



# Valuation

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# Valuation

## Key variable in selling equity

**Fair Market Value** – amount an asset/stock can be bought or sold between willing parties in an arms length transaction (determined by marketplace).

- Public Companies – Marketplace determines value
- Private Companies - Highly subjective. Don't truly know until you close a deal with an investor (negotiated)





# Valuation

- Equity Value – underlying stock
- Enterprise Value – operating business





# Valuation

Purchase New Home \$500,000

- Down Payment/Equity                      \$100,000
- Mortgage/Borrow                            \$400,000
  
- Equity Value                                    \$100,000
- Enterprise Value                              \$500,000





# Valuation Methods

Private companies need a starting point.

Various methods to consider.

Provide support for what you approach investors with.





# Valuation Methods

## Asset-Based Approach

- net value of its assets and liabilities
- assets are adjusted to fair market value
- liabilities are deducted to determine the fair market value of owners' equity
- provides a minimum value for a company
- Used if highly asset-intensive & little growth forecasted





# Valuation Methods

## Income Approach

- equity value of a company is determined by assessing the future benefits that will accrue to the company's shareholders
- the value of a company is usually determined by capitalizing or discounting the company's expected future cash flow
- The two primary methods of applying the income approach are the discounted cash flow method and the capitalized cash flow method





# Valuation Methods

## Market Approach

- the value of the company is based upon the prices at which similar types of investments have been sold
- Industry Specific (manufacturing, technology, restaurants)
- Valuation Multiples:
  - Revenue
  - Net Income
  - EBITDA
  - Customer Base





# Valuation Methods

## **Blended Method**

- Usually Income Approach and Market Approach
- Apply certain percentage to each
- Average





# Valuation Methods

## Other Considerations

- Adjustment for working capital
- Owner Adjustments (Comp, Taxes, Benefits)
- Discount for Lack of Marketability
- Minority Interest Discount
- Strategic vs. Financial Investor
- Timing
- Auction Method





# Valuation – Current Trends

## **TECH CRUNCH INTERVIEW**

ULTIMATELY THE MARKET WILL DETERMINE  
YOUR VALUE

YOU NEED TO MANAGE THE PROCESS AND  
BUILD EXCITEMENT FOR YOUR BUSINESS!!

VALUATIONS BASED ON SIGNIFICANT  
QUALITATIVE FACTORS





# Valuation Considerations

## 1. Understanding the business concept

Is it sustainable over time with a big upside?

## 2. What is the product or service's “*unique selling proposition*”

Defined as the “differentiator”



# Valuation Considerations



## **3. Is there outside validation?**

Customers

Testimonials

Strategic partners

Outside professional assessment



# Valuation Considerations



## **4. Management Team**

Depth and experience

Space knowledge

Incentivized

Investing in the “Jockey”

## **5. Predictable business model**

## **6. Exit strategy**

