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M&T - SBA Business Valuation Presentation Including a Covid-19 Update




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- Managing Partner, Harvest Business, LLC, Business Valuers
- *Author, The Art of Business Valuation, Accurately Valuing a Small Business* Wiley 2020
- *Editor, Around the Valuation World, NACVA, from January 2016 to June, 2021*
- *100's and 100's of business valuations – all types of businesses and valuation purposes*
- *Present and publish on valuation with BVR, NACVA, CPA Academy, etc. (One of NACVA's Instructors of Year)*
- *Lead broker in over 65 transactions.*
- *Homebuilder / General Contracting / Transactional Law*

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Presenter

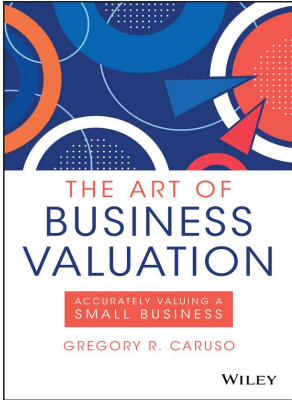
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Disclaimer

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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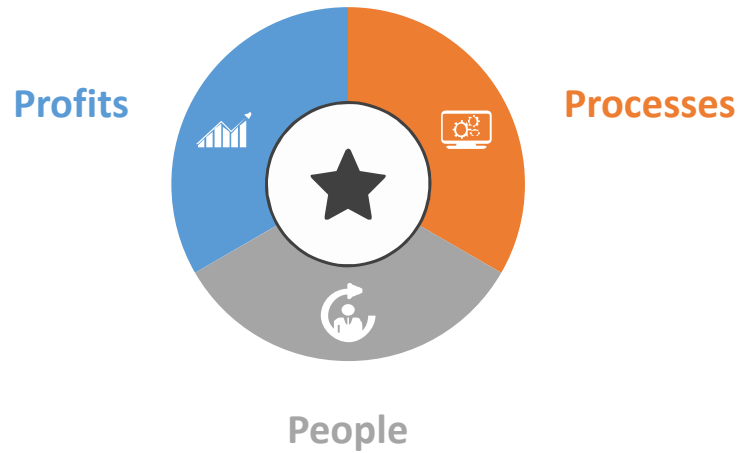
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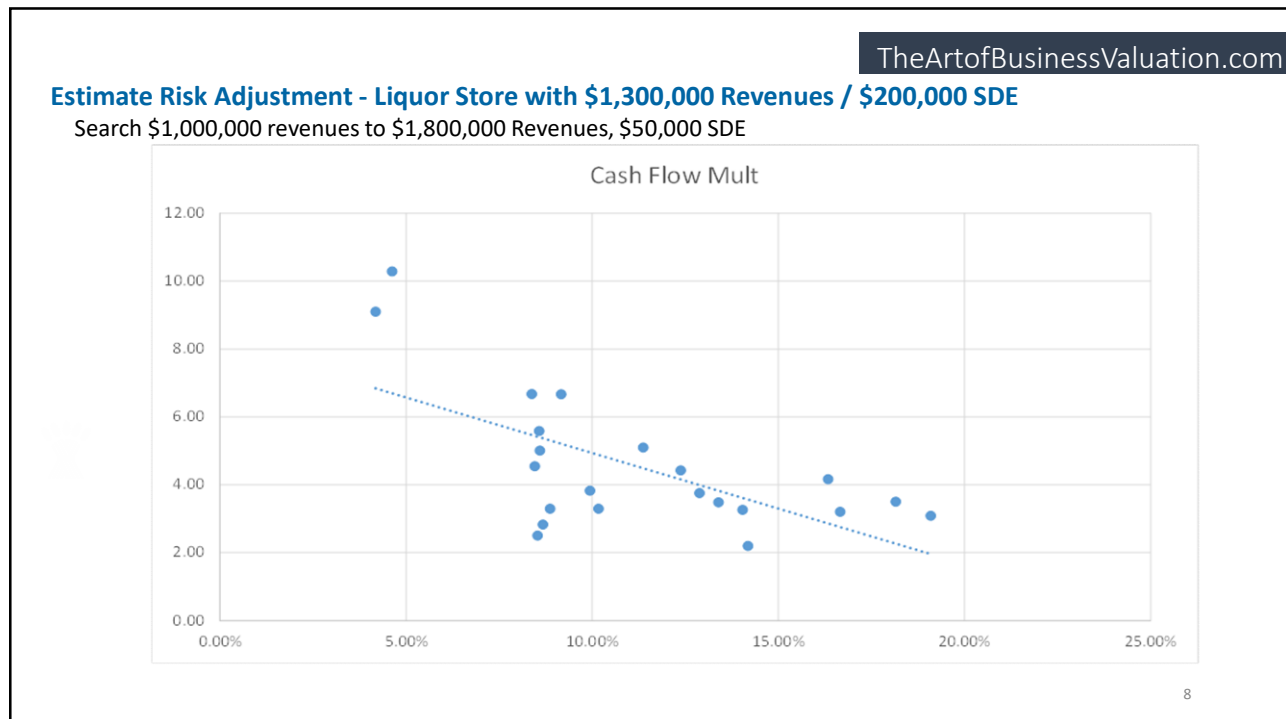
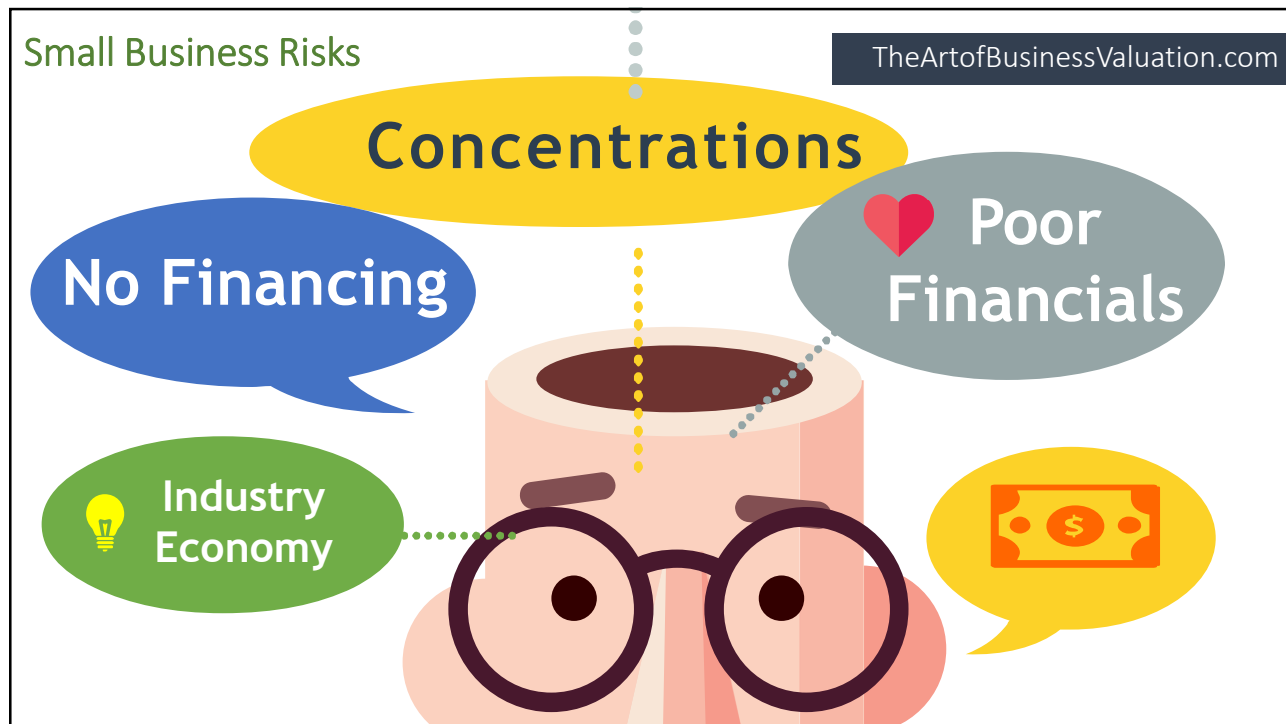


Working Model

It's about Future Cash Flow

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Selection of forward looking cash flow

Liquor Store with \$1,300,000 Revenues / \$200,000 SDE

Market Data DEALSTATS SDE Base

	Dec 2020	Dec 2019	Dec 2018	Dec 2017
Adjusted Pre-Tax Income	280,865	197,600	198,200	171,700
Adjusted Interest Expense	10,337	8,600	9,100	8,700
Adjusted Depreciation/Amortization	-	1,200	1,500	2,300
Adjusted Officers' Compensation	-	3,000	3,000	-
Seller's Discretionary Earnings	291,202	210,400	211,800	182,700
Weight on Seller's Discretionary Cash Flow		1	1	
Weighted Average SDE Base	211,100			
Selected SDE Base	211,100			

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Selecting Future Cash Flow

Market Method Cash Flow x Multiplier = Value

Liquor Store with \$1,300,000 Revenues / \$200,000 SDE

Market Data P/SDE Indicated Value

	DealStats
Economic Base	211,100
P/E Multiple	4.40
Sub-Total	928,840
Adjustment	-
Sub-Total	928,840
Indicated Value	928,840
Selected Value	928,800

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Market Method



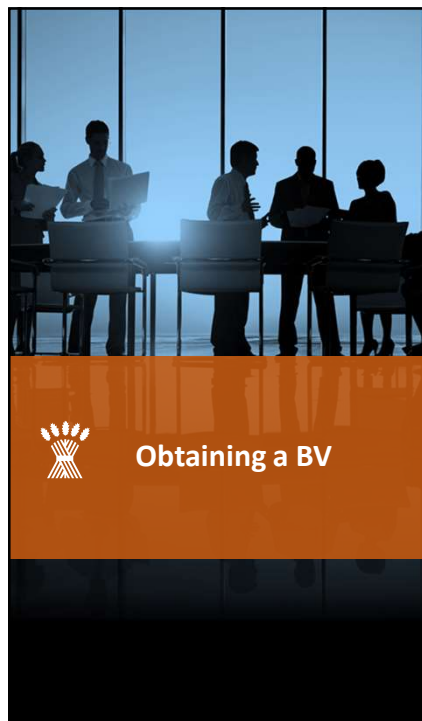
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SBA Business Valuations

Determine Fair Market Value of a Business

- FMV is not what your buyer and/or seller would transact at but at the value a hypothetical buyer and seller would.
- We are looking at the past to determine reasonable future cash flows which are then applied against a risk factor to determine value.
- The risk factor can be determined by market sales (market method) or what investors will require to invest (income method)
- Your underwriter is looking for cash flow coverage of future payments. We are looking at value as of a specific date.
- We work for the bank and protect the bank and SBA from overpayment for the assets. We do not work for the buyer or provide them with protection.

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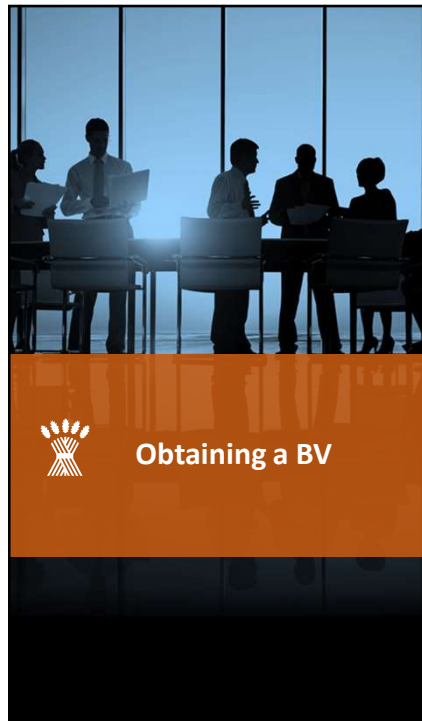


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Steps – What you do

1. Collect info necessary to give you quote (usually revenues & industry.) If short timeline let us know. For contractors and some manufacturers we may need more info.
2. Send you engagement letter and document list
3. Obtain documents and signed engagement letter
4. Rough out valuation (4-5 days after receipt of documents.)
5. Send out additional questions / document request
6. Get answers
7. Provide valuation – typically 10 – 15 business days depending on speed of question/document return.

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Steps – What we do

1. Receive information and organize
2. Transfer data into our valuation system
3. *Normalize* financial data provided
4. Weight cash flows to determine a future cash flow
5. Obtain risk data / DealStats Market Data & Duff & Phelps Cost of Capital
6. Compare subject company to comparables and industry data (RMA financial info)
7. Determine the risk adjustment including economy etc.
8. Estimate the value using best methods
9. Reasonableness test
10. Write report complying to STANDARDS

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One pain we must do – Management Interview

Standards

1. NACVA, AICPA, USPAP
2. All require a “management interview”
3. In an opinion I am stating I have followed all procedures necessary.
4. We use questionnaires and usually it is sufficient.

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How do we handle Covid – 19?

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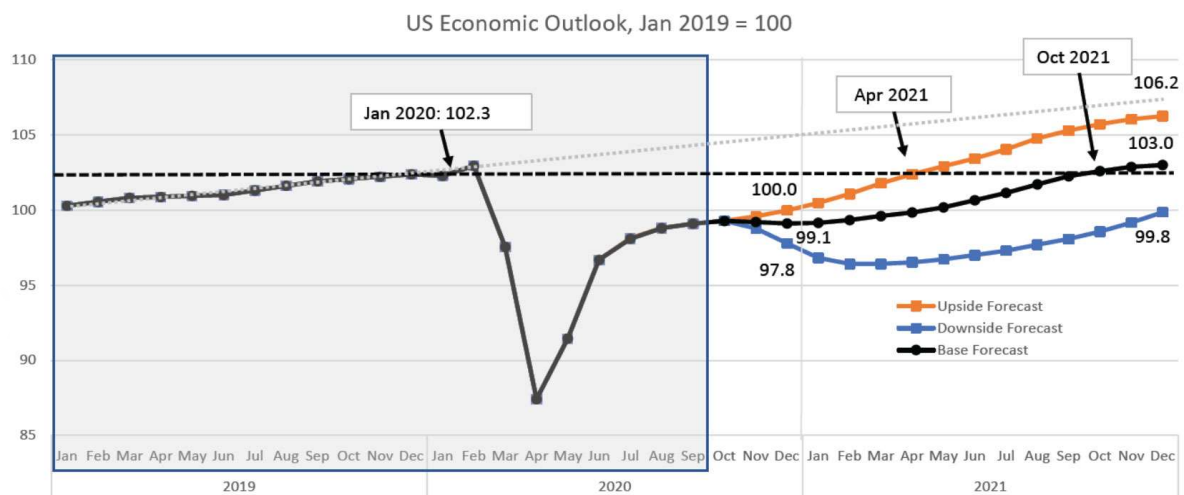


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Economy – Changing Forecasts

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November 13, 2020



The Conference Board

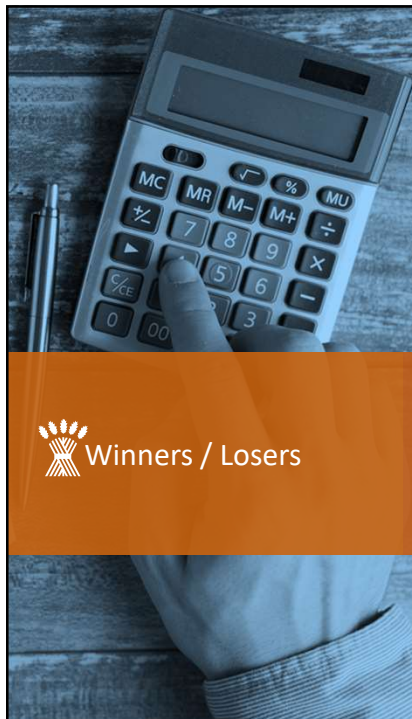
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Winners / Losers

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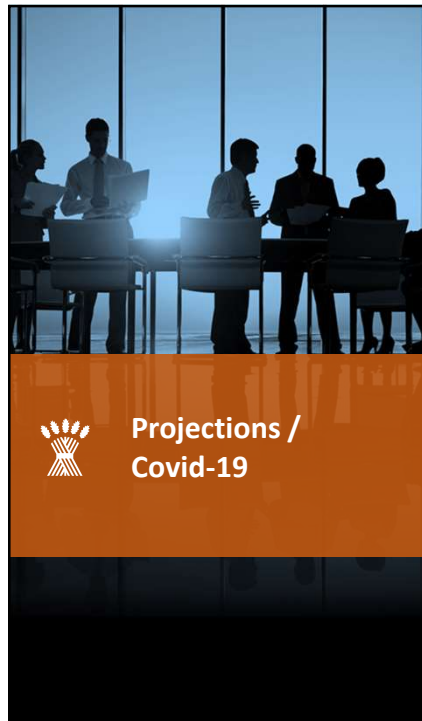
UGLY

- Sit down restaurants
- Schools
- Small retail
- Hotels
- Most travel
- Urban vacation

NICE

- Outdoor activities
 - Boating
 - Camping
- Liquor
- Superstores
- Protection
 - Masks
 - Signage / screening
- Outdoor vacation

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Projections – Valuation is forward looking

Useful projections do the following –

- Tie into the past
- If cost savings – detail savings and how work will still get done
- If high growth – can you find market support or other third party support? (Past?) Does the buyer have specialized knowledge on the subject?
- Do the gross and profit margins stay the same – if they increase why / how?
- Can we see the trends starting in current monthly income data?

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Measuring Risk VIX

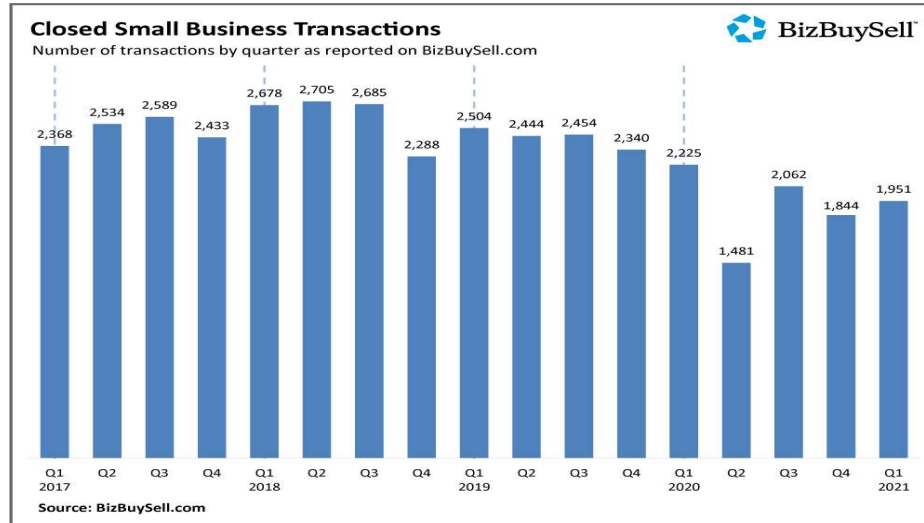
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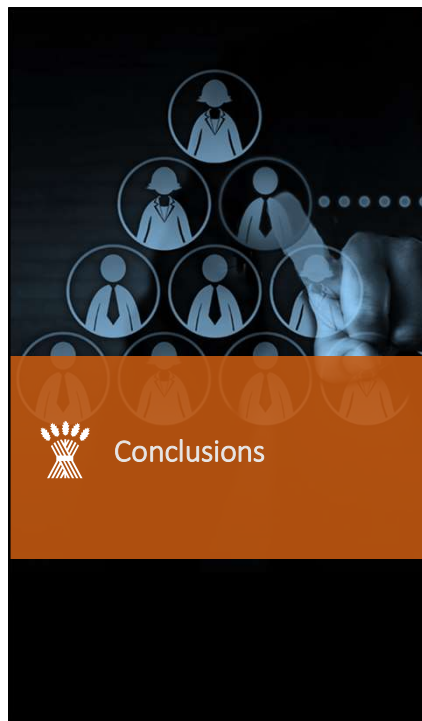
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Measuring Risk - Transactions

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Conclusions

- Ordering a Valuation Should be Easy
 - Fully documenting it – depends on your Client
- Business Valuation is a forward looking analysis of the complete business – Finances AND Outside and Inside Soft Operations factors
- If a business has a Covid-19 “hole” or problem, a quality projection has heightened importance.
- *Questions on a future transaction or how something might be addressed – reach out anytime.*

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I would love to hear from you

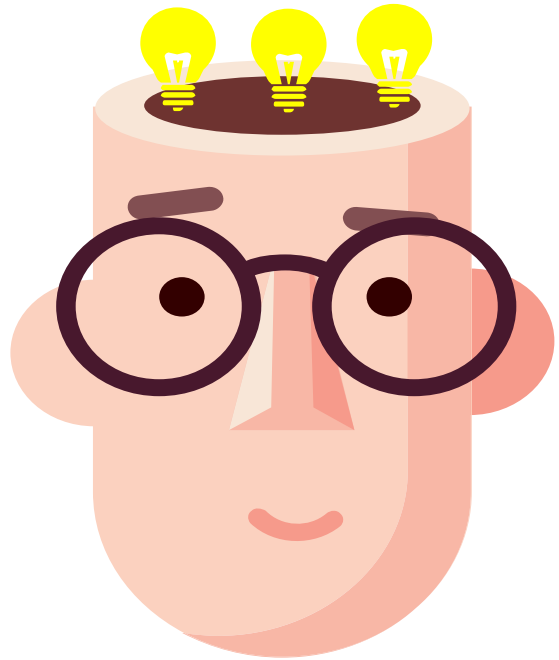
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