

FAMILY BUSINESS Valuations

JARED BYAS | COMMON GOOD
FAMILY BUSINESS ADVISORS



Over 10 Years Experience Working with Over 200 Families



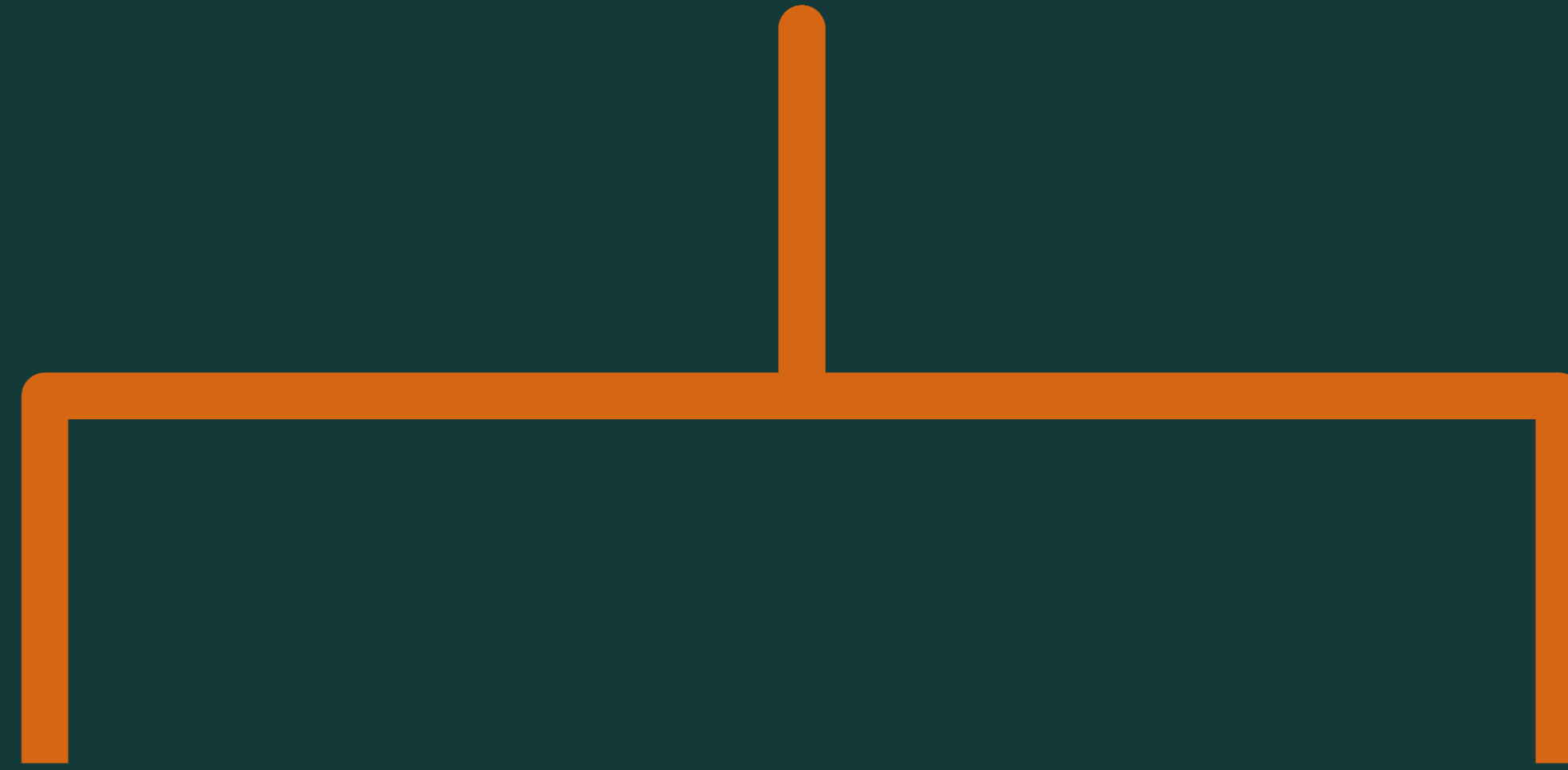
 **Common
Good** ADVISORS
FOR FAMILY BUSINESSES

WHAT IS A VALUATION?

A business valuation is the process of providing a snapshot of the economic worth of a company or asset combining financial analysis (assets, earnings), qualitative factors (market position, management), and market conditions (industry moment, economic situation).



2 Kinds of Valuations



Informal

Internal Estimates

Formal

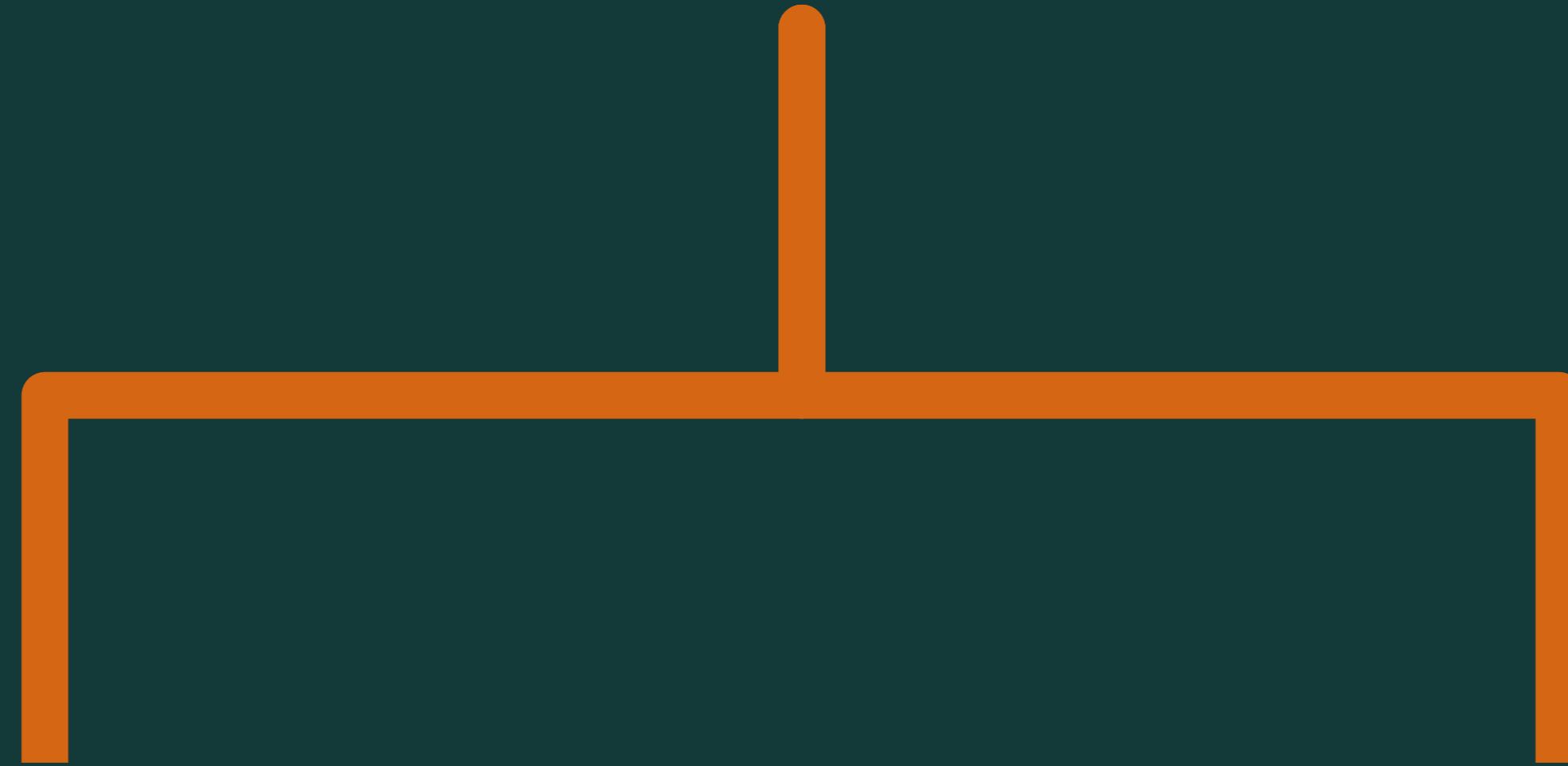
Gift Tax Returns

Estate Taxes

Mergers & Acquisitions

Long Term Incentive Plans

Who Can Provide Valuations?






Informal

- Accountant (CPAs)
- CFOs or Controllers

Formal

- Accredited Senior Appraiser (ASA)
- CPAs Accredited in Business Valuation (ABV)
- Certified Valuation Analyst (CVA)
- *Certified Business Appraiser (CBA)*

How Do Providers Stack Up?

Provider	Accredited Senior Appraiser (ASA)	CPAs Accredited in Business Valuation (ABV)	Certified Valuation Analyst (CVA)	CPA
IRS Scrutiny Risk (with Experience)	Top	Top	Mid	Low
Court/Legal Contention	Top	Mid	Low	Low
Small M&A/Buyout	Low (Too Much)	Top	Top	Low
Expense				

WHAT IS A VALUATION?

The process of providing a snapshot of the **economic worth** of a company or asset combining financial analysis, qualitative factors, and market conditions.

What is “economic worth”?

Goal: Determine fair market value

- **Fair Market Value: “What would a willing buyer pay a willing seller?”**
- **This is not “what it’s worth to you”—it’s what the market would pay.**
- **Generally, an owner will assume their business is worth more than fair market value because they include *effort* in the value.**
- **Generally, the value is based on (1) how well the company is doing, (2) how likely it is that the company will do in the future, and (3) the general economic outlook, specifically in your industry.**

HOW IS A BUSINESS VALUED?

What is the Valuation Process?

- **Reviews Financials (Historical & Projections)**
- **Analyzes Industry Benchmarks & Trends**
- **Analyzes General Economic Indicators**
- **Interviews Management**
- **Evaluates Risk**
- **Applies Valuation Approaches**
- **Adjusts for Ownership Specifics**
- **Provides a Valuation Report**

It's part analyzing present data, projecting future performance, and then making a professional judgment.

The Three Valuation Methods

- **Asset**
- **Income**
- **Market**

The Three Valuation Methods

- **Asset: Typically Asset-Heavy or Liquidation**
- **Income: Typical for Internal Sale (Family or Employee)**
- **Market: Typical for Private Equity or Strategic Buyer**

ASSET Valuation Method

- **Value = Assets – Liabilities**
- **Typical Business Uses: Holding, Asset-Heavy, or Liquidations**
- **NOT often used for operating companies because (a) buyers most care about earnings not assets (b) can't force liquidation to access assets (c) Assets are only valuable because of the income they produce**
- **Summary: “What’s the business worth if we just added up the pieces?”**

INCOME **Valuation** **Method**

- **Value = Present Value of Future Cash Flows**
- **Typically Use Discounted Cash Flow (DCF) to Determine Value**
- **DCF projects future cash flows and then discounts them back to today based on risk, inflation, and opportunity cost.**
- **Summary: “What’s the business worth today based on future profits?”**

MARKET Valuation Method

- **Value = What Similar Businesses Sell For**
- **Benchmark Other Transactions for Formula**
- **Apply a Multiple (typically of EBITDA or Revenue) based on Value Driver Metrics or Risk Factors**
- **Challenges to Find a Value: No two deals are the same, Data is limited, Deals include synergies (inflated prices), Hard to adjust for minority ownership**
- **Summary: “What are similar businesses actually selling for?”**

Questions

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