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DO YOU KNOW ME? By John Zoellner

DO YOU KNOW ME?

By John Zoellner, BCA, MCMEA

At the recent Celebration of Life for one of my older sisters, the Pastor's sermon could have been titled "Do you know me?" He said he often had people come up to him and ask: "Do you remember me?" The Pastor said he often said "yes" as he felt it was the right thing to say as he didn't want anyone to think they weren't remembered. At the Celebration I had the opportunity to get to know a few relatives that I didn't know much about other than their names - distance prevents a lot of interaction. You know how it is - we get together at weddings and funerals!

In my previous career as a banker I mostly financed and leased equipment. I met a lot of business owners and visited their businesses as I always wanted to see what we were financing. Doing what I do now I continue to meet a lot of business owners / sellers and buyers. Do I really know them? In one sense I do get to know them, but mostly as it regards some aspect of working with them and their businesses.

PROFESSIONAL BUSINESS EVALUATIONS

About Professional Business Valuations

Whereas business brokers and merger and acquisition (M&A) intermediaries primarily utilize a company's recent historical earnings to develop an informal opinion of value, the requirements of a professional business appraiser are much more complex. They have professional standards that must be incorporated and adhered to in their business valuation reports.

A professional business appraiser will utilize three methods of valuation: 1) an asset approach; 2) a market approach; and 3) an income approach.

Asset-based business valuation

The asset approach may consider multiple types of values - the company's book value, replacement cost value, the appraised value of the assets and a method called excess earnings, which is a combination of an asset approach and an income approach.

Market-based business valuation

The market approach attempts to analyze comparable transactions. Unfortunately, because most small businesses are privately held, the availability and reliability of comparable transactions may be limited.

Income-based business valuation

The income approach may include 1) the capitalized earnings method; 2) the excess earnings method; and 3) the discounted cash flow method. Assumptions for numbers 1 and 2 include determination of the earnings to be capitalized and a capitalization rate. The discounted cash flow method relies on assumptions regarding; 1) projected future cash flows; 2) a discount rate called the weighted average cost of capital; and 3) a terminal value.

Providing more details to explain professional business valuations is beyond the scope of this newsletter. We are simply highlighting the complexities of the professional business appraisal vs. the opinion of value that business brokers or M&A intermediaries can provide for internal planning purposes.

WE LIVE BUSINESS APPRAISALS

I enjoy meeting people as I go through business and other aspects of life. Keeping in touch isn't always easy. And meeting someone isn't the same as knowing them.

And the moral of this story...

Meeting in person is very important - for us to have a business relationship, for me to provide a valuation of your business or to possibly advise you with the sale or acquisition of a business - it's important for us to get to know each other. The owners of small businesses very often are the face of the business, the most important person in its success. It's important for what we do - so I can provide meaningful input during the valuation and business sale / acquisition processes. Just as important, you should know me so we can feel comfortable working together.

PLEASE ALLOW ME TO INTRODUCE MYSELF, MY NAME IS JOHN!

Welcome Back Morgan Vaive, Vice President

Morgan began her career with Zoellner, Garten & Company in 2008 while earning her Bachelor's in Accounting at the University of Cincinnati. In 2011, Morgan left Zoellner to pursue a career in finance. During her time away, she established a very successful career while working for multiple global enterprises. We are excited to have Morgan return as an integral part of our future success. Her email address is morgan.vaive@zoellnergarten.com.

NEXT ISSUE

John W. Zoellner, Business Certified Appraiser (BCA) - Business Appraisals

Revenues of businesses valued range from under \$500,000 to over \$100 million. They include retail, restaurants, distribution, manufacturing, and service businesses. Clients have included Business Owners, Business Buyers, Accountants, Attorneys, and other parties that had a need to know the value of a business. Here are some examples.

- Manufacturer of valves, cylinders, fittings, hoses, etc. Annual Revenues \$25 million. The purpose was to establish a price to buy a Family Member / Shareholder's interest.
- Close tolerance Machine Shop. Annual Revenues grew from under \$400,000 when current Owners acquired the Business to just under \$4 million in year five. Since 2014 Appraiser has annually valued the Stock of the Company for their Buy-Sell Agreement and for 401-k Ownership requirements.
- Large Fan Manufacturer. Annual Revenues \$4.3 million. Initial Appraisal was to establish value for two key employees to become 20% Shareholders each. Then four years later the purpose was to establish value for the key employees to buy the remaining 60%; one Shareholder opted out and the remaining Shareholder became an 80% owner. Two years later the 80% owner acquired the remaining 20%. Then three years later the purpose was to establish value for the Owner to pass ownership to his daughter and son.
- A large assignment was the Valuation of more than a dozen entities owned by a family. Dad passed away on Mother's Day, and Mom passed away on Father's Day in the same year - but more than 30 days apart. Entities were owned in various percentage by them and in some cases one of both of their children. The "first" value date was Mother's Day, then with different ownership due to the will, a second Valuation was required on Father's Day. The entities included a very large Annual Revenue (\$125 million) Medical Company, entities that owned parking lots and other real estate, and an entity that owned a boutique hotel. Appraiser was engaged by the attorney for the Estate.
- Language School. Annual Revenues \$2 million. Appraised - once for an Estate as the patriarch passed, and then for the son to buy out his sister, also a Shareholder.
- Appraiser has valued Medical Licenses that included Ambulatory Operating Licenses, Surgical Center Licenses, Certificates of Need, and others.
- Business Valuations were for
 - Possible Sale of Business prior to sale
 - Fair Value during the sale process
 - Estates to determining the value of Assets in the Estate
 - Divorce valuation issues

**33 OBSTACLES TO A
SUCCESSFUL
BUSINESS SALE**

- Owner Business & Retirement Planning
- Partner Buy-Out

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