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BUSINESS VALUATION

What It Is

Why You Need it

Why You Want it

The Business Valuation Process

Gift & Estate Tax Considerations

What It Is

A Business Valuation is an analysis of a business interest to determine the value of the business as a whole or for a specific interest in that business, such as a minority or controlling interest.

The Business Valuation Process

- ▣ Determine the Purpose of the Engagement.
- ▣ Who is the Engagement For?
- ▣ What is the Interest Being Valued?
- ▣ Whose standards are being followed?
- ▣ What Standard of Value will be used?
- ▣ What is the Premise of Value?
- ▣ What Valuation Method will be used?
- ▣ Company, Industry, Financial, & Economic Analysis.
- ▣ Premiums & Discounts.
- ▣ Determination of Value.

Purpose of Valuation

Why You Need It

- ▣ Gifting of interest to future generations.
- ▣ Estate Planning to minimize estate taxes.
- ▣ Determine the value of your business in your estate.
- ▣ IRS requires it.

Purpose of the Valuation

Why You Want It

- ▣ Selling a business
 - If the price is too high you can lose potential Buyers.
 - If the price is too low, you leave money on the table.
- ▣ Buying a business
 - You don't want to pay more than a business is worth.
- ▣ Allocation of purchase price for a merger or acquisition
- ▣ Buy/Sell agreements
- ▣ Marital dissolution

Who is the Engagement For

- ▣ Business Owner
- ▣ Prospective buyer
- ▣ Seller
- ▣ Executor of an estate

Interest Being Valued

- ▣ Entire company
- ▣ Controlling interest
- ▣ Minority interest

Whose Standards Are Being Followed

- ▣ American Institute of Certified Public Accountants
- ▣ National Association of Certified Valuation Analyst
- ▣ The Appraisal Foundation's Uniform Standards of Professional Appraisal Practice

Standards of Value

- ▣ Fair Market value
 - Fair market Value is the price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts. The hypothetical buyer and seller are assumed willing and able to make the transaction.
- ▣ Investment or Strategic Value
 - Value to a particular Investor.
- ▣ Intrinsic Value
 - Inherent value of just the item itself.
- ▣ Fair Value
 - Generally a state or court defined term which may vary from state to state.
- ▣ Liquidation Value
 - Value at liquidation.

Premise of Value

- ▣ Going Concern
 - The business will continue to be operated in its current form.
- ▣ Liquidation
 - Orderly liquidation – Assets have exposure to both primary and secondary markets for a reasonable amount of time.
 - Forced liquidation – Assets do not have exposure to markets for a reasonable amount of time.

Valuation Approaches

- ▣ Income Approach
 - Value based on income and cash flow over a period of time.
- ▣ Asset Approach
 - Value based on current value of assets.
- ▣ Market Approach
 - Value based on financial ratios from similar public companies or transactions involving sales of other similar companies.

Valuation Analysis

- ▣ Financial analysis
- ▣ Company history & analysis
- ▣ Industry analysis
- ▣ Analysis of national, regional & local economy

Premiums & Discounts

- ▣ Control Premiums
 - A premium added to the value when a controlling interest is transferred or sold.
- ▣ Minority Interest Discount
 - A discount applied to the value of a minority interest.
- ▣ Discount for Lack of Marketability
 - Discount taken for the time it will take to sell the interest as opposed to calling a broker and selling stock in a public company and getting your money in 3 days.

Determination of Value

- ▣ Using the income, asset, or market approach, determine the value of the company before discounts and premiums
- ▣ Apply appropriate discounts or premiums
- ▣ Determine the “Estimate of Value” of the interest being valued.

Gift & Estate Tax Planning

- ▣ **Disclaimer:**
 - I am not a Tax Attorney.
 - This should not be taken as tax or estate planning advice, but only as issues and areas to consider.
 - You should consult a experienced estate tax attorney when considering any gift or estate tax planning ideas or issues.

Gift & Estate Tax Planning

- ▣ Fair market value is the standard of value that must be used in valuing a business or business interest for gift and estate taxes.
- ▣ Gifting business interest to future generations
 - Gets the value of the business interest out of your estate and any future appreciation in value of that Interest.
 - When minority interests are gifted, the same minority interest discounts and marketability discounts that apply to sale and purchase transactions apply to gifting transactions.

Gift & Estate Tax Planning

- ▣ If the building is in another entity such as an LLC or Family Limited Partnership (FLP), gifting this interest will also reduce the value of your estate.
 - This can be especially useful in gifting interest to children who do not want to be active in the family business.
 - A larger interest in the real estate LLC or FLP can be gifted to these children and correspondingly a larger interest in the family owned business can be gifted to children wanting to work in the business.

Gift & Estate Tax Planning

▣ Why Do It Now

- The values of companies in our industry are as low as they have been in recent history.
- Gifting interest now, while the values are low, enable you to gift a larger interest than when values are higher.
- This removes more value from your estate, thereby reducing future estate taxes.
- We know what gift and estate taxes are today, that they are supposed to go away in 2010 and that they are scheduled to revert back 2001 levels in 2011.

Gift & Estate Tax Planning

- ▣ Why Do It Now
 - We don't know if or when that will change. There is talk in Congress about changing the estate tax laws before 2011. Few expect the repeal of the Estate Tax in 2010 to stay in effect. Many think the exemption will be between 2.5 million and the current 3.5 million with maximum rate of 45%. No one knows for sure.
 - Given the current economic and monetary conditions, the stimulus and bailout packages, estate taxes may be looked at as a attractive source of revenue. Because, with the exception of a few locations, dead people don't vote.

THANK YOU

I appreciate having the opportunity to speak with you today

If you have any other questions or want additional information, please feel free to contact me.

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All Valuation Engagements are held in the strictest confidence including client identities.