

# **Small Business Valuations**



**Done Right**

# Small Business Valuations

We specialize in valuing small, owner-operated businesses with annual sales of less than \$5 million. In fact, about 40% of our valuations involve businesses with annual sales of less than \$500,000. About 70% of our valuations are related to the buying or selling of a business, and are used to make critical decisions like: whether to buy or sell, how much to offer or accept, and how much to lend. In these situations, valuations must be realistic and reasonable to be of any value.

Small, owner-operated businesses are different than larger companies. Obviously, they are smaller (revenue, assets, employees, locations, territories, etc.) and they operate according to a unique agenda set by their owner(s). Although general valuation concepts and theories still apply, the data and methods used must be relevant and adapted to accurately value a small business. Unfortunately, many valuation firms apply the same data and methods they use for larger companies.

Here is How to Tell if a Small Business Valuation is Done Right

- ◆ Is it performed & signed by an experienced CPA who is Accredited and/or Certified in Business Valuation, and has lots of valuation experience?
- ◆ Is it performed by a firm that specializes in valuing small businesses?
- ◆ Does it follow the Statement on Standards for Valuation Services (SSVS) published by the American Institute of CPAs?
- ◆ Does it apply methods from all 3 valuation approaches - market, income & asset (cost)?
- ◆ After reviewing the report, do you understand what was done and why? Does it make sense?
- ◆ Is it based on reliable data from privately owned businesses, NOT large public companies that have nothing in common with small, owner-operated businesses
- ◆ Is it based on actual business results NOT unreliable, low-quality projections prepared just for the valuation?
- ◆ Does it use a “real-world” small business buyer’s perspective, NOT a mythical investor
- ◆ Does it provide a realistic, reasonable value?
- ◆ Is it reasonably priced - what good is it if you can’t afford it?

# **Business Value Calculation**

Anyone can afford to find out what a business is worth by using our Business Value Calculation (BVC). We perform widely used valuation methods to calculate the value of a business and present the results in a professionally prepared and signed report. The results are shown as a range of values. You can view a sample BVC report on our website at <http://business-valuation-expert.com>.

Our BVC is a calculation engagement, as that term is defined in the Statement on Standards for Valuation Services (SSVS) of the American Institute of Certified Public Accountants. We perform the calculation procedures described below. The estimates of value that result from a calculation engagement are expressed as calculated values. A calculation engagement does not include all of the procedures required in a valuation engagement, as that term is defined in the SSVS. A valuation engagement might produce different results. Calculation engagements are not intended to be used for litigation purposes or submitted to government agencies like the SBA or IRS.

## **Calculation Procedures**

We perform the following procedures:

- Summarize earnings data from the previous 3 years
- Calculate value using:
  - Data from sales of comparable businesses
    - Percentage of annual sales
    - Multiple of sellers' discretionary earnings
  - Capitalized cash flow
  - Excess earnings
  - Adjusted asset value, if balance sheet data is provided
- Report any industry rules of thumb

## **Information Needed**

- Federal income tax returns (with balance sheets) for past 3 years
- Current year-to-date P&L and balance sheet, if available
- List of any non-recurring (unusual) or non-operating (non-essential or personal) expenses during periods covered by the previous items

## **Fee & Turnaround Time**

The fee for a Business Value Calculation is \$499, payable in advance. We will complete your BVC report within one week of receiving information and fee.

# Business Valuation

Our Business Valuations follow the Statement on Standards for Valuation Services (SSVS) of the American Institute of Certified Public Accountants for valuation engagements.

We perform a thorough financial analysis of the business, and analyze the condition of and outlook for the industry and the economy in general. We use methods from all 3 valuation approaches (market, income & asset) to reach our conclusion. We provide an extensive report detailing and explaining what we did and why we did it. You can view a sample Business Valuation report on our web site at <http://business-valuation-expert.com>.

Our Business Valuation reports have been accepted and used in a number of litigation cases involving estates, divorce, wrongful death, and shareholder/partner disputes. Our Business Valuation reports also meet the requirements of the Internal Revenue Service (IRS), and we are a “qualified source” of business valuations for the Small Business Administration (SBA).

## Information Needed

We need 3 years of financial statements and/or tax returns plus other financial information like: listings of receivables, payables, inventory, and fixed assets. We will also need documents like real estate leases, loan agreements, articles of incorporation, and buy-sell agreements. We provide a documents request list at the beginning of every valuation engagement.

## Fee & Turnaround Time

Our fee is based on the business’ annual sales (\$):

- Less than 1 million \$ 1,500
- 1 to 2.5 million 2,000
- 2.5 to 5 million 2,500
- 5 to 10 million 3,000
- Over 10 million By Quote

We charge extra for valuing fractional interests that require a discount or premium calculation. Our normal turnaround time is 2 to 3 weeks from receiving a 50% retainer and all requested information. Expedited service is available for an extra charge.

# **Other Related Services**

## **Exit Planning**

We strongly believe that business owners should start planning how they wish to exit their businesses long before they actually intend to leave. Getting an objective, professional opinion of what a business is worth is one of the most important initial steps. We also work with the owner's other advisors to draft and implement an exit plan that often contains strategies to maximize business value.

## **Value Building**

We work with business owners and their advisors to determine the key value drivers in their businesses, and how to improve them. Owners can monitor their progress by performing periodic valuations.

## **SBA Lender Program**

We offer a special flat-fee of \$1,495 for business valuations required for SBA loans.

## **Buy-Sell Agreements**

We provide the following services related to buy-sell agreements: 1) review and critique existing agreements; 2) assist in drafting new agreements; and 3) perform business valuations required under the terms of the agreement.

## **Litigation Support**

We provide the following services in support of litigation involving matters related to business valuation: 1) perform business valuations; 2) serve as a consultant; 3) provide expert testimony; and 4) review reports prepared by others. David E. Coffman has been recognized as an expert in business valuation, and has testified in a number of counties throughout Pennsylvania.

## **Liquor License Valuations**

We provide valuations of PA & NJ liquor licenses. Our valuation reports have been used to substantiate the value of liquor licenses for litigation and lending purposes.

# Professional Qualifications of David E. Coffman

## Academic and Professional Credentials

- Certified Public Accountant (CPA) since 1978. Licensed in PA & NJ.
- Certified Valuation Analyst (CVA) since 1997.
- Accredited in Business Valuation (ABV) since 2001.
- Certified in Financial Forensics (CFF) since 2008.
- Bachelor of Science, Business Administration, Bloomsburg University, May 1976.

## Position and Experience

- President & CEO of Business Valuations & Strategies PC, Harrisburg, PA. Founded in 1997.
- President & CEO of NJ Business Valuations PC, Seaside Park, NJ. Founded in July 2008.
- Specializing exclusively in business valuation since 1997.
- Has valued over 750 small businesses.
- Forty years of experience advising, owning and operating small businesses.

## Professional Affiliations

- American Institute of Certified Public Accountants
- Pennsylvania Institute of Certified Public Accountants, past President of the North & South Central Chapters
- New Jersey Society of Certified Public Accountants
- National Association of Certified Valuators & Analysts



# Business Valuation Scorecard

Total Business Valuations Completed  
as of June 30, 2017

## 750

Business Size		Business Type		Valuation Purpose	
Revenue (\$)	#	Type	#	Purpose	#
0 to 500,000	245	Services	198	Buying or Selling	273
500,000 to 1 million	166	Retail & Wholesale	130	SBA Loan & Lending	229
1 to 2 million	156	Restaurant & Bar	107	Divorce	105
2 to 5 million	122	Manufacturing	62	Estate & Gift	58
5 to 10 million	40	Healthcare	65	Business Planning	57
10 + million	21	Professional	94	Litigation & Dispute	11
		Construction & Agriculture	57	ESOP	8
		Transportation & Trucking	10	Built-in gain—Price allocation	6
		Liquor license	26	Bankruptcy	3
		Other	1		
<b>Total</b>	<b>750</b>	<b>Total</b>	<b>750</b>	<b>Total</b>	<b>750</b>

### Comment:

While we want you to know our experience, we believe too much emphasis is placed on having experience in a specific industry or type of business. A competent valuator is proficient in researching industry conditions and trends. Using a valuator who spends a significant portion of his/her time on valuations on a regular basis, combined with a broad-based background, is more important than specific industry experience.



**Business  
Valuations &  
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