

Front Range Business, Inc.

Offices In Boulder, Denver,
Fort Collins, and Breckenridge

Business Valuation During COVID-19



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Focus Of Workshop

- **Pre-COVID-19 Valuation**
- **COVID-19 Valuation**
- **Are There Buyers Out There?**
- **Thoughts On Recovery Valuation**

Pre-COVID-19 Valuation

What Is It Worth?

A Business Valuation
Is NOT
About What A Company
Is Worth In The
Current Owner's Hands

What Is It Worth?

It's About
The Company's
Transferable Value

Earnings Multiple Method

Earnings
X Multiple

= Business Value

Different Earnings Used

Most Commonly Used Earnings

EBITDA

(Professional Management)

SDE

(Owner-Operated Businesses)

EBITDA

Earnings (Net Profit)
Before
Interest (On Non-Operating Debt)
Taxes (On Net Profit)
Depreciation (Non-Cash Expense)
Amortization (Non-Cash Expense)

SDE Calculation

Seller's Discretionary Earnings

= EBITDA

+ Owner's Salary

+ Discretionary Expenses

+/- Normalized Expenses

+ One-Time Expenses

= **SDE (Cash Flow)**

The Multiple

- Quantifies the Perceived Risk
- Perceived Risk Is Based on:
 - Likelihood of Future Income
 - Replicability of Income

Multiple Influencers

- Industry Desirability
- Sales Profile / Concentration
- Contracts Where Appropriate
- Customer Base / Stickiness
- Recurring Revenue
- Competition / Barriers to Entry
- Management / Staff / Labor Base
- Facility / Capacity / Technology
- Location / Lease
- Growth Outlook / Scalability / Economy
- Size Matters

Small Business Multiples

- Range Is Typically 1X to 4X
- Smaller Business, Smaller Multiple
- Larger Business, Larger Multiple
- **2.2X Is The National Average!**
- Rules Change for Larger Businesses and Strategic Buyers



COVID-19 Valuation

Different Impacts On Businesses

1. Those Not Affected By COVID-19
 - Or Even Possibly Doing Better
 - i.e. Liquor Stores
2. Those Partially Shut Down
 - Buyers Will Value These Cautiously
 - The Rebound Rate Is Critical
3. Those Totally Shut Down
 - Some Can or Will Reopen
 - Heightened Level of Caution on Buyer Valuation
 - Some Probably Won't Be Able to Survive

Not Affected By COVID-19

- These Businesses Will Be Very Desirable to Buyers
- Valuations Will Hold, Maybe Improve Slightly
- Will Probably Be Able to Be Financed
- It's Like Nothing Happened

Partially Shut Down

- Valuation Will Depend on How Fast the Business Can Rebound and If It Can Operate at Full Capacity
- Financing Will Be on a Case by Case Basis, Subject to Assumptions and Scrutiny
- Current Monthly Financials and Prior Period Comparisons Needed
- Pro-Forma Projections May Be Needed
- Expect Some Deal Structure Creativity

Totally Shut – Can Reopen

- If They Can Reopen, to What Extent?
- Many Businesses Can't Survive Social-Distancing Reduced Income
- Can They Adapt?
- Expect Creative Deal Structures or Distressed Prices
- Will Take Time to Get Back to Previous Values
- Is the Time or the Money More Important?
- Can the Business Last?

Totally Shut - Not Reopening

- Liquidation of Tangible and Possibly Some Intangible Assets
- Status of the Lease?
 - Is There a Personal Guarantee?
 - Can Owner Get Out of It or Get Someone Else to Take It Over?
- Bankruptcy?

Where To Start?

- Seller Should Get a Chance to Sell at Pre-COVID-19 Valuation
 - Assuming They Can Hang in There
- Traditional Multiples Should Prevail
- Will the Earnings Hold?
- Can the Business Rebound to Justify the Pre-COVID-19 Value?
- The Deal Structure Will Reflect the Risk

Financing A Business Purchase

Cash

Bank Financing

Seller Financing

The Status of Banks

- Many Are Lending Again after PPP Loans
- The 7(a) SBA Lending Program Is Very Valuable to the Economy
- \$100 Billion Still in the Coffers
- Lenders Are Working Off of Projections
- Higher Levels of Scrutiny on the Business
- Higher Levels of Scrutiny on the Buyer
- Experience
- Cash Reserves

COVID-19 Lending Changes

- New, Enticing Programs in Place
- 6 Month Payment Holiday if Loan Is Closed and Funded by Sept. 27, 2020
- This Is Like Getting 5% Off the Loan!
- Bank Guarantees May Be Negotiated to 90% - Not Yet Though
- Financing Will Never Be Cheaper
- Borrowers Will Be Subject to More Stringent Qualifications

However

- Fewer Cash Sales Likely
- Fewer Businesses Will Qualify for Bank Financing
- Sellers Will Become Lenders
 - Promissory Notes
 - Earn-Outs
 - Forgivable Promissory Notes
 - A/R and A/P Assumptions
 - Debt and Lease Assumptions

Promissory Notes

- A Loan from the Seller to the Buyer
- The Amount, Terms, Conditions, Collateral, and Recourse All Defined in the Note
- Usually Personally Guaranteed in Small Business Sales
- Outside Collateral May Come into Play

Earn-Outs

- All or Part of the Business Price is Determined by the Future Sales, Gross Profit, or Net Income
- Very Difficult to Manage on Net Income
- The Maximum Price Can Be Capped or Have No Limits Except Time
- The SBA Does Not Allow Earn-Outs

Adjustable Seller Notes

- Forgivable Promissory Note - or
- Earn-Down - or
- Claw Back Note - or
- Reduction Note
- Can Be the Total Price or Part of the Price
- The Buyer Only Pays on the Note Depending on the Future Revenues or Other Metrics of the Business

A/R and A/P Assumptions

- Buyer Takes Possession of the A/R as a Financing Mechanism
- Price Is Increased
- Buyer Assumes Liability of the A/P
 - With or Without Creditor Approval
 - Talk to Your Attorney!

Assumption of Debt or Leases

- Buyer Assumes Seller Obligations on Debt and Equipment Leases
 - With or Without Lender Approval
 - Talk to Your Attorney!



Are There Buyers Out There?



Yes!



Thoughts On Recovery Valuation

Buyer's Time of Opportunity

- Except for Top Tier Businesses, It's Now a Buyer's Market
- There Will Be Some Screaming Deals
- Plenty of Buyers Are Looking to Buy
- Bottom Feeders Have Come Out
- The Deal Structure Will Reflect Economic Risk or Seller's Desperation

Buyer Concerns

- Most Buyers Are Scared and Will Try to Structure Their Deal Around the Perceived Risk
- Unemployment Will Be High and People Will Need to Buy Jobs
- It's an Opportunity for Existing Businesses to Buy Competitors or Complimentary Businesses
 - These Acquirers Will Only Place Value on What They Can't Replicate on Their Own
- Buyers Will Have Less Cash or Will Not Be Willing to Spend as Much Cash

Seller Take-Away

You Need to Understand Your Value Proposition in Order to Effectively Sell or Exit Your Business in This Unprecedented Time

Get Professional Advice!

The Sun Will Rise Again

- We Will Find Our Way to a New Normal
- The Laws of Physics and Business Valuation Will Prevail
- Call Us to Talk About Your Unique Situation



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Thank You For Attending!



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