SPONSEL CPA GROUP
Proactive Advisors Strategic Solutions

VALUATION & LITIGATION SERVICES
"Providing Credible Answers to Difficult Financial Problems"

Valuation Resource Guide

Valuation Team Members

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Industry Experience

Manufacturing

Distribution

Construction

- General Contractors
- Subcontractors

Professional Services

- Law Firms
- Healthcare Entities
- Engineering
- Architectural
- Insurance

Private Equity

Food Service

- Quick Service
- Full Service

Common Reasons for Valuations

- Acquisition/Sale/Merger
- Succession Planning
- Estate & Gift Tax Planning/Compliance
- Shareholder Disputes
- Divorce
- Buy/Sell Agreements
- Employee Stock Ownership Plans (ESOP)
- Economic Damages/Lost Profits/Lost Value
- Financial Reporting

Valuation Methods

Adjusted Book Value (Adjusted Net Asset) – a method within the asset approach whereby all assets and liabilities (including off-balance sheet, intangible and contingent) are adjusted to their fair market values

Capitalization of Earnings (COE) – a method within the income approach whereby economic benefits for a representative single period are converted to value through division by a capitalization rate

Discounted Cash Flow (DCF) – a method within the income approach whereby the present value of future expected net cash flows is calculated using a discount rate

Excess Earnings – a specific way of determining a value indication of a business, business ownership interest or security determined as the sum of a) the value of the assets derived by capitalizing excess earnings and b) the value of the selected asset base

Guideline Public Company – a method within the market approach whereby market multiples are derived from market prices of stocks of companies that are engaged in the same or similar lines of business and that are actively traded on a free and open market

Merger and Acquisition – a method within the market approach whereby pricing multiples are derived from transactions of significant interests in companies engaged in the same or similar lines of business

Valuation Factors

Revenue Ruling 59-60 states that a sound valuation should consider the following factors for a Company:

1. Nature and history
2. Economic outlook
3. Financial condition
4. Earnings capacity
5. Dividend paying capacity
6. Whether or not the enterprise has goodwill or other intangible value
7. Sales of stock
8. Market price of stocks of corporation engaged in the same or similar lines of business

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Accrediting Valuation Organizations

American Institute of Certified Public Accountants (AICPA)
www.aicpa.org

American Society of Appraisers (ASA)
www.appraisers.org

National Association of Certified Valuation Analysts (NACVA)
www.nacva.com

IRS Valuation Guidance

Revenue Ruling 59-60
Valuing closely held businesses

Revenue Ruling 65-192
Extends 59-60 to all types of business interests and to income taxes, as well as gift and estate taxes

Revenue Ruling 68-609
"Formula Method" (excess earnings)

Revenue Ruling 77-287
Valuing preferred stock

Revenue Ruling 93-12
Deals with minority discounts when valuing minority interests of family-controlled businesses

Excerpts from the International Glossary of Business Valuation Terms

Asset (Asset-Based) 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

Business Valuation - the act or process of determining the value of a business enterprise or ownership interest therein

Capitalization - a conversion of a single period of economic benefits into value

Capitalization Factor - any multiple or divisor used to convert anticipated economic benefits of a single period into value

Cash Flow - cash that is generated over a period of time by an asset, group of assets, or business enterprise. It may be used in a general sense to encompass various levels of specifically defined cash flows

Control Premium - an amount or a percentage by which the pro rata of a controlling interest exceeds the pro rata value of a noncontrolling interest in a business enterprise to reflect the power of control

Cost of Capital - the expected rate of return that the market requires in order to attract funds to a particular investment

Discount for Lack of Control - an amount or percentage deducted from the pro rata share of value of 100% of an equity interest in a business to reflect the absence of some or all of the powers of control

Discount for Lack of Marketability - an amount or percentage deducted from the value of an ownership interest to reflect the relative absence of marketability

Discount Rate - a rate of return used to convert a future monetary sum into present value

Excess Earnings - that amount of anticipated economic benefits that exceeds an appropriate rate of return on the value of a selected asset base (often net intangible assets) used to generate those anticipated economic benefits

Fair Market Value - the price, expressed in terms of cash or cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arms length in an open and unrestricted market, which neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts

Going Concern Value - the value of a business enterprise that is expected to continue to operate into the future. The intangible elements of Going Concern Value result from factors such as having a trained work force, an operational plant and the necessary licenses, systems and procedures in place

Goodwill - that intangible asset arising as a result of name, reputation, customer loyalty, location, products and similar factors not separately identified

Income (Income-Based) 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

Intangible Assets - non-physical assets such as franchises, trademarks, patents, copyrights, goodwill, equities, mineral rights, securities and contracts (as distinguished from physical assets) that grant rights and privileges and have value for the owner

Invested Capital - the sum of equity and debt in a business enterprise. Debt is typically (a) all interest-bearing debt or (b) long-term interest-bearing debt. When the term is used, it should be supplemented by a specific definition in the given valuation context

Investment Value - the value to a particular investor based on individual investment requirements and expectations

Liquidation Value - the net amount that would be realized if the business is terminated and the assets are sold piecemeal. Liquidation can be either "orderly" or "forced"

Market (Market-Based) Approach - a general way of determining a value indication of a business, business ownership interest, security or intangible asset by using one or more methods that compare the subject to similar businesses, business ownership interest, securities or intangible assets that have been sold

Marketability - the ability to quickly convert property to cash at minimal cost

Minority Discount - a discount for lack of control applicable to a minority interest

Net Book Value - with respect to a business enterprise, the difference between total assets and total liabilities as they appear on the balance sheet

Non-Operating Assets - assets not necessary to ongoing operations of the business enterprise

Premise of Value - an assumption regarding the most likely set of transactional circumstances that may be applicable to the subject valuation; for example, going concern, liquidation

Standard of Value - the identification of the type of value being utilized in a specific engagement; for example, fair market value, fair value, investment value

Valuation Approach - a general way of determining a value indication of a business, business ownership interest, security or intangible asset using one or more valuation methods

Valuation Date - the specific point in time as of which the valuator's opinion of value applies (also referred to as "Effective Date" or "Appraisal Date")

Weighted Average Cost of Capital (WACC) - the cost of capital (discount rate) determined by the weighted average, at market value, of the cost of all financing sources in the business enterprise's capital structure

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