

# Maximizing the After-tax Proceeds of the Sale of a Closely- held Business

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The Best Price is not Always the  
Best Deal



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Stan is the chief valuation officer for the company, and has overall responsibility for the company's signed valuation reports and for the company's valuation analysis systems. He directly manages the company's valuations for financial reporting and fair value projects.

Stan has consulting and academic experience in the valuation of privately held and publicly traded firms, along with extensive real world experience. He is an expert in the valuation of complex financial securities, including thinly traded equity and fixed income instruments, and public and privately held businesses. He helped to draft FAS 157(now Topic 820), the fair value standard, as a member of the Financial Accounting Standards Board's (FASB) Valuation Resources Group, an external advisory committee on valuation issues.

Stan received a B.A. in Economics from the City University of New York, Hunter College, a M.A. in Economics from the New School for Social Research, and a Ph.D. in Economics from New York University.

## About Axiom Valuation Solutions

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Axiom Valuation Solutions is a nationally recognized financial security and business valuation firm. We have conducted valuation assignments for clients throughout the U.S., Europe and Asia. We regularly conduct fair value assignments for financial institutions in terms of fair valuing portfolio assets and liabilities as well as acting as an advisor and assessing whether internal transfers between funds meet the fair value standard. Our Co-founder and Chairman, Dr. Stanley Jay Feldman, was a member of FASB's Valuation Resource Group, an advisory group to FASB on fair value issues. AIRAS is currently used by institutional investors to both validate self-reported returns and fair values of alternative investment managers.

For more information, please visit

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# What Factors Determine the Best Transaction Price?

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## 1. The status of the buyer

- a. Strategic buyer will pay a significant premium over firm's standalone value.
- b. A public strategic acquirer will often pay a lower premium than a private strategic acquirer in a deal using stock as part of the purchase price!
- c. A private equity acquirer may pay more than a private strategic buyer if the PE buyer owns assets that can be leveraged through owning the target.

## 2. Consideration

- a. Premiums are higher for an all cash deal than for mixed deal: cash & stock
- b. Foreign buyers are likely to pay more than domestic buyers

## 3. The more transparent the target's financial condition the higher the transaction value.

# Private vs. Public Transaction Multiples: Surprise!

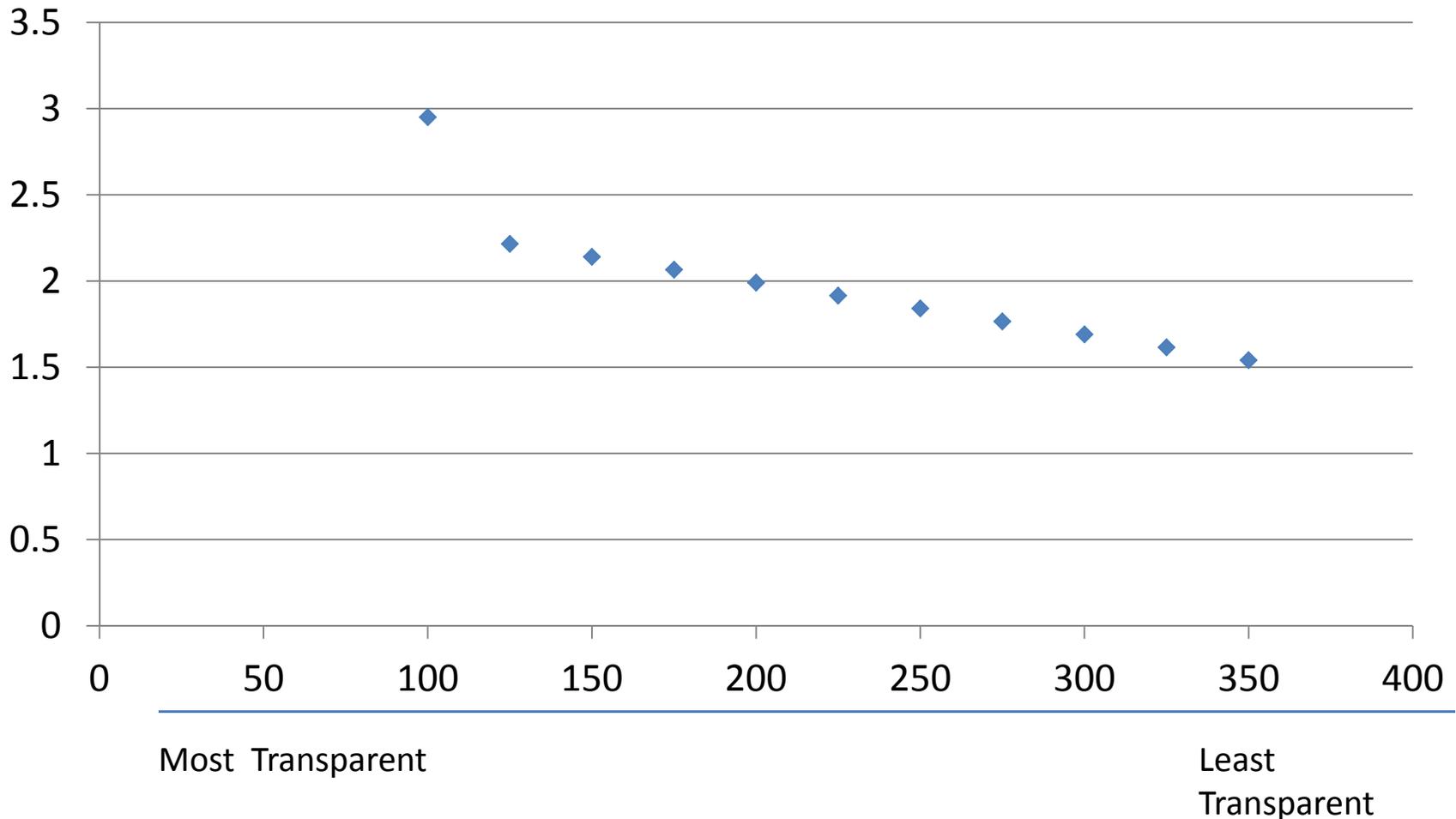
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1. Academic research ( see Feldman, Principles of Private Firm Valuation, ch.7) indicates that private firm premiums are greater than for equivalent public firms. The premium multiple can exceed 1.5. This means that if the P/BE is 2 for a public firm, it might be about 3 for a private firm
2. Academic research indicates that private firm acquirers are willing to pay a higher premium than public buyers when the selling control owner agrees to be part of the acquiring private firm.
3. Research indicates that even though the private firm premium is higher than that of a public firm it **SHOULD BE EVEN HIGHER.**
  - a. **On average a typical private firm owner leaves as much as 16% of the transaction value on the table when the buyer is a public firm.**
4. The premium multiple will vary depending on a number of factors including the state of the economy, the industry, and the state of the financial markets.

# Price to BVE vs. Transparency Index

A highly transparent firm will sell at almost twice the price of the least transparent firm with the same book value of equity

**P/BVE**

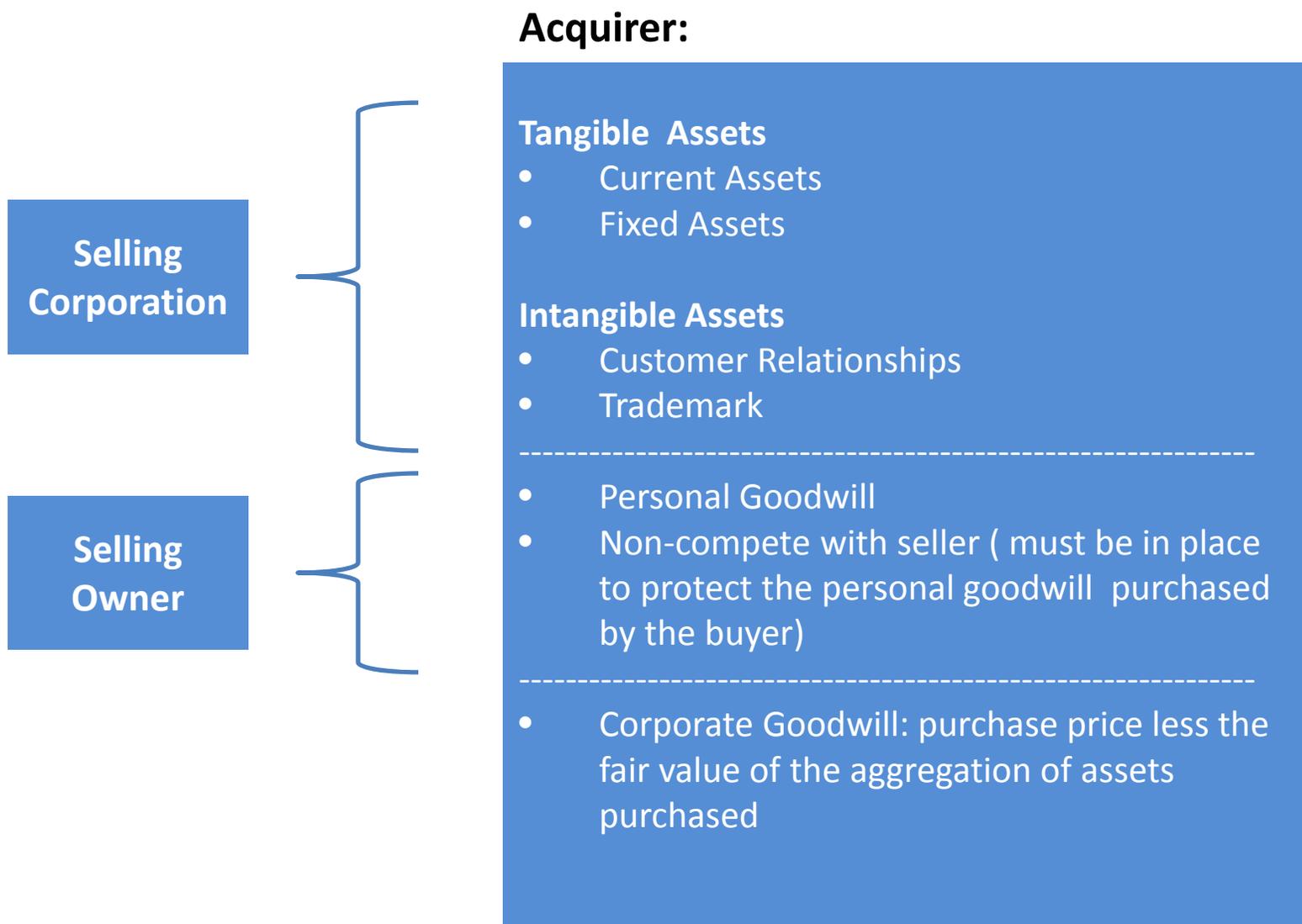


# What Determines a High Transparency Rating?

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1. Financial statements are audited rather than reviewed.
2. Owner personal expenses are not mixed with business expenses.
3. Whether a stock deal or asset deal, the acquirer will pay a premium where the intangible assets are identified and valued.
4. Business is easy to understand

# The Difference Between Personal and Corporate Goodwill



## Case Study: Fair Value of Assets Acquired

Row		Fair Value	Useful Life
	<b>Tangible Assets</b>		
1	Current Assets excluding cash	\$1,595,977	
2	Cash & Marketable securities	\$1,043,164	
3	Net Fixed Assets	\$58,438	
4	<b>Total Tangible (R1 + R2 + R3)</b>	\$2,697,579	
	<b>Intangible Assets</b>		
5	<b>Total Value of Brand Names</b>	\$450,820	Indefinite
6	<b>Total Value of Report Library</b>	\$537,838	5 Years
7	<b>Total Value of Non-Competes</b>	\$297,890	5 Years
8	Consulting Customer Relationships	\$140,931	3 Years
9	Research Customer Relationships	\$1,112,907	4 Years
10	<b>Customer Relationships Total (R8 + R9)</b>	\$1,253,838	
11	<b>Workforce</b>	\$395,778	
12	<b>Total Value of Intangible Assets Excluding Workforce (R5 + R6 + R7 + R10)</b>	\$2,540,386	
13	<b>Tangible + Intangible Assets (R4 + R12)</b>	\$5,237,965	
14	<b>Personal Goodwill</b>	\$1,424,448	
15	<b>Purchase Price</b>	\$5,633,108	
16	<b>Corporate Goodwill (R15 - R1 - R3 - R12 - R14)</b>	\$13,860	
17	<b>Enterprise Value</b>	\$6,485,640	
18	<b>Tax Amortization Benefit</b>	\$585,366	
19	<b>Enterprise Value Including Intangibles' Tax Amortization Benefit (R17 + R18)</b>	<b>\$7,071,006</b>	

## Deal Terms vs. Transaction Price

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1. Typical deal terms:
  - a. Portion of deal price paid at closing; remainder paid over time
  - b. Seller financing
  - c. Earn-out based on some performance measure
  - d. Consulting arrangement
  
2. Problem: Future payments are outside the seller's control. This means that the sale is not "finalized at closing". While there will be tax savings associated to payouts over time, the "risk" of not being paid often is far in excess of tax saving.
  
3. All cash deal at a lower multiple is often the better way to proceed.