

Valuation

Presented to the Spokane Estate Planning Council

Presented by
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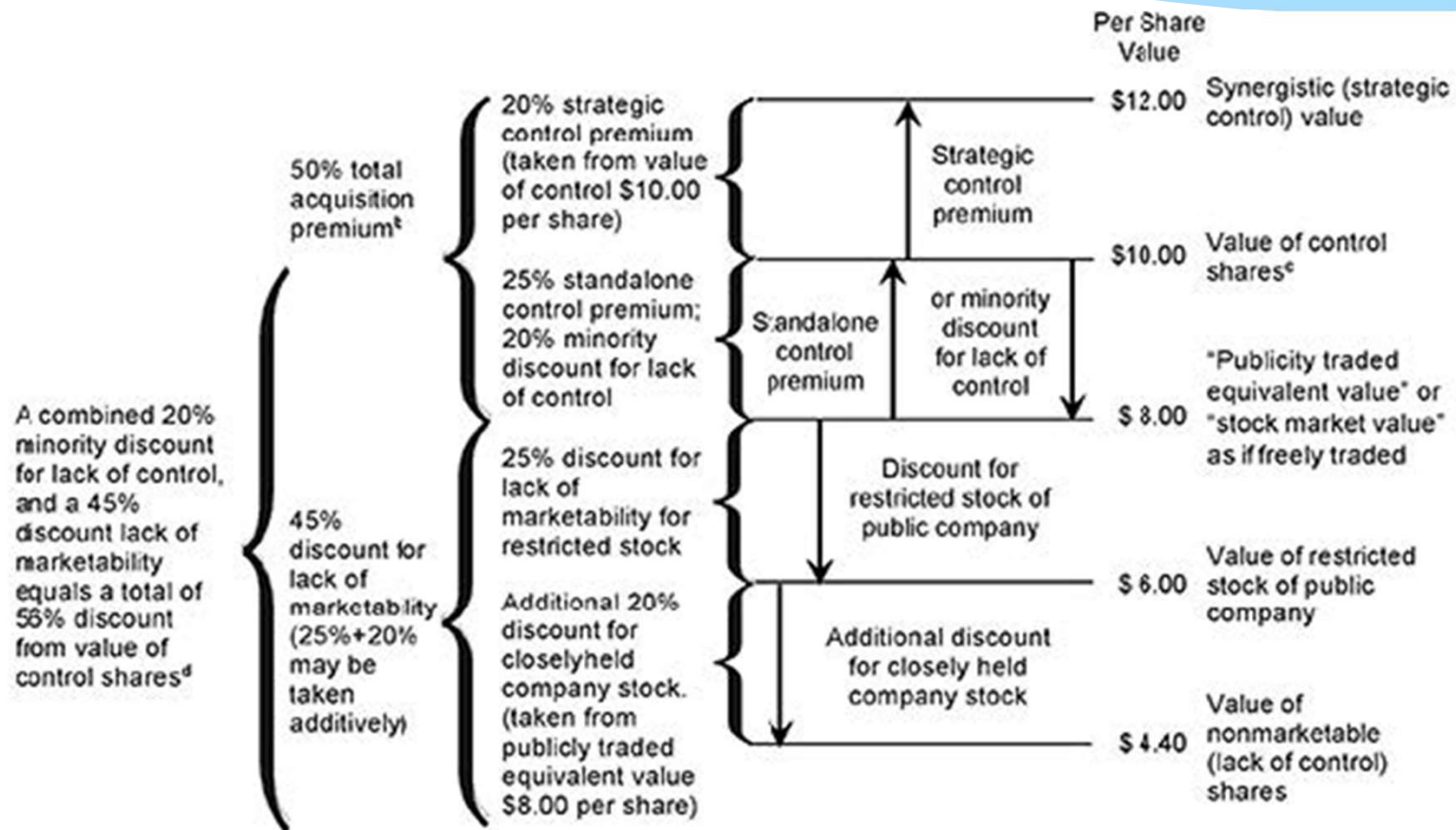
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What is the Value?

It Depends - Value Definitions

- * **Fair Market Value** – Willing buyer, willing seller, both having knowledge of all relevant facts and neither being under any compunction to buy or sell. Revenue Ruling 59-60.
- * **Investment Value** – The value of a business to a particular buyer based upon a return on investment analysis and the unique circumstances of the transaction.
- * **Fair Value** – The Uniform Business Corporation Act – “Fair Value,” with respect to a dissenter’s shares, means the value of the shares immediately before the effectuation of the corporate action to which the dissenter objects, excluding any appreciation or depreciation in anticipation of the corporate action unless exclusion would be inequitable.

Value Hierarchy



Ambiguity of Essential Valuation Elements

- * Standard of Value
- * Level of Value
- * Valuation Date (known or reasonably knowable standard, usually tied to triggering event)
- * Appraiser Qualifications
- * Governing Standards
- * Scope of Valuation and Type of Report

Agreements

Legal Rights of Ownership

- * Agreements and Impact on Legal Rights of Ownership:
 - * Buy-Sell Agreements
 - * Shareholder Agreements
 - * Operating Agreements, Limited Partnership Agreements, Partnership Agreements

Triggering Events

- * Potential Third-Party Sale Triggers
 - Bona Fide Third-Party Offer
 - Divorce
 - Bankruptcy
- * Viability of Owner Triggers
 - Disability
 - Death
- * Relationship Severance Triggers
 - Employee-Owner Resigns, Retires, or is Terminated

Key Provisions

- * Purchase Price Determination
- * Restrictions on Transfer and Right of First Refusal
- * Employment and Non-Compete
- * Call and Put Options
- * Funding and Terms of Purchase
- * Preferred Returns, Conversion Rights, and Participation Rights
- * Discounts for lack of control and lack of marketability

Discounts

Entity Level

- * Entity Level
 - * Built-in Gains
 - * Environmental Liability
 - * Pending Litigation

May be quantified or factored into capitalization rates or the discount for lack of marketability.

Shareholder Level

- * Shareholder Level
 - * Lack of Control
 - * Lack of Marketability

Lack of Control

- * Interest being valued?
 - * Minority
 - * Assignee/Economic Interest
- * Impact on Type of Interest:
 - * Estate and Gift
 - * Buy/Sell
 - * Marital Dissolution
 - * Dissenting Shareholder

Lack of Control – Operating Company

- * Mergerstat Review/FactSet Mergerstat, LLC – 1980 through 2019 – 24.3 percent
- * Mergerstat Review/BVR Control Premium Study – 2002 through September 30, 2020 – 20.4 percent
- * Average – 22 percent

Lack of Control – LP, GP, LLC Holding Co.

- * 2011 through 2020
- * Equity Distributing (Low or no Debt) – 19 percent
- * Equity Distributing (Moderate to High Debt) – 23 percent
- * Equity Non-Distributing – 41 percent
- * Triple Net Lease Partnerships – 17 percent

Multiple Tiers

- * Can I get a double discount by having multiple tiers of minority interests?
- * Consider – legal rights of ownership and impact of control and marketability factors on the ownership interest being valued and your answer is _____.

Lack of Marketability

- * Qualitative Approaches:
 - * Restricted Stock Studies – 24.7 percent
 - * Pre-IPO Studies – 48.2 percent
 - * Mandelbaum Factors
 - * IRS DLOM Job Aid Factors

Lack of Marketability

- * Quantitative Approaches
 - * Transaction Databases
 - * Option Pricing Models
 - * Shareholder Cash Flow Adjustment Models
 - * Valuation Products and Services DLDM Toolkit
 - * Other Models

Lack of Marketability

- * Mandelbaum Factors
 - * Control Factors
 - * Type of Interest
 - * Degree of Voting Power
 - * Special Voting Power
 - * Information Access/Reliability
 - * Marketability
 - * Universe of Potential Purchasers
 - * Sales/Distributor Agreements - Anheuser Busch (AB InBev), Car Dealers, Truck Dealers

Lack of Marketability, con't.

- * Buy/Sell Agreement and Other Transfer Restrictions
- * Call/Redemption Rights
- * Redemption History/Prospects
- * Put Rights
- * Prospects for Return on Investment
 - * Required Holding Period
 - * Volatility of Stock Price/Asset Value
 - * Dividend History/Prospects - show me the money!
 - * Liquidation Prospects

Notes Receivable

Methodology

- * The Subject Note, Note Balance
- * Adjusted Net Asset of Security
- * Market Approach – Public Instrument Analysis (FDIC Market Data)
- * Market Approach – Bonds, Time to Maturity
- * Market Approach – Bonds, Credit Quality

Fractional Interests

Methodology

- * Fractional Interest Studies
 - * Average – 35.8 percent
 - * Dated
- * Income Approach
 - * Discounted Cash Flow Method
 - * Partition
 - * Contested
 - * Uncontested
 - * Attorneys and Referees
 - * Costs
 - * Time, in months

The Deal

3 to 5

- * Earnings Before Interest Taxes Depreciation and Amortization – EBITDA – Adjusted!
- * Cap Ex can be subtracted from EBITDA or factored into the multiple depending on the extent of Cap Ex required for continued operations
- * What is included?
 - * Cash Free
 - * Debt Free

Questions?

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Thank you!