

BUSINESS VALUATION OVERVIEW

Many occasions arise when an unbiased, independent business valuation is the key to formulating and executing an effective strategy. This article responds to some of the more common questions we receive and provides background information and an overview of the business valuation process. A general understanding of the business valuation process can help you ask better questions, answer questions more accurately, and know what's coming at every step.

Every business valuation begins with gathering data. Necessary documents include company specific information like financial statements (5 years), tax returns, budgets, contracts, shareholder/operating agreement, employment agreements, payroll records (to help with key person valuation), credit card statements (to better understand discretionary spending), and loan documentation. Market specific information is also important and includes competitors, public comparable companies, and transactions involving similar businesses.

For most business valuations, the primary deliverable has two sections: the report and schedules. The report summarizes results, explains why, and provides analysis of the data presented in the schedules. The schedules contain the data points and equations used to arrive at the valuation.

We create the schedules first and develop the report to tell the story about the numbers. While we make adjustments to accommodate specific circumstances, the outline below covers most situations.

If you are a minority shareholder, family member, or divorcing and do not have knowledge of or access to the data required to perform a business valuation, then Adams Capital can help ensure that the process is fair to you. You are at a disadvantage and will likely require professional business valuation help to level the playing field. You will still need a lawyer, but a lawyer should not be your exclusive advisor on pricing or terms related to an operating business. We can assist your lawyer in securing the necessary data to perform a business valuation. The process is more complicated without inside information access, takes longer, and is more expensive.

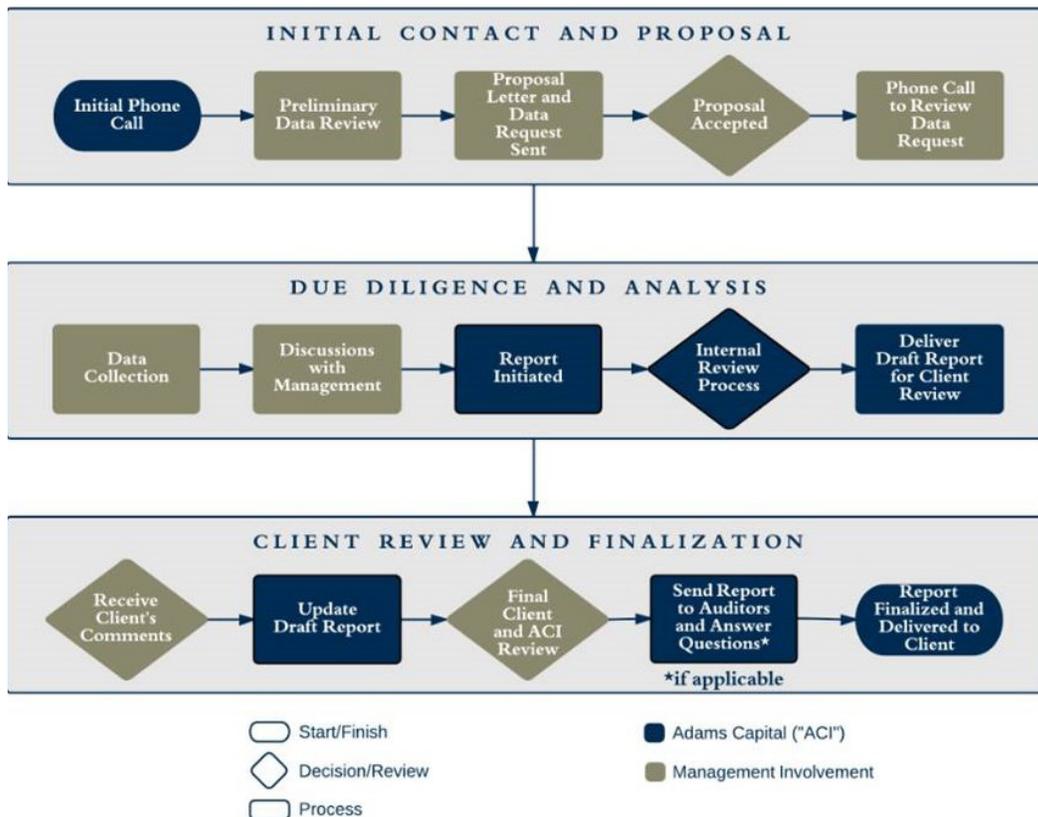
THREE PHASES OF A BUSINESS VALUATION

The valuation process ensures that clients have the necessary documentation to support the valuation finding, and that the conclusions reached are accurate and reliable. This process occurs in three primary phases:

1. Initial Contact and Proposal
2. Due Diligence and Analysis
3. Client Review and Finalization

An overview of the subtasks can be found in the following diagram:

Adams Capital Business Valuation Process



INITIAL CONTACT AND PROPOSAL

This initial phase in the business valuation process lays the groundwork for the more detailed analysis that begins in the second phase.

Phone Consultation

The Adams Capital business valuation process begins with an initial phone call. During this time, one of our business valuation experts will ask questions about the business, financial records, timeline, and goals. This is also a **good time to ask questions about our qualifications and the valuation process.**

You do not need to prepare for the phone consultation. Our valuation professionals are prepared to ask the necessary questions and explain next steps. They will also let you know what documents they'll need to prepare to receive a fee estimate and engagement letter.

Preliminary Data Review

The next step occurs when an analyst reviews a client's basic financial statements to understand the company and its operations. Adams Capital will provide a list of documents needed. These preliminary documents include the prior five years' financial statements, tax returns, operating/shareholder agreement, and general documents used to run the business on a daily/monthly/annual basis. This should be a simple drag-and-drop process.

Proposal Letter and Data Request Sent

After gaining a foundational understanding of the business, Adams Capital sends two documents to the client for review.

Proposal Letter: this document details the specifics of the Business Valuation agreement, including deadlines.

Data Request: this document lists additional specific documents that will be needed to complete the business valuation. Requested documents are used in the ordinary course of business, so they are usually easy for owners or managers to procure. Adams Capital typically requests between 15 and 20 documents.

Proposal Accepted

The next step in the process is a review of the proposal by the client. We encourage our clients to review the proposal closely to ensure the agreement meets their needs and goals.

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Phone Call to Review Data Request

Once the proposal is accepted, the next step is a thorough review of the data request. A phone consultation ensures owners, managers, and others understand the specific documents being requested. The client or their representatives then gather the necessary documents and send them to Adams Capital.

DUE DILIGENCE AND ANALYSIS

This is the phase where the majority of the detailed analysis occurs.

Data Collection

Adams Capital analysts review the documents the client has sent (based on the data request). They examine key metrics and data, using the information to determine a business valuation strategy and populate the accompanying equations. This review is also when analysts will build a list of questions for management.

Adams Capital securely maintains the report, schedules, and supporting documents for at least 11 years. This timeline represents the furthest date at which the IRS may audit the valuation. We frequently assist clients by providing copies of “lost” documents years later.

Discussions with Management

Financial documents provide Adams Capital with a fundamental understanding of the company. A more in-depth understanding is achieved through targeted questioning of business managers. The accounting and tax information used to develop the preliminary evaluation is by definition historic. Interviewing management is vital to understanding the future of the business.

Questions typically cover information like strategy, forecasts, specific items discovered in the documents, and broad market and industry trends.

This report is important because it is the method to share not just the answer but more importantly the process and rationale to get to the answer.

Report Initiated

Once interviews have been conducted with management, we begin writing the report. The report will explain the methodology used and how we arrived at a specific valuation. This report is important because it is the method to share not just the answer but more importantly the process and rationale to get to the answer. Our work product is designed for a target audience which may include a tax court judge, auditor, litigators, or divorce court — all smart people, but many have limited business and math backgrounds.

Internal Review Process

Adams Capital performs a robust internal review process. Managers do a detailed review of assumptions, formulas, numbers, and outputs. They also review the report carefully,

ensuring that the reasoning is sound and the language is clear. In addition, a partner does a second review. This additional perspective ensures the reasoning behind the business valuation is sound.

Deliver Draft Report for Client Review

Once the report has been evaluated by a manager and a partner, it is delivered to the client for review. The client, their attorneys and accountants, and others have the opportunity to ask questions and clarify any information that might impact the final business valuation.

While valuable for all clients, this step is especially helpful for clients who have never been through the business valuation process. It provides a structured way to learn how businesses are valued and what owners can do in the future to improve the health of their business, and thus potentially increase their valuation. Ultimately, it is a chance for the client to make the business better and the report more accurate.

This phase is a chance for the client to make the report more accurate.

CLIENT REVIEW AND FINALIZATION

This phase incorporates any client edits before sending the final report to appropriate parties.

Receive Client's Comments

Adams Capital reviews client comments (gathered in the previous step) in detail. This step often involves answering questions about data points or specific aspects of the business valuation process. In other cases, new data comes to light that impacts the report.

Update Draft Report

If new information is discovered during the client review process, Adams Capital will update the report to reflect any necessary changes.

Final Client and Adams Capital Review

After final edits are incorporated into the report, a revised version is reviewed internally by Adams Capital. After the internal review, we send the report to the client for final review and approval.

Send Report to Auditors

In the case of a financial reporting engagement, the next step is to send the report directly to auditors. In some cases, Adams Capital is retained by a law firm. In these cases, the business owner would need to contact the law firm to ensure attorney-client privilege is respected.

Report Finalized and Delivered to Client

Once the report has been approved, and outstanding invoices paid, the final version of the report is sent to the client.

USING ADAMS CAPITAL BUSINESS VALUATIONS

There are many circumstances in which an independent third-party valuation can provide clarity and direction. These include tax reporting, financial reporting, litigation, and transaction advisory services. In these cases, experienced valuation professionals can make these complicated processes much smoother with robust documentation and reporting. There are additional benefits that come from business valuations that are unique to Adams Capital. We use the valuation process as a way to get to know the business.

In many cases, business owners have used valuations to identify opportunities for improvement. Our team is also trained to identify opportunities to increase shareholder value. For example, we identified abnormally high interest payments, outdated pricing structures, and poor business controls that previously cost clients millions of dollars. After working with Adams Capital, those millions going forward are now additional profit.

In one case, we performed a business valuation for a company that manufactured reusable bottles, primarily for the Coca-Cola Company. During the project, we discovered that Coca-Cola would discontinue all purchases of reusable bottles in several months, a decision that would have a catastrophic impact on the client's business. By altering our client to this development, they were able to better plan for the future and diversify their client base.

With business valuations as part of a wealth transfer or wealth planning process, Adams Capital professionals have the experience to recognize opportunities to support legal and accounting advisors on optimal ways to get to the desired result. Cooperation between lawyers, accountants, and other professionals produces better outcomes. As part of this collaborative approach, we are open to other professional advisors' opinions and suggestions. We are proficient at working together toward the best possible solution for the client.

Adams Capital is an experienced firm with a track record of exceptional results in a variety of business valuation circumstances. We offer a no-cost initial telephone consultation to provide a sounding board to business owners who require or are considering a business valuation.

Please email us at tara@adamscapital.com or call us directly at 770-432-0308 to schedule a consultation or to learn more.