intangible Asset Valuations)
- Stock-based Compensation
- Value Growth Advisory

Types of Business Valuations We Perform

Conclusion of value	Detailed Report Summary Report
Calculation of value	Calculation Report

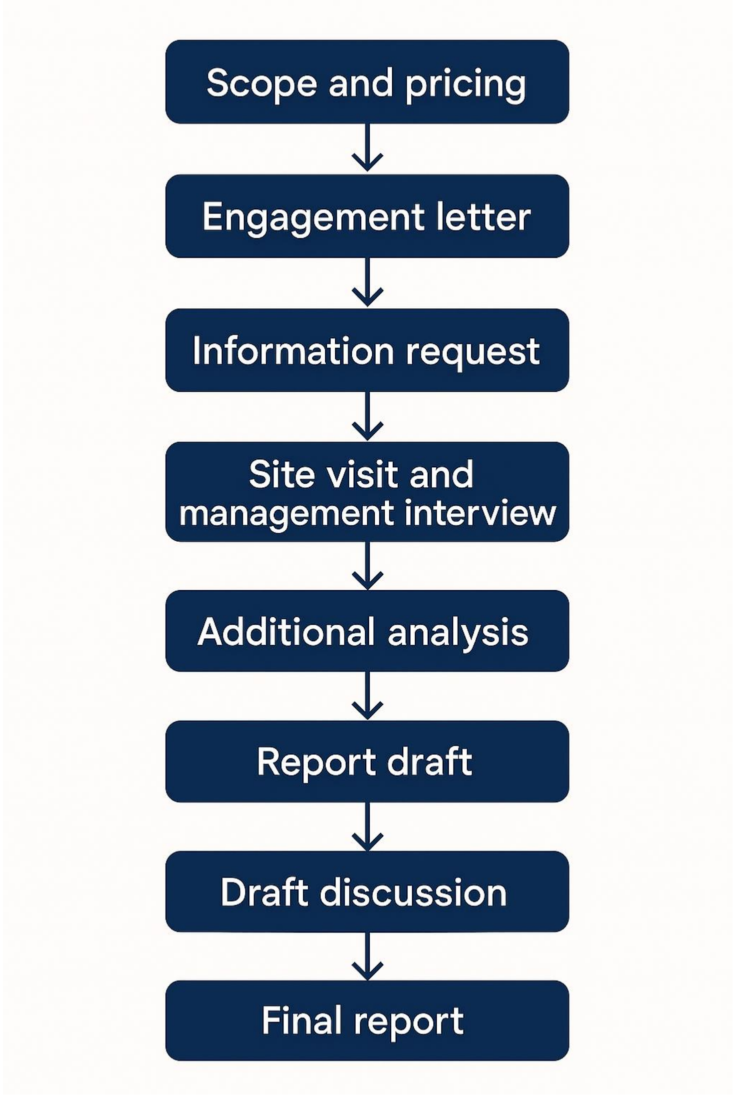
Standard of Value

FAIR MARKET VALUE

FAIR VALUE

INVESTMENT VALUE

Valuation Process



Information Request

- 3 to 5 years of detailed financial statements
- 3 to 5 years of business income tax returns
- Forecasted financial statements
- 3 to 5 years of reports for key performance indicators
- 3 to 5 years sales by customer for top 10 customers
- Ownership schedule
- Organizational chart
- Company formation documents and amendments
- Shareholder or buy-sell agreements
- Details of any transactions of the Company's stock
- Schedule of trademarks/patents
- Details of any active, pending, or threatened litigation
- Details of any plans for unusual capital expenditures
- Details on any non-recurring or unusual transactions affecting the requested financial statements
- Details on any assets held, liabilities owed, or activities that are not directly related to the Company's ongoing business

Management Interview / Questionnaire

- Nature, background, and history
- Facilities
- Management team
- Employees
- Products/Services
- Geographical markets
- Industry markets
- Key customers and suppliers
- Competition
- Business risks
- Governmental or regulatory environment
- Strategy/Expectations

Valuation Foundations

Cash flow

Risk

Growth

Valuation Foundations

Valuation Foundations

Nature, background, and history	Facilities	Management team
Employees	Products/Services	Geographical markets
Industry markets	Key customers and suppliers	Competition
Business risks	Governmental or regulatory environment	Strategy/Expectations

Valuation Approaches

Asset Approach

- Value = Assets - Liabilities

Income Approach

- Value = Benefits / Rate of Return

Market Approach

- Value = Subject company financial number/metric * market multiple

Valuation Methods

Asset Approach

- Adjusted net asset method

Income Approach

- Capitalization of cash flow method
- Discounted cash flow method

Market Approach

- Guideline company transactions method
- Guideline public company method

Key Adjustments Affecting Value

Key Adjustments Affecting Value

Other Valuation Adjustments

- Discount for lack of control
- Discount for lack of marketability

Pitfalls

- Rules of thumb / industry multiples
- Transaction multiples without information
- Normalizing adjustments

Hot Topics – Qualified Appraisals

- 26 CFR § 301.6501(c)-1(f)(3)
  - **(i)** The appraisal is prepared by an appraiser who satisfies all of the following requirements:
    - **(A)** The appraiser is an individual who holds himself or herself out to the public as an appraiser or performs appraisals on a regular basis.
    - **(B)** Because of the appraiser's qualifications, as described in the appraisal that details the appraiser's background, experience, education, and membership, if any, in professional appraisal associations, the appraiser is qualified to make appraisals of the type of property being valued.
    - **(C)** The appraiser is not the donor or the donee of the property or a member of the family of the donor or donee, as defined in section 2032A(e)(2), or any person employed by the donor, the donee, or a member of the family of either; and

Hot Topics – Qualified Appraisals

- 26 CFR § 301.6501(c)-1(f)(3)
  - **(ii)** The appraisal contains all of the following:
    - **(A)** The date of the transfer, the date on which the transferred property was appraised, and the purpose of the appraisal.
    - **(B)** A description of the property.
    - **(C)** A description of the appraisal process employed.
    - **(D)** A description of the assumptions, hypothetical conditions, and any limiting conditions and restrictions on the transferred property that affect the analyses, opinions, and conclusions.
    - **(E)** The information considered in determining the appraised value, including in the case of an ownership interest in a business, all financial data that was used in determining the value of the interest that is sufficiently detailed so that another person can replicate the process and arrive at the appraised value.
    - **(F)** The appraisal procedures followed, and the reasoning that supports the analyses, opinions, and conclusions.
    - **(G)** The valuation method utilized, the rationale for the valuation method, and the procedure used in determining the fair market value of the asset transferred.
    - **(H)** The specific basis for the valuation, such as specific comparable sales or transactions, sales of similar interests, asset-based approaches, merger-acquisition transactions, etc.

Hot Topics – Guideline Company Transactions Method

- Growing sentiment against using data from transaction databases
- Especially from private buying private
- Primary versus corroborating method
- Primary concerns:
  – Data quality and limited disclosure of data
  – Included/Excluded assets and liabilities
  – Motivations of buyers and sellers
  – Deal structures
  – Timing and market conditions

Hot Topics – Discount for Lack of Control

- MergerStat Review ®
- FactSetMergerstat®/BVR Control Premium Study
- Closed-End Funds – Domestic Equity Portfolios
- Other

Hot Topics – Discount for Lack of Marketability

- No standard discount
- Pre-IPO Studies
- Restricted Stock Studies
- Stout DLOM Calculator
  – Restricted Stock Equivalent Discount
  – Market Volatility Adjustment
  – Private Entity Discount
- Option Pricing Models

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- RESPECT.
- INTEGRITY.

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Tax

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Commercial Real Estate
Construction
Financial Institutions
Government & Public Sector
Hospitals & Health Systems
Insurance
Manufacturing & Distribution
Nonprofits
Physician Groups
Post-Acute Care
Private Foundations
Religious Organizations

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