



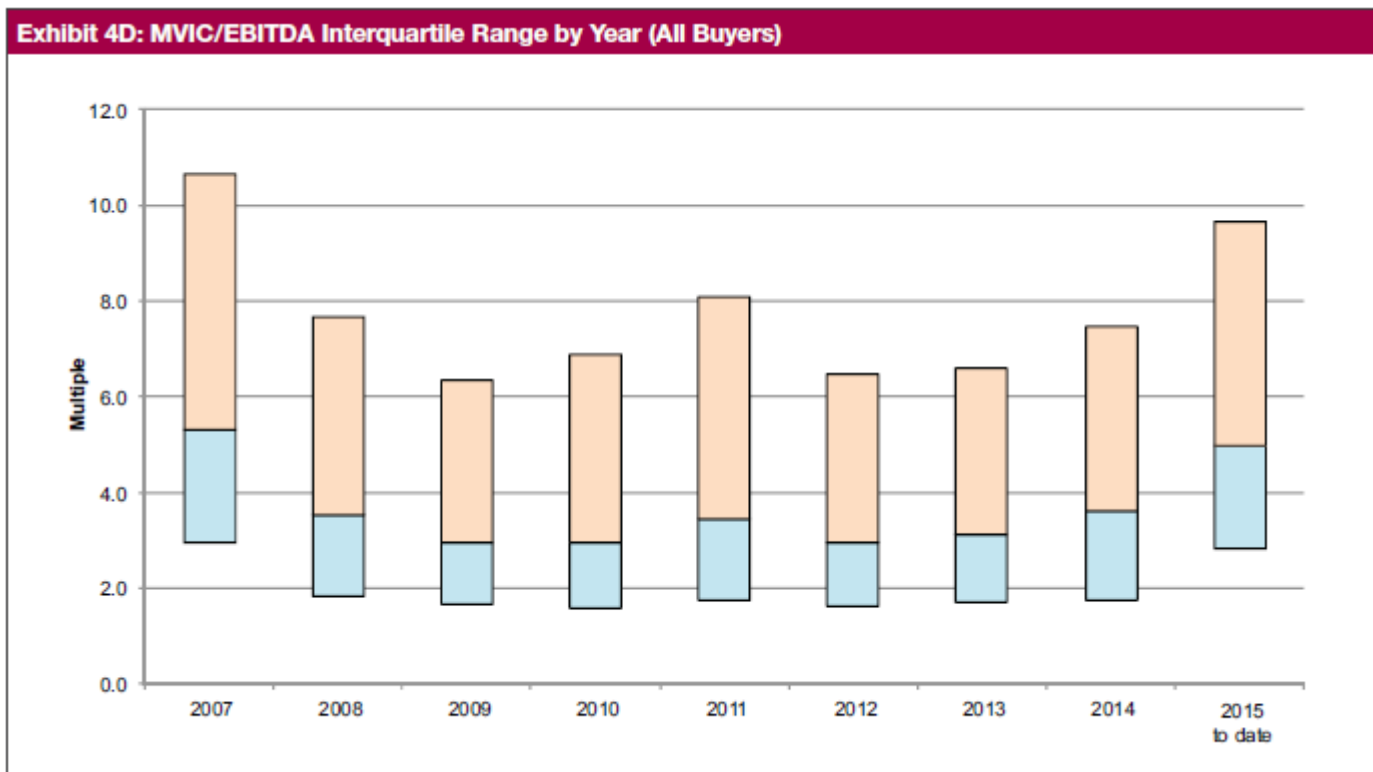
Keys to Transaction
Readiness
Gain Insight



THREE ELEMENTS TO TRANSACTION READINESS



MULTIPLES ARE EXPANDING



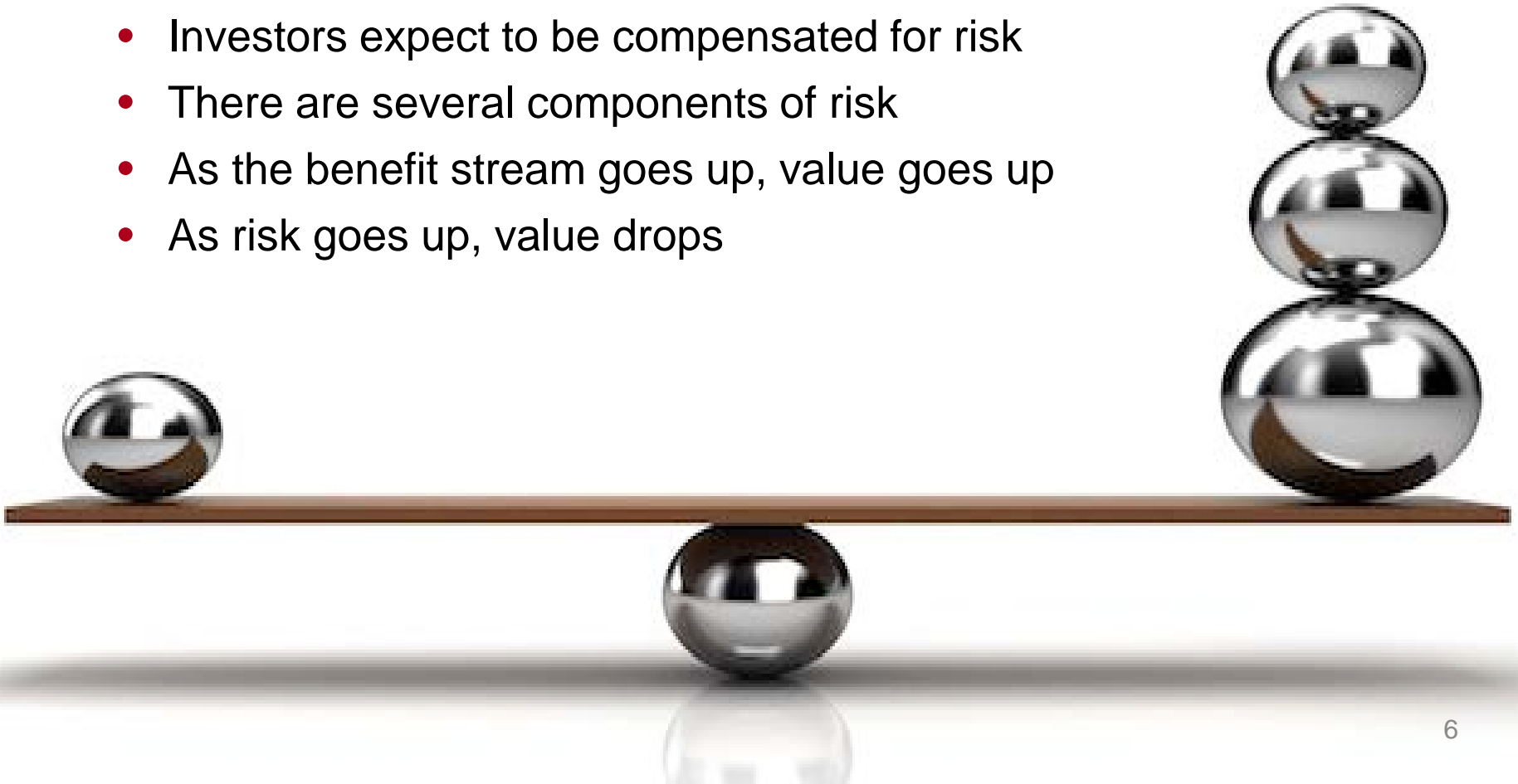
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BEFORE YOU DELVE INTO A VALUATION, UNDERSTAND THE STORY

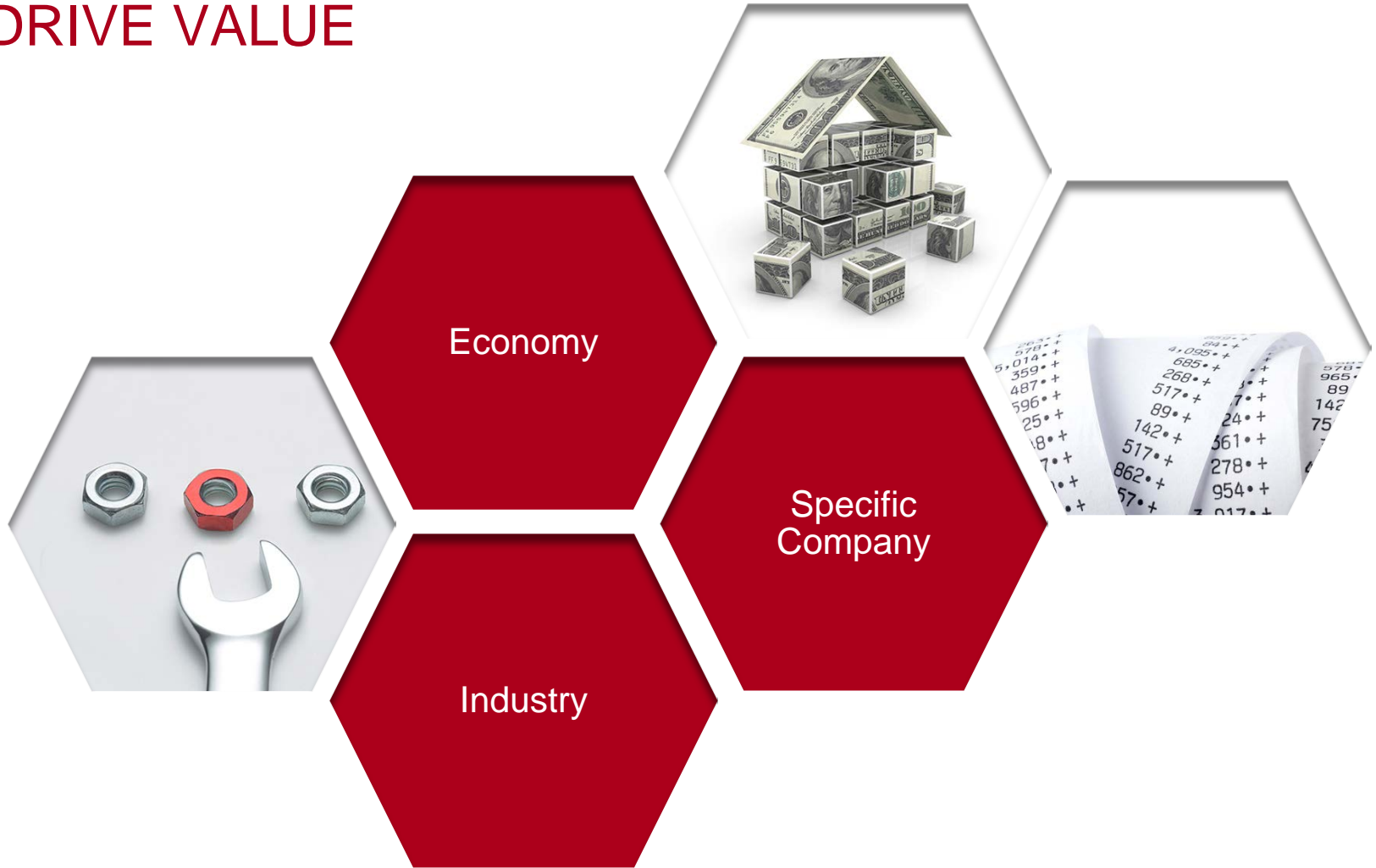


THE BASIC VALUATION EQUATION

- Business Value is a measure of the Company's future benefit stream (usually cash flow) divided by the appropriate rate of return
- Investors expect to be compensated for risk
- There are several components of risk
- As the benefit stream goes up, value goes up
- As risk goes up, value drops



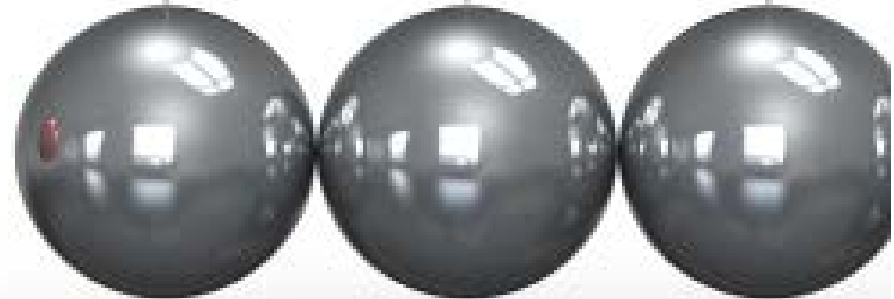
SEVERAL FACTORS THAT DRIVE VALUE



ECONOMIC FACTORS

Performance of the overall economy impacts business value

- Where are we in the overall economy's business cycle?
- How does the current economy impact customers of the business?
- What are the national, regional, and local factors?
- How does the company perform in upswings and downswings in the economy?
- What are inflation expectations?



INDUSTRY FACTORS

Performance against peers is a key input



- What is the current performance of the industry?
- Is seasonality a factor in this industry?
- Who are the key players?
- What are the critical success factors for this industry?
- What is the outlook of the industry?

SPECIFIC COMPANY: BENCHMARKING

How does the specific company compare to industry expectations based on past financial statements?

- Liquidity
- Coverage/Leverage
- Profitability



SPECIFIC COMPANY: MANAGEMENT INTERVIEWS

How well does management understand their business, the industry, and value drivers?

- Quality of financial information
- Knowledge of competitors
- Command of information
- Availability of data

- Knowledge of critical success factors
- Depth of management team
- Understanding of how/why they win business
- Strength of sales and marketing efforts

WHAT DRIVES RISK?

FINANCIAL RISK

- Treasury rates
- Equity risk premium
- Size
- Debt/equity ratios
- Industry performance

COMPANY SPECIFIC RISK

- Volatility of earnings
- Financial performance compared to industry
- Depth of management team
- “Key person” risk
- Customer concentration



PROJECTIONS OF FUTURE PERFORMANCE



ALL VALUATION IS FORWARD LOOKING

We are trying to determine the present value of all future cash flows

- Incorporating the time value of money
- Valuation of securities is, in essence, a prophecy as to the future and must be based on facts available at the required date of appraisal. – RR 59-60 Sec. 3.03
- Why then are we so concerned with the past?

INCREASED RISK DEPRESSES VALUE

Our analysis is focused on
assessing risk

- Risk of industry
- Risk of business
- Risk of not meeting projections



NAVIGATING VALUATION APPROACHES

Three main valuation approaches

- Income
- Market
- Asset



INCOME APPROACH

Based on Company's forecast and historic performance

- Begin with ongoing earnings, then determine the risks associated with achieving those earnings
- Develop the appropriate rate of return to compensate for the risk of investment
- Capitalization of earnings – stable operations
- Discounted cash flow – allows for changes over time

MARKET APPROACH

Based on sales of similar companies

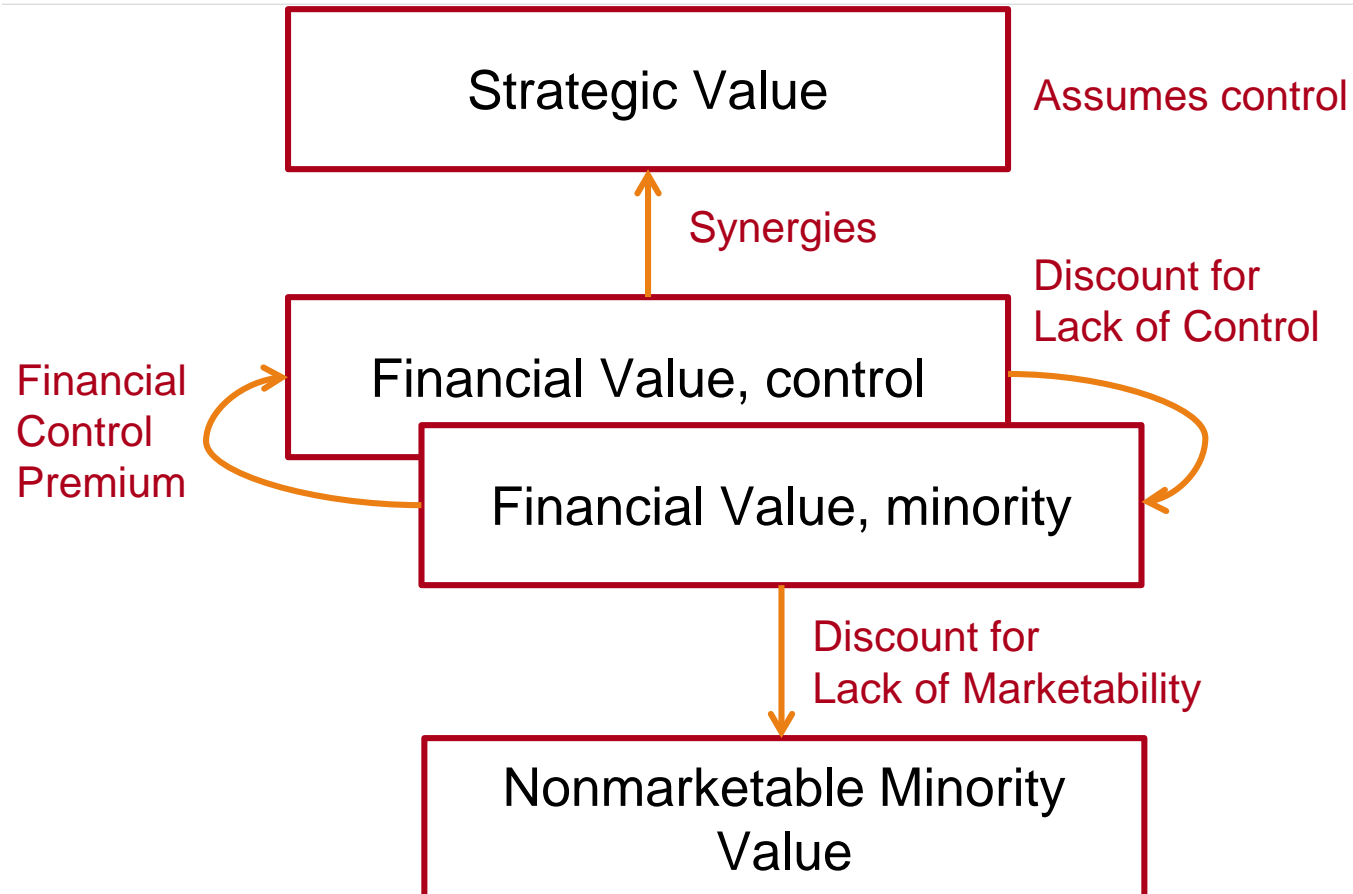
- Either uses sales of whole companies (M&A method), or sales of shares in public companies (public company method)
- Relies on multiples as a proxy for risk
- Different databases report data in different formats
- Available information may not be as detailed, so more data points are generally needed
- Public companies may not look much like the specific company

ASSET APPROACH

Based on fair market value of all assets – tangible and intangible

- Tangible asset values are recorded at historic cost – not the current value
- Difficult to value intangible assets without resorting to an income or market approach

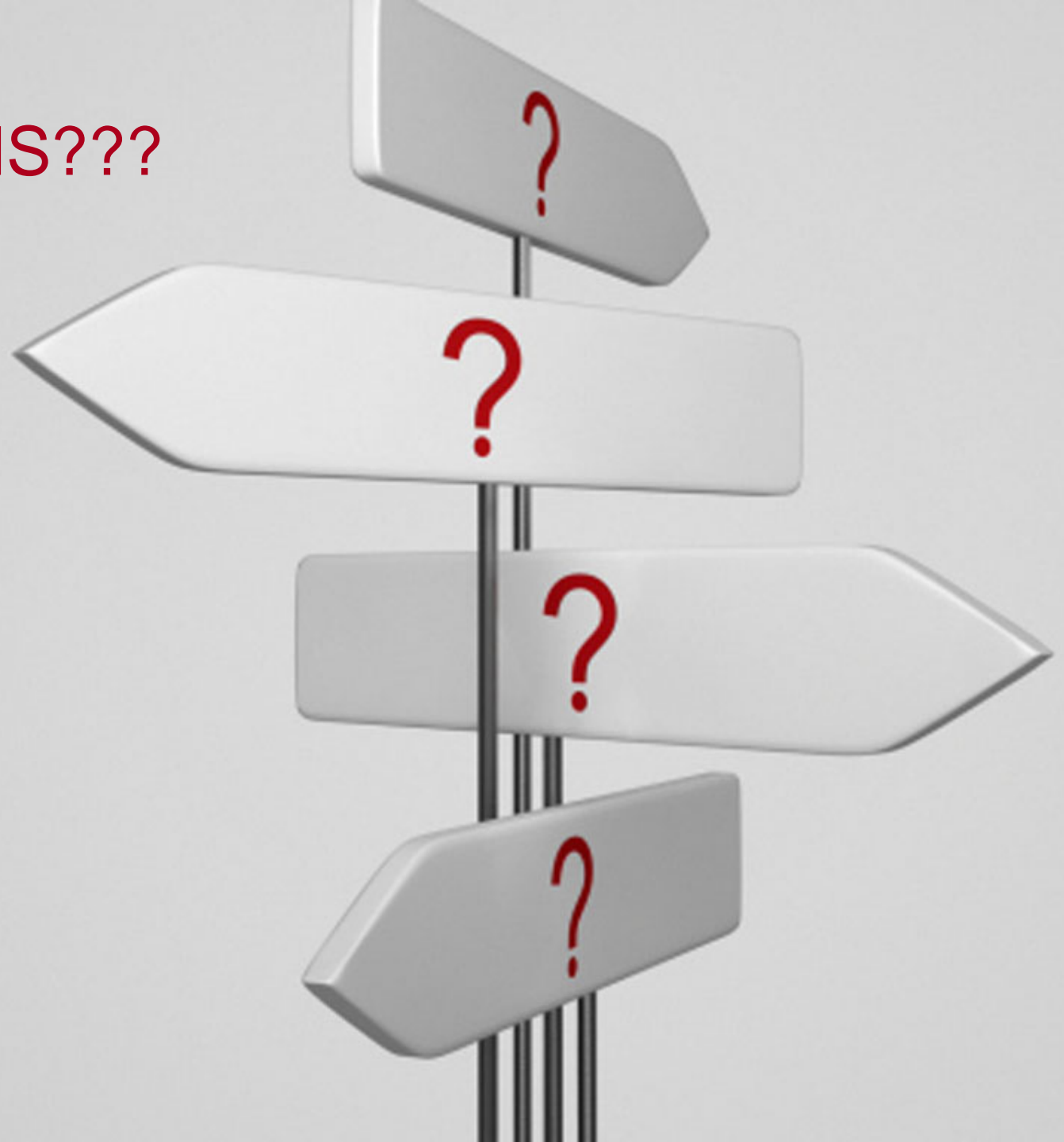
LEVELS OF VALUE



FIND A CLEAR PATH THROUGH THE MAZE



QUESTIONS???



INTERESTED IN MORE? CONTACT US.



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