Seminar Series

Business Valuation as a Planning Tool

BOSS

Business Owners Strategic Solutions

THE SUCCESSION JOURNEY SERIES

DISCLAIMER

Things my attorneys make me say.

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BUSINESS VALUATION AS A PLANNING TOOL

- Business Owners need to be ready both personally, emotionally, and financially secure.
- For most business owners their business is 75% to 80% of their net worth. Knowing your business value today helps you plan for the future.
- There are a few reasons understanding business valuations can be a useful tool for the business owner:
  - What is your Wealth Gap? Do you have a Value Gap? Value Gap = Wealth Gap minus Business Value today).
  - How do you stack up? Understanding valuation metrics helps to understand where to concentrate efforts in trying to improve the business value. Using industry key performance indicators ("KPIs") tells you how you stack up to the industry.
  - Business valuations are based on industry data of your peers (the "Market"). The Market establishes a lower tier and upper tier called multiples. The multiple ranges from low (x) to high (x). You don't control the multiples … **YOU CONTROL WHERE IN THE RANGE YOUR BUSINESS SHOULD BE VALUED**.
- Understanding the valuations methods and the KPIs can help the business owner as a planning tool to improve the business value.

BUSINESS VALUATION BASICS

- Gary W. Baum, MBA, CPA/ABV, CVA
- Acuity Valuation
- gwbaum@acuityval.com
- 757-304-0798

Why Value?

- Focus on valuations for exit
- Different exit strategies affect the type of valuation needed and the approaches taken
- Sale to a third party/private equity
- Sale to existing management
- Sale to family members
- Pass business to family members by gift
- ESOP
- IPO

Why Value? – Other Reasons

- Buy-Sell Agreements
- Tax Reasons
  - Estate/Gift Tax
  - Income Tax
- Litigation
  - Divorce
  - Shareholder Disputes
- Regulations require: 409(A) Stock Options

Methods of Valuation

- **Asset Methods**
- **Market Methods**
- Income Methods

Asset Method

- Subtract liabilities from assets = Net Asset Value (NAV) or Equity Value
- Book value is rarely a good indicator of value
- Adjust all assets and liabilities to fair market value
- May need separate real estate and equipment appraisals
- Are A/R collectible?/is inventory obsolete?
- Asset method does not reflect goodwill of the business
- Ideally avoid this method

Asset Method

- Most applicable to:
  - Investment or holding companies
  - Very small businesses with little or no goodwill
  - Consistently unprofitable companies
  - Asset-intensive businesses
- Often considered as a "floor value" for other types of companies

Market Method

- Most common in sale transactions
- Math is simple for most businesses: A measure of annual cash flow x a multiple
- Approach hides a lot of finance theory
- The idea is that the value of any asset reflects the future cash flows that an owner can expect in the future
- The multiple reflects the risk that the future cash flows will differ and the growth expectations for the company

Cash Flow

- Normally the last 12 months or the most recent year
- Earlier years or future expectations can sometimes be taken into account if significantly different from most recent year
- Quality of financial statements are key
  - Audited/Reviewed Financial Statements = gold standard but expensive
  - Tax returns
  - Internal financial records

Cash Flow Adjustments

- Non-recurring revenues and expenses
  - Cost of law suit
  - One-time bump in revenues due to a customer getting a big contract
- Non-operational expenses
  - Above (or below) market rate expenses e.g. owners salaries; rents
  - Other discretionary expenses – autos, meals, travel, life insurance, deadbeat relatives on payroll etc.
  - Better if recent financial statements are clean; reduces need for explanation
- Add back
  - Non-cash expenses – depreciation
  - Interest expense
  - Tax expense

Common Cash Flow Measures

- EBITDA – defined above
- Sellers Discretionary Earnings = EBITDA plus owner’s salary/benefits
- Free Cash Flow – EBITDA/SDE less annual required capex
  - Not as common in small business deals

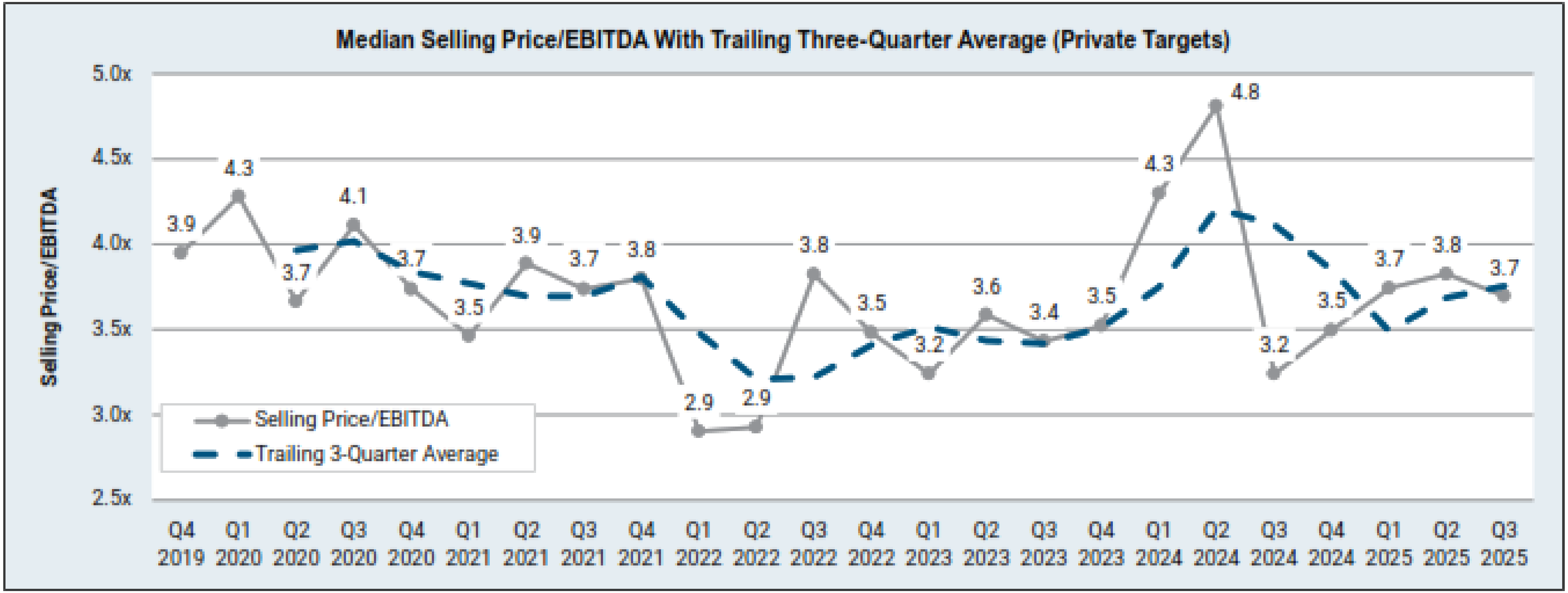
What is Sold – Assuming an Asset Sale

- SDE
  - Fixed assets
  - Goodwill – name/trademark/website/customer records/customer relations
  - Therefore the seller gets benefits of a/r – but responsible for a/p and debt
- EBITDA
  - Debt free/Cash free
  - Fixed assets
  - Goodwill
  - “Normalized level of working capital”
- Value of inventory – depends

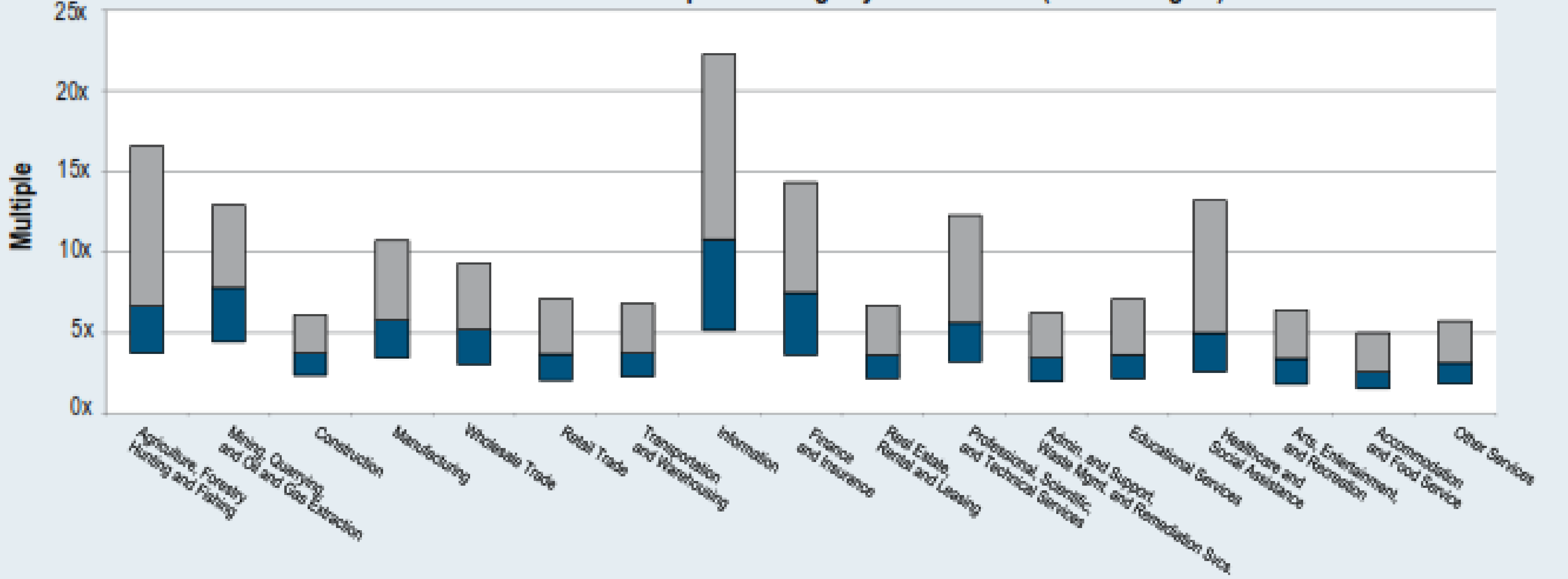
Multiples

- Whatever you can negotiate
- Risk
- Growth opportunities
- Is industry “hot” with private equity rolling up smaller businesses
- Rules of thumb
- Databases of transactions

DealStats Private Company EBITDA Trends

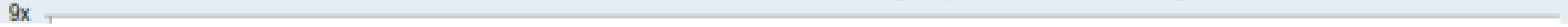


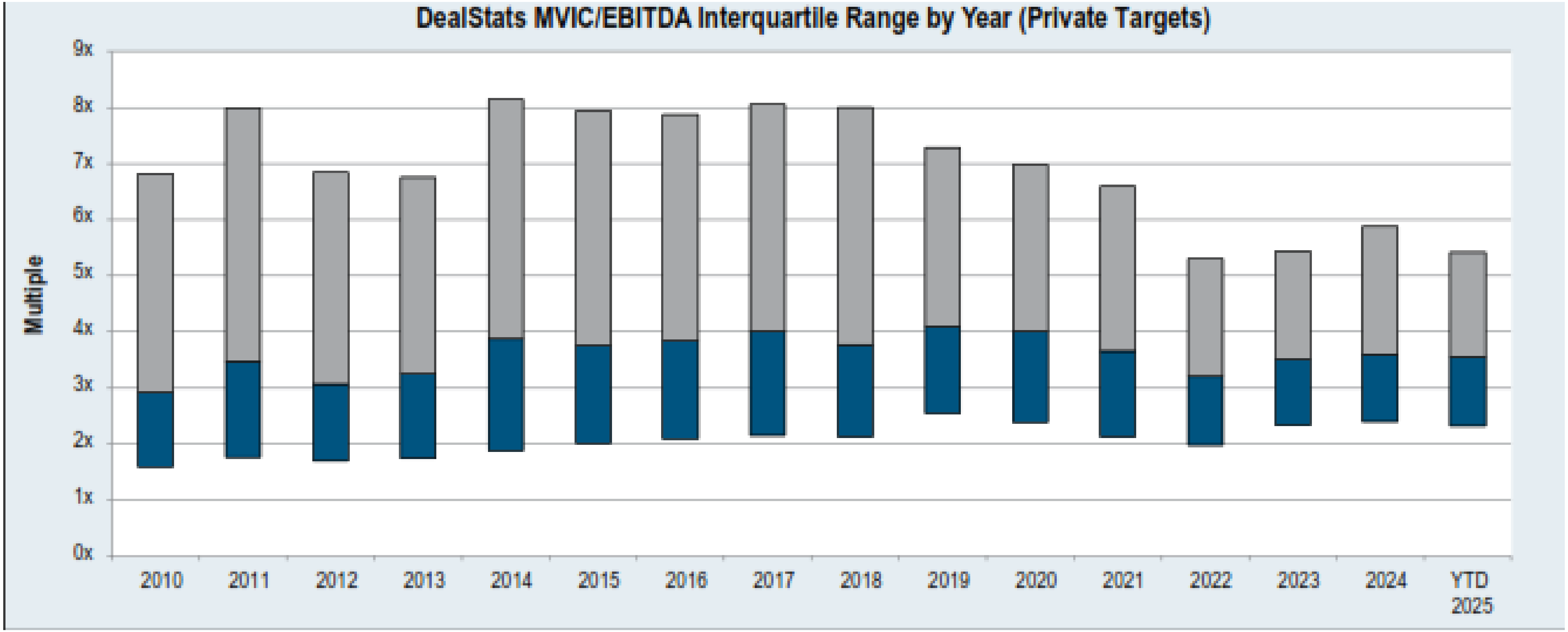
DealStats MVIC/EBITDA Interquartile Range by NAICS Sector (Private Targets)



Note: The interquartile range describes the middle 50% of observations. The top of the grey rectangle indicates the 75th percentile, and the bottom of the blue rectangle indicates the 25th percentile. The line where the two rectangles meet represents the median. If the interquartile range is large, it means that the middle 50% of observations are spaced wide apart, and, if the interquartile range is narrow, it means the middle 50% of observations are spaced close together.

DealStats MVIC/EBITDA Interquartile Range by Year (Private Targets)




DealStats MVIC/EBITDA Interquartile Range by Year (Private Targets)
Multiple
9x
8x
7x
6x
5x
4x
3x
2x
1x
0x
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
YTD 2025

Some Differentiators

- Turnkey operations
  - Reliable management team
  - Management/financial/billing systems
  - Owner mostly redundant
- Recurring revenues
- Diversified customer base
- Long track record
- Strong metrics
- Growth opportunities

Terms of the Deal

- Cash on the barrel
- Payment over time
  - May never see the cash
  - Standing in line after the bank
  - If not paid you theoretically get the business back – but who wants that?
  - But may have to take a note at below market interest to get the deal done
    - Especially with high interest rates
- Earn outs

Market Method Example

Ongoing future cash flow	$100,000
X	
Price/Cash flow multiple	5*
Value:	$500,000

* Derived from transaction data or public company data

Discounts

- Discount for Lack of Control (DLOC)
- Discount for Lack of Marketability (DLOM)
- Key person discounts – often handled in the multiple

BUSINESS ENHANCEMENT SEMINAR SERIES, AND TOPICS OF INTEREST

Seminar Topics and Recommendations:

In addition to the succession planning series, there will be other seminars throughout the year on various topics of interest such as business assessments and enhancements, employee benefits, financial planning, tax planning, and business coaching.

If there are particularly topics of interest you would like to share, please email your suggestions and recommendations to info@theoneboss.com.

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VISION

To be the leading catalyst for business transformation, fostering a thriving community where owners harness their enterprise's full potential. Through valuations, targeted coaching, and strategic succession planning, we aim to elevate business value and empower growth. By creating a dynamic membership community enriched with interactive discussions, exclusive events, and cutting-edge educational resources, we envision a future where every business owner is equipped to drive lasting success and achieve their highest aspirations.

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Gary Baum – Acuity Valuation - gwbaum@acuityval.com – 757-304-0798
Charles Decourt – TransWorld Business Advisors - cdaucourt@tworld.com – 757-231-6557
Michael Fowler – Raymond James - Mike.Fowler@raymondjames.com – 757-807-2841
Bernd Haase – The Alternative Board – bernd@tabhamptonroads.com – 757-606-9966
Clint Minarik – Dollar Bank - CMinarik346@dollarbank.com – 757-646-507
Barb Smith, CPA – Cherry Bekaert - bsmith@cbh.com – 757-621-0322

Information about our partners can be found on the website here …

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NEXT SESSION – BUSINESS SCORECARDS

Business Scorecards and Dashboards
January 20, 2026
7:30 am to 9:00 am
4417 Corporation Lane, 1st Floor Seminar Room
Virginia Beach, Virginia 23462

Presenter: Barb Smith, CPA

Barb Smith, partner with Cherry Bekaert Advisory, LLC, has substantial experience working with business owners working with them in a forward-thinking approach to business and tax solutions. Along with her team of advisors they offer business strategies and solutions to meet their clients' unique financial, operational, and strategic goals.

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Leave a review on Google……

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