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A Business Owner’s Guide to Valuation

August 1, 2017

The webinar will start at 11:00 a.m. CT

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Tax Services

Holly Rook
Manager,
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Administration

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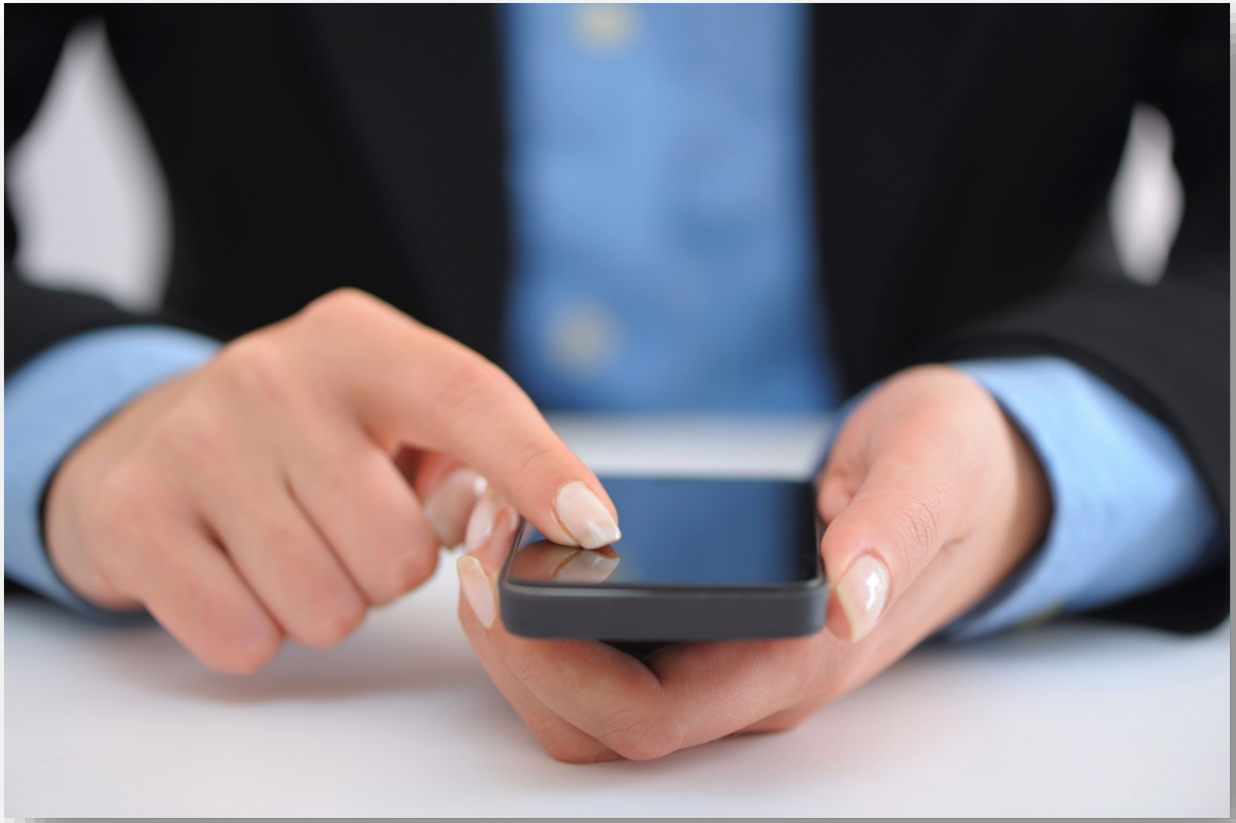

For best quality, call in by phone instead of using your computer speakers.

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To ask questions during the presentation, use the questions box on the right side of your screen.

About the Speakers

Emily Keesling
Supervisor, Tax Services

Works with individuals, businesses and trusts

Practice includes manufacturing and vehicle dealerships

About the Speakers

Holly Rook
Manager, Corporate Finance Services

More than 10 yrs. In business valuation

ASC 805 & 350 compliance

Accredited Senior Appraiser (ASA)

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Learning Objectives

Outline the steps in the business valuation process.

Learn when, why, and how often a business valuation should be conducted.

Eliminate common business valuation myths and address commonly asked questions.

Polling Question #1

Who We Work With

A franchisor of a restaurant chain that has a growing national presence

A local construction company experiencing an influx of projects and backlog

A local bank that purchased another bank in the Wichita market

A global manufacturer of construction equipment

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The “Right” Time to Obtain a Valuation

Change in ownership

Compliance for ESOP – Recurs annually

To motivate employees with a stock option incentive – set the price, recurring measurement

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The Motives for Obtaining a Third-party Valuation

Potential gift transfer of the company to an heir/family member

Receive non-biased conclusion of fair market value

Preparation for retirement, need to know for your successful exit from the company

To resolve an estate settlement

To motivate employees via stock options or appreciation rights

Compliance for loan

What You Can Expect About the Process

Give notice of an interest in valuation.

Engage a neutral party.

Supply information requested from a valuation/accounting firm.

** Normally a four-to-six-week project timeline*

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What You Can Expect About the Process

Analysis of information by specialist followed by a 10- to 20-question in-person or phone interview

Draft of the report is issued and client reviews

Final report issued and bound copies sent

Frequently Asked Questions

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Which method or approach is the best one to use for determining the value of a company?

Which Approaches and Methods are Best?

Commonly Used Approaches and Methods:

Asset

- *Adjusted Net Asset Value*

Income

- *Discounted Future Cash Flow*
- *Capitalized Cash Flow*

Market

- *Guideline Transaction*
- *Guideline Public Company*
- *Bona Fide Transaction*
- *Past Transaction*
- *Rule of Thumb*

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What differentiates fair market value from the book value of my equity?

What’s the Difference between BV and FMV?

Tangible

Intangible

- **Financials**
- **Investments**
- **Capital assets**

Excluded from Book Value:

- **Employee and customer relationships**
- **Brand and corporate reputation**
- **Supply chains**
- **Intellectual property**
- **Corporate governance**

Source: http://www.relationship-economy.com/2013/02/intangible-forces-of-change/

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Polling Question #2

What is EBITDA* and why is it used so often for an earnings measurement?

***EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization**

What are levels of value and why do they matter to a company owner?

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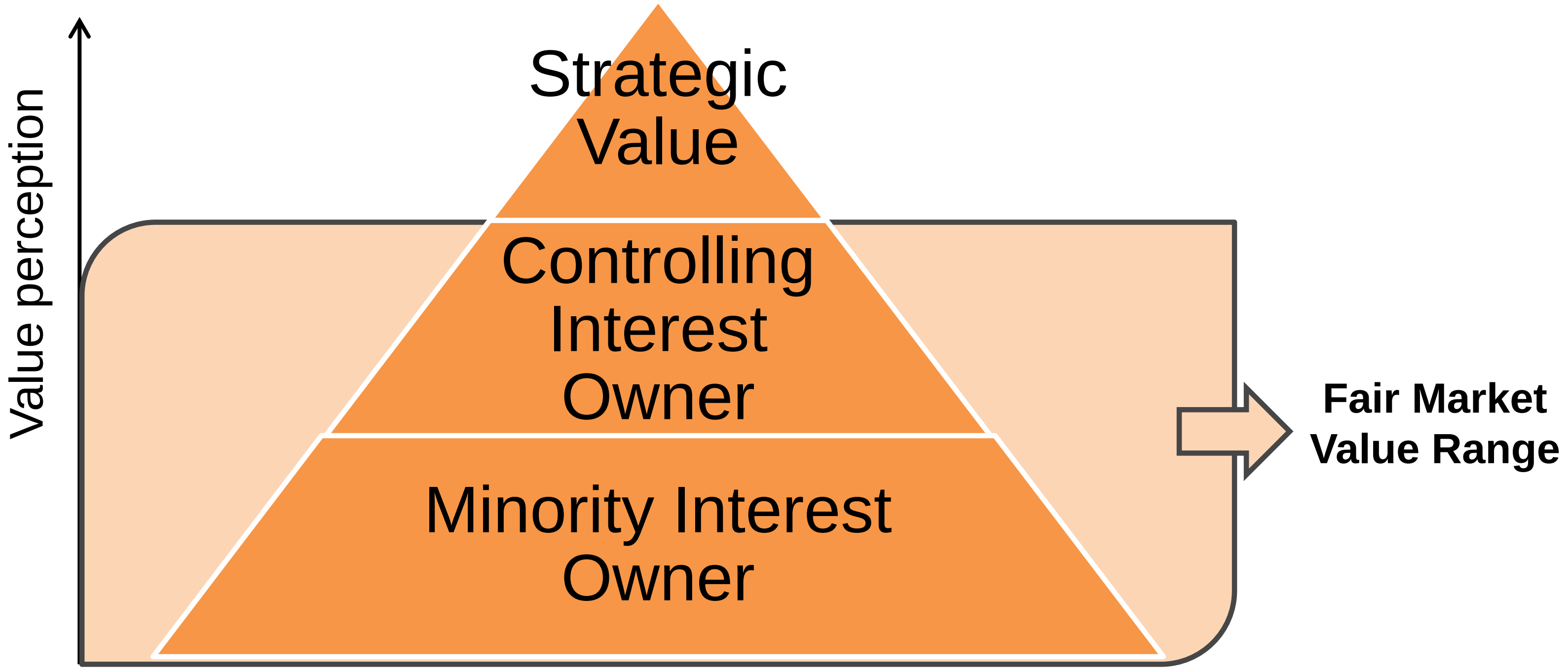
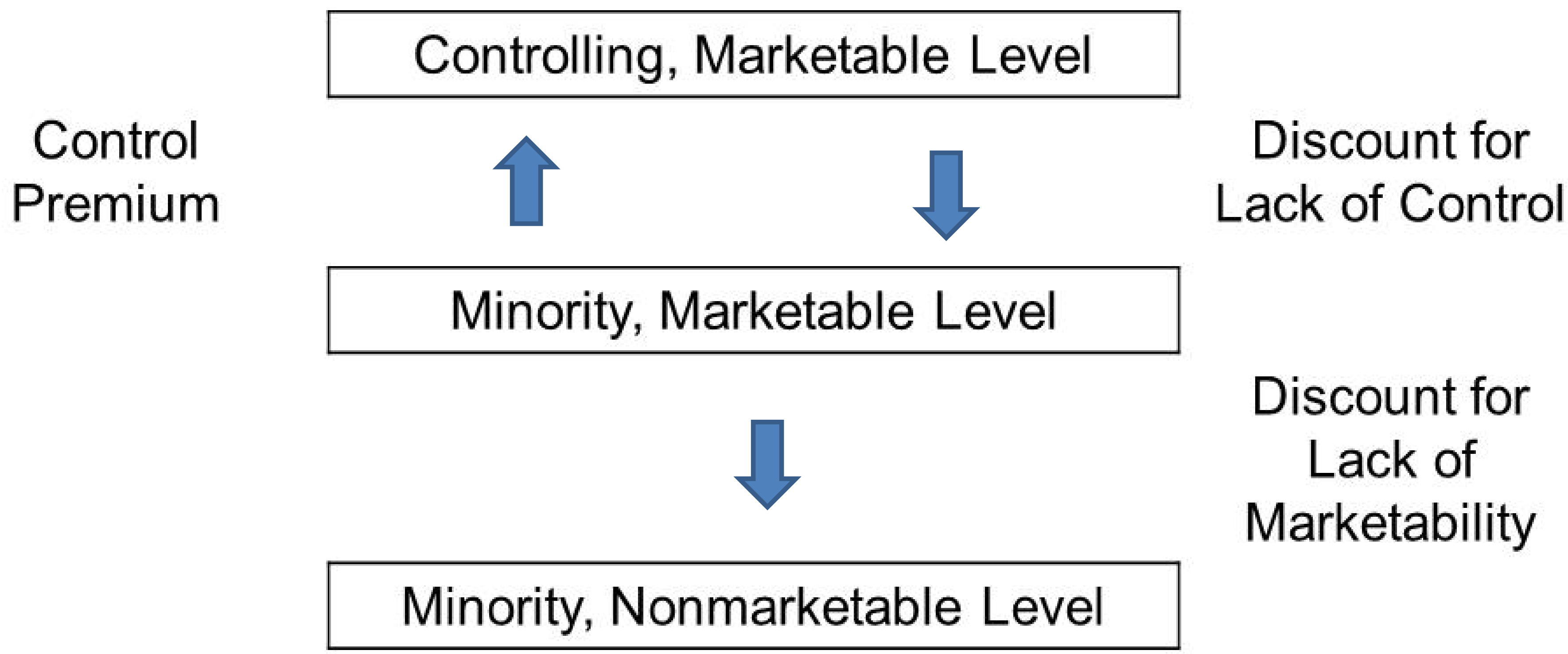
What are Levels of Value?



What are Levels of Value? Why are They Important?



Polling Question #3

If the company were contemplating a sale of stock, should I seek an appraisal?

Polling Question #4

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If I wanted to track the yearly internal rate of return for a specific company, how do I calculate that?

How to Calculate the Internal Rate of Return

Capital Appreciation
(Realized
and Unrealized)

Dividends

Internal Rate of Return Formula

$$\frac{\text{(Dividends + Discretionary Benefits + Unrealized appreciation*)}}{\text{Beginning-of-year value of business}}$$

*Unrealized appreciation = change in business value over the year

How to Calculate the Internal Rate of Return

Construction Company (10,000 shares issued)

12/31/2015 Price: $100 ($1,000,000)

12/31/2016 Price: $110 ($1,100,000)

Dividends: $50,000

Plus: Capital Appreciation: $100,000

= $150,000/$1,000,000 = **15% IRR**

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Why is measuring the fair market value of a company’s equity on a recurring basis important?

Thank you!

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