Cultivating Value

A Publication of Vineyard Group, LLC

February- March 2009

Thoughts From Tom

In today's business environment, successful companies focus on finding ways to constantly leverage what they do best while using creative ways to shore up their weaknesses or deficiencies. It is not practical and frankly it is dangerous for small to medium size companies to spend financial and manpower resources to try to build in house expertise in all aspects of doing business. A strategic alliance can be a perfect way for both partners to take advantage of each others strengths to compensate for their shortcomings and both can with as a result. When a good match is made, one plus one can equal three.

In this Issue

- **Thoughts From Tom**
- **What Can a Strategic Partnership Do for You?**
- **One Size Doesn't Fit All—Value Depends on Purpose**

Our Managing Director

THOMAS P. BENSON, CPA, CFFA, CVA has become recertified with the National Association of Certified Valuation Analysts to maintain the designation of Certified Forensic Financial Analyst.

"The Certified Forensic Financial Analyst credential is designed to provide assurance to the legal community- the primary users of litigation consulting services- that the designee possesses a level of experience and knowledge deemed acceptable by the association to provide competent and professional forensic financial consulting services," said Parnell Black, NACVA president and CEO. "The designation is an indication to the professional community that Mr. Benson has met the Association's rigorous standards of professionalism, expertise, objectivity, and integrity in the business valuation and litigation consulting disciplines."

Requirements to earn the CFFA designation include being the holder of one of NACVA's three business valuation credentials – certified valuation analyst, accredited valuation analyst, or government valuation analyst – or a comparable credential such as a CPA, or an advanced degree, masters level, in economics, accounting or finance, or business administration. In addition to demonstrating proof of substantial experience providing litigation consulting, CFFA applicants must also complete two weeks of intense training offered by the National Association of Certified Valuation Analysts' Forensic Institute and pass a comprehensive examination.

To maintain his credential as a CFFA, Benson will be required to periodically obtain continuing professional education in areas related to business valuation and/or litigation consulting and participate in programs sponsored by NACVA that promote quality and adherence to industry standards.

What Can a Strategic Partnership Do for You?

Companies are like children: They grow in spurts -- seeming the same for months and then shooting up two inches overnight. The sustained growth rate is a significant variable in determining a company's value. How can you lead your company's growth? One option may be to pursue a strategic partnership. But though this approach may pave the way for enhanced growth, evaluating the various aspects of such a partnership isn't easy.

The Pros and Cons

For companies trying to quickly develop new markets, bringing in a strategic partner may be a good solution. But to make it work, you have to carefully weigh its pros and cons in terms of your long-term goals.

True, a strategic partner can contribute much more than money to your company's success. A synergistic combination might bring to the table technological skills, new product or distribution-channel marketing agreements, or contacts with key suppliers in your field.

But companies need to evaluate whether their entrepreneurial styles will mesh. Larger companies are more likely than small companies to have formalized procedures, and decisions may take longer. Thus, a larger business may not easily adapt to the culture of a smaller, more informally managed company -- or vice versa. Your employees, customers and suppliers will study how you resolve such issues -- and your success will depend on their willingness to cooperate.

Key Questions

To determine whether a deal is strategically sound, before it proceeds, ask:

- Does the deal offer something for everyone?
- If it requires financing, will this be primarily with debt or equity? If with debt, will the new partner settle for a lower return than that required by investors concerned with recouping large equity investments?
- Do participants' needs fit the deal's business objectives?
- Will current management participate in the reorganized company?
- Does your potential partner want more leverage or control than you consider prudent?
- What is the rate-of-return requirement and how will you achieve it?
- Are you in agreement with your potential partners regarding development timelines and exit strategy?

Managing and Sustaining Growth

If handled properly, a strategic partnership can help a company grow faster. Finding potential partners whose skills, goals and reputations complement your own is key to success. We can help you weigh the pros and cons of a potential partnership, and evaluate how it may affect the value of your business.

One Size Doesn't Fit All- Value Depends on Purpose

When it comes to business valuations, one size definitely doesn't fit all. Although value must always be based on objective and quantifiable data, it can vary depending on many factors. A valuator may reach a different value conclusion depending on the purpose of the valuation -- and therefore, the definition of value.

Taxes and ownership transfers are the most common reasons for a valuation. Let's take a closer look at how these reasons may directly influence a valuator's approach to determining value.

Taxes

Taxing authorities typically require use of a "fair market value" definition when determining value. Fair market value is the dollar amount at which property would change hands between a willing seller and a willing buyer when neither is acting under duress and both have reasonable knowledge of relevant facts.

In a tax valuation case, the valuator must consider:

- The company's capacity to earn and pay dividends,
- The company's intangible assets,
- Comparable companies' stock value,
- Earlier sales of business equity,
- The type of enterprise the company engages in,
- Industry conditions, and
- The stock's book value.

If you leave stock to your heirs, the IRS will tax its fair market value. If you gift it instead, you must know the stock's value to minimize or avoid estate tax. IRS guidelines differ, depending on which option you choose.

If you've recently acquired a business, you may need a valuation to allocate the purchase price among the newly acquired assets for income tax purposes. The valuator will value your company's underlying tangible and intangible assets, then adjust the assets' historic costs up or down to the price you actually paid for the business.

Ownership Transfer

Negotiating a price for an ownership transfer often involves elements of stress and duress. A party may not have all the relevant facts. Ownership transfers may also possess a synergistic element that the fair market value definition doesn't include. Ownership transfer value, or more appropriately, investment value, isn't a precise term. If you're planning an acquisition or divestiture, a valuator can tell you what a prudent investor would consider a proper range of values for the transaction and help you determine your investment value.

In setting the price for a buy-sell agreement, the owners may not consider fair market value fair among themselves. The agreement should address the type and extent of discounts.

Tailor-Made Estimates

The quality of clothing is found in its tailoring. The same is true for your valuation. Our experience ensures that we'll take the proper factors into account in any valuation matter. Please call with your questions. We would be glad to tailor a valuation to fit your needs.

Other Reasons, Other Values

You may also require an asset valuation for financing or insurance purposes. A valuator looking at your business assets as collateral or for insurability has a different focus than one valuing the business as a whole.

In valuing assets for financing purposes, the valuator will probably value them under a liquidation premise. Likewise, for insurance purposes, assets may be valued at replacement cost. Both of these premises lower a business's value because they disregard intangibles such as goodwill.

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