

# Ways to Make the Most of a Business Valuation with Melisa Silverman, JD, CEPA, CVA, SBA, CMEA

---



Mascot Keira

TOM DICKSON  
tom@financialexpertsnetwork.com  
Website:

www.financialexpertsnetwork.com

FINANCIAL EXPERTS

NETWORK



Mascot Leia

# Care to Know™



Thought Leader Community providing resources, education, and advice via collaborative think tanks, events, programs, online content, and introductions.

[www.SCInstitute.org](http://www.SCInstitute.org)

## Avenue M Advisors

Providing valuation services for both successful families implementing wealth transfers and business owners planning for growth, regulatory compliance, litigation, acquisition, taxation, and transition strategies.

[www.AveMAdvisors.com](http://www.AveMAdvisors.com)



Helping affluent families get to the heart of highly relevant matters and resolve messes in the areas of estate, business and tax planning, and family wealth counseling.

[www.StrazzeriMancini.com](http://www.StrazzeriMancini.com)



Leading business owners through all phases of transition where increased clarity, net cash flow, and market value expands and solidifies choices for business transition: if, when, how, how much, and to whom.

[wwwFOUNDERSGroup.blz](http://wwwFOUNDERSGroup.blz)





## THE PROCESS

### Review and Enhancement Design

- Business Attractiveness & Readiness Assessments
- Personal & Financial Assessment
- Calculated Business Valuation
- Prioritized Enhancement Initiative Plan

### Enhancement Initiatives

- The Five Transition Goals
- 90-day Sprints
- Team & Owner Update Meetings

### The Decision

- Keep and Grow
- Ownership Transition



*Leading business owners through all phases of transition where increased clarity, net cash flow, and market value expands and solidifies choices for business transition: if, when, how, how much and to whom.*

[www.foundersgroup.biz](http://www.foundersgroup.biz) • 858-200-1915

up. All rights reserved.



# VALUE ACCELERATION & TRANSITION PREPARATION

## FIVE TRANSITION GOALS

### Increase Profitability and Net Cash Flow

*Comprehensive Review of Financial Statements*  
*Financial Statements Clean-up*  
*Crisis Management (Turnarounds)*  
*Cash Flow Analysis and Management*  
*Detailed Cash Flows and Projections*  
*Operational Reviews and Process Improvement*  
*CFO Support*  
*Improving Standardization of Process and Reporting*  
*Customer and Vendor Relationship Management*  
*Bank Negotiations*  
*Advanced Tax Planning*

### Increase Enterprise Value

*Calculated Business Valuations (Pre-Due Diligence)*  
*Intellectual Property Valuations*  
*Quality of Earnings Analysis*  
*Attractiveness and Readiness Assessments (Business & Personal)*  
*Risk Management Assessments*  
*Business De-Risking and Contingency Plans*  
*Assessment of Advisor Team*  
*Management Team Development*  
*Business Development*  
*Marketing and Brand Development*  
*Strategic Introductions*  
*Culture Improvements*  
*Buy Side Acquisitions and Due Diligence Support*

### Solidify Choices for Your Business Transition

*Certified Business Valuations (Benchmark)*  
*Analysis of Transition/Exit Options*  
*Creation of the Sales Deck*  
*Exit/Transition Plan Development, Advisory Services & Implementation*  
*Due Diligence Preparation & Implementation (Checklists and Documentation)*

### Align Personal and Business Goals

*Business and Personal Contingency Planning*  
*Assure the Continuance of Your Lifestyle and Protection of Your Assets*  
*Tax and Estate Planning*  
*Charitable Gift Planning*  
*Succession Plans*  
*Life after Transition Planning*

### Align Owner, Team and Family

*Tactical and Strategic Planning (Nine Key Business Questions)*  
*Obstacles and Opportunities (Card Deck Discussion)*  
*Business and Family Conflict Resolution*  
*Business Performance Roundtables*

We often partner with other advisors and professionals in these areas:

- *Financial Planning*
- *Investment Banking*
- *Accounting*
- *Legal Services*
- *Business Brokerage*
- *Insurance Services*
- *Banking/Financing*
- *Tax and Estate Planning*
- *Executive Coaching*



# Business Valuation

- Do you know the value of your business?
- Have you had an independent business valuation performed on your business?

| Valuation                         |   |  |
|-----------------------------------|---|--|
| Independent Financial Analysis    | Market Comparisons Approach                     | Discounted Cash Flow Analysis                            |
| Adjustments to Normalize Earnings | Income Analysis                                 | Determines Intangible Asset Value                        |
| Uses EBITDA to determine Multiple | Replacement Cost Approach                       | Determines either Enterprise Asset Value or Equity Value |
| Industry Trends Analysis          | Analysis of Strengths and Weaknesses of Company |  |

# Anatomy of a Valuation

The following components are requirements in a summary valuation report

1. Executive Summary –summary of what was valued, purpose and use of valuation, approaches to value and conclusions of value.
2. Table of Contents – easy navigation of the valuation report.
3. Scope of Valuation – explanation of valuation standards as well as description of what is to be valued, the approaches and methodologies that may be utilized and any issues to be addressed.
4. Company Information – detailed description of the company.
5. Industry Information – information about the company's industry market conditions and general economic data.

# Anatomy of a Valuation

6. Approaches and Methodologies to Value – overview of approaches / methodologies used to value and discounts/premiums that might be utilized.
7. Comparison of Company to Industry Analysis – company's financials compared to industry statistics to reflect the company's performance in comparison to the industry.
8. Comparison of Approaches and Methodologies – the analysis of the numerous valuation approaches to value the company.
9. Development of Conclusions – the adjustments to the assets and liabilities to determine the equity value of the company and application of discounts to determine the owners fair market equity value.
10. Appendices – source material utilized in the valuation.

Have You (Clients) Had  
Your Business Valued?

Yes

No

I don't  
know



|                                    |   |   |
|------------------------------------|---|---|
| <b>Earnings Report</b>             | to assess the sustainability and accuracy of a Company's historical and projected earnings.   |   |
| <b>Certified Valuation Report</b>  | Comprehensive analysis of a Company to determine the current per share value of the ownership interests or enterprise asset value of the tangible and intangible assets in the Company. | <ul style="list-style-type: none"> <li><i>Due Diligence</i></li> <li><i>Sale of a Business</i></li> <li><i>Mergers &amp; Acquisitions</i></li> <li><i>Trusts &amp; Estates</i></li> <li><i>Tax Planning</i></li> <li><i>ESOPs</i></li> <li><i>409A Stock Incentive Plans</i></li> <li><i>Financing</i></li> <li><i>Intellectual Property Spinoffs</i></li> <li><i>Partner Disputes/Buyouts</i></li> <li><i>Divorce</i></li> <li><i>Purchase Price Allocation</i></li> <li><i>Goodwill Impairment</i></li> </ul> |
| <b>Calculated Valuation Report</b> | Valuation analysis of a Company based upon a defined set of exit planning parameters.   | <ul style="list-style-type: none"> <li><i>Pre-Due Diligence</i></li> <li><i>Exit/Succession Planning</i></li> <li><i>Client Specific Requirements</i></li> </ul>  |
| <b>Restricted Use Valuation</b>    | Limited valuation for a specific intended user(s) that does not require all of the supporting rationale for the opinions  | <i>On a case-by-case basis</i>  |

# Certified versus Calculated Business Valuation

- Meets USPAP & NACVA standards and regulatory agency requirements.
  - Financials adjusted to determine the Company's normalized earnings.
  - Market comps ratios compared against the Company.
  - DCF Analysis
  - Analysis of business to determine Company Specific Risk
  - Reconciliation of values to determine Enterprise Value
  - Discount Analysis & Balance Sheet adjusted to determine FMV
- Meets USPAP & NACVA standards & defined set of parameters for business planning needs.
  - Financials adjusted to reflect the Company's normalized earnings.
  - Market comps ratios compared against the Company.
  - DCF Analysis
  - Analysis of business to determine Company Specific Risk
  - Range of Enterprise Value
  - Balance Sheet adjusted to determine FV



# The Exit Marketplace and Valuations

- Age Wave – Baby Boomers and Demographics
- Current Bear Market with very low interest rates
- Business Consolidation – Vertical Integration and Economies of Scale
- Capital Availability ???
- Multiples have come down recently

- Gifting or charitable donation of a minority interest in business, real estate or other security interest
- Death of an Individual – value of owner’s interests
- Sale/Exit of a business
- Put an ESOP (Employee Stock Ownership Plan) in place
- Management Buy Out
- Recapitalization of Company
- Buy-Sell Agreement
- Benchmarking prior to putting an Exit Plan in place

## Reasons for Valuations – Exit Related



# Types of Valuations

- **Asset Valuation** – Value of the tangible **and intangible assets** of a business (fixed assets, other assets plus goodwill)
- **Equity Valuation** – Value of the total FV equity shareholder interests in a business
- **Equity with Discounts Valuation** – Value of the FMV of a minority interest in a business. Determines the total equity value of a business and then applies discounts for lack of control / marketability to the minority interests

# Valuation Principles

- Valuation – a defensible opinion of value of the tangible and intangible assets of a business.
- It is performed as of a specific time period by an experienced and accredited valuation advisor.
- Restrictions on lack of control and/or lack of marketability results in a reduction of value:
  - Minority interests are subject to discounts
  - Majority interests may be subject to discounts as well



## Standards of Value

- **Fair Market Value** – the price at which an asset would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy or sell and both parties are able, willing and informed about the asset and the market to make an informed decision.
- **Fair Value** – is essentially the pro rata Fair Market Value of the entire company without discounts for lack of control and/or lack of marketability.
- **Investment Value** – the value to a particular investor based upon their stipulated investment requirements.
- **Liquidation Value** – the net amount that would be realized if the business is terminated and the assets are sold piecemeal. Liquidation can be “orderly” or “forced”.

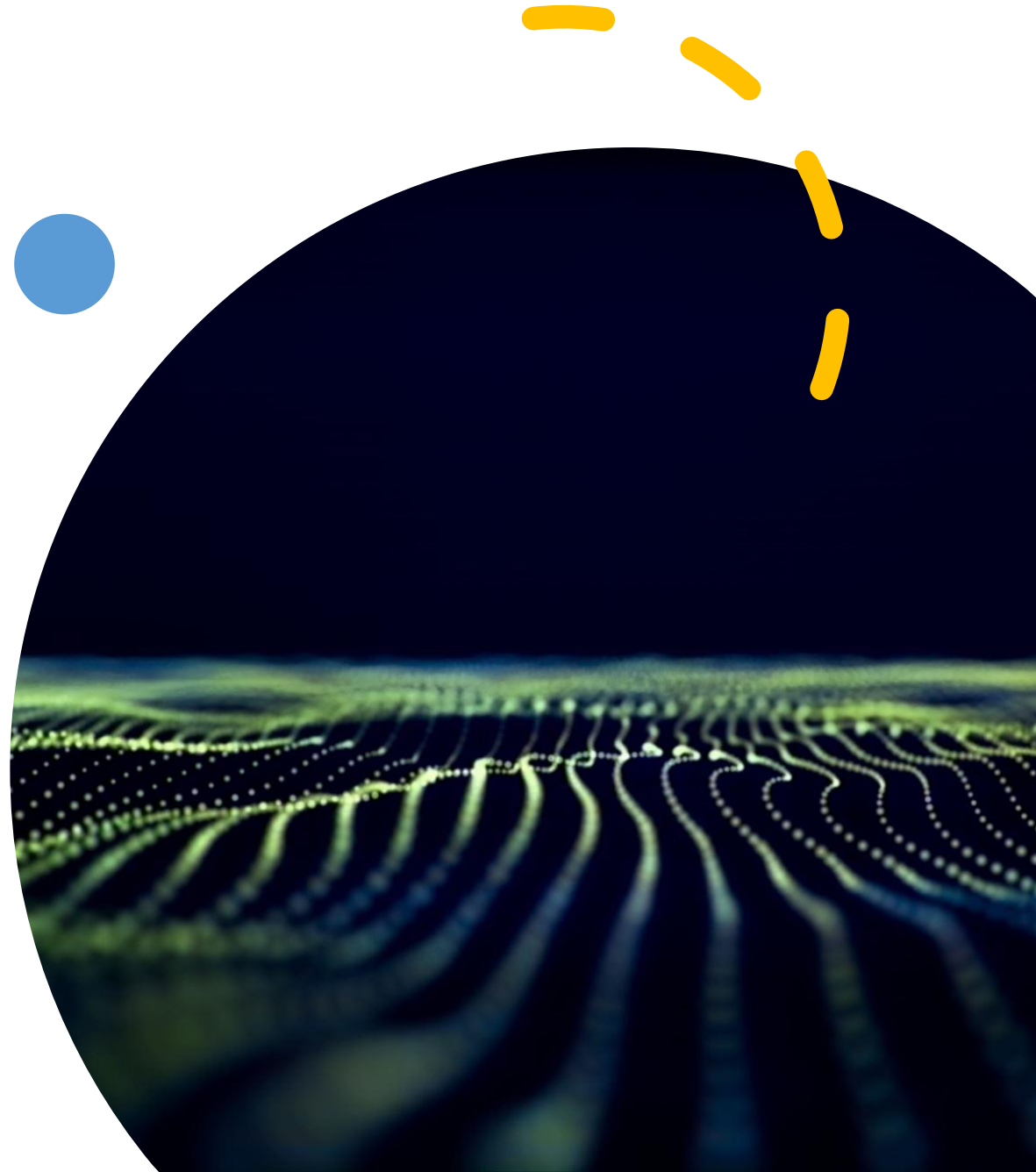
# Valuation Principles

# Do You (Clients) intend to transition your business?

- Within the next year
- Within the next 2-3 years
- Within the next 5-10 years
- Don't plan to transition the business

# Business Categories Analyzed

|                     |                         |                           |
|---------------------|-------------------------|---------------------------|
| Corporate Documents | Shareholder Information | Financials                |
| Products            | Clients                 | Client & Vendor Contracts |
| Sales & Marketing   | Accounting Controls     | Operations                |
| IT & Infrastructure | Human Capital           | Intellectual Property     |





# Value Drivers

- Historical revenues, margins, profits trending up or down?
- Are there budgets, projections, business plan in place and monitored?
- Are products / services in demand?
- Is there an IP or technology advantage?
- Strong management team?
  - Is human capital strengths in place?
- Diversified customer base?
- How strong is the Company's brand, reputation, customer loyalty?
- Long term contracts? Maintenance plans? Recurring revenue programs?
- Are financial & accounting controls in place?
- Are systems in place? (ERP, CRM, Acct)
- Does Company have a strong balance sheet in place?
- Is there excess working capital?
- Are there key sales metrics and KPIs the Company regularly monitors?

# Developing the Punch List

- Are there budgets, projections, business plan in place and monitored?
  - Budgets and cash flows are roadmaps for the business.
  - Drilled down projections are necessary to accurately predict future earnings
  - May identify critical issues in the business to be remediated

# Developing the Punch List

- Diversified customer base?
  - Exposure to business if the customer pulls their business or has their own issues
  - Narrow customer list increases risk and potentially lowers the multiple
  - May present opportunities to identify new customers, new product lines and new regions



# Developing the Punch List

- Strong management team?
  - If yes, how are they developed and retained?
  - If no, is there a plan to improve the team and over what time period?
- Ensuring you have non-compete, non-solicitation & confidentiality agreements in place.

# Risk Factors

- Financial performance poor or trending down?
- Are there a lot of adjustments to the financials to normalize the earnings?
- Weak or no management team in place?
- Is Company leveraged? Inadequate working capital?
- Customer concentration?
- Regulatory or government risks?
- Economic / market conditions?
- Non-compete, non-solicitation & confidentiality agreements in place?
- Is the IP protected, monetized, infringed upon?
- Lawsuits or workers comp claims?
- Lack of financial & operational controls in place?
- Lack of financial reporting (accuracy & timeliness)
- Cash management model in place and regularly monitored?
- Contingency / Disaster Plan in place?
- Proper insurances in place?
- Aging workforce or diversity in staff talent?
- Policies and procedures in place to transfer knowledge?

# Developing the Punch List

- Financial performance poor or trending down and are there a lot of adjustments to the financials to normalize the earnings
  - Are there timely and accurate financial reports?
  - Can you identify the cause of the poor performance? (sales, margins, expenses, qualitative)
  - Are the business owners using profits to support their lifestyle (running it through the business)?



# Developing the Punch List

- Aging workforce or diversity in staff talent and are there policies and procedures in place to transfer knowledge?
  - Are steps being taken to diversify the aging workforce and if so how?
  - Are there any training, cross-training, education and mentoring programs in place?
  - What policies and procedures by department are in place and are they well documented, easy to understand and updated regularly?

# Developing the Punch List

---

- Economic / market conditions?
  - Your business is performing well but the industry/markets are not - what do you do?
  - Your business is not performing well and the industry/markets are - what do you do?
- Are you in an industry that is or will be disrupted?

# Realizing Enterprise Value



|                 | EBITDA      | CURRENT MULTIPLE | CURRENT VALUE | INCREASED MULTIPLE | INCREASED VALUE |
|-----------------|-------------|------------------|---------------|--------------------|-----------------|
| <b>Current</b>  | \$2,000,000 | 4.0x             | \$8,000,000   | 6.0x               | \$12,000,000    |
| <b>Increase</b> | \$1,000,000 | 4.0x             | \$4,000,000   | 6.0x               | \$6,000,000     |
| <b>New</b>      | \$3,000,000 | 4.0x             | \$12,000,000  | 6.0x               | \$18,000,000    |

If done correctly, preparing a business for transition will increase EBITDA but more importantly increase the multiple. This will realize much greater value to the business owner at the time of transition.

# Utilizing Calculated Valuations as a Punch List

- Independent analysis based on parameters of the business value
  - Understanding of the base line value of the business.
  - Positions the Company for a higher valuation once:
    - Risk areas are remediated and
    - Enhancements to the business are implemented.
  - Barometer of how well the business is performing.
    - Identifies the strengths and weaknesses of a business.
    - Focus the Company on improving weak areas of performance.



# Utilizing Calculated Valuations as a Punch List

- Independent analysis based on parameters of the business value
  - Position the business based upon its compelling attributes.
  - Valuation provides credibility and support for buyer negotiations.
  - Compelling support for the purchase price of the business
  - Includes both tangible and intangible asset value (IP & Goodwill) of business
  - Asset protection trusts to minimize taxes in advance of the business transition
  - Defensible discounts for lack of control and marketability

Which of the following is NOT a Value Driver?

150 Customers within 7 vertical markets

CEO, CFO and CTO have worked together for 10+ years

Business insurances were not implemented

Revenues increased for the last 3 of 5 years

There is an accounting, CRM and quoting systems in place

Key metrics are in place and reviewed monthly by the executives



## THE PROCESS

### Review and Enhancement Design

- Business Attractiveness & Readiness Assessments
- Personal & Financial Assessment
- Calculated Business Valuation
- Prioritized Enhancement Initiative Plan

### Enhancement Initiatives

- The Five Transition Goals
- 90-day Sprints
- Team & Owner Update Meetings

### The Decision

- Keep and Grow
- Ownership Transition



*Leading business owners through all phases of transition where increased clarity, net cash flow, and market value expands and solidifies choices for business transition: if, when, how, how much and to whom.*

[www.foundersgroup.biz](http://www.foundersgroup.biz) • 858-200-1915

oup. All rights reserved.



# VALUE ACCELERATION & TRANSITION PREPARATION

## FIVE TRANSITION GOALS

### Increase Profitability and Net Cash Flow

*Comprehensive Review of Financial Statements*  
*Financial Statements Clean-up*  
*Crisis Management (Turnarounds)*  
*Cash Flow Analysis and Management*  
*Detailed Cash Flows and Projections*  
*Operational Reviews and Process Improvement*  
*CFO Support*  
*Improving Standardization of Process and Reporting*  
*Customer and Vendor Relationship Management*  
*Bank Negotiations*  
*Advanced Tax Planning*

### Increase Enterprise Value

*Calculated Business Valuations (Pre-Due Diligence)*  
*Intellectual Property Valuations*  
*Quality of Earnings Analysis*  
*Attractiveness and Readiness Assessments (Business & Personal)*  
*Risk Management Assessments*  
*Business De-Risking and Contingency Plans*  
*Assessment of Advisor Team*  
*Management Team Development*  
*Business Development*  
*Marketing and Brand Development*  
*Strategic Introductions*  
*Culture Improvements*  
*Buy Side Acquisitions and Due Diligence Support*

### Solidify Choices for Your Business Transition

*Certified Business Valuations (Benchmark)*  
*Analysis of Transition/Exit Options*  
*Creation of the Sales Deck*  
*Exit/Transition Plan Development, Advisory Services & Implementation*  
*Due Diligence Preparation & Implementation (Checklists and Documentation)*

### Align Personal and Business Goals

*Business and Personal Contingency Planning*  
*Assure the Continuance of Your Lifestyle and Protection of Your Assets*  
*Tax and Estate Planning*  
*Charitable Gift Planning*  
*Succession Plans*  
*Life after Transition Planning*

### Align Owner, Team and Family

*Tactical and Strategic Planning (Nine Key Business Questions)*  
*Obstacles and Opportunities (Card Deck Discussion)*  
*Business and Family Conflict Resolution*  
*Business Performance Roundtables*

We often partner with other advisors and professionals in these areas:

- *Financial Planning*
- *Investment Banking*
- *Accounting*
- *Legal Services*
- *Business Brokerage*
- *Insurance Services*
- *Banking/Financing*
- *Tax and Estate Planning*
- *Executive Coaching*



# Questions?

Melisa Silverman  
JD, CEPA, CVA, SBA, CMEA

P: (818) 758-8457

E: [melisa@foundersgroup.biz](mailto:melisa@foundersgroup.biz)

E: [melisa@avemadvisors.com](mailto:melisa@avemadvisors.com)

[www.foundersgroup.biz](http://www.foundersgroup.biz)

[www.avemadvisors.com](http://www.avemadvisors.com)