



Value, Timing, and Transition: The Drivers of Owner Wealth

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Valuation Methods – Income Approach

Income Approach

Value is equal to the risk-adjusted present value of projected future cash flows to be generated by the company.

Pros

Allows the calculation of a value specific to the company's expected future performance.

Cons

Future performance is difficult to forecast accurately, and risk is difficult to assess.

		Year 1	Year 2	Year 3	Year 4	Year 5
Projected cash flow (a)		\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
Discount rate (risk factor) (b)	15.0%	0.86957	0.75614	0.65752	0.57175	0.49718
Present value (a * b) (c)		\$ 86,957	\$ 75,614	\$ 65,752	\$ 57,175	\$ 49,718
Total present value (sum of c)		\$ 335,216				

Valuation Methods – Market Approach

Market Approach

Value is equal to a fundamental measure of company performance (e.g., EBITDA or revenue) multiplied by a multiple derived from market indications

Pros

Value is based directly on closed transactions or the market value of publicly traded companies

Cons

Does not account for differences between companies not reflected in the multiple, such as growth prospects

	Enterprise value (EV)	EBITDA	EV / EBITDA
Comparable public company / transaction #1	\$ 100,000	\$ 10,000	10.0x
Comparable public company / transaction #2	\$ 90,000	\$ 8,000	11.3x
Comparable public company / transaction #3	\$ 150,000	\$ 12,000	12.5x

Valuation Methods – Cost Approach

Cost Approach

Value is equal to the net assets and liabilities on the company's balance sheet, with each adjusted to fair market value

Pros

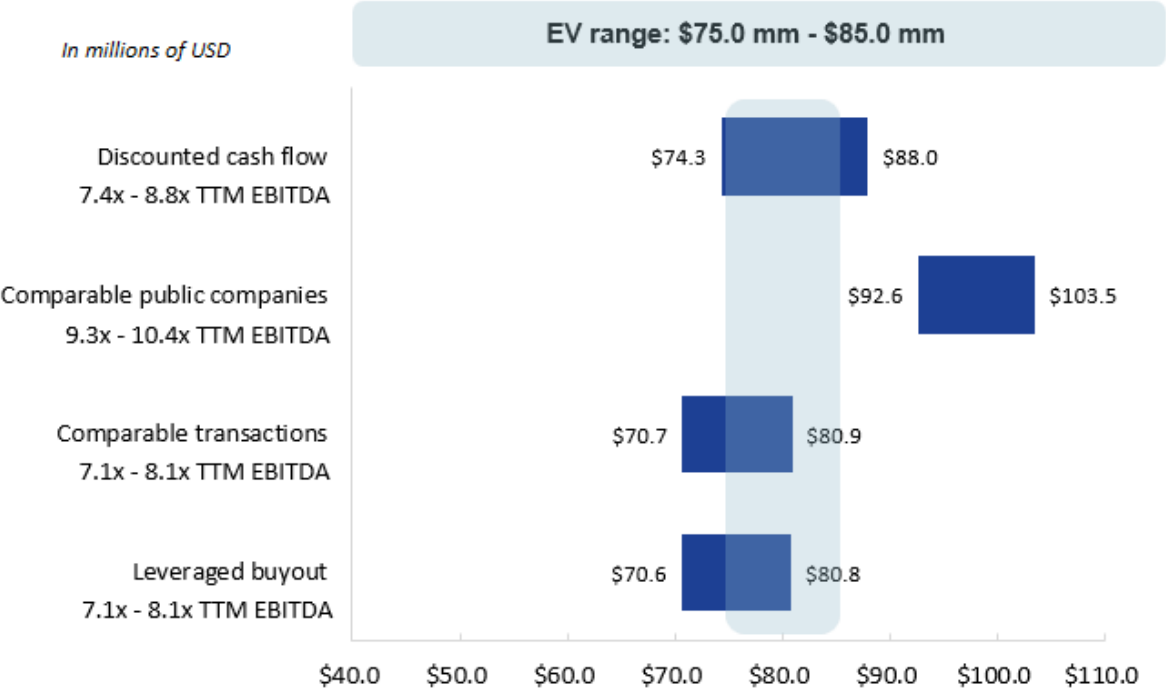
Easy to understand and can be used in cases where the company's earnings or cash flows are very low or negative

Cons

Not suitable for profitable operating companies, as most intangible assets are not recorded on the balance sheet

	Book value		Adjustment		Fair market value
Assets	\$	100,000	\$	20,000	\$ 120,000
Liabilities	\$	50,000	\$	-	\$ 50,000
Equity	\$	50,000	\$	20,000	\$ 70,000

Concluded Value Range – Enterprise Value



Concluded Value Range – Equity Value

<i>In thousands of USD</i>	<u>Low</u>		<u>High</u>	
Enterprise value range (from prior page)	\$	75,000	\$	85,000
Multiple of EBITDA		7.5x		8.5x
Debt	\$	(4,000)	\$	(4,000)
Net non-operating assets		-		-
Equity value range	\$	71,000	to \$	81,000



Considerations:



Financial Position and Business Value



Timetable and Market for Your Business

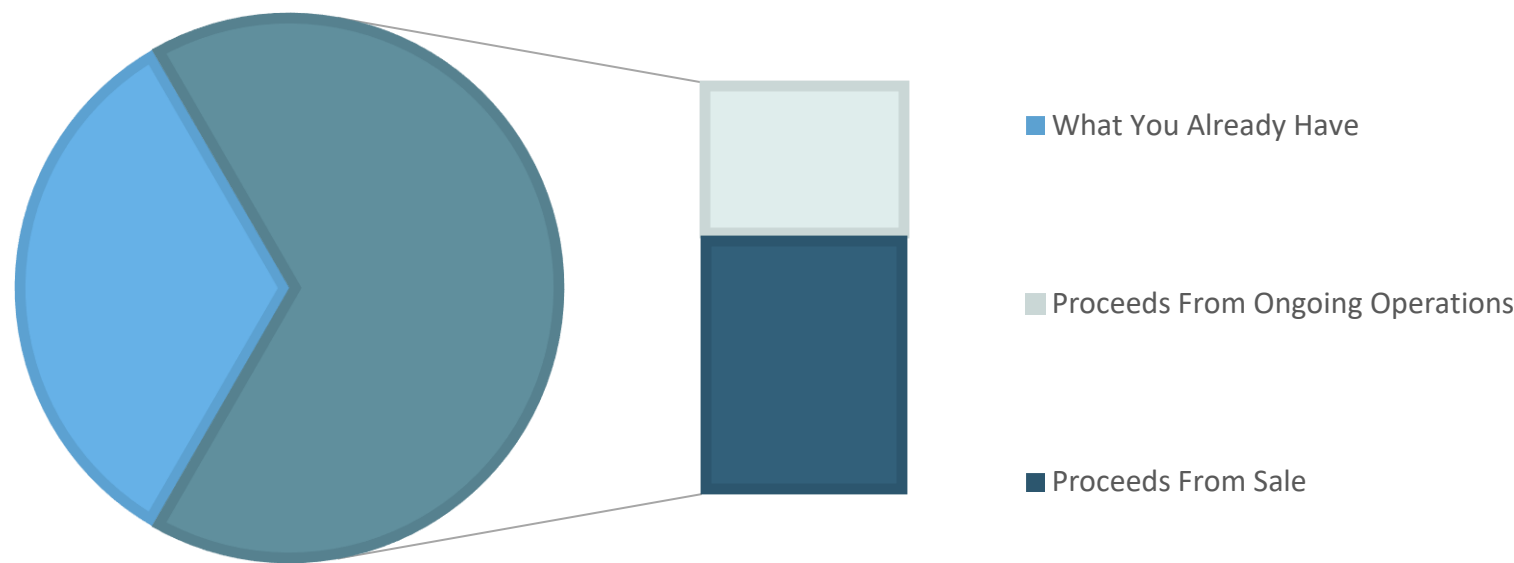


Ongoing Risk Tolerance



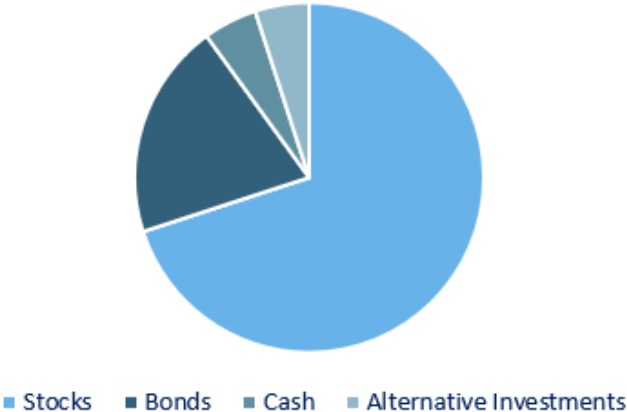
Emotional Preparedness

Financial Requirement

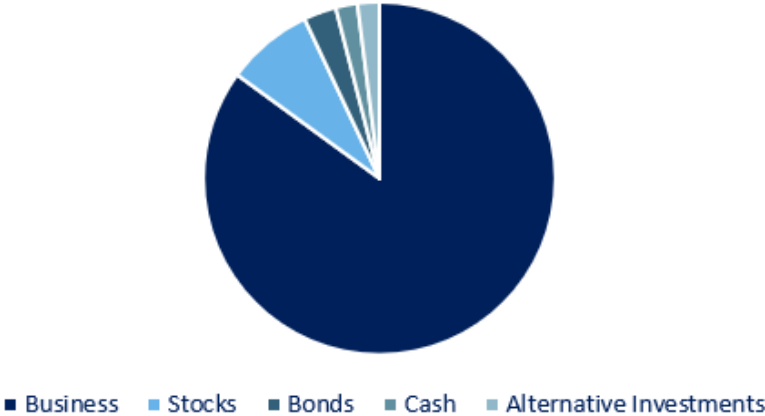


Risk Tolerance

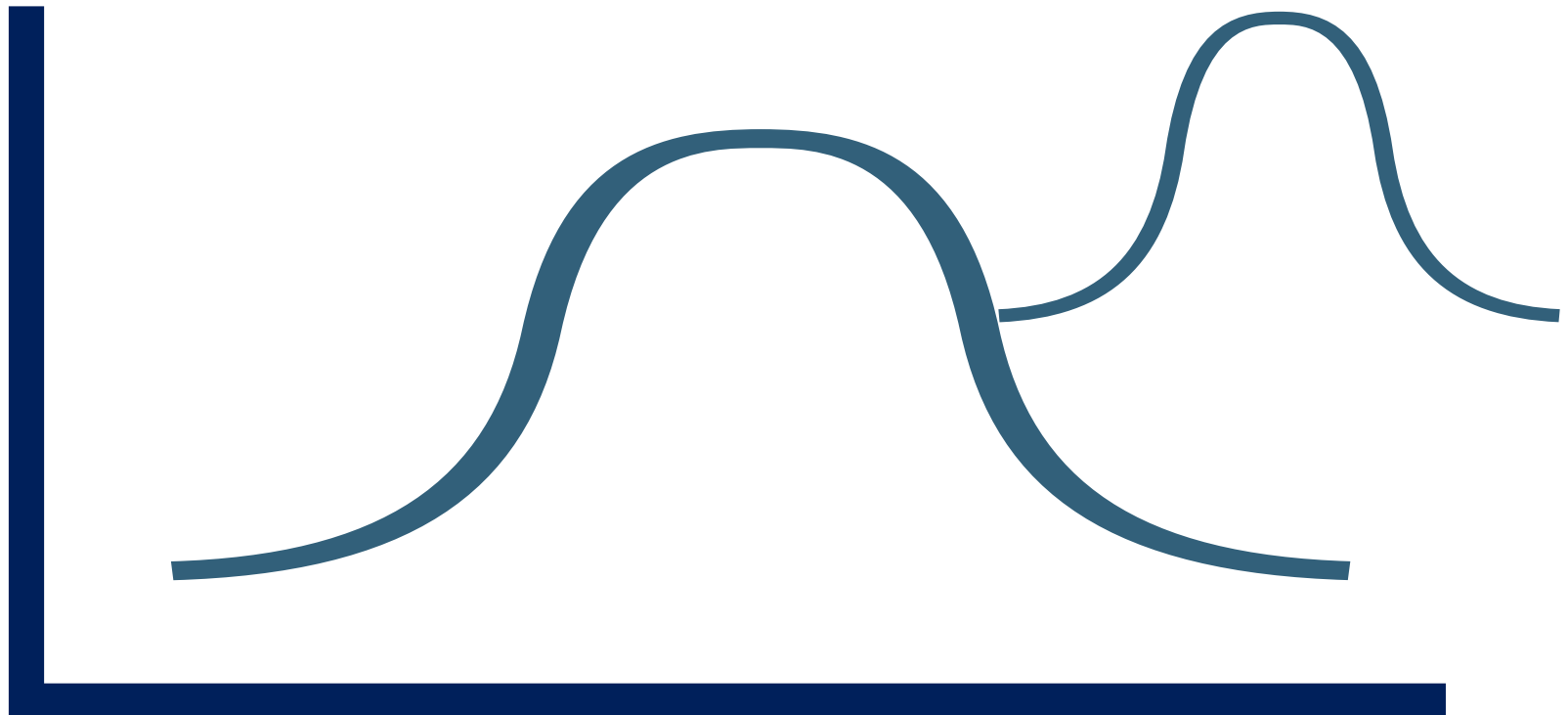
Typical Portfolio



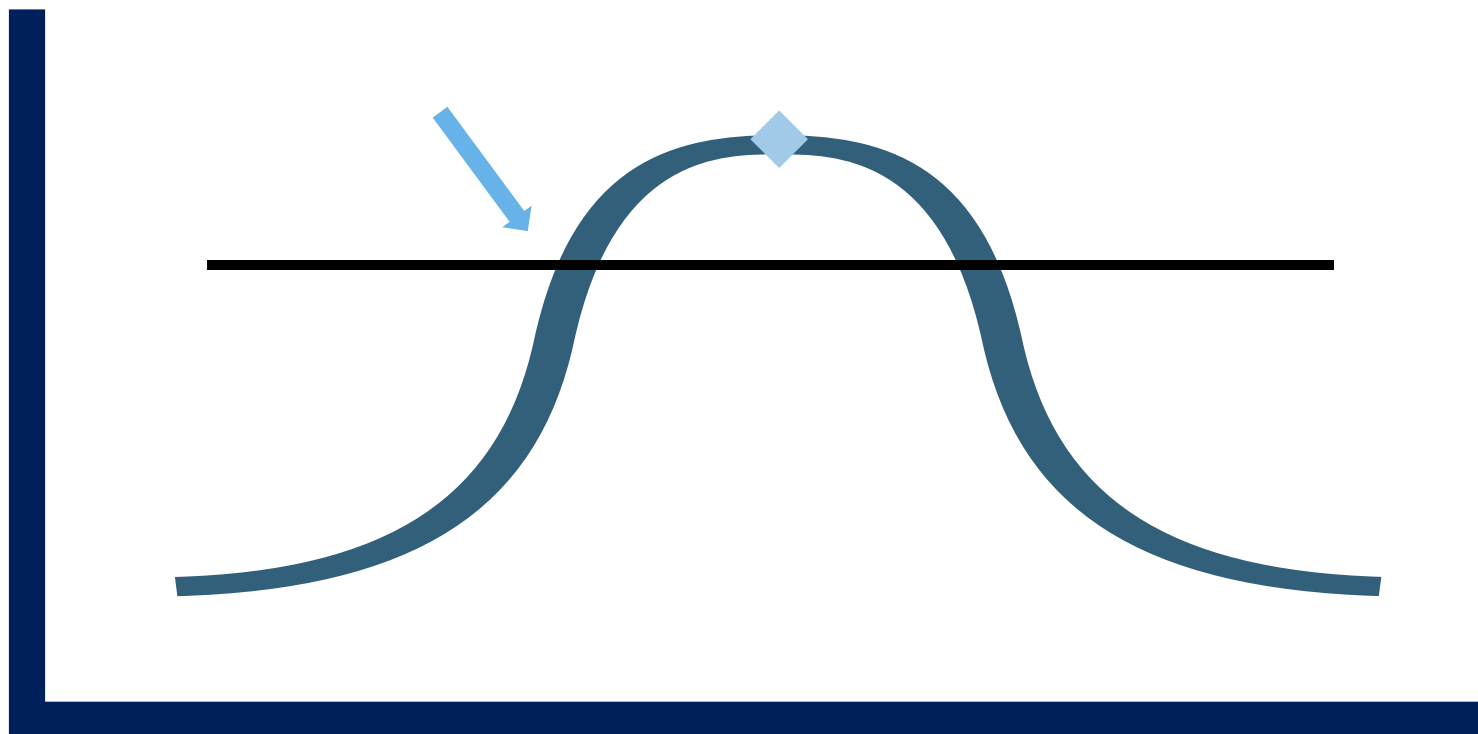
Business Owner's Portfolio



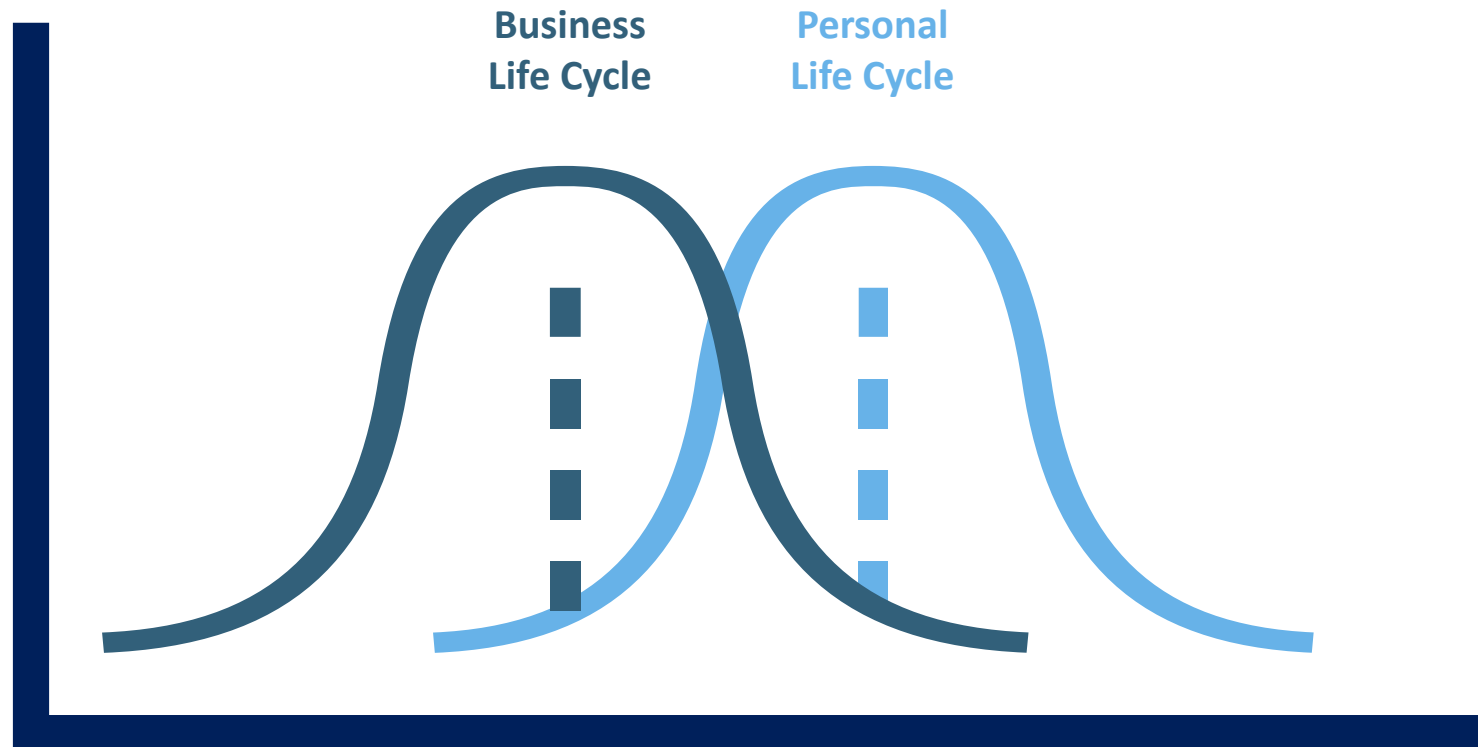
Business Value Over Time w/ Enhancement



Business Value Over Time and When to Sell



Life Cycles: Business and Personal



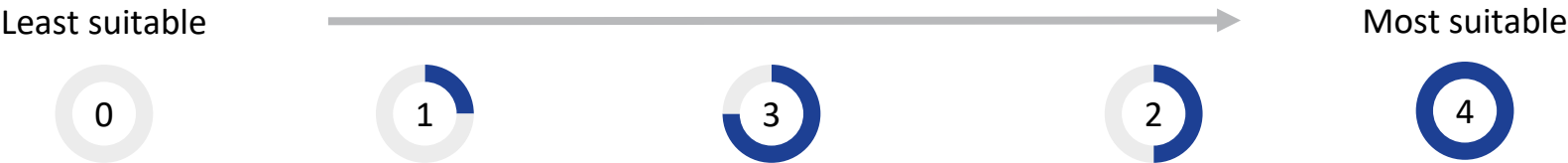
Comparison of Financial Suitability

\$ in thousands

Alternative	Present Value		Total Proceeds		Time to Completion (shortest to longest)	
Maintain Family ownership	#4	\$40,866	n/a		n/a	
Sale to a Strategic Buyer	#2	\$46,353	#4	\$46,797	#1	1 years
Sale to a Financial Buyer	#3	\$45,009	#3	\$59,491	#2	5 years
Management Buyout	#5	\$37,038	#2	\$64,056	#4	12 years
Employee Stock Ownership Plan (ESOP)	#1	\$49,462	#1	\$70,167	#3	8 years

Comparison of Suitability

Alternative	Overall suitability	Financial goals	Timing goals	Preserves legacy	Protects employees	Risk of execution
Maintain family ownership	4	3	0	2	4	1
Sale to a strategic buyer	2	2	3	0	1	3
Sale to a financial buyer	3	2	1	3	1	4
Management buyout	2	1	4	4	3	2
Employee stock ownership plan (ESOP)	1	3	1	3	0	2





Bob Buchanan
Managing Director
Head of Business Owner
Strategic Solutions
Fifth Third

Final Thoughts

- ✓ Understand Financial Needs
- ✓ Understand Implications of Timing & Risk
- ✓ Explore Options
- ✓ Start Planning Early



Bob Buchanan
Managing Director
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Fifth Third

Question?

Ask me anything

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