AXCESS VALUE

- BUSINESS VALUATION CONSULTING
- FINANCIAL ADVISORY SERVICES

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Valuation Trends

Business Owners and Professional Colleagues,

Many of The Axcess Group's (TAG) valuation engagements in 2011 related to transactions between shareholders. The effects of the prolonged economic downturn, lack of credit available to small business owners, and decreased merger and acquisition activity in many sectors have given rise to amicable and adversarial intra-company transactions.

In such transactions, the presence of well-crafted buy/sell terms within shareholder agreements are even more critical to have in place. From estate planning purposes to partnership dissolutions and shareholder disputes, the following are examples of favorable and unfavorable terms revealed in valuation engagements TAG has undertaken over the past 12 to 18 months. Call us today to assist in drafting/redrafting your buy/sell terms.

Terms Likely to Foster Equitable Transactions

- Hire a qualified, independent appraiser to conduct a qualified, independent appraisal, preferably selected and agreed to by both parties. (Look for professional credentials and designations, and compliance with professional standards, i.e. USPAP.)
- Consider stipulating that the price/value should be estimated under a fair market value standard. (Reflects an established definition for the hypothetical buyer and seller.)
- Address the application of a discount for lack of control. (Reflects a lower per share value for minority interests vs. a pro rata value of 100% control interests.)
- Address the application of a discount for lack of marketability. (Reflects the costs and holding period for securities that are not readily liquidated or publicly traded.)
- Address a legitimate arms-length, third party offer, with first right of refusal to other shareholders (Consider a fairness opinion for inactive markets.)

Terms Likely to Foster Inequitable Transactions

- Hire two appraisers, one selected by each of the parties, without stipulating credentialing or standards. (Tends to increase administrative time and costs to shareholders. Can result in a wide variance of value, calling into question the appraisers' independence.)
- A set percentage variance in value estimated by two appraisers can require a third appraisal. (Tends to increase administrative time and costs and does not eliminate the potential for continued value discrepancy.)
- A fixed price for shares, such as a price established in a prior year or on a scheduled frequency. (Tends to be out of date and is often not consistently updated.)
- A formula price, such as a percentage of book value or an average of the last five years earnings times a specific multiple. (Tends to overvalue or undervalue, particularly during significant economic or industry peaks and valleys.)
- A shotgun price, similar to an internal auction, where the highest offer establishes the buyer, seller, and price. (Presents a disadvantage to shareholders with comparably less financial resources.)

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Serving Small Businesses & Their Professional Advisors
Since 2001

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