



## What is My Business Worth?

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# BUSINESS IS YOUR MOST VALUABLE ASSET!

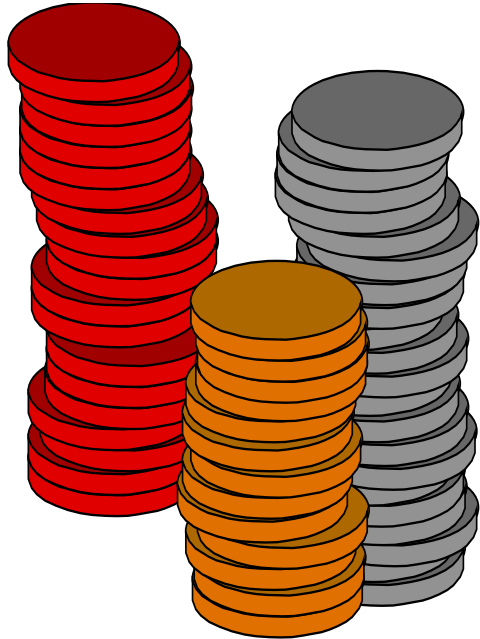
- Business = Pot of Gold
- Financial security - maximizing value and converting that asset to cash
- Do this through planning
- Valuation is basis for this planning
  - Estate planning
  - Succession planning
  - Insurance purposes



# PLANNING OPPORTUNITIES

- Buy/sell agreement with partners
- Gift to family
- Sell to 3<sup>rd</sup> party
  - Financial Buyer
  - Strategic buyer
- Sell to employees
- Employee Stock Ownership Plan
- Deferred compensation for owner – supplemental retirement plan

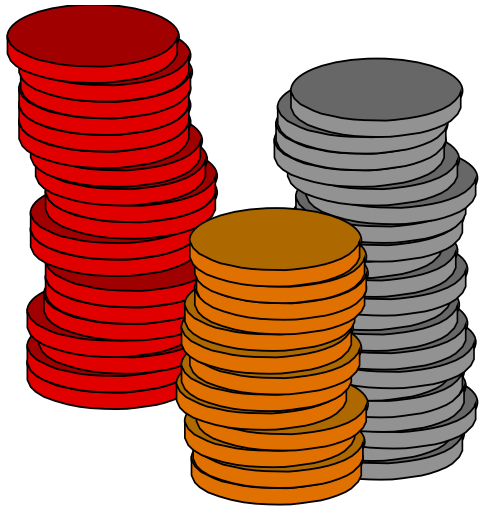
# BUSINESS VALUE



*The value of a business  
is based upon the perspective  
of the person buying it.*

*Willing Buyer & Willing Seller*

# BUSINESS VALUE



*Like any investment, the value of a business is the benefits received by the buyer (usually cash flow) divided by the rate of return desired.*

## SIMPLE EXAMPLE

- Business generates cash flow to owner of \$200,000
- Buyer desires a 20% rate of return on investment
- Buyer would be willing to pay \$1,000,000 (\$200,000 divided by 20%)

# THE DRIVER OF VALUE

What benefits will the buyer receive from owning the company?

**EBITDA**

(Earnings before interest, taxes depreciation & Amortization)

**Cash Flow**

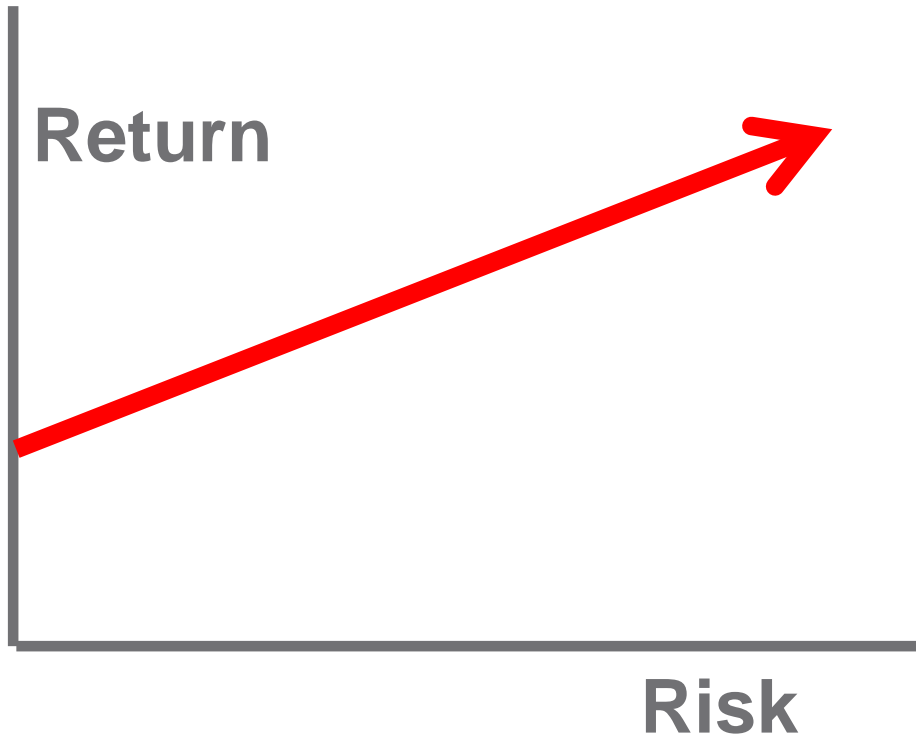
# TYPES OF BUYERS

Investment Value – Value to a specific investor

- Financial Buyer – Operate business as stand alone.
- Strategic/Synergistic Buyer – Blend into an existing business. Gain efficiencies and cost reductions.



# INVESTOR EXPECTATION



**Greater Risk = Greater Return Expected**

# INVESTOR EXPECTATION



# INVESTOR EXPECTATION



# VALUATION METHODS

- Income approach
  - Capitalization of historical cash flows
  - Present value of future cash flows
- Market approach
  - Comparable transactions
  - Comparable Public Companies
- Net asset approach

# VALUATIONS BASED ON ROI

Discount Rate/ROI =	<u>Co. 1</u>	<u>Co. 2</u>
Risk free rate +	4%	4%
Equity risk premium +	6%	6%
Size premium+	5%	5%
Company specific risks	<u>5%</u>	<u>10%</u>
TOTAL	<u>20%</u>	<u>25%</u>

ROI is determined based on risk of the investment (Discount Rate)

# CASH FLOW

- Net income
- Plus:
  - Depreciation & amortization
  - Income taxes
  - Interest
- Minus:
  - Capital expenditures
- Plus or minus:
  - Adjustments for normalization of cash flow
- **EQUALS:** Normalized cash flow

# VALUATIONS BASED ON ROI

Cash Flow	\$200,000	\$200,000
Capitalization Rate	<u>20%</u>	<u>25%</u>
Value	<u>\$1,000,000</u>	<u>\$800,000</u>

**Objective: Do the things that  
reduce risk and assure stability**

# VALUATION METHODS

- Market Approach – Comparable companies or transactions still based on cash flow.
  - Search data bases for comparable companies
  - Utilize ratios of sale price to EBITDA and other ratios
  - For comparable public companies we use price earnings ratio
  - These ratios are applied to our company



# VALUATION METHODS

- Net Asset Approach - value based on appraisal of individual assets – Fair Market Value or Liquidation Value
- May be utilized when assets have more value than the value generated from cash flow

# WHAT DO I WANT TO ACCOMPLISH?

- CONCLUSION:
- The way to increase the ultimate value of the business is to:

**–Increase Cash Flow**

**–Reduce Risk**

# CONTACT US!



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