

Five Things that Attorneys Must Know About Business Valuation

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Real Estate Valuation:

- Office, Retail, Industrial
- Agricultural and Farm
- Apartments and Subdivisions
- Vacant Land
- Proposed Construction
- Undivided Interests in Real Estate
- Expert Testimony

Business Valuation:

- Corporations and Partnerships
- Holding Companies and Operating Companies
- Securities and Employee Stock Options
- Liabilities and Notes
- Lost Profits and Economic Damages
- Expert Testimony

Disclaimer

This presentation provides a very basic overview of business valuation concepts; therefore:

- The examples provided herein are simplifications that do not reflect the complexity of actual valuations.**
- All amounts, percentages, etc. presented herein are solely for illustration and should not be applied to an actual valuation.**
- Valuation terms sometimes have more than one usage or meaning. The terms used herein are context specific.**

Five things that attorneys must know about business valuation:

- **Types of value**
- **The relationship between going concern, liquidation, and goodwill values**
- **Standards of value**
- **Levels of value**
- **Approaches to determining value**


Do you know these values?

- Fair Market Value
- Fair Value (financial reporting)
- Fair Value (legal context)
- Investment Value
- Intrinsic Value
- Insurable Value
- Invested Capital Value
- Enterprise Value
- Equity Value
- Going Concern Value
- Liquidation Value
- Marketable Value
- Illiquid Value
- Contract Value
- Tangible Value
- Intangible Value
- Goodwill Value
- Asset Value
- Net Asset Value
- Book Value
- Transaction Value
- Strategic Value
- Synergistic Value
- Financial Value
- Control Value
- Minority Value
- Swing Vote Value
- Assessed Value

Assets and the Financing of Assets

Assets:


Cash
Accounts Receivable
Inventory
Prepaid Expenses
Machinery
Equipment
Vehicles
Intangibles
Deposits
Total Assets



Assets Have Value Due to
Their Individual Utility or
the Potential to Provide
Cash Flow in Aggregate

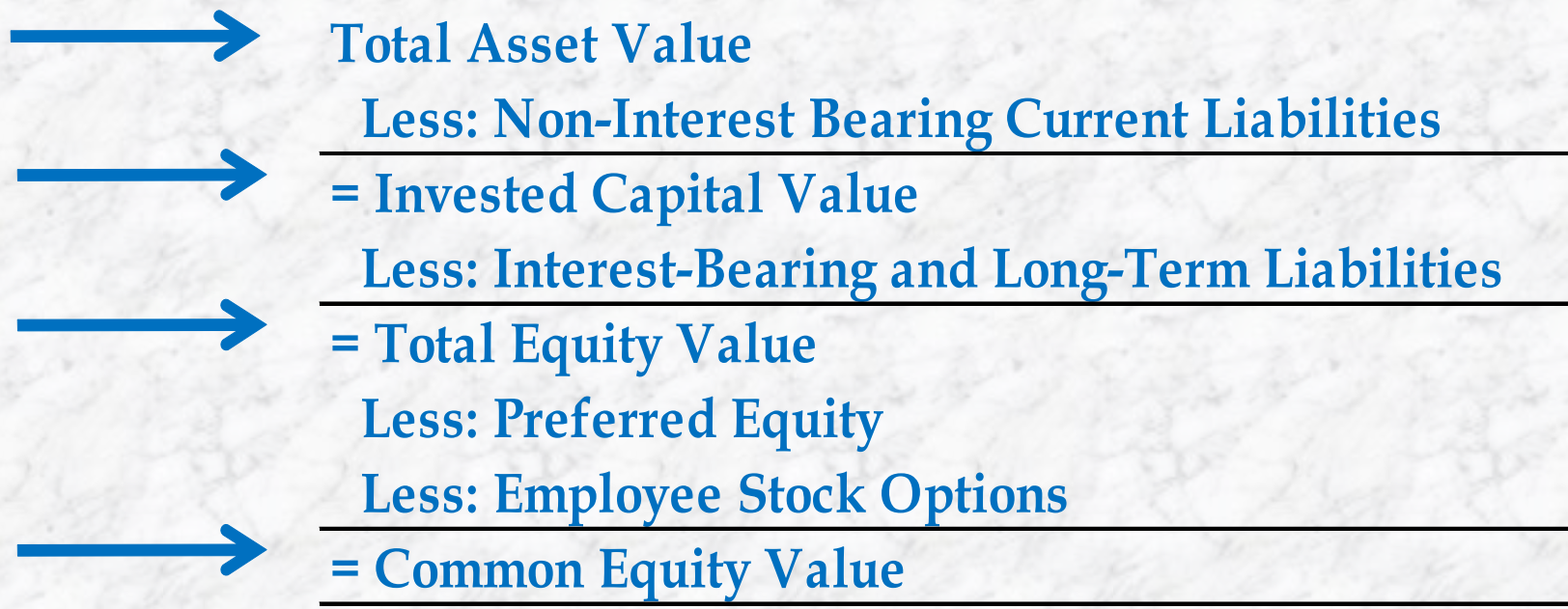
Financing of Assets:

Non-Interest-Bearing Liabilities
Interest-Bearing Liabilities
Preferred Equity
Common Equity

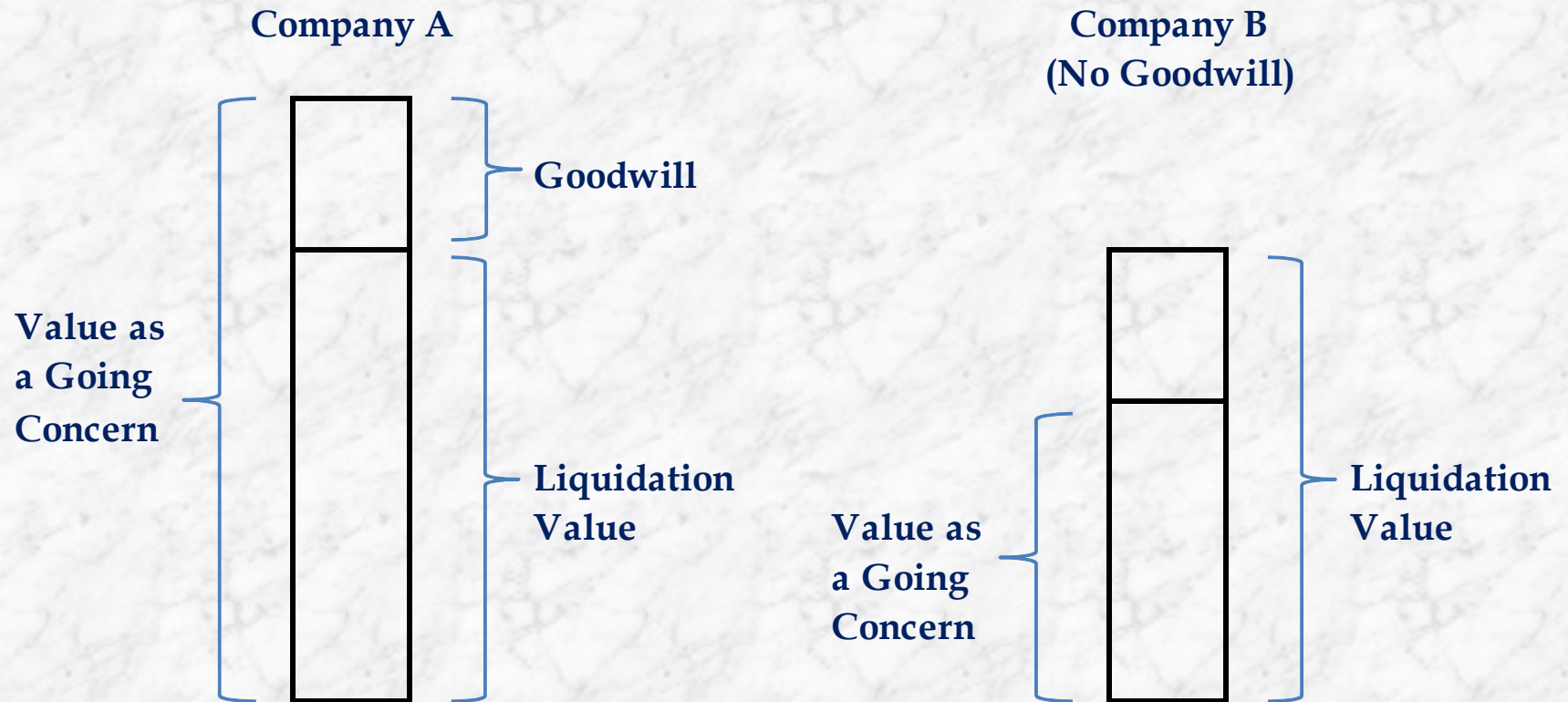


Have Value Based on Their
Claim on the Assets or Cash
Flow from the Assets

Types of Value



Going Concern, Liquidation, and Goodwill Values



Notes:

1. This example is referring to economic goodwill. There are specific guidelines for determining goodwill for financial reporting and tax purposes.
2. Liquidation value assumes an orderly sale and includes intangible assets that can be sold individually.

Standards of Value

...What value are you seeking?

- **Fair Market Value**
 - applicable to most tax related valuations
 - criteria set by taxing authority (e.g., IRS)
- **Fair Value (financial reporting)**
 - applicable to the preparation of financial statements
 - criteria set by the Financial Accounting Standards Board
- **Fair Value (legal context)**
 - applicable to dissenting and oppressed shareholder suits
 - criteria set by legislatures and court precedent
- **Investment Value**
 - applicable to purchase/sale decisions
 - criteria set by the specific investor
- **Others: Intrinsic Value, Insurable Value**

Levels of Value

- **Synergy and Value**

Synergistic value is the highest level of value. It includes value attributes that acquirers bring to transactions - attributes that are not present in the acquired company on a stand-alone basis.

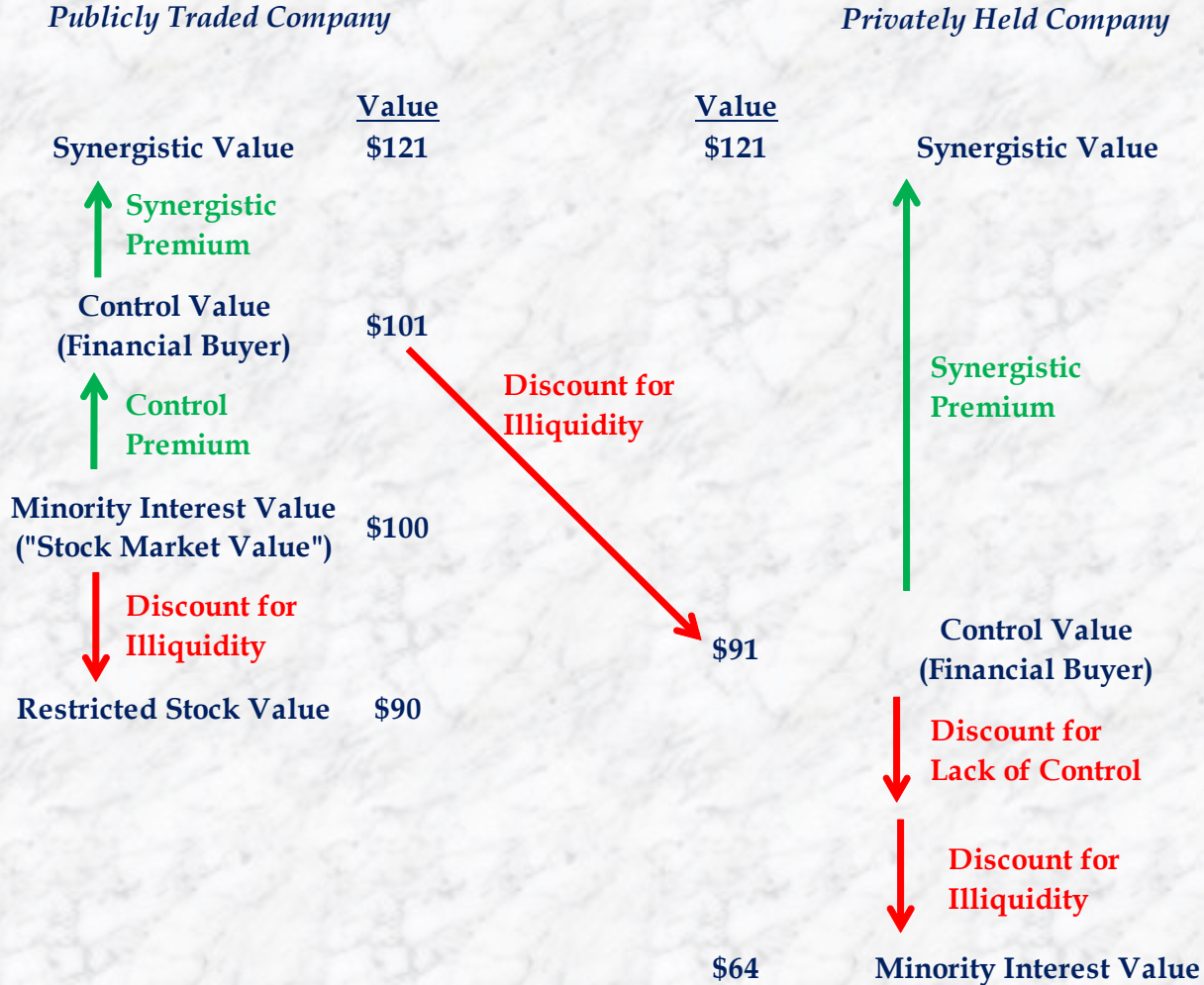
- **Control and Value**

An interest that has the authority to control the operations and policies of a company is worth more than an interest that does not have such authority.

- **Liquidity/Marketability and Value**

An interest that can be sold quickly is worth more than an interest that cannot be sold quickly (holding other factors constant).

Levels of Value



Approaches to Determining Value

- **Asset Approach**

The value of equity is determined by the extent to which the value of the assets is greater than the value of liabilities.

- **Market (Transaction) Approach**

Value is determined by reference to the value of other businesses that are similar enough to be considered economic substitutes. However, exact substitutes are difficult to find. Therefore, preliminary indications of value are usually adjusted to account for the differences.

- **Income Approach**

Value is determined by considering the amount, timing, and risk of future cash flows available to the ownership interest.

Approaches to Determining Value

Common methods within the approaches include:

- **Asset Approach**
 - **Asset Accumulation Method**

- **Market (Transaction) Approach**
 - **Prior Transaction Method**
 - **Direct Market Data Method**
 - **Guideline Acquired Company Method**
 - **Guideline Public Company Method**

- **Income Approach**
 - **Capitalization Methods (single period)**
 - **Discounting Methods (multi-period)**
 - **Excess Earnings Method**
 - **Option Analysis Methods**

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