



**Pharr Valuation and
Business Services, LLC**

Business Valuation

Buying A Business

Given the impact of the continuing decline of economic conditions on the jewelry industry and the decrease in value in jewelry and jewelry related companies, there are opportunities for current business owners to acquire other similar or related companies or for individuals not in our industry to enter the market while the values are as low as we have seen in recent history. Having a business valuation of the company you are buying will give you a reliable estimate of value of that company.

Most company purchases will come from those already involved in the jewelry industry. This buyer is typically known as a strategic buyer, has experience in the industry, is looking to eliminate a competitor and gain market share, expand a product line, or add a related segment of the industry to their business. A retail jeweler may buy a nearby retailer to eliminate competition, gain additional customers and reduce expenses by consolidating two accounting and back office operations into one. A jewelry manufacturer might want to add competitor's products to theirs or venture into a new segment of the industry. For example, a caster may want to purchase a company making die-struck product. In each of these cases the buyer is also looking at economies of scale to maximize the return on his investment.

A buyer will only be willing to pay a price for which he can get an appropriate return on his investment. He wants to know what his returns are projected to be going forward. While most sales are based on fair market value, a strategic buyer may be willing to pay more than fair market value if the advantages, potential for additional business and economies of scale are compelling. On the other hand, if the company is in financial difficulty, the buyer may only be willing to pay intrinsic value for the business.

A buyer from outside the industry or a person with industry experience who does not own his or her own business is often "buying a job". The buyer is someone who intends to operate the

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business and generally be in it long term. The purchase price would generally be based on fair market value.

The buyer needs to know the value of the inventory. Is it current or stale? He must know how collectable the accounts receivable are and the value and condition of the equipment he is buying. The valuation analyst considers all of these issues, as well as financial, company, industry, and economic data when determining the value of the business being purchased.

The buyer must decide if he or she can operate the business immediately or if they need the present owner to work for some period of time to insure an orderly transition, teach the new owners the business, and help to maintain customer relationships. A multiyear non-compete agreement will be needed to insure the seller does not go back into business and become a serious competitor. These and other issues have a value and will be part of the negotiations and purchase price.

The valuation analyst then decides whether the market, asset, or income approach to valuing the business will be most appropriate. Given the characteristics and size of closely held, family owned businesses, the asset or income approach will generally be used. It is difficult to find public companies that are truly comparable to the company being purchased. If applicable, a minority interest discount or control premium will be applied and then the appropriate marketability discount to determine the final estimate of value for the company. Determining the business value is both art and science. Selecting a valuation analyst who has knowledge of the industry is an important factor.

The valuation analyst will be useful after the purchase to assist with the allocation of the purchase price to the assets acquired. How much should be applied to inventory, receivables, equipment, goodwill and other assets are questions the analyst can help answer.

A business valuation performed by a valuation analyst accredited by the American Institute of Certified Public Accountants, the National Association of Certified Valuation Analyst or other associations can give you the comfort and knowledge that you have a reliable estimate of value for the company you are purchasing. Every buyer would like to buy at the lowest price. No one wants to overpay.

Daniel Pharr is the President of Pharr Valuation and Business Services, LLC. He is a CPA and Accredited in Business Valuation (ABV) by the American Institute of Certified Public Accountants. He is a Certified Valuation Analyst (CVA), a certification awarded by the National Association of Certified Valuation Analyst (NACVA). Dan has 30 years of jewelry industry experience as an auditor, EVP and CFO of a manufacturing company, and business valuation analyst. His practice focuses business valuation of family owned and closely held companies within the jewelry industry. He may be contacted at Dan@PharrValuation.com or 804-332-5458.