

Maarschalk Valuations Inc.

Paul Maarschalk CPA, CA; CBV

Presentation for:

Let's Talk Money Bootcamps

April 23, 2015, Kindersley, SK

1: Business valuation: common valuation models

BREAK

2: Preparing to sell

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1: Valuation Models

1. Some key concepts and definitions
2. Earnings based valuation methods
3. Asset based valuation methods
4. A word (or two) about start ups
5. Q & A
6. Worked example (if time allows)

2: Preparing to sell

1. What you can do for the value of your company
 2. Optimizing transferable goodwill
 3. Professional advisers you should use
 4. Q & A
 5. Worked example (if time allows)
-

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VALUATION MODELS

1. KEY CONCEPTS AND DEFINITIONS

- What makes up value?
- What is fair market value?
- How does fair market value compare to price?
- Going concern
- Goodwill
- How comparable are comparables?

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VALUE

is a measure of both the OPPORTUNITY
and the RISK

$$\text{Value} = \frac{\text{Opportunity}}{\text{Risk}}$$

The better the opportunity, the higher the value
The higher the risk, the lower the value

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OPPORTUNITY

Opportunity is the prospect of future economic gain. It can be represented by projections for

Sales	or
Gross profit	or
Net profit	or
Free cash flow	or
Owner's discretionary earnings	or
Earnings before Interest, Tax and Depreciation (EBITDA) or	
Potential capital gain	

Past results are one guide to the future opportunity but judgment is needed.
A SWOT analysis will help.

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RISK

Risk is a measure of the likelihood that the economic opportunity will be realised. Risk can be represented by

Required rate of return % or

Yield % or

a multiple X

or

rose coloured spectacles

Risk is difficult to reduce to a number and requires significant judgment.

Specific risk is best judged by detailed comparison to risk free investments.

Risk is a summary of Strengths, Weakness & Threats (SWOT analysis helps)

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FAIR MARKET VALUE

Fair market value (FMV) is defined as
“the highest price available
in an open and unrestricted market,
between informed and prudent parties,
acting at arm’s length and
under no compulsion to act.

FMV is expressed in terms of current cash (i.e. lump sum)

(i.e. value in a “fair” market)

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FAIR MARKET VALUE

FMV is a notional concept (i.e. assumes that a “fair” market exists)

FMV is **not the same as price**

The **price** at which a business is **sold** is influenced by many factors and is seldom at FMV.

Nonetheless, a calculation of FMV provides a useful base for informed negotiations and the development of an asking / offer price.

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FAIR MARKET VALUE compared to PRICE

“Fair market value” Notional, objective	“Price” What the business sells for
The highest price available;	Usually this is what the seller looks for.
In an open and unrestricted market;	The market is seldom open and unrestricted.
Between informed and prudent parties;	One or both parties may lack info and may not act prudently.
Acting at arm’s length;	Transactions are often <u>not</u> at arm’s length.
Under no compulsion to act;	One party is usually more motivated to act than the other.
Expressed in money (i.e. as if a cash deal).	Transaction terms are seldom all cash on transfer.

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GOING CONCERN

Going concern is a fairly intuitive concept meaning that the business in question will continue to operate for the foreseeable future.

A valuator needs to confirm that the business is a going concern as it affects his / her choice of valuation method.

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GOODWILL

Goodwill - value not directly attributable to tangible assets (inventory, equipment, cash etc)

Goodwill, where it exists, arises because the business as a whole is able to generate better results than expected from the tangible assets on their own

Goodwill may have an identifiable cause (good location, unique product, personal connections with customers & suppliers, superior processes etc)

There are 3 levels of goodwill:

- Transferable – moves with the biz

- Personal, non-transferable – stays with the seller when the biz is sold

- Semi-transferable – could move if the seller & buyer cooperate

There may also be “emotional” goodwill – unquantifiable but paid for (e.g. wineries, ski resorts, art etc). Buyers hope to recover it when they sell.

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MARKET COMPARABLES

Transactions involving the sale of a similar business to the one being valued are useful as a reality check and as an indicator of ballpark price.

Valuators generally have access to various metrics for transactions involving businesses in the same industry.

Business owners often know – or think they know - what their buddy’s business sold for.

However we need to take account of the different circumstances and risks that usually exist between the sample of comparables and the business being valued. “Market Comparables” are seldom truly comparable. Kelly’s Hardware Store in Saskatoon is unlikely to face exactly the same **risks** as Morgan’s Hardware Store in Calgary.

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2. EARNINGS BASED VALUATION METHODS

There are many earnings based valuation methods:

- Multiple of sales
- Multiple of net earnings
- Capitalization / Multiple of EBITDA
- Capitalization / Multiple of net free cash flows

The common feature of all earnings based methods is that they all

- assume the business is a going concern;
- take some measure of future income and
- divide or multiply it by some measure of the risk associated with that income.

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EXAMPLE OF EARNINGS BASED VALUATION MODEL

CAPITALIZATION OF FREE CASH FLOWS – simplified workings

- Step 1: Develop pro forma normalized cash flows
- Step 2: Develop the capitalization rate or multiple
- Step 3: Calculate a value for capitalized cash flow
- Step 4: Examine for redundant assets
- Step 5: Account for liabilities and draft initial conclusion
- Step 6: Test for reasonableness

Figures used in the example are somewhat random.

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Step 1: Develop pro forma normalized cash flows

Sample Co	2013	2014	2015	Pro forma normalized maintainable (range)	
Sales	4,888,830	6,601,259	7,750,953	7,250,000	8,000,000
Cost of Sales	2,809,486	3,313,061	3,516,297	3,262,500	3,750,000
Gross profit	2,079,344	3,288,198	4,234,656	3,987,500	4,250,000
Wages/benefits	638,343	723,217	730,500	750,000	800,000
Owners' salaries	350,000	575,000	675,000	700,000	750,000
Automotive	103,870	269,371	389,971	320,000	337,500
Rental (notional, co owns the L&B)				225,000	230,000
Amortization	98,452	193,135	256,858	250,000	250,000
Interest on term debt	56,789	88,213	120,318	120,000	125,000
All other overheads	186,911	283,428	379,426	385,000	405,000
Total expenses	1,434,365	2,132,364	2,552,073	2,750,000	2,897,500
Income (loss) before taxes	644,979	1,155,834	1,682,583	1,237,500	1,352,500
Provision for income taxes	103,197	208,050	319,691	229,750	255,050
Net income (loss)	541,782	947,784	1,362,893	1,007,750	1,097,450
Effective tax rate	16.0%	18.0%	19.0%	18.6%	18.9%
EBITDA	800,220	1,437,182	2,059,759	1,607,500	1,727,500
Taxes to be paid				270,000	280,000
Sustaining capital expenditure, net of tax				110,000	125,000
Free cash flow before debt servicing				1,227,500	1,322,500

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Step 2: Develop capitalization rates / multiples (the build-up method)

Sample Co

Capitalisation rates / Multiples

	Range	
Risk free rate	0.62%	0.62%
Equity risk premium	7.75%	7.75%
Expected yield on public equities (after tax)	8.37%	8.37%
Industry risk premium	1.35%	1.68%
Expected yield on public equities in the industry	9.72%	10.05%
Adjust to pre-tax yield 25%	12.96%	13.40%
Base rate rounded to	13.00%	13.50%
Company specific risks		
General risks for small private company	11.00%	12.00%
Limited assets on which to secure credit line	0.50%	1.00%
Forecasting risk	1.50%	2.00%
Key management dependency risk	5.00%	5.50%
Competitive landscape risk - new entrants	3.00%	4.50%
<i>There are usually other, often very different risk premiums</i>		
<i>The purpose of the premiums is to distinguish the target co from the base</i>		
Est. required yield for investment in the business	34.00%	38.50%
Multiple to apply to cash flows (inverse of yield)	2.94	2.60

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Step 3: Apply capitalization rates / multiples to pro forma cash flows

A: Est. pro forma cash flows per step 1:	1,227,500	1,322,500
B: Suitable cap. rates per step 2	34.0%	38.5%
C: Capitalized cash flow (A / B)	\$3,610,294	\$3,435,065

OR

A: Est. pro forma cash flows per step 1:	1,227,500	1,322,500
B: Suitable multiple per step 2	2.94	2.60
C: Capitalized cash flow (A x B)	\$3,608,850	\$3,438,500

The minor differences are just in the rounding of the cap rate / multiple. Essentially the calculations tell us that the capitalized value of cash flow lies in the range **\$3,440,000 to \$3,610,000**.

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Step 4: Examine for redundant assets

Redundant assets = assets that the business does not require to generate the expected level of business.

Redundant assets could be withdrawn without impacting the profitability of the business (and should be withdrawn ahead of a transition).

Redundant assets usually take the form of excess cash, receivables or inventory.

Redundant assets can include land and buildings owned by the company and used “rent free”.

When the value of the business is calculated using a multiple of earnings method, redundant assets are added to the value so calculated in order to establish the total business value.

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Step 4: Examine for redundant assets (working capital)

Various ratios etc are used to estimate an ideal level of working capital. The ideal level of working capital is based on industry norms and historical operations.

Balance sheet of company being valued:

	Actual	“Ideal”	Redundant
Cash	820,000	600,000	220,000
Inventory	1,250,000	1,500,000	0
Receivables	850,000	750,000	<u>100,000</u>
Total redundant assets			<u>\$320,000</u>

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Step 4: Examine for redundant assets (land & buildings)

Real estate has a different risk profile to active business and it is normal when calculating value based on earnings to notionally charge rent to the business and then add back the value of the property, at its FMV.

	<u>2015</u>
Land at cost	1,076,095
Buildings at cost	2,187,378
Buildings - accumulated depreciation (2014 est.)	(2,000,138)
Property book value	<u>1,263,335</u>
Property value per Prov Assessment	<u>3,542,000</u>
Est. Fair market value	<u>3,896,200</u>
Estimated FMV of land and buildings (rounded down)	<u>\$ 3,890,000</u>

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Step 5: Account for liabilities and draft initial conclusion

Per step 3, capitalized cash flow	\$3,440,000	\$3,610,000
Add: redundant assets, per step 4		
Working capital	320,000	320,000
Land & buildings	<u>3,890,000</u>	<u>3,890,000</u>
	7,650,000	7,820,000
Deduct: Term debt*	<u>(2,000,000)</u>	<u>(2,000,000)</u>
<u>FMV available for shareholders</u>	<u>\$5,650,000</u>	<u>\$5,820,000</u>

* Term debt – same debt whose interest was added back in Step 1

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Step 6: Reasonableness testing (a) By reference to return on goodwill

A: FMV per step 5	\$5,685,000	5,820,000
B: FMV of net <u>tangible</u> assets	<u>2,990,000</u>	<u>2,990,000</u>
C: FMV of Goodwill (A-B)	2,695,000	2,830,000
D: Est. Free cash flows per Step 1	<u>1,227,500</u>	<u>1,322,500</u>
<u>Years' free cash flow in goodwill (C/D)</u>	<u>2.2</u>	<u>2.1</u>

Question: Would a buyer be prepared to wait ~ 2 years to get his investment back from cash flow?

(he/she can get part of the investment back by selling tangible assets if the business fails, the goodwill in the biz is 100% dependent on cash flow).

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Step 6: Reasonableness testing (b) By reference to market comparables

Multiples based on suitable metrics for comparable businesses sold across N America

Basis for comparability:

Time period: 1/1/2010 to present

NAICS code used: XXX

Sales in the range: \$5M to \$10M

No. of businesses considered: 12 businesses reasonably match target co

Sale valuation data:

Obvious outliers were excluded	Median	Average	Highest	Lowest
Saleable assets incl goodwill to sales revenue	1.19	0.98	3.50	0.62
Saleable assets incl goodwill to EBITDA	5.20	4.38	10.00	1.37

Data for Sample Co

Saleable assets incl goodwill	7,650,000	7,820,000
Sales revenue (pro forma)	7,250,000	8,000,000
EBITDA (pro forma)	1,610,000	1,727,000
Saleable assets incl goodwill to sales revenue	1.06	0.98
Saleable assets incl goodwill to EBITDA	4.75	4.53

Question: do the results for Sample Co fit the ballpark of the comparables?

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Other earnings based valuation methods and some key pointers

- Other earnings based valuation methods follow a similar pattern to the one in the previous slides
- It is critically important that the measure of opportunity used in the calculation is consistent with the measure of risk
- e.g. if EBITDA is used as the measure of opportunity, the multiple used should be one that is usually applied to EBITDA and not, for example, to free cash flows
- If the measure of opportunity is a pre-tax one, the measure of risk should also be pre-tax
- Pro forma's should reflect the likely performance of the biz under present conditions and should assume that management is at arms' length, i.e. management remuneration is market related

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3. ASSET BASED VALUATION METHODS

Asset based valuation methods are appropriate where:

- The biz is not a going concern or
- The biz is a going concern but there is clearly no goodwill or
- The assets in the biz have a value that is not derived from the income they generate

There are 2 main asset based valuation methods:

- Liquidation method (which could be orderly or forced)
- Adjusted net asset method

The methods involve simple calculations. Risk plays very little role.

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EXAMPLES OF ASSET BASED VALUATION METHODS

	Book value per balance sheet	Fair market value in continuing use	Auction values	Orderly slow sale	Forced liquidation value	Orderly liquidation value	Adjusted net asset value
ASSETS							
Inventory	100	100	10	50	10	50	100
Receivables	150	150	50	100	50	100	150
Property & equipment	1,250	1,750	500	1,500	500	1,500	1,750
Real estate	900	3,000	2,000	2,750	2,000	2,750	3,000
Subsidiary	100	7,500	3,000	6,000	3,000	6,000	7,500
Total assets	2,500				5,560	10,400	12,500
LIABILITIES							
Bank	750	750	550	750	550	750	750
Payables	200	200	50	200	50	200	200
Govt. remittances	50	50	50	50	50	50	50
LT debt secured by r/e	2,500	2,500	2,000	2,500	2,000	2,500	2,500
Total liabilities	3,500				2,650	3,500	3,500

FMV assuming biz is not a going concern & is faced with imminent liquidation

\$2,910

FMV assuming biz is not a going concern but can be wound up gradually

\$6,900

FMV assuming biz is a going concern

\$9,000

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4. START-UPS

From a valuation perspective start-ups present unique challenges:

	Mature businesses – reasonably reliable metrics	Start-ups – often no metrics, especially for game changers
Opportunity	Established in the market	May have little traction
	Systems in place	No systems – operationally ad hoc
	Past results provide base for projecting future results	No past results – future results are very speculative
Risks	Relatively easy to identify and quantify	Multitude of risks – product, market, mgmt., sources of cash,
		Almost impossible to quantify
Comparables	Available albeit challenging	Even more difficult to find

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START-UPS – approaches / challenges to valuation

1. Negotiation – it almost always comes down to this but it pays to have some rational basis for the “ask”
2. Many methods, most involve a high level of speculation
3. Cost method – most simple and seldom valid (cost does NOT = value)
4. Angel investors generally look for 10X in 7 years – equates to ~ 47% ROI (this would be the cap rate IF reliable pro forma's could be developed)
5. The best method (in my view) is very technical and multi-stage. It involves projecting a future value on the assumption that the company will be successful and will mature to the point that conventional valuation methods can be applied. The future value (as if mature) needs to be present valued, taking a/c of the many obstacles to success (each probability weighted) and the capital needed along the way. Many levels of judgment required.

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QUESTIONS?

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EXAMPLE:

Year to Apr 30	2012	2013	2014	2015	Pro forma
Sales	1,250	1,400	1,359	1,530	
Cost of sales	375	406	435	428	
Gross profit	875	994	924	1,102	
Wages	250	265	300	325	
Amortization	45	42	38	45	
Interest on term debt	89	82	75	95	
Owners' salaries & bonuses	275	375	300	350	
Rent	-	-	-	-	
Other overheads	125	150	200	185	
Total expenses	784	914	913	1,000	
Net profit before tax	91	80	11	102	
Tax @ 15%	14	12	2	15	
Net profit after tax	77	68	9	86	
EBITDA	225	204	124	242	
Replacement capital expenditure	25	26	27	28	
Free cash flow before tax	200	178	97	214	
Free cash flow after tax (15%)	170	151	83	182	

Market related rent (2015) 100

Market related owner salaries (2015) 125

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EXAMPLE:

Balance sheet at valuation date

Cash	45
GIC's (effectively owner's savings)	150
Inventory (ideal = 200)	250
Receivables (all collected in 30 days)	125
Plant & equipment	650
Land & buildings - FMV	1,000
Payables	275
Term debt	1,250
Net tangible assets	695

Redundant assets

Capitalization rates

Required return on after tax free cash flow for this type of business	20%	25%
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What is the approximate value of the company?

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POSSIBLE SOLUTION:

Year to Apr 30	2012	2013	2014	2015	Pro forma	
Sales	1,250	1,400	1,359	1,530	1,500	1,600
Cost of sales	375	406	435	428	435	480
Gross profit	875	994	924	1,102	1,065	1,120
Wages	250	265	300	325	350	365
Amortization	45	42	38	45	43	42
Interest on term debt	89	82	75	95	90	85
Owners' salaries & bonuses	325	400	300	425	125	125
Rent	-	-	-	-	100	100
Other overheads	125	150	200	185	200	225
Total expenses	834	939	913	1,075	908	942
Net profit before tax	41	55	11	27	157	178
Tax @ 15%	6	8	2	4	24	27
Net profit after tax	35	47	9	23	133	151
EBITDA	175	179	124	167	290	305
Replacement capital expenditure	25	26	27	28	28	29
Free cash flow before tax	150	153	97	139	262	276
Free cash flow after tax (15%)	128	130	83	118	223	235

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POSSIBLE SOLUTION:

Balance sheet at valuation date		Redundant assets	
Cash	45		-
GIC's (effectively owner's savings)	150		150
Inventory (ideal = 200)	250		50
Receivables (all collected in 30 days)	125		-
Plant & equipment	650		
Land & buildings - FMV	1,000		
			<u>1,000</u>
			<u>1,200</u>

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POSSIBLE SOLUTION:

What is the approximate value of the company?

Free cash flow after tax - pro forma	223	235
Cap rate	20%	25%
Capitalized cash flow	1,114	938
Add redundant assets	1,200	1,200
Deduct Term debt	(1,250)	(1,250)
Value attributable to shareholders	1,064	888

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POSSIBLE SOLUTION:

Reasonableness test (years' cashflow in goodwill)

Value attributable to shareholders	1,064	888
Net tangible assets	695	695
Goodwill	369	193
Free cash flow after tax - pro forma	235	223
Years' cashflow in goodwill	1.6	0.9

Question: is this reasonable in the circumstances?

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PREPARING TO SELL

1. What you should do to optimize the value of your company before you sell
2. Optimizing transferable goodwill
3. Professional advisers you should use
4. Q & A
5. Exercise

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Issues that add to the value of your business

- Strong, well balanced management team – strategy, sales, production, finance
- Low reliance on owner
- Continuing demand for products and services (with R&D to stay ahead)
- Predictable revenues and costs
- Good profit margins
- High value, tangible, independently saleable capital assets (equipment ..)
- Simple capital structure
- Low debt
- Good relationship with bankers
- Long serving, loyal, well managed, contributing employees
- Efficient and accurate financial reporting
- Dispute-free relationships with stakeholders
- Good systems (documented)
- Assignable agreements

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Issues that detract from the value of your business

- Poor management / gaps in the team
- High reliance on owner
- Uncertain demand for products and services
- Weak financial reporting
- History of poor financial forecasting
- Weak or non-existent systems
- Old equipment
- Narrow profit margins
- Too many personal-to-owner costs borne by the business
- Poorly understood intangible assets
- High employee turnover
- Disputes with stakeholders
- History of changing banks

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External influences on price

- Buyers' criteria – some buyers may be motivated to pay more than others
- Number of qualified buyers and maintenance of interest
- Stage of negotiations – who blinks first?
- Availability and cost of funding (debt and equity)
- What's being bought (shares?, business assets?)
- % of business being transferred
- Calibre of advisers & ability to understand / manage the risks

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Shares vs Assets

The case for a share deal

- Sellers normally prefer to sell shares
- Cleaner deal
- Lifetime capital gains allowance easier to apply

The case for an asset deal

- Buyers normally prefer to buy assets
- No hidden liabilities
- Tax bump on assets
- Requires less due diligence
- **BUT** certain contracts may attach to the company (leases, tax refunds, employees, IP etc) – in these cases buyer should buy shares

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Key issues to facilitate a successful sale

- Succession requires time and planning
- Before your plans become public knowledge, figure out how to ensure that the biz will not be negatively impacted by your departure
- Make sure you can articulate your business fundamentals to any potential acquirers
- Be sure you know what your business is worth, where the value lies and how much of its goodwill value is transferable
- Make sure you have a good tax adviser – don't give the government any more than you have to
- Have a plan for what you will do after the sale
- Have a plan for what you will do with the proceeds

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Planning for enhanced value and price prior to sale

- ▶ Start planning a sale at least 2 – 3 years in advance
- ▶ List who the buyers could be (3rd party, family, employees etc)
- ▶ Understand the current components of value - be sure that there really is something to sell
- ▶ Address all the negative influences on value
- ▶ Consider restructuring the business – remove redundant assets
- ▶ Clean up the financial reporting
- ▶ As far as possible transition personal goodwill (normally non-transferable) into commercial goodwill (transferable) OR consider how you can cooperate with a buyer to ensure that goodwill “sticks” when the business transfers. The next few slides deal with this issue

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Types of goodwill and ease of transfer

Type of goodwill

Location

Superior product

Superior service

Connections with suppliers

Connections to customers

Superior negotiating ability of the owner

Trade marks, patents, licences, tenures, etc

Other

Ease of transfer to new owner

Easy – goes with the building/lease

Should be relatively easy

Training, more than for products

More challenging

More challenging

Difficult, almost impossible

Should be easy but can be overlooked-depends on legal title.

Depends on what it is

Objective

Insightful

Articulate

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How much of the goodwill depends on the current owner (seller)?

Superior product / service?

Connections with suppliers?

Connections to customers?

Superior negotiating ability of the owner?

A buyer will not want to pay for goodwill that may walk out of the door.

By making it easier for goodwill to transfer successfully and completely a seller can seek a higher price.

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Ensuring transferable goodwill does actually transfer to the new owner

This single area leads to the greatest disappointments for buyers (and is thus the greatest risk for sellers as well).

By demonstrating willingness to share in the transfer of goodwill the seller should be able to secure a better price.

1. Ensure purchase and sale agreements cover all identifiable intangibles – leases, trade marks, licences etc. Some may be registered to the company so require special attention if the business is sold out of the company.
 2. Non-compete agreement – but be sure it's reasonable
 3. Achieving full delivery of goodwill to the buyer requires a specified handover period (in the sale agreement) with agreed targets and deliverables:
 - Connections with suppliers, key customers etc - personal introductions
 - Superior product or service – supervision etc
 - Superior negotiating ability of seller – mentoring agreement if possible
-

Objective

Insightful

Articulate

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Ensuring transferable goodwill does actually transfer to the new owner

4. Allow buyer a hold back payable only on complete transfer of goodwill (requires care in negotiating the deliverables)
5. The buyer's hold-back is different to a vendor loan, which is really just a form of financing

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3. Other professionals that could / should be used on business transfer:

1. **Lawyer** – due diligence for buyer, papering the deal (usually buyer's lawyer). Buyer needs suitable protections as in representations and warranties. Seller also needs good legal advice. Should be lined up early in the process.

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Other professionals that could / should be used on business transfer:

1. Lawyer
2. **Tax specialist** – advice to seller (especially) and buyer. Should be brought in very early for the seller. Helps to know how to structure the sale (shares or assets?). Will help with “purifying” the company ahead of a sale – moving assets to ensure seller can use the lifetime capital gains exemption.

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Other professionals that could / should be used on business transfer:

1. Lawyer
2. Tax specialist
3. **Business valuator** – if scale or complexity warrants, especially if there is a large element of rational goodwill. Some sellers have no idea of value and may need a suggested range before beginning the process. Buyer may need an independent view on the asking price. A business valuator can also help with due diligence (especially the risks) and structuring the sale.

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Other professionals that could / should be used on business transfer:

1. Lawyer
2. Tax specialist
3. Business valuator
4. **Property appraiser** – if real estate is a substantial part of the deal. A business valuator is not qualified to appraise property, although they may estimate (ok if real estate is not the main asset). Property appraiser should appraise the property on the 3 standard methods – cost, income, comparable property. Property appraiser should be qualified / experienced in the type of real estate being appraised. Bring in very early in the process.

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Other professionals that could / should be used on business transfer:

1. Lawyer
2. Tax specialist
3. Business valuator
4. Property appraiser
5. **Banks / Funding partner** (for buyer) – the buyer should arrange this. A dose of realism early on is essential. Could lead to a different deal – e.g. separating the real estate from the business with a lease or buy-back. Applies also to businesses with heavy equipment – alternative financing could make an otherwise un-finance-able deal work

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Other professionals that could / should be used on business transfer:

1. Lawyer
2. Tax specialist
3. Business valuator
4. Property appraiser
5. Banks / Funding partner
6. **Financial adviser** (for seller) – seller needs to know early on what he/she will do with the proceeds. Retiring sellers should be concerned with monthly cash flow. Financial adviser could show seller that 100% lump sum is unnecessary - opens the way to a deal more achievable for the buyer.

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Other professionals that could / should be used on business transfer:

1. Lawyer
2. Tax specialist
3. Business valuator
4. Property appraiser
5. Banks / Funding partner
6. Financial adviser
7. **Life coach** – sellers sometimes hold back because they don't know what they will do after they sell. Bring in early on to help the seller adjust (and relax!).

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Other professionals that could / should be used on business transfer:

1. Lawyer
2. Tax specialist
3. Business valuator
4. Property appraiser
5. Banks / Funding partner
6. Financial adviser
7. Life coach
8. **Coaches / mentors** (for the buyer). Depends on the buyer. Bring in early.

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Other professionals that could / should be used on business transfer:

1. Lawyer
2. Tax specialist
3. Business valuator
4. Property appraiser
5. Banks / Funding partner
6. Financial adviser
7. Life coach
8. Coaches / mentors
9. **Business broker** (take care with selection. Look at their success rate. It helps for you to have a full understanding of the biz and its value before appointing a broker. Brokers generally need a real estate license so choose a broker with demonstrated business knowledge as well).

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Knowing when to bring in other professionals

- It's never too early to bring in other advisers
- Consider use of non-disclosure / confidentiality agreements with advisers
- Consider cost effectiveness in case of small businesses
- All advisers should be as objective as possible to best serve the client
- A lawyer and a tax specialist should be considered essential

Objective

Insightful

Articulate

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QUESTIONS?

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Chartered Business Valuators

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Objective

Insightful

Articulate

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EXERCISE

This is an opportunity for you to reflect and make notes on the following:

1. What issues are detracting from the value of your business?
2. What are the main components of value in your business?
3. How much of the value in your business is intangible, i.e. goodwill?
4. Of the value in your business that is made up of goodwill:
 1. How much is easily transferable ?
 2. How much is definitely non-transferable?
 3. What could you do to increase the amount of goodwill that actually transfers and “sticks” (i.e. is not lost by the buyer)?
5. Make a list of all the professionals who you think you will need to assist in the sale process and when you will need them.