



## **Typical Factors Considered In the Valuation of A Privately Owned Company and Ownership Interest**

A Business Valuation can be a unique undertaking, and the HBK Valuation Group thought it would be informative to list the factors normally inquired about and considered during the Valuation Process. Every valuation is different, and items below are general considerations that need refinement and adaptation for a specific engagement. HBK offers an article, *The Valuation Process*, which identifies and explains for you the phases and requirements of a business valuation.

### **The Company's Background and Nature of its Business**

- History and Recent Events
- Ownership and Key Personnel
- Shareholder Agreements and Issues of Control and Lack of Control
- Management Quality and Depth; Business Plans and Forecasted Financial Information
- Adequacy of Facilities, Equipment and Information Technology Products & Services
- Geographical distribution of product
- Industry Trends and Conditions
- Key Customers and Suppliers
- Business Concentrations – Sales to key customers; relations with key suppliers
- Identification of Competitors & the Company's Market Position
- Future Prospects & Growth Outlook
- What does the Company do well, and what are its weaknesses

At the beginning of the Valuation Process, a critical step is an in-depth management interview to adequately discuss and review the above items.

### **Comparative Industry and Company Analysis**

- Industry background and conditions
- What industries is the Company dependent on?
- Information from trade associations and relevant industry surveys
- Long-term trends and current level of business in general
- Characteristics of the industry within which the Company operates
- Relationship of Company trends to industry trends

- Threats and risk factors

During the management interview, it is important to develop the industry context in which the Company operates.

### **Detailed Financial Analysis of Company**

- Five years of annual financial statements, including balance sheets, income statements and statements of cash flows, if available
- Summary of shareholders and any prior ownership sales or transfers
- Long-term trends of sales and other revenue sources
- Long-term trends of net income
- Long-term trends and future outlook for generation of net cash flow to investors
- Debt load and financial risk
- Summary of cash distributions/dividends paid
- Long term trends of dividend pay-out ratio

At the management interview, these factors are discussed.

### **Valuation of a Specific Ownership Interest**

- Is it a Control or Minority Interest Valuation?
- Does a Shareholder Agreement exist that sets forth the rights and restrictions of the Owners?
- What is within the authority of the Control Interest?
  - Establish compensation
  - Sell assets
  - Make cash distributions
  - Transfer of ownership interests: restrict minority interest transfers? Does the control interest have a long-term investment policy for minority investors?
  - Sell the business
- What are the rights and restrictions of the Minority Interest?
  - Withdrawal rights, if any
  - Cash distribution rights, if any
  - Restrictions to sell or transfer the minority interest
  - Is the outlook for a long holding period of investment?
  - IS THERE A HISTORY OF MEANINGFUL CASH DISTRIBUTIONS TO THE MINORITY INTEREST? Just enough to pay income taxes? Or none at all?
- Summary of recent ownership transactions: sales or other transfer. Have other business valuations been prepared?

### **How Can We Help You? Contact Us**

The business valuation profession is attempting to spread the word that valuation knowledge and methodologies can be powerful business planning and problem solving tools. HBK business

valuation experts are using valuation techniques and resources to add value to existing client services.

The Hill, Barth & King LLC web Site address is [www.hbkcpa.com](http://www.hbkcpa.com). Information about our firm and the Valuation Group is available. Our firm headquarters are located at 7680 Market Street, Boardman, Ohio. The telephone number is (330) 758-8613.

Please send any e-mail to [jevans@hbkcpa.com](mailto:jevans@hbkcpa.com) with questions or comments. We would like to give you a proposal for valuation services; and we will discuss our fees and cost-benefit of our services.

Inquiries to discuss specific valuation or transaction advisory matters are welcomed.

**DISCLAIMER:** This summary does not constitute legal, valuation, tax, or financial consulting advice. It is intended as a general information service and NOT to be construed as specific guidance of any type.