



KDV



How Does the Marketplace Value My Business?

**Presented by the Central Minnesota
Business Transition Advisory Group**

How Does the Marketplace Value My Business?

Presented by Chris Shorba, KDV



Business Valuation Standards

- Revenue Ruling 59-60
- Uniform Standards of Professional Appraisal Practice
- Statement on Standards for Valuation Services
- ABV, ASA, CBA and CVA

How Does the Marketplace Value My Business?



Business Valuation Reports

- Why?
- Reports
- Verbal Report
- Critiques
- Agreed Upon Procedures

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Business Valuation Approaches

- **Cost/Asset**
- **Income**
- **Market**
- **Rules of Thumb – Not a Valuation Method**

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Discounts and Premiums

- **Minority**
- **Control**
- **Marketability**
 - **Studies**
 - **Courts**
- **Not Additive**

How Does the Marketplace Value My Business?

100 Years of
Merger Volume

Presented by Dan Mulvaney, Sunbelt Business Advisors

$$\text{Value} = \text{EBITDA} \times \text{Multiple}$$

- Understand EBITDA, measure it and know it
- Multiple
 - Varies by Industry
 - Varies by Size
 - Varies by Individual Characteristics
 - Products, Customers, Profits, Management Team, Systems

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Buyers Value

- **EBITDA**
- **Customer Diversification**
- **Profitability – Gross Profit**
 - By Product or Service
 - By Customer
- **Growth**
 - By Product or Service
 - By Customer
- **SG&A Expense Control**
- **Working Capital – Minimize and Clean Up**

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Buyers Value

- **Strong Management Team**
 - Who runs the Business Post-Closing?
- **Clean Financial Statements**
 - No debt, Minimal Owner Perks
 - Audited Statements
 - Reviewed Statements
- **Process- and Policy-Driven Companies**
 - Sales, Production, HR, Accounting, IT

How Does the Marketplace Value My Business?



Maximize Value

- Sell on an Upswing of Profit and Revenue
- Sell When Economy is Strong
- Engage a Professional Investment Banker or Broker
 - Comprehensive Marketing Campaign that Targets Strategic Buyers
- Interview Multiple Buyers, Obtain Bids (LOI's)
- Select Top Bidder and enter Due Diligence
 - Commit to Providing Quality Information

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Examples

- **Distribution**
 - Comprehensive Campaign, National Buyer who failed previously
- **Manufacturing**
 - Comprehensive Campaign, Roll-up Buyer
- **Manufacturing Division**
 - Earnings Drop prior to Close
- **Service**
 - High Valuation Expectations, Creative Structure

How Does the Marketplace Value My Business?

Presented by Steve Kutscheid, Gray Plant Mooty



Increasing Value by Preparing Your Business for Sale

- **Build a good management team**
- **Key executives should be subject to assignable non-compete agreements**
- **Resolve outstanding liabilities & contingencies prior to marketing your business**

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Increasing Value (continued)

- Resolve legal issues relating to key assets
- Develop credible and positive financial statements
- Determine structure & key terms before negotiating with buyers

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Structuring the Sale To Minimize Income Taxes

Pre-structure Considerations

Gifts for Estate Planning & Charitable Purposes

Change of Residence to Low Income Tax States

- ◆ Deferred Compensation Plans

Different Structures

Asset Sales

- ◆ C corporations
- ◆ S corporation
- ◆ Limited Liability corporations

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Structuring the Sale (continued)

- **Purchase Price Allocations**
 - Earn-outs
 - Personal Goodwill
- **Stock Sale**
- **Tax Free Reorganization**
- **Sale to an ESOP**

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Resources

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