

SPECIAL REPORT

LEGAL & ACCOUNTING BUSINESS

Succession Planning

Poor economy makes getting value difficult

BY JENNA V. LOCEFF

BUSINESS JOURNAL STAFF REPORTER

NORTH BAY – Creativity and flexibility are becoming the watchwords in a distressed sale these days.

The first step in selling a business is having a handle on the value. In an ordinary economy, a business owner could expect to get in the neighborhood of 12 times cash flow, experts said. This is taking into consideration intangibles such as the future success of the business.

However, in this economy, business owners who either want or need to sell may be in for a surprise.

Businesses that are doing well are now selling in the eight to 10 times the rate of cash flow range, said Matt Franklin, partner with Zepponi & Company, a boutique winery and vineyard investment brokerage in Santa Rosa. Some businesses are being valued at a lower level.

"There is a little bit of resistance out there because this is still fresh in people's minds," he said of the valuations.

"We will have to see more distressed transactions to get used to the idea."

He said there were several things to take into consideration.

"You are going to see more structuring in a deal where you have seller financing, earn-outs and owners rolling equity into the new entity," he said.

People are beginning to be more creative in such deals, he said. It is good for the buyer because it gets them the business at a lower price, but the seller also will get a return if the business does well.

He said the Kosta Browne sale to Vincraft in early September is a good

example of the new realities in the market.

"That was a fantastic brand and shows that at least for some properties, people will pay," he said.

In addition to thinking differently about a sale, being proactive about getting a business on the market will save in the long run.

Early on when there is a sign of a problem with the business, or the owners are finding themselves in a tight spot, they can't afford to wait, said Mr. Franklin. If there is no positive cash flow, it will be hard. The owner will likely get just the fair value of assets with little value attributed to intangibles.

According to Jim Andersen of Burr Pilger Mayer in Santa Rosa, it is necessary to take a harder look at underlying data to make sure that the information

being used for valuation conclusions truly makes sense.

He said there are three methodologies to valuing a business: the market approach, the income approach and the underlying asset or cost approach.

The market approach consists of looking at comps of both publicly traded companies and of typically smaller businesses valued as a controlling interest.

The income approach looks at the value of assets and expected future earnings, taking into account the reduced rate.

The underlying asset approach is just that. When there is no expectation of intangibles, the sale will be solely based on the value of the assets.

Mr. Franklin said, "No matter how difficult it may be, when considering a sale, expectations may have to be adjusted. Take a hard and honest look at how the buyer is going to see it."



Matt Franklin



ZEPPONI
& Company