



What's Your Business Worth?

August 18, 2011

Valuation Overview

- Valuations are performed for a variety of purposes
 - Transactions
 - Litigation
 - Compliance
 - Planning

Valuation Overview

- How do you define value?
 - Fair market value
 - Fair value
 - Strategic value
 - Book value
- Standard of Value

Valuation Overview

- Fair Market Value

IRS Revenue Ruling 59-60

The price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts.

Valuation Overview

- Fair Value

Financial Reporting

the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date

Litigation

Typically defined in case law

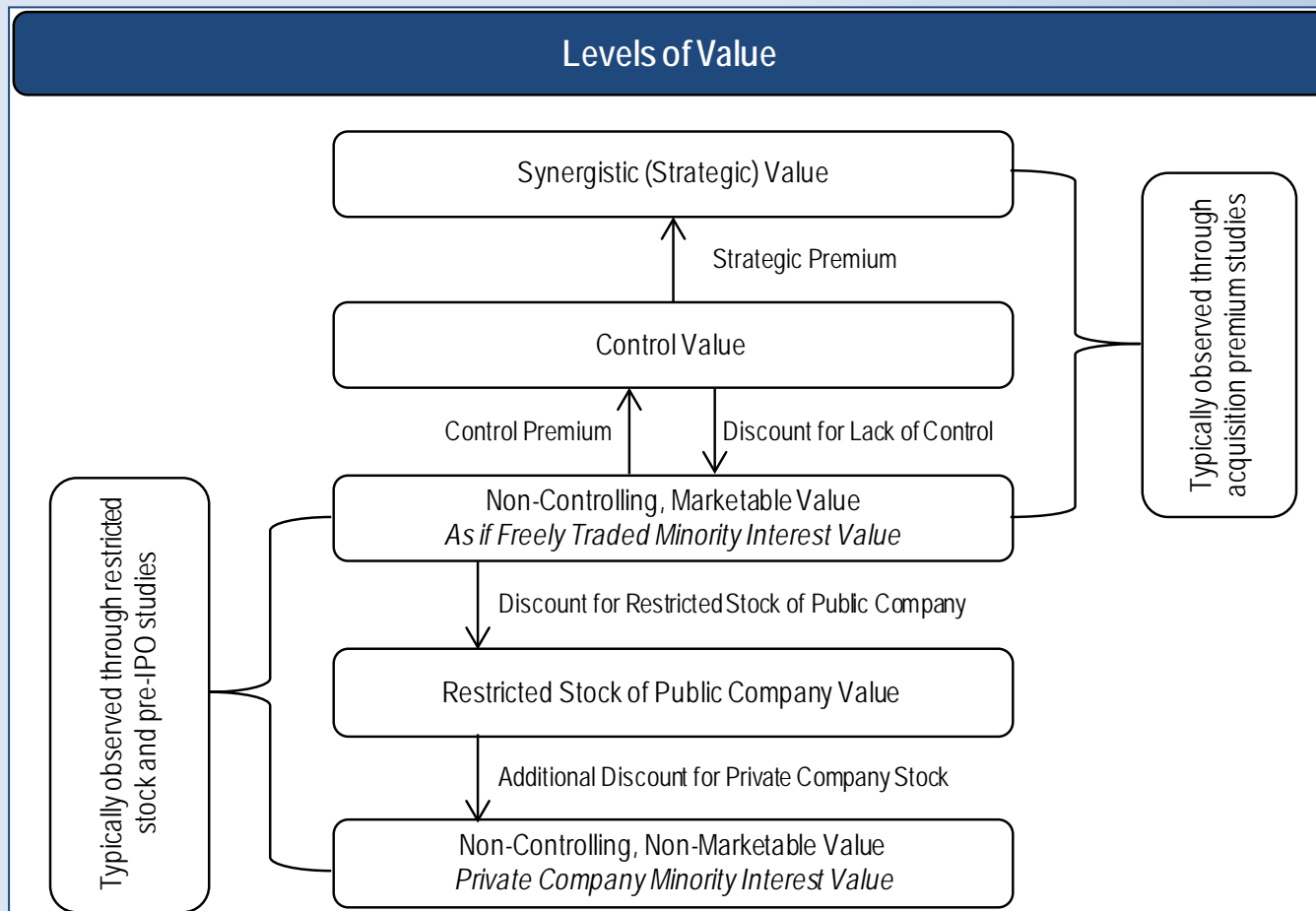
Valuation Overview

- How to choose which standard of value

| Purpose of Valuation | Standard of Value |
|----------------------|---------------------------------|
| Tax | Fair market value |
| Transactions | Strategic value |
| Compliance | Fair value |
| Litigation | Fair value or Fair Market Value |

Valuation Overview

- Level of Value



Valuation Overview

- Discounts / premium to value – what are they and why are they used?
 - Minority interest discount or discount for lack of control
 - Discount for lack of marketability
 - Control premium
- Adjust from one level of value to another

Valuation Overview

- What guidance is out there for the accounting profession to do valuation services?

Statement on Standards for Valuation
Services No.1
SSVS

- Valuation Engagement Requirements
 - Nonfinancial information (includes, but not limited to)
 - Nature, background, and history of company
 - Management team
 - Classes of equity and rights
 - Economy and industry
 - Key customers
 - Competition

SSVS

- Valuation Engagement Requirements
(continued)
 - Financial information (includes, but not limited to)
 - Historical and projected financial statements
 - Prospective financial statements
 - Off balance sheet assets/liabilities

Valuation Approaches and Methods

- Analyst should consider the three most common valuation approaches
 - Asset / Cost Approach
 - Income
 - Market

Valuation Approaches and Methods

- Rules of thumb
 - Not a valuation method
 - Typically a reasonableness check against other methods
 - Should generally not be used as primary method

Valuation Approaches and Methods

- Rule of thumb risks

| Purpose of Valuation | Risk |
|--|--------------------------------|
| Gift, estate, and inheritance taxes and charitable donations | Penalty under IRS Section 6662 |
| Purchase or sale | Loss on purchase/sale |
| Dissenting stockholder actions | Litigation |
| Damages cases | Litigation |
| Financial reporting | Misstatement |

Asset Approach

- A general way of determining a value indication of a business, business ownership interest, or security using one or more methods based on the value of the assets net of liabilities.

Asset Approach

- Applicable for:
 - Asset intensive industries
 - Holding or investment companies
 - Distressed companies where ability to continue as a going concern is in doubt
 - If subject interest has control and can elect to liquidate the entity

Asset Approach

- Assets and liabilities are marked to fair market value
 - What steps were taken to derive fair market value of the assets and liabilities?
 - Was reliance on a specialist noted?
 - Were intangible assets included?
 - How were the intangible assets valued?
 - Goodwill – captured under the other approaches to value

Income Approach

- A general way of determining a value indication of a business, business ownership interest, security, or intangible asset using one or more methods that convert anticipated economic benefits into a present single amount.
- There are two primary methods under the income approach
 - Capitalization of Earnings Method
 - Discounted Future Earnings Method

Income Approach

- Economic Benefit
 - How much cash flow will this investment generate for the investor?
- Required Return
 - How much risk is associated with that cash flow amount?
- Growth
 - At what rate will economic benefit grow?

Market Approach

- Three general methods
 - Guideline Public Companies
 - Pricing multiples for publicly traded companies
 - Guideline Company Transactions (Merged & Acquired Company Method)
 - Purchase price multiples paid for similar companies
 - Pratt's Stats, BIZCOMPS, DoneDeals, SEC reported transactions
 - Prior transactions in interests of subject entity
 - Timeliness
 - Transactions interest similar to subject interest

Market Approach

- Price Multiples
 - Price (Market Capitalization)
 - Price / Earnings (PE Ratio)
 - Price / Book Value
- Market Value of Invested Capital (MVIC) Multiples
 - MVIC / Revenue
 - MVIC / Gross Profit
 - MVIC / EBIT (Earnings before interest and taxes)
 - MVIC / EBITDA (EBIT plus depreciation and amortization)

Summary

- Valuation is required for various purposes
- Valuation is a specialized skill
 - Competency under AICPA
- SSVS No. 1 is the valuation standard all AICPA members must follow
- ASA
- NACVA Standards

For more information or assistance...

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**Forensic, Valuation & Litigation Support
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Reed has been practicing public accounting for more than 30 years. His area of concentration is valuations, where he helps clients place a value on their business for the purpose of tax planning, compliance, general accounting and/or succession needs, and assists attorneys with valuation aspects of business transactions.. He has a wide range of experience, having worked with both small businesses as well as large organizations with international projects in excess of \$1 billion and he has participated in several transaction-based valuations specific to the health care industry. Reed is particularly regarded for his ability to assemble and mobilize the right mix of talent required to exceed client expectations.

EXPERT WITNESS ENGAGEMENTS:

Reed has served as an expert witness in valuation cases related to income tax, estate and gift tax, marital dissolutions, business transfers, minority shareholders' rights, and similar matters.

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- Masters of Accountancy, Virginia Polytechnic Institute and State University
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- West Virginia Tax Institute (Past President, Director)
- West Virginia Board of Accountancy (Board Member)
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Morgan has experience in the field of economic damages, business valuation, and financial forecasts and projections. He serves as both an economic damages consulting and expert witness in commercial and personal civil litigation as well as matters related to medical monitoring. In addition, Morgan is an Accredited Valuation Analyst and values interests in closely held businesses. He also has performed financial projections and forecasts for start-up companies and companies looking to expand operations. Morgan is fluent in Spanish.

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Questions

