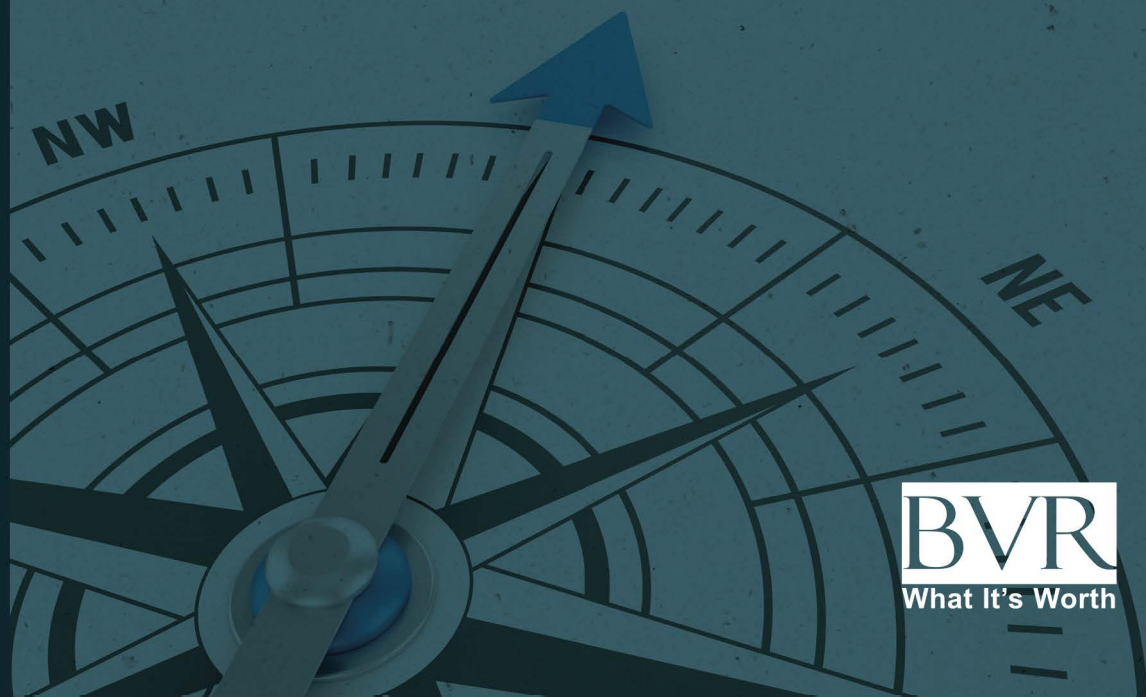


EXCERPT FROM

A FIELD GUIDE TO
BUSINESS
VALUATION

FOR OWNERS AND LEADERS
OF PRIVATE COMPANIES

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BVR
What It's Worth

A Field Guide to Business Valuation

For Owners and Leaders of Private Companies

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What It's Worth

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Table of Contents

About the Authors	vii
Part I: Introduction and Overview	ix
Chapter 1: Introduction	1
Chapter 2: Course Walk-Through: Overview of Business Valuations	3
Course Walk-Through	3
Simplified Valuation Model	6
Chapter 3: Reasons for a Business Valuation	9
Part II: The Valuation Foundation	13
Chapter 4: Standard of Value	15
Conclusion	19
Chapter 5: Premise and Level of Value	21
Premise of Value	22
Level of Value	23
Conclusion	26
Chapter 6: Economic Overview and Industry Analysis	29
Economic Analysis	30
Industry Analysis	32
Conclusion	33
Chapter 7: Subject Company Description	35
Conclusion	38
Chapter 8: Financial Statement Analysis and Benchmarking	41
Financial Statement Analysis	42
Adjustments to Financial Statements	43
Trend Analysis	44
Common Size Analysis	46
Ratio Analysis	47
Profitability	47
Financial Leverage	48
Cost Structure	48
Additional Financial Metrics	49
Selecting Industry Benchmarks	49
Creating Industry Benchmarks	49
Compiled Industry Benchmarks	51
Conclusion	54

Part III: The Market Approach 57

Chapter 9: Overview of the Market Approach 59

 Application of the Market Approach 60

 Strengths 61

 Weaknesses 62

 Conclusion 63

Chapter 10: Guideline Completed Transaction Method Summary 65

 Conclusion 70

Chapter 11: Guideline Public Company Method Summary 73

 Conclusion 78

Chapter 12: Estimating an Appropriate Valuation Multiple 79

 Historical EBITDA Multiples 80

 Multiples by Industry 81

 Factors Affecting Multiples 82

 Conclusion 84

Part IV: The Income Approach 87

Chapter 13: Overview of the Income Approach 89

 Income Approach Variables 90

 Forecasted Income 91

 Discount Rate 92

 Application of the Income Approach 94

 Capitalization of Earnings Method 94

 Discounted Cash Flow Method 96

 Direct Equity Models 96

 Strengths 98

 Weaknesses 99

 Conclusion 99

Chapter 14: Forecasting: A Practical Guide 101

 Top-Down Forecasting 102

 Bottom-Up Forecasting 103

 Practical Considerations 103

 Benefits of Forecasting 105

 Conclusion 106

Chapter 15: Estimating an Appropriate Discount Rate	109
Weighted Average Cost of Capital Formula	110
Weight of Debt and Equity	110
Cost of Debt	111
Cost of Equity	111
Risk Profile Factors to Consider	113
Illustrative Example	115
Conclusion	116
Chapter 16: A Bird's-Eye View of the Buildup Model	119
Impact of Discount Rate Errors	120
Buildup Model Components	121
Risk-Free Rate	122
Equity Risk Premium	122
Industry Risk Premium	123
Size Premium	124
Company-Specific Risk Premium	125
Buildup Model Illustrative Example	125
Tips for Working With Valuation Analysts	127
Conclusion	127
Chapter 17: Additional Cost of Equity Capital Models	129
Buildup Model—Kroll Risk Premium Report (B Tables)	130
Buildup Model—Kroll Risk Premium Report (A Tables)	133
Modified Capital Asset Pricing Model	135
Conclusion	138
Part V: The Asset Approach	141
Chapter 18: The Asset Approach	143
Strengths and Weaknesses	144
Illustrative Example	145
Additional Considerations	146
Conclusion	148
Part VI: Arriving at a Concluded Value	151
Chapter 19: Reconciliation of Multiple Approaches to Value	153
Value Reconciliation	154
Conclusion	156

Chapter 20: Valuation Adjustments	159
Discount for Lack of Control	162
Discount for Lack of Marketability	166
Application of Discounts	172
Conclusion	173
Part VII: Additional Valuation Content	175
Chapter 21: (Way) Beyond the Numbers	177
Additional Content	178
Chapter 22: Top 10 Errors in Business Valuations	181
Error No. 1—Biting Off More Than You Can Chew	181
Error No. 2—Inadequate Supporting Data	182
Error No. 3—Excessive Typographical Errors	182
Error No. 4—Incomplete Due Diligence	182
Error No. 5—Incomplete Financial Analysis	183
Error No. 6—Choosing an Inappropriate Method to Value the Subject Company	184
Error No. 7—Contradictions Between Valuation Methods	184
Error No. 8—Unrealistic Projections	185
Error No. 9—Confusing Enterprise Value and Equity Value	187
Error No. 10—Inadequately Supported Discounts for Lack of Control and/or Marketability	187
Conclusion	188
Chapter 23: Key Steps for Business Sale Preparation	189
Planning for the Exit Event	190
Increasing Business Value	194
Final Preparations	197
Conclusion	199
Chapter 24: Tips for Buying a Business	201
Recent M&A Activity	201
Tip No. 1: Avoid Being Rushed	203
Tip No. 2: Perform Rigorous Financial Due Diligence	203
Tip No. 3: Analyze Key Relationships	203
Tip No. 4: Learn About the Employees	204
Tip No. 5: Assess Key-Person Dependence	204
Tip No. 6: Have the Seller Stick Around	205
Tip No. 7: Don't Assume the Good Times Will Last Forever	205
Tip No. 8: Consider Tax and Legal Consequences	205
Tip No. 9: Get Different Perspectives	206
Conclusion	206

About the Authors

Seth Webber leads BerryDunn's Valuation Practice Group, in which Casey Karlsen is a valued member. BerryDunn is an accounting and consulting firm based in Portland, Maine, with eight offices located nationwide. BerryDunn has a team dedicated to business valuations that helps clients unravel the often contentious question, "What's it worth?" Whether family members, a group of private individuals, an employee stock ownership plan (ESOP), or financial investors own a company, BerryDunn's valuation experts understand the intricacies of privately held businesses because that is their sole focus. They offer a range of business valuation services to individuals and business owners, as well as a variety of specialized services for attorneys. They help clients with business valuations for mergers and acquisitions, trust and estate tax reporting, ESOP valuations, retirement and succession planning, and many other purposes. For more information, please visit berrydunn.com.

Casey is passionate about helping people buy and sell businesses. Casey sees these transactions as a way to help people move toward their goals and improve the business community. Before his career in business valuations, Casey worked in commercial real estate valuation and, prior to that, started two businesses (Christmas light installation and ski and snowboard park equipment). Casey has been around business owners for almost his entire life: Casey's dad, Roger, filed paperwork to officially start his construction company when Casey was just four days old. Growing up as the son of a business owner kindled an admiration for and connection with the business owners for whom this book was written. When he is not helping business owners create, grow, and protect value, Casey enjoys CrossFit, mountain biking, snowboarding, reading, and spending time with his wife, Julie, and dog, Zoey. Casey can be reached at 207-842-8053 or ckarlsen@berrydunn.com.

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PART I: INTRODUCTION AND OVERVIEW

Chapter 1: Introduction

There's an old saying, "Never judge a book by its cover." There is a lot of truth behind this saying, particularly when applied to people. Many people have a very different core of being than is apparent at the surface.

Ironically, this saying doesn't apply very well to books. What's the first thing people often do at the library or a bookstore when picking up a book? They look at the title. They take in the cover art. They skim the summary on the back. In short, they judge the book by its cover and form an initial opinion.

The cover can say a lot about a book. This book is no exception. The main title of this book is *A Field Guide to Business Valuation*. This title can tell how the book is organized. Think of this book as a field guide bird watchers use. We encourage readers to keep it on hand as a reference. It doesn't necessarily need to be read cover to cover. Jump around. If a question comes up about a particular topic, turn to the section that addresses that matter or, if learning all about business valuation sounds appealing, by all means, read it from cover to cover. There may be more to certain topics than one initially thought.

We wrote this book based on data from the field. It is based on our experiences helping business owners estimate, preserve, and increase business value. We work with people who don't have a business valuation background. We regularly use simple analogies to help people understand complicated topics. We get used to answering the same questions that come up, and we have had many opportunities to hone our answers. After years of explaining business valuations in conversations and presentations, we wrote this book to provide more people with a greater understanding of how businesses are valued.

This book is intended for business owners and their advisors who would like to learn more about how to estimate what a business is worth, what factors affect value, and how to make businesses more valuable. After reading this book, one should be conversant in business valuations and comfortable with the overall valuation framework. It is not an exhaustive dissertation on business valuation. Many other (very thick) books get into the details, picking up where this book leaves off. This book is for people who

want an understanding of how businesses are valued but don't have the time to read heavy textbooks.

It is a great first book for people who want to learn how to perform valuations themselves. It does not contain all the details necessary to master the craft of business valuation but will serve as a great introduction to the topic. Comprehensive valuation textbooks are generally in the range of 1,000 pages, as is necessary when explaining all the nuances of a complicated craft.

Our focus is on the valuation of privately held businesses, not publicly traded companies. Public companies can be valued based on their stock prices or various intrinsic valuation models. Different factors affect the value of private and public companies.

The source material for this book is articles we wrote for publications such as *Practical Tax Strategies*, *The Maine Bar Journal*, *Maine Lawyers Review*, *Construction Accounting and Taxation*, *Estate Planning*, and *The American Journal of Family Law*. These articles have been reviewed by editors and then presented to the public. We hope that the endorsement of an outside professional organization assures readers of the accuracy of this book. When we compiled the source articles into this book, we rewrote substantial portions of them to ensure readability as a cohesive book.

We hope this book answers questions, provides new insights, and is an enjoyable read.

Casey Karlsen, CFA, ASA

Seth Webber, CFA, ASA, CEPA

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