



# Small Business Deep Dive

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## Small Business Valuations

### Types of Valuation

- Fair Market Value
- Fair Value
- Investment Value
- Intrinsic Value

Family Law very inconsistent

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## Types of Valuations

### Fair Market Value

- Hypothetical buyer and seller with reasonable knowledge
- For tax valuations
- Not used in majority of states.

### Fair Value

- Defined by Statute
- Used for Shareholder disputes
- Excludes discounts for marketability and lack of control

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## Types cont.

### Investment Value

- What is it worth to a specific buyer
- Applicable to valuing transactions
- Includes synergies that may result from a purchase of business
- Ex. Franchisee buying another location

### Intrinsic Value

- True or real value
- Not ever used

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Common  
Adjustments/Considerations

**Income Statement**

- Non-recurring revenues/expenses
- Discretionary/personal expenses (car, entertainment,)
- Officer's salaries is not market rate, often less than mkt.
  - Salary.com for market rate salaries free
- Rent (if not market rate)

**Balance Sheet**

- AR (if uncollectible)
- Shareholder receivables and payables (reclassified to equity, contribution of capital)
- Excess cash.(Retained earnings not needed to run the business.)

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Personal  
Expenses,  
where to look

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Ask

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Ask spouse

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Review income statement and balance sheet

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Depreciation Schedule (recapture or multiple cars, etc)

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General Ledger entries can be for unneeded expenses

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Credit card statements

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Bank statements

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Cancelled checks.

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## Personal Expenses, where to look

### Market Rent

- Recent property appraisals
- LoopNet.com

### Excess Cash – how to determine

- 5 year average percent to revenue of industry by SIC code
  - Integra (microbilt)
  - BizMiner
- Average Monthly expenses – number of month needed varies depending on business model. (judgement) Compare to other similar cos.
- History of cash held in the business.

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## Need for Full Appraisal

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Hidden revenue

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Client feels existing valuation is biased

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Client thinks valuator is biased

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Large company with lots of issues

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If none of those, what can we do?

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## Our Role

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### Document List

- Profit and Loss Statement
- Balance Sheet
- Tax returns
- 12 months of bank statements
- Any loan documents

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### Our Role Cont.

Total Net Worth is the easy starting place.

What happens if the owner leaves? Or sells? Is it still a viable business? (Goodwill)

What are the gross annual revenues and what is the industry multiplier?

- [www.bvresources.com](http://www.bvresources.com)
- [www.bizbuysell.com](http://www.bizbuysell.com)

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## Example

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John owns a restaurant with \$125,000 in inventory, assets, and cash.

He pays himself a salary of \$60,000 as the manager.

Depreciation on the building is \$75,000.

Annual Revenues are \$250,000

Average multiple is 1.9 per thebizseller.com

WHAT'S THE VALUE?

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## QUESTIONS

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