

Business Valuation Update: Tips & Techniques

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IBBA-M & A Source Group

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SBA Update

- New SOP September +-
- NBVS Proposed Allocating Intangibles to:
 - Customer Lists
 - Trade Marks & Trade Names
 - Workforce-In-Place
 - Going Concern
 - Covenant Not to Compete
 - Personal Goodwill (PGW)
- Best Hope -Flat Amount 50%-70% GW Financed

Which Year(s) Should You Use?

VALUE DRIVER ANALYSIS	<u>3-Yr.</u>	<u>3-Yr. Wgtd</u>	<u>Forecasted</u>	<u>Last</u>	<u>Selected For</u>
	<u>Average</u>	<u>Average</u>	<u>This Year-'09</u>	<u>Full Year-'08</u>	<u>Valuation</u>
Revenues	\$ 2,940,769	\$ 3,004,115	\$ 3,500,000	\$ 3,095,343	\$ 3,297,672
Gross Profit/Margin	\$ 907,110	\$ 907,570	\$ 1,120,000	\$ 996,098	\$ 1,058,049
EBT	\$ (361,705)	\$ (441,065)	\$ (210,000)	\$ (463,970)	\$ (336,985)
SDCF	\$ 149,534	\$ 136,077	\$ 245,000	\$ 150,346	\$ 197,673
EBITDA	\$ 82,201	\$ 67,910	\$ 170,000	\$ 80,346	\$ 125,173
EBIT	\$ (41,612)	\$ (58,981)	\$ 55,000	\$ (34,606)	\$ 10,197

EBT= Earnings Before Tax.

SDCF = Seller's Discretionary Cash Flow which is the summation of EBT plus Seller Add Backs.

EBITDA=Earnings before interest, taxes, depreciation and amortization.

EBIT = Earnings before interest and taxes.

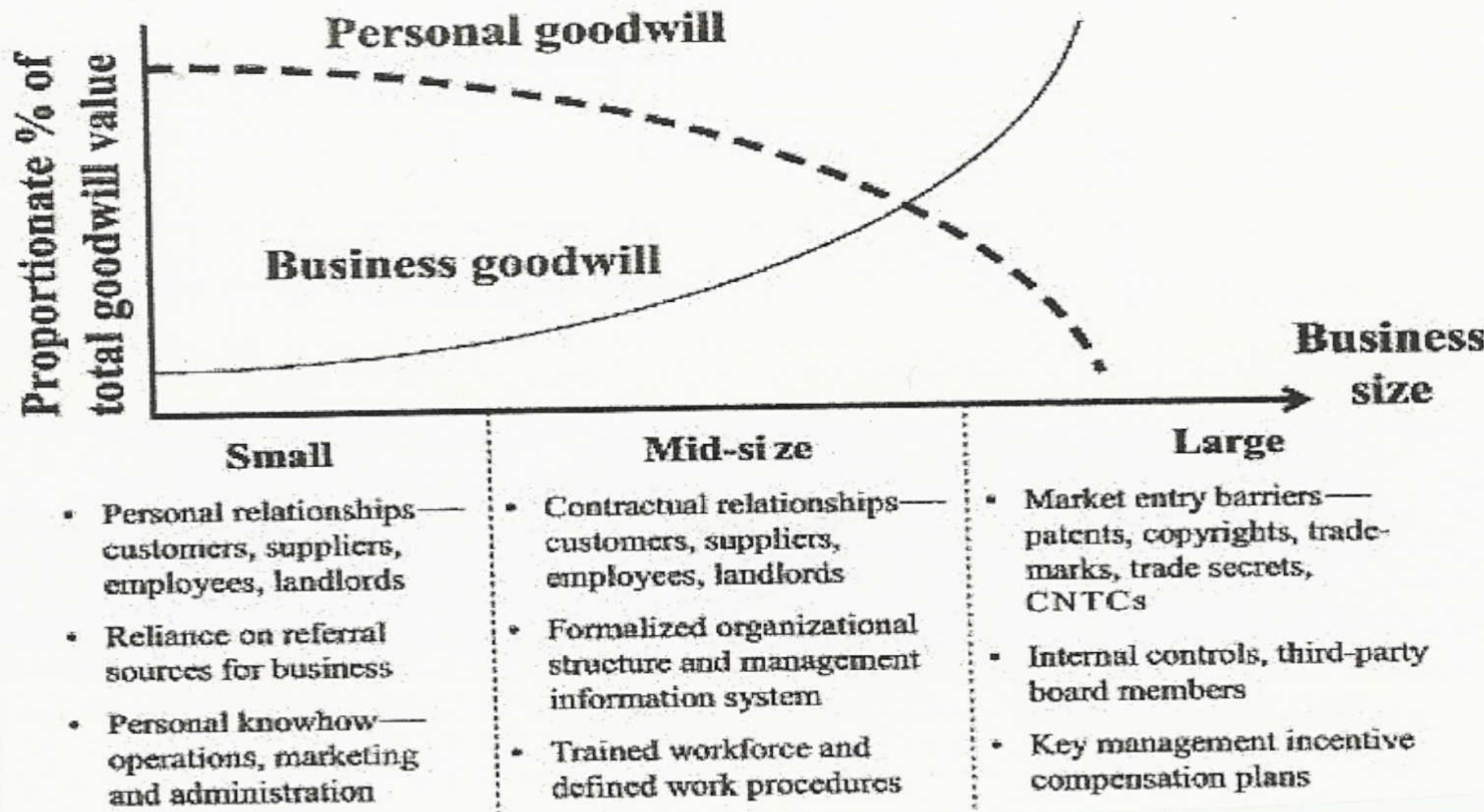
Price Justification and Pricing Scenarios

PRICE and TERMS	<u>PRICE & TERMS SCENARIOS</u>		
	<u>5</u>	<u>7</u>	<u>10</u>
Years Financed			
Deal Price	\$ 805,000	\$ 805,000	\$ 805,000
Buyer Down (\$)	\$ 265,650	\$ 265,650	\$ 265,650
Buyer Down (%)	33%	33%	33%
Total Interest Bearing Debt Financed	\$ 539,350	\$ 539,350	\$ 539,350
FINANCING TERMS			
Balanced Financed	\$ 539,350	\$ 539,350	\$ 539,350
Interest Rate	8.5%	8.5%	8.5%
Term in Months	60	84	120
Annual Payment	\$ 132,787	\$ 102,497	\$ 80,246
Monthly Payment	\$ 11,066	\$ 8,541	\$ 6,687

Price Justification and Pricing Scenarios contd.

JUSTIFICATION OF PURCHASE (A SANITY CHECK)			
SDCF (seller's projection)	\$ 197,673	\$ 197,673	\$ 197,673
Less: Annual Principal & Interest	\$ (132,787)	\$ (102,497)	\$ (80,246)
Less Debt Service Cushion (.25)	\$ (33,197)	\$ (25,624)	\$ (20,062)
Less: Capital Expenditures	\$ (20,000)	\$ (20,000)	\$ (20,000)
Less: Replacement Salary	\$ (75,000)	\$ (75,000)	\$ (75,000)
CASH FLOW REMAINING	<u>\$ (63,311)</u>	<u>\$ (25,448)</u>	<u>\$ 2,365</u>
CASH ON CASH ROI	-23.8%	-9.6%	0.9%
CASH & CUSHION ROI	-11.3%	0.1%	8.4%
CASH RETURN ON DEAL PRICE	-7.9%	-3.2%	0.3%
CASH & CUSHION RETURN ON DEAL PRICE	-3.7%	0.0%	2.8%
SELLER'S INTEREST INCOME FROM NOTE*	\$ 18,595	\$ 26,586	\$ 39,270
(* Over the life of the note.)			
Debt Service/SDCF	67.2%	51.9%	40.6%
Debt Service/EBITDA	106.1%	81.9%	64.1%
Deal Price/SDCF (x)	4.1	4.1	4.1
Deal Price/EBITDA (x)	6.4	6.4	6.4

Goodwill transition: personal to business



**Asset Acquisition Statement
 Under Section 1060**

OMB No. 1545-1021

Attachment
 Sequence No. **61**

▶ Attach to your income tax return. ▶ See separate instructions.

Name as shown on return

Identifying number as shown on return

Check the box that identifies you:

Purchaser Seller

Part I General Information

Part II Original Statement of Assets Transferred

4 Assets	Aggregate fair market value (actual amount for Class I)	Allocation of sales price
Class I	\$	\$
Class II	\$	\$
Class III	\$	\$
Class IV	\$	\$
Class V	\$	\$
Class VI and VII	\$	\$
Total	\$	\$

Purchase Price Allocation

Assets to be Included in the Sale:

Class I	Cash & Demand Deposits		\$ -
Class II	CD's, Marketable Securities		\$ -
Class III	Accounts Receivable		\$ 42,167
Class IV	Inventory		\$ -
Class V (All Other Except Class I, II, III, IV, VI, VII)	Fixed Assets		
	Buildings	-	
	Furniture & Fixtures	30,000	
	Vehicles	-	
	Equipment	30,000	
	Total Fixed Assets		\$ 60,000
	Total Class V		\$ 60,000
Total for Asset Classes I to V			\$ 102,167

Allocation to Intangibles

Class VI	Marketing Related Intangibles	\$10,000
	Customer-Related Intangibles	\$105,000
	Artistic-Related Intangibles	\$0
	Contract-Based Intangibles	\$10,000
	Technology-Based Intangibles	\$0
	Workforce in Place	\$80,000
	Personal Covenants not to Compete	\$385,000
Total Class VI Assets		\$590,000

Classes I through VI \$ **692,167**

Class VII	Going Concern	\$10,000
	Business Goodwill	\$305,000
	Personal Goodwill	\$506,833
Total Class VII Assets		\$821,833

Total Purchase Price \$ **1,514,000**

Summary Price Allocation

Total Consideration/Price	\$ 1,514,000
Accounts Receivable Net of Accounts Payable (Class III)	\$ 42,167
Inventory (Class IV)	\$ -
Fixed Assets (Class V)	\$ 60,000
Marketing-Related Intangibles (Class VI)	\$ 10,000
Customer-Related Intangibles (Class VI)	\$ 105,000
Contract-Related Intangibles (Class VI)	\$ 10,000
Workforce in Place (Class VI)	\$ 80,000
Personal Covenants Not to Compete of Going Concern Value (Class VII)	\$ 385,000
Business Goodwill (Class VII)	\$ 305,000
Personal Goodwill (rounded-Class VII)	
Mr. Tax Savings	\$ 506,833
TOTAL ALLOCATED ENTERPRISE VALUE (rounded)	\$ 1,514,000

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- Brian A. Wendler, CPA – Accredited in Business Valuation (ABV), Accredited Senior Appraiser (ASA), Certified Mergers & Acquisition Advisor (CM&AA), Certified Machinery & Equipment Appraiser (CMEA), and a Master Certified Business Counselor (MCBC), has been involved in over 13,000 business valuations, trained over 1,200 business brokers and other professionals, and assisted in over 15,000 transactions. His experience extends across a wide variety of industries and company size including manufacturing, distribution, retail, healthcare, finance, engineering, hi-tech and low-tech firms. He has valued a variety of types of securities including debt instruments, preferred stock, common stock, options, warrants, and interests in pass-through entities, such as partnerships and limited liability companies. He was recently past President (2006-2007) of the Dallas Chapter of the Society of Financial Service Professionals and remains in charge of its Exit Planning section group. He is the principal and founder of National Business Valuation Services, Inc. (NBVS), and is currently serving as the President of the Institute of Certified Business Counselors (ICBC), the oldest business brokerage organization in the U.S..
- NBVS is a full service business valuation and transaction advisory firm. We provide custom valuation services to professional business intermediaries, lending institutions, and professionals providing advice in law, accounting, insurance, financial planning, stocks and bonds, gift and estate tax planning, transition & exit strategies for business owners, and other financial services. All of our valuation professionals have advanced degrees, such as CPAs and MBAs and we belong to some of the most prestigious business valuation and transaction associations in the Country, such as such as the Association for Corporate Growth, Alliance for Corporate Wealth, Alliance of M&A Advisors, American Society of Appraisers, NEBB Institute, and the Accredited Business Valuers of the AICPA.