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Small Business Valuation In a Post Covid World

Its an uncertain world, so

Disclaimer:

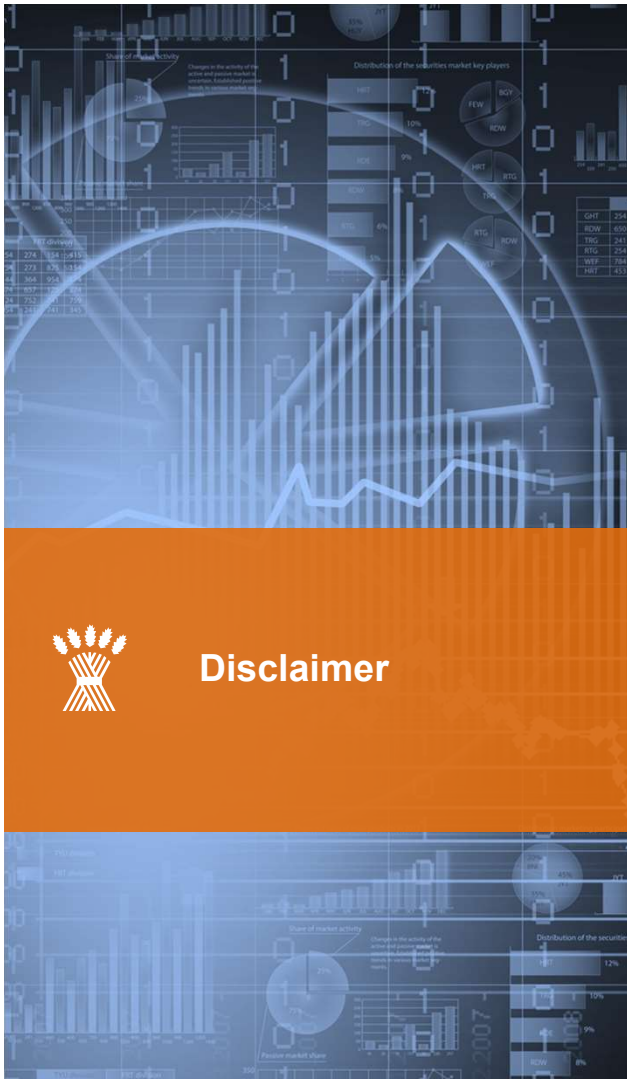
This set of slides and the related PDF worksheets are solely my opinions.

Sample documents, calculations, checklists, and other examples (“Documents”) are provided in this presentation. These Documents for learning purposes only. Efforts have been made to ensure reasonableness of the Documents provided but no representations or warranties are given as to the work’s accuracy or compliance with any credentialing bodies standards or with any jurisdictional, or user (for example, IRS, SBA, etc.) requirements.

In every instance, small changes to facts or assumptions may completely change methodologies used and outcomes estimated. Business valuation requires a high level of professional judgement and often more than one methodology and result may be reasonable.

As my father said, “I would rather be approximately right, rather than completely wrong.” Or as I say, ask yourself, “Does this makes sense?” If not, keep working until it does.

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Gregory R. Caruso, JD, CPA, CVA

- Managing Partner, Harvest Business Advisors, Business Valuators and Business Brokers
- Founder, Your Profitable Practice, Consultant and Accounting Related Peer Groups
- Author, The Art of Business Valuation, Accurately Valuing a Small Business” Wiley 2020
- Editor, Around the Valuation World, NACVA, from January 2016 to Current
- Specialty in Small Business Valuation, Construction Contractors of all sizes
- Lead broker in over 60 transactions.



Presenter

Micro and Small Business

< \$1.0 M = 75.58%

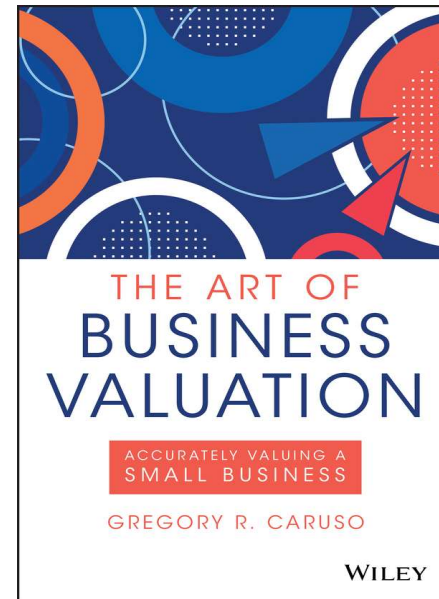
< \$10.0 M = 96.54%



Small Business

Valuing Micro and Small Businesses is Different

This Book explains
how to do it right!



Buy the book: <https://tinyurl.com/yydejqp6>
(or any web bookseller)

Today

Price vs. Value

Data –

- What Happened?
- What's Next?

Working with Extreme Risk



Agenda

PRICE vs. VALUE



Why are they
often different?

Price vs. Value – Both are Future Based – But.....





Price

- Emotion / Fear of loss
- Timing
- Sales Process
- Synergies
- Deal Terms
- Luck

Value

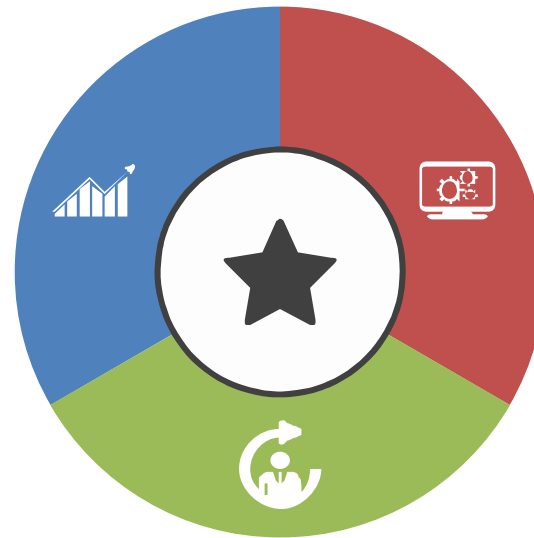
- Purpose
- Standard of Value
- Analytical
- Model / Comparison Driven
- Averaging

Working Model

It's about Future Cash Flow

10

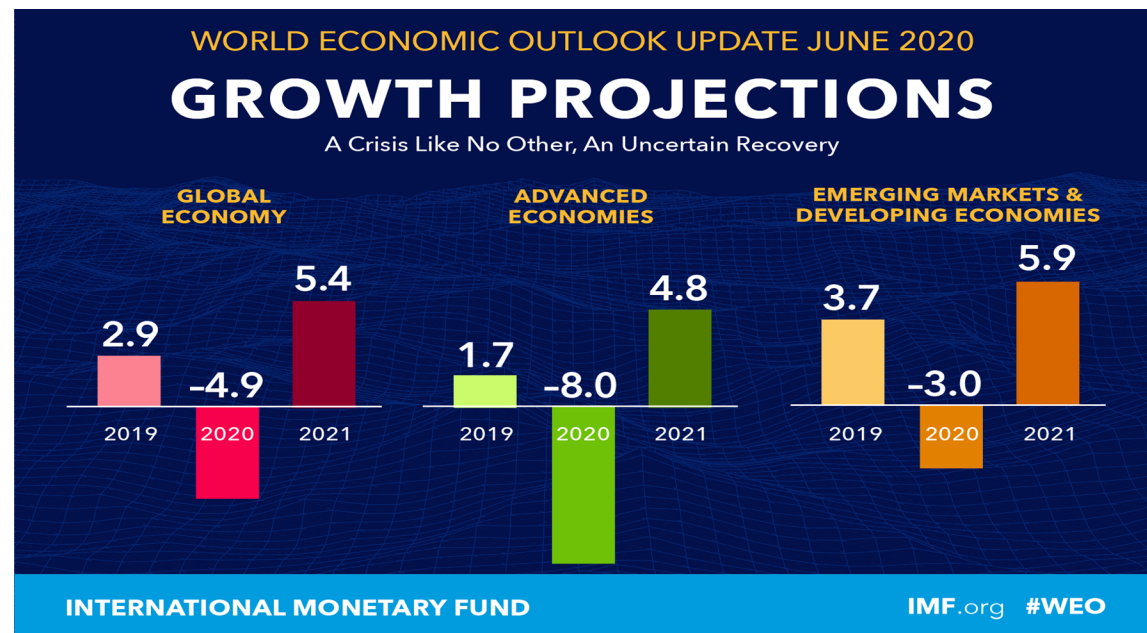
Profits



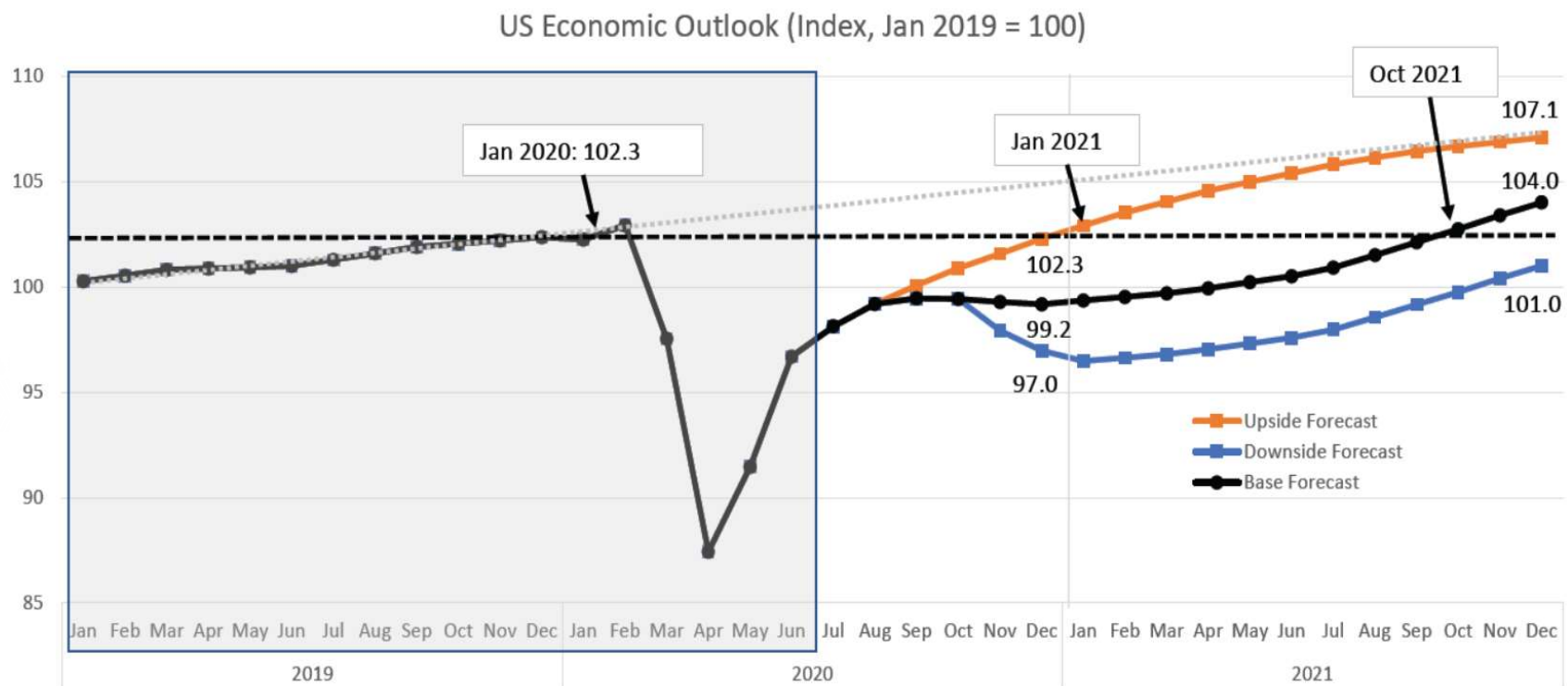
Processes

People

Data, What Happened / What's Next?



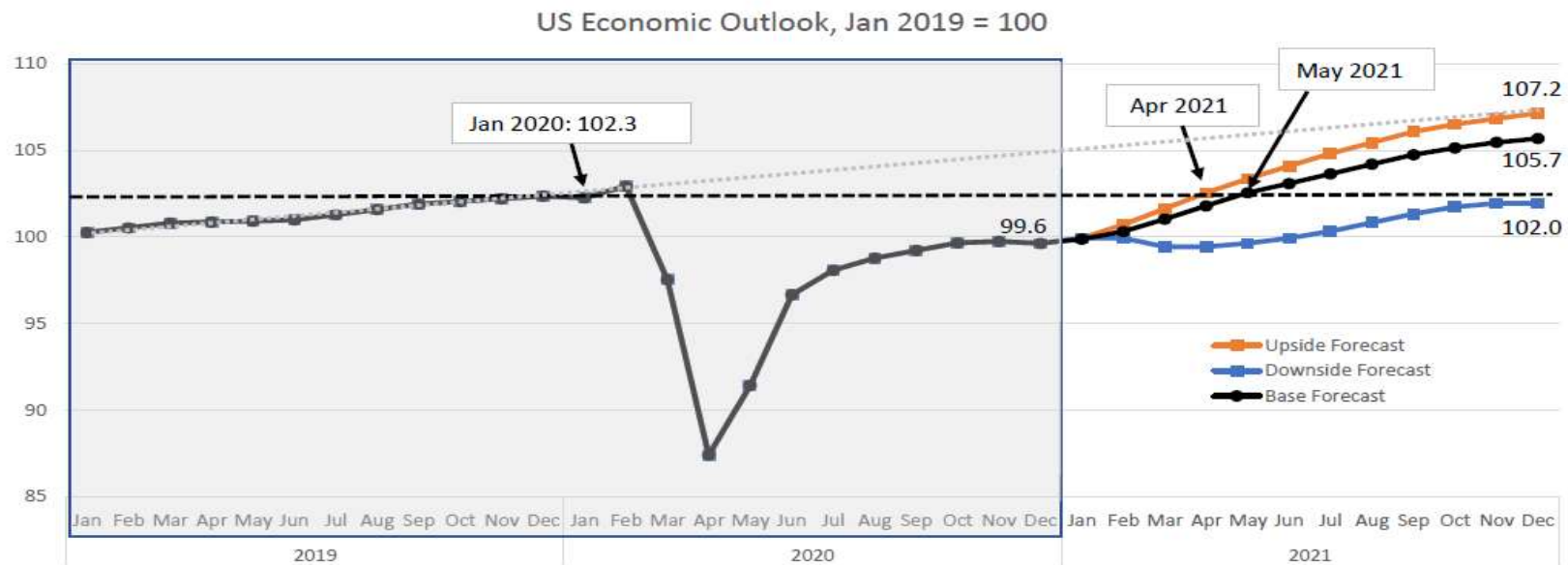
Economy – Changing Forecasts October 14, 2020



The Conference Board

Economy – Changing Forecasts

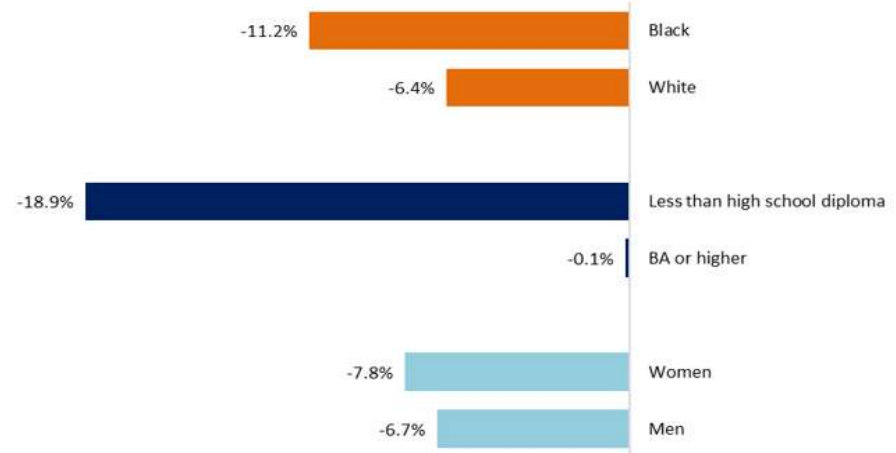
March 10, 2021



The Conference Board, March 10, 2021 <https://www.conference-board.org/research/us-forecast>

Covid-19 Economy

Big Job Loss Disparities



Employment relative to pre-crisis levels

Note: August relative to February employment levels; maximum loss is April relative to February

Source: Bureau of Labor Statistics

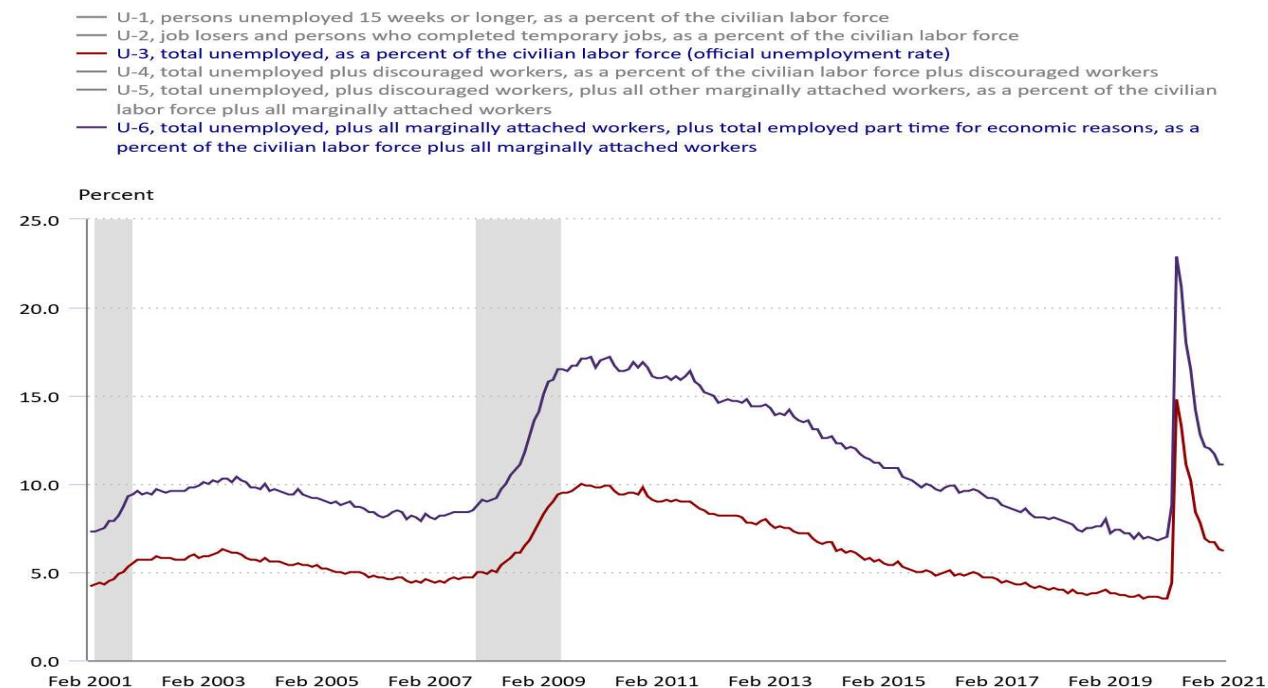


Impact - Education

Employment

Alternative measures of labor underutilization, seasonally adjusted

Click and drag within the chart to zoom in on time periods



Hover over chart to view data.

Note: Shaded area represents recession, as determined by the National Bureau of Economic Research.

Source: U.S. Bureau of Labor Statistics.



Cash Flow Risk



Future Earnings – Market Method

$$\text{Cash Flow} \times \text{Multiplier} = \text{Value}$$



Likely Future Cash
Flow is Key

Small Business Risks

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Concentrations

No Financing

♥ **Poor
Financials**



**Industry
Economy**



Location – Very uneven effects

New COVID-19 Deaths per 100,000 Residents

11/21/2020-11/27/2020

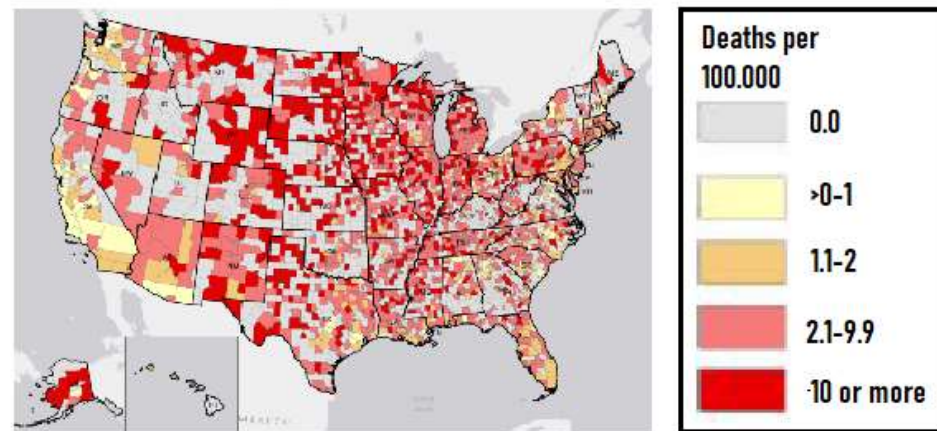


Chart from Benefits Pro, November 27, 2020

<https://www.benefitspro.com/2020/12/04/covid-19s-dramatic-death-rate-rise-illustrated-412-108064/?slreturn=20210009141215>



Impact - Location

Location – Very uneven effects

Trends in New Deaths per 100,000

One Month Earlier



Two Months Earlier



Three Months Earlier

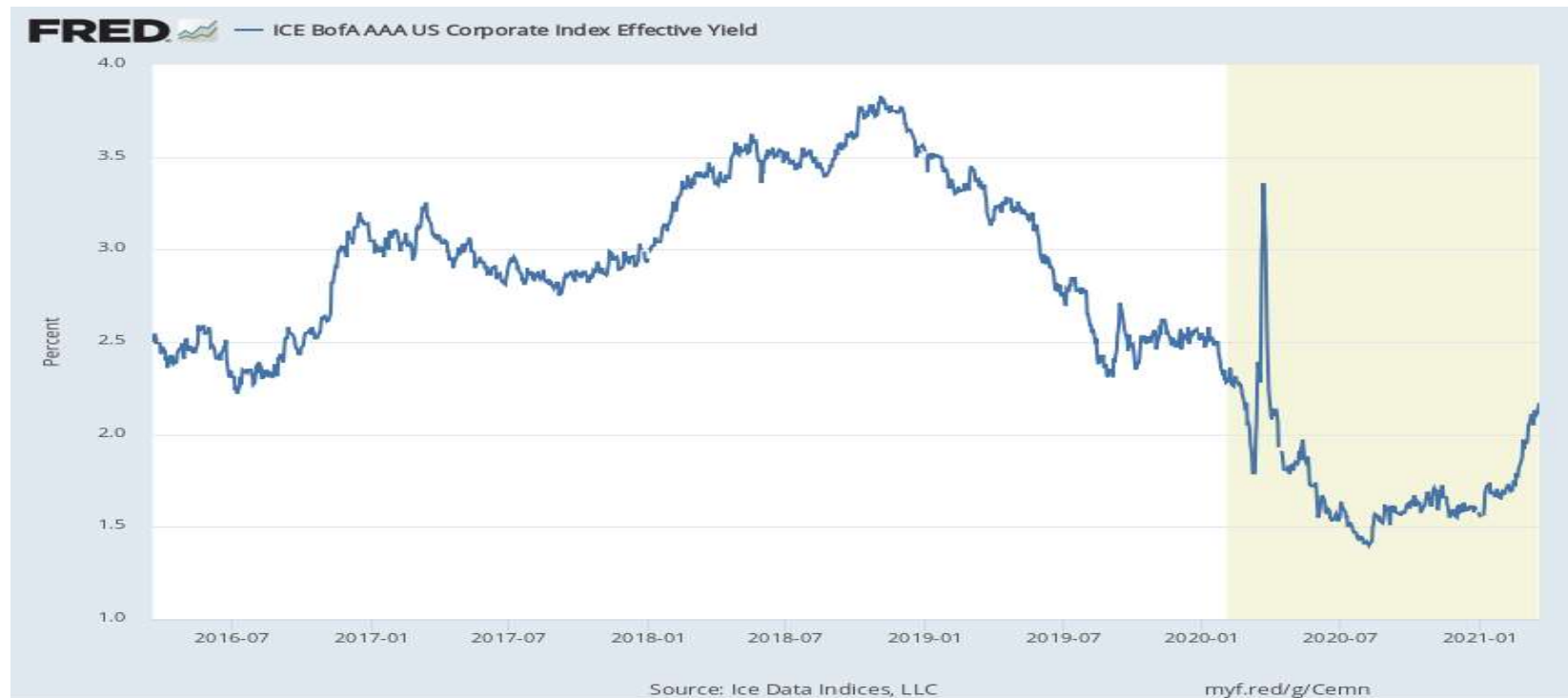


Chart from Benefits Pro, November 27, 2020



Impact - Location

Measuring Risk AAA Bond Rates



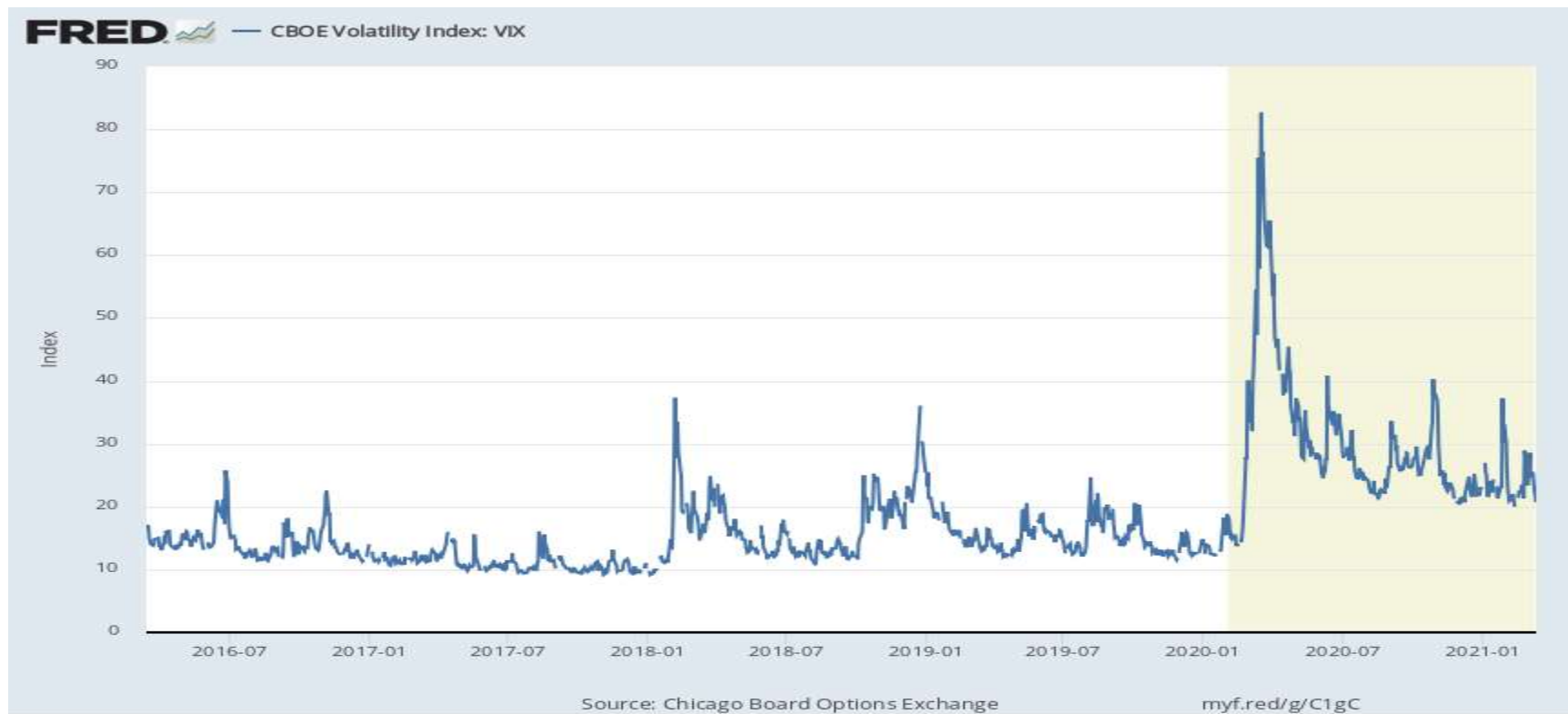
Measuring Risk BofA CCC 1/7/2021 8.34%

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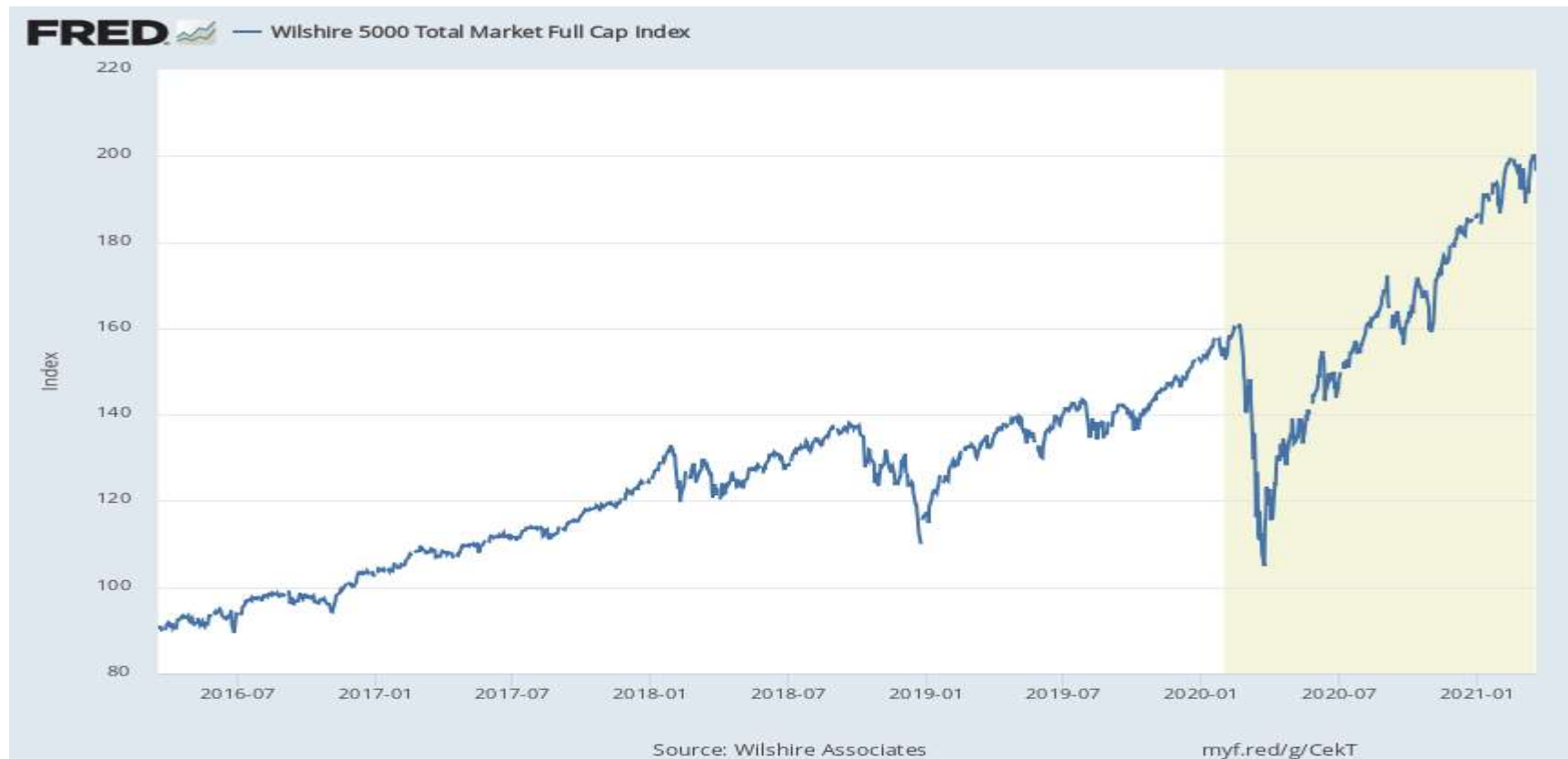
Measuring Risk VIX

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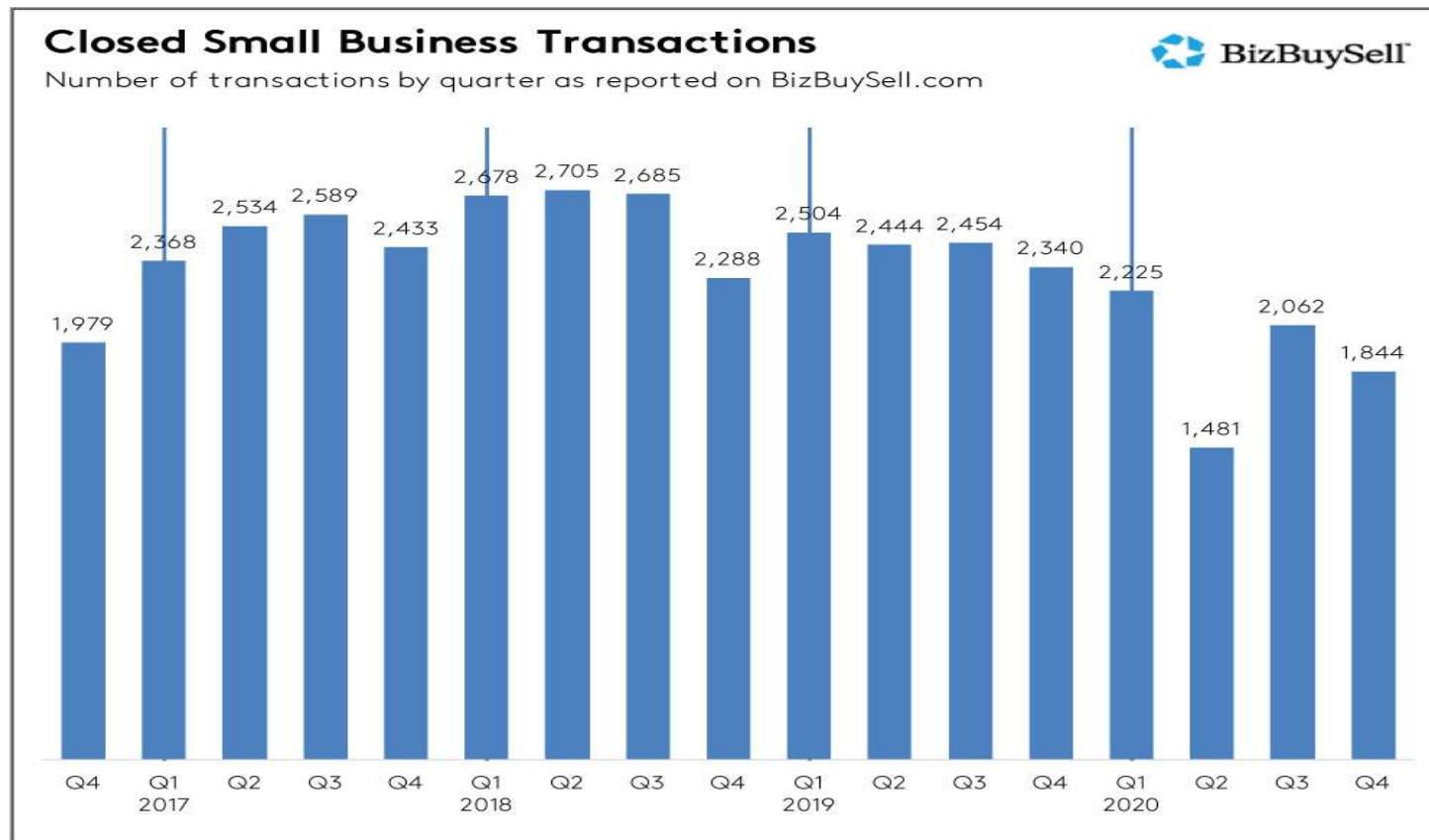
Measuring Risk – Public Markets

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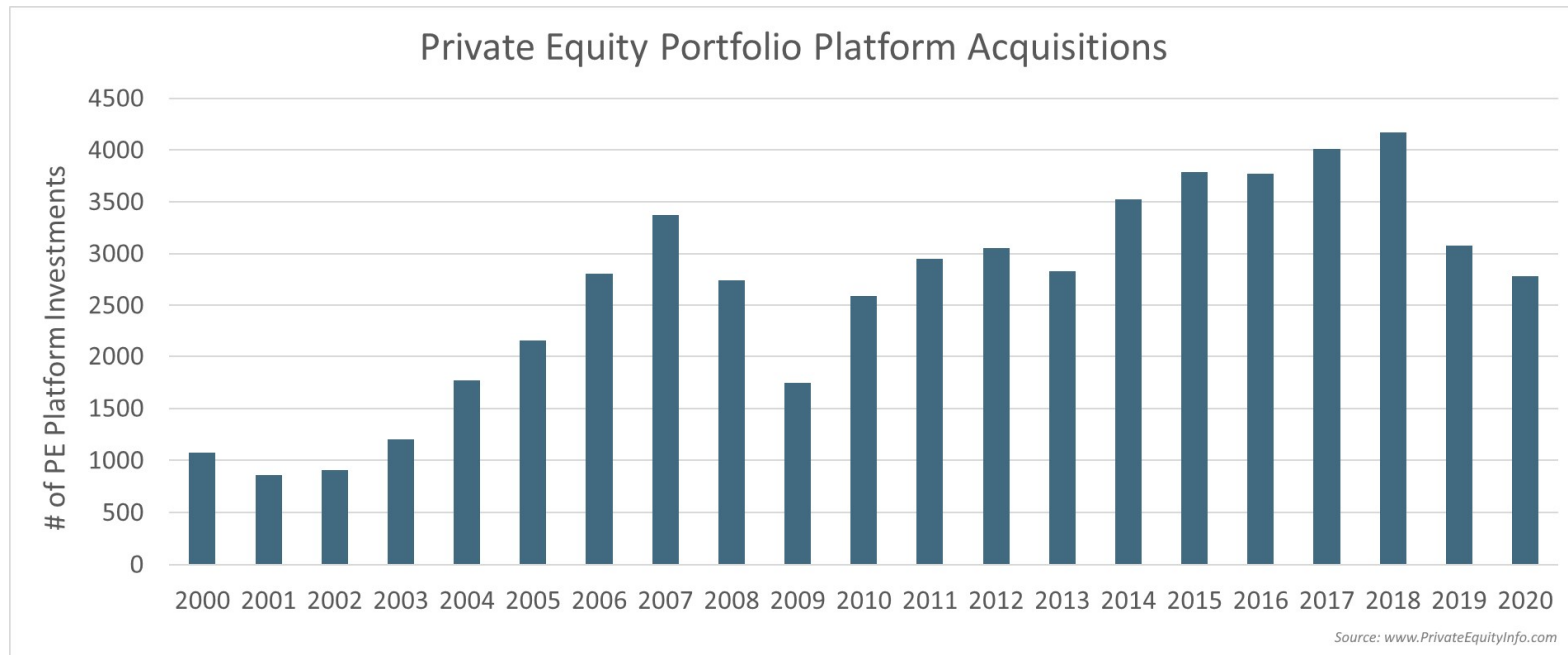
Measuring Risk – Transactions

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Measuring Risk – Transactions

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Future Earnings – Market Method

Cash Flow x Multiplier

=

Value

Discounts / Premiums



Likely Future Cash
Flow is Key

Business Interruption Risk

Covid-19 Marketability Discount?

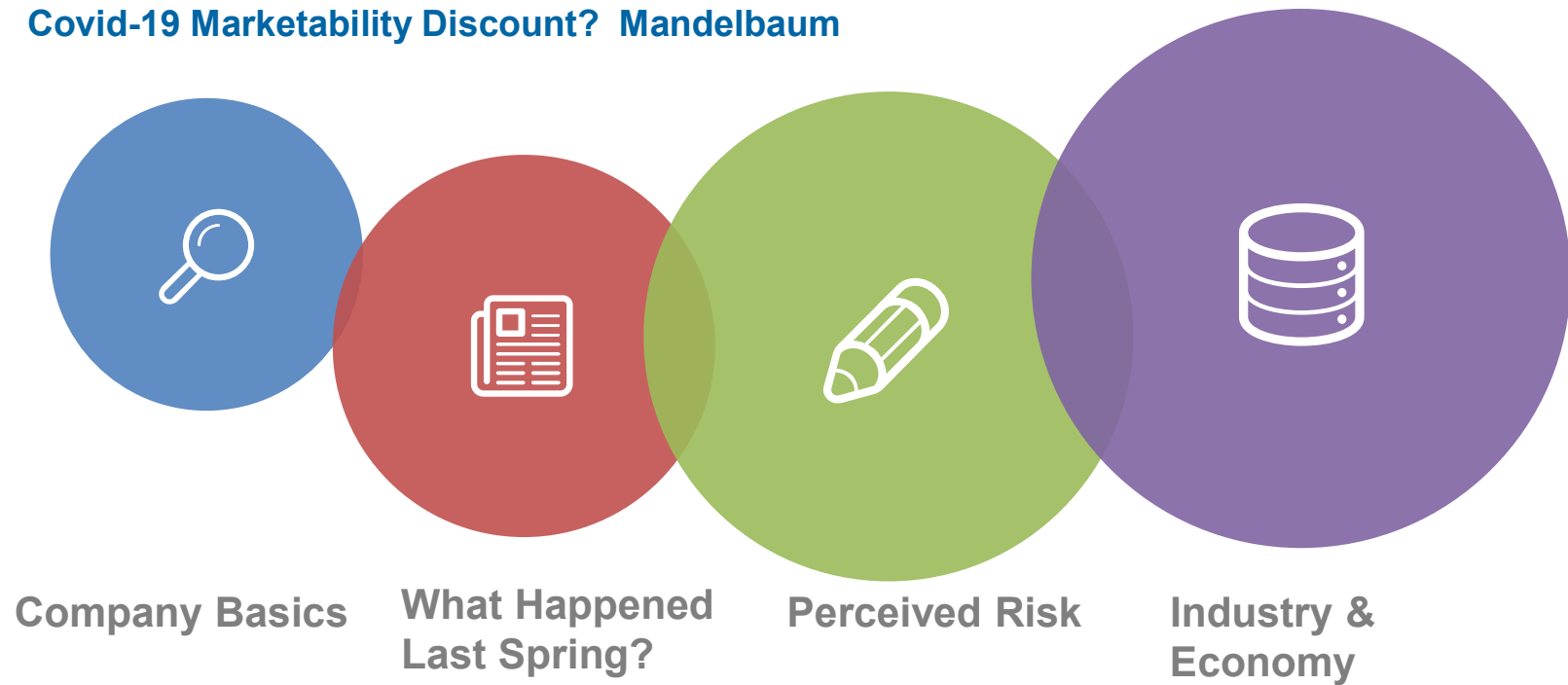
- Long term data does not reflect short term risks
- Market Method
- Build-up / CRSP Data



Covid Risk

Business Interruption Risk

Covid-19 Marketability Discount? Mandelbaum



Cyclical Businesses – What's Ahead

Sanity Check – Discounted Cash Flow with estimated numbers

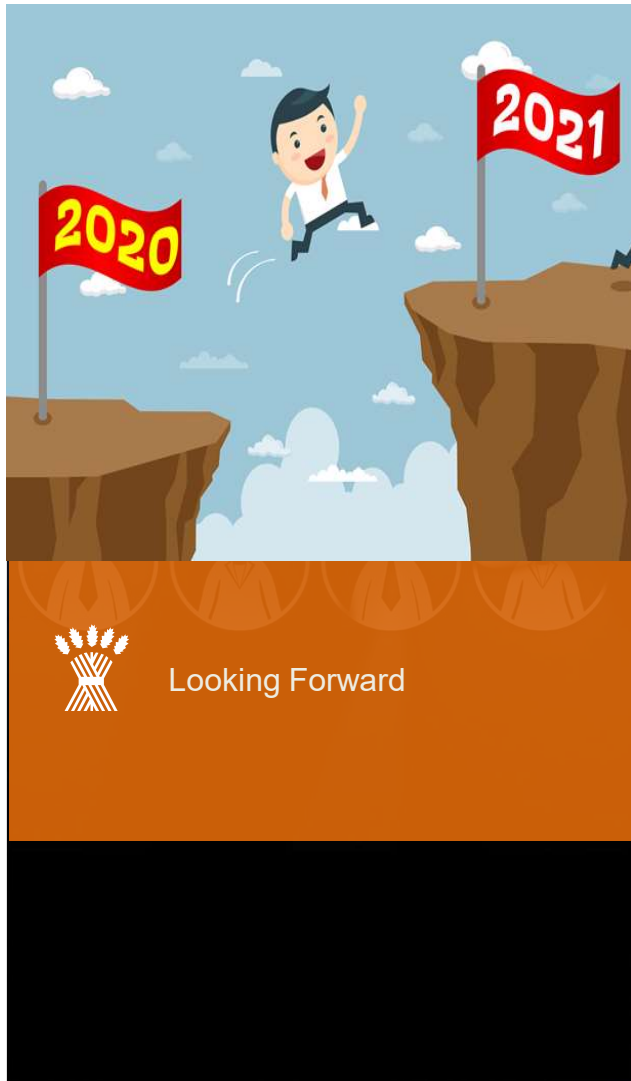
DCF Indicated Value

Forecast Period	Projected Economic Stream	Growth Rate	Factor At 24.5% Disc Rate	Terminal Value	Discounted Value
2021	-		89.622%		-
2022	100,000	0.0%	71.986%		71,986
2023	150,000	50.0%	57.820%		86,730
2024	250,000	66.7%	46.442%		116,104
2025	300,000	20.0%	37.302%		111,907
2026-forever	312,000	4.0%	37.302%	1,521,951	567,726
Total Discounted Cash Flows					954,453
Indicated Value					954,453
Selected Value					954,500

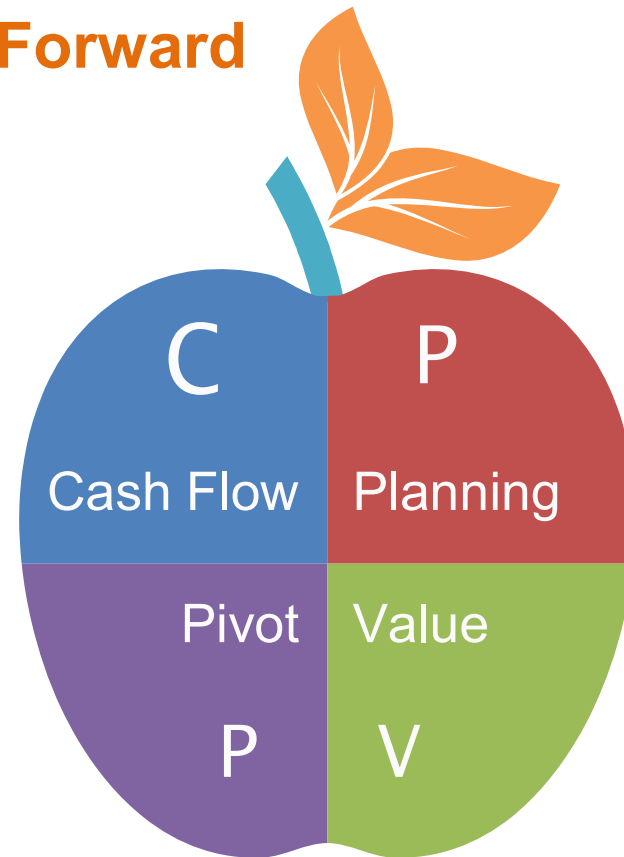
Terminal Value = Projected Economic Stream / (Discount Rate less Terminal Growth Rate)



Iterations to understand risk



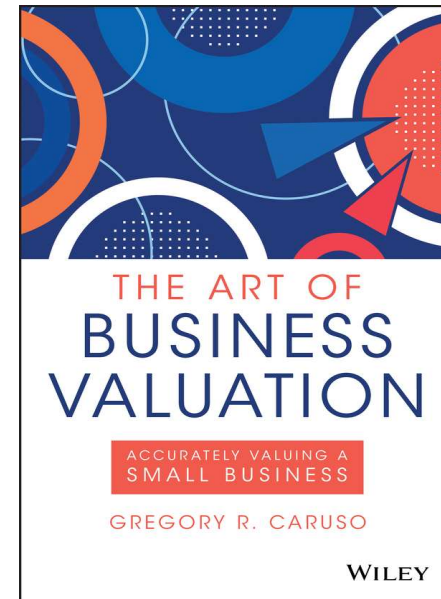
Looking Forward



More Resources

Valuing Micro and Small
Businesses is Different

This Book explains
how to do it right!



Buy the book: <https://www.amazon.com/Art-Business-Valuation-Accurately-Valuing/dp/1119605997>

I would love to hear from you

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