

Valuation Masterclass: Takeaways for Owners & Advisors

A Case Study – Driven Approach

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KNOWLEDGE

Learning Objectives

CPE Information
Recommended CPE: 1
Delivery Method: Group Internet Based
Field of Study: Specialized Knowledge
Program Level: Basic
Advanced Preparation: None
Prerequisite: None



Identify the three primary approaches to business valuation and the most commonly used methods within each



Describe the key steps and considerations in the valuation appraisal process



Apply strategies to enhance value creation in the valuation process.

Agenda

- Example Case Study Background
- Three Approaches to Value & Commonly Used Methods
- Valuation appraisal process
- Areas for valuation creation (increase the valuation)



About the Presenter Kellie Adkins

- Managing Director Valuation & Financial Modeling Services at Armanino Advisory LLC
- Background in Business Planning, Financial and Tax Reporting
- Employment
 - Armanino Advisory LLC 2025 - Present
 - KPMG 2006-2017; 2022-2024
 - Crowe 2017-2021
- Education
 - Texas A&M University, College Station, TX



About the Presenter

Curtis Farrow

- Managing Director- Valuation & Financial Modeling Services at Armanino Advisory LLC
- Background in M&A, Capital Raising, Reorganization, and Carve Outs
- Employment
 - Armanino Advisory LLC 2025 – Present
 - Centri Business Consulting, LLC 2019-2024
 - CFGI 2017-2019
 - GBQ Consulting 2014-2017
 - CBIZ 2013-2014
- Education
 - University of Colorado, Boulder – Leeds School of Business
 - University of Colorado Denver (MBA)

Armanino's Valuation & Financial Modeling Team Can Help



Mergers, Acquisitions and Dispositions

- Valuations of consolidated businesses
- Valuations of business ownership interests
- Intangible asset valuations/EPS impact
- Real Estate valuations
- Earnout valuation
- Purchase price allocation (§1060/ASC 805)
- §280G analysis
- Impairment testing (ASC 350/ ASC 360)



Other Financial Reporting

- Lease accounting / Incremental borrowing rate (ASC 842)
- Current expected credit loss (CECL)
- Portfolio valuation / Mark-to-market (ASC 820)
- Shared-based payments (ASC 718)
- Pay vs Performance
- Debt (ASC 470) and Derivatives (warrants, options, convertibles, swaps) (ASC 480 / ASC 815)



Bankruptcy and Reorganization

- Establishing the value of the business under liquidation premise
- Measuring reorganization value
- Legal entity restructuring and reorganizations
- "Fresh Start" accounting (ASC 852)
- Real Estate liquidation value
- Legal entity restructuring and reorganization



Litigations and Dispute Resolution

- Business, real estate and contractual disputes
- Insurance claims
- Tax-related conflicts
- Purchaser representative
- Voting/Non-Voting shares
- Marital separation / divorce



Strategic Planning

- Financial modeling (custom financial analysis/model validation)
- Three statement modeling and long-range forecasting
- Collateral or secured financing/refinancing
- Licensing or Relicensing
- Expansion opportunities (space/lease optimization)
- Valuations needed for net operating loss study (IRC 382)
- Tax planning and compliance
- Estate and gift planning / compliance

Slide 6

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This shows where valuations become necessary

Kellie Adkins, 2025-05-07T20:13:54.432

Section 1

Example Case Study Background

Business Valuations

Situation

- Business owner owns 100% and is ready to retire in 2 to 3 years
- Kids don't want the business – they need cash
- Looks like it would be a taxable estate (over ~\$14 million; joint ~\$28 million)
- Wants a valuation to know where business is now, so he can do personal tax planning ahead of the exit
- Interested in receiving advice to help to increase the value of the business

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Slide 8

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Gift and estate tax planning with DLOC and DL0M

Doing valuation now to take advantage of him being the owner

But not selling today so here are the things that are good and things that distracted the busiensss and things he can do enhance value prior to exit

Kellie Adkins, 2025-05-07T20:35:37.017

Business Valuations

Background of Company

- Operates in the manufacturing industry
- Slow and steady growth
- Opportunity for strong, future growth (international)
- Domestic diversified customers with no long-term contracts
- One primary supplier
- Salesperson does not operate under a non-compete / or have equity ownership
- Non-GAAP financial statements
- Management does not regularly prepare projections
- Budget performed annually
- Working capital is above industry average
- Accounting and sales systems are not integrated
- Profit margins are higher than their competitors

Section 2

Understand Three Approaches to Value & Commonly Used Methods

Three Approaches to Value

Income Approach

- **Discounted Cash Flow Method (DCF)**
 - Projected cash flows discounted to present value at a discount rate
 - Residual ("Terminal") value is significant for high growth companies
- **Capitalized Cash Flow Method**
 - Analyze historical cash flows of the business
 - Adjust cash flows to remove non-business expenses, adjust officer compensation, among others.

Market Approach

- **Guideline Public Company Method and Guideline M&A Method**
 - Analyze multiples for comparable public companies or private transactions
- **Recent Transactions In The Company's Own Securities**
 - Analyze value indicated by a recent investment or sale of stock

Asset Approach

- **Net Asset Value Method**
 - Typically used as a liquidation scenario or "floor" value
 - Can include adjustments to mark assets up to fair market value or fair value

Income Approach: Key Factors

Discounted Cash Flow Method

- **Forecast**
 - Is it Reasonable? Aggressive? Achievable?
 - Understand growth drivers, margin improvements, etc.
- **Discount Rate**
 - Must be commensurate with the forecast and stage of the company
 - Aggressive growth will have a higher discount rate vs. conservative forecast

Capitalization of Earnings Method

- **Historical profitability**
 - Stable and steady or did it spike in a particular year?
 - Determine what a normalized on-going income might be
- **Capitalization Rate**
 - Based on discount rate, industry risk rates and company specific risks

Market Approach: Key Factors

Guideline Public Companies and M&A Transactions

- **Public Companies**
 - Industry, Size, Business Model
 - Multiples of Trailing or Forecast Revenues and Earnings
- **M&A Transactions**
 - Harder to find data, many comparable transactions are private
 - But for closely-held businesses, often are closer in size than public companies

Recent Transactions of Company's Stock

- **Recent Financing Round**
 - Arm's Length, New Investors, Sufficient Due Diligence
 - Option Pricing Method to Back-Solve for Company's Equity Value
- **Secondary Transactions**
 - Frequency, Volume, Information Access, Related Parties or Existing Investors
 - Secondary Component or Tender Offer part of New Preferred Round

Business Valuations

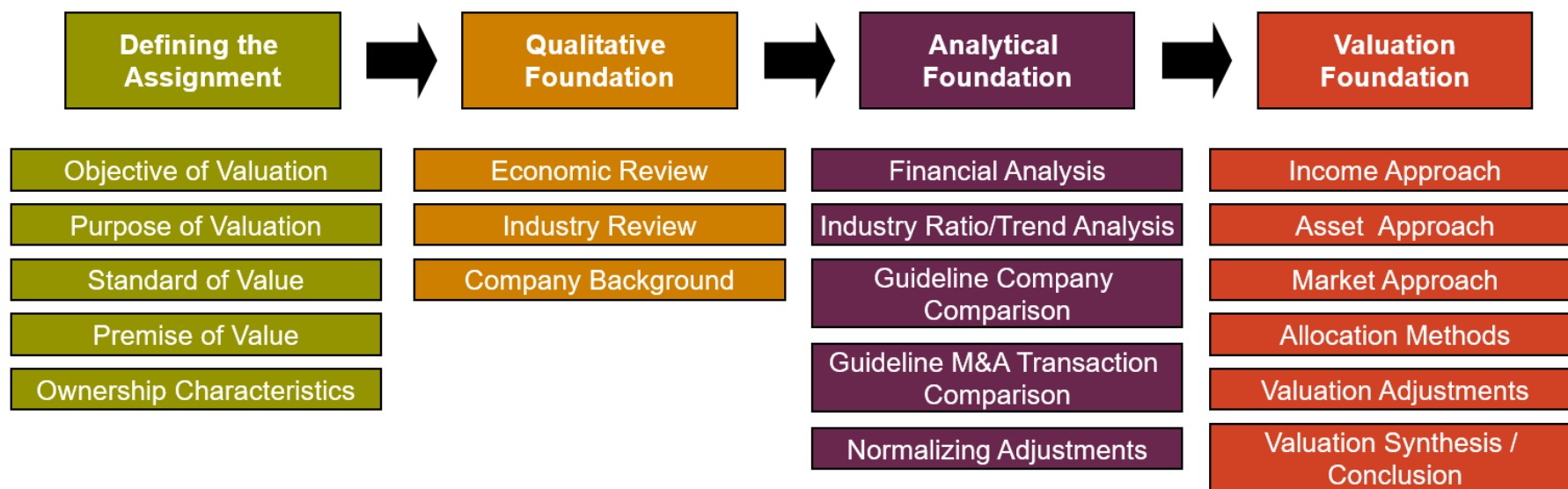
Example Case Study Commentary

- Capitalized earnings approach today because of the steady state
- Growth expansion would lead to DCF and likely a higher valuation if management has a plan and people in place to execute the plan
- Market approach when there is relevant accessible data
 - Can be challenging when using transaction data because of the lack of insight to target businesses
- Net Asset Method would not apply because this is not a holding company or heavy real estate company

Section 3

Understand the valuation appraisal process

Valuation Appraisal Process



KA1 How long does the valuation take
What goes into it
What is the process on our end

We don't have to talk through this slide in entirety

We need to understand the purpose, use and what is really going to be value - asset, security, the company

Need to understand the complexity of what is involved - steady state company with single class of equity is less complex than a VC company with 8 layers of various different equity classes

Interview client to understand the company

Look at market and databases to develop comparable companies

Go through different methods to triangulate on an indication of value

Commute results with client to get feedback before finalizing

Kellie Adkins, 2025-06-13T15:02:18.157

Business Valuations

Key Takeaways

- Understand the company, the story, the business model, strategic plans, etc.
- Understand the industry – SWOT, Porter's 5 forces, etc.
- Understand economic forces and structural considerations – ex. Tariffs and tax reform
- Understand the valuation date
- Understand scope and purpose
- Use more than one valuation method when possible

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KA1 Valuation Date

Use more than one method when possible

Kellie Adkins, 2025-06-13T15:17:10.537

KA1 0 Understand story and does the story match the inputs

Kellie Adkins, 2025-06-13T15:17:23.459

Section 4

Understand areas for valuation creation (increase the valuation)

Business Valuations

Opportunities for Value Creation

- **Example Case Study (Increase on Value)**
 - International expansion
 - Diversify supplier base
 - Implement GAAP financials
 - Sustainability reduce working capital requirements
 - Implement long term contracts with customers & work on diversifying to international based customers
 - Implement non compete agreements with key employees
 - Implement strategy for long-term business planning
 - Consider ERP system for accounting and sales integration and automation

Business Valuations

Other value creation opportunities

Increase on Value

- Consistent revenue growth and profitability
- Strong Brand Recognition/Reputation
- Diversified customer base
- Experienced management team
- Develop/enhance internal controls and IT/cybersecurity
- Value chain analysis / management of KPIs
- Workforce (empower, continuous learning, engagement)
- Develop and execute an acquisition strategy
- High switching costs/low substitute ability
- Long-range planning and rolling budgets

HOW TO

Prepare for a Transaction

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- Pre-transaction gift and estate planning
- Determine how much business is worth and prepare multi-year forward looking forecast model
- Get accounting in shape, including cleaning up financial statements
 - Financial statements are the key driver of valuation in a sale. Poor quality financial statements can lead to a lower valuation.
- Consider obtaining a Quality of Earnings (QoE) report
 - QoE analysis helps to identify key issues and quantify risks as it relates to the transaction since many issues may not be uncovered until diligence is performed. It can also identify items that will end up driving value through the process.
- Review goals, human capital, and technology needs
- Review current company agreements (e.g. operating, employment) and tax structure
- Review of state tax for sales and use tax and income tax
- Understand the sale/partial buyout process
- Establishing a team of practitioners that will work together to help the client obtain the best possible outcome

Slide 21

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Suggest to comment during the webinar when to hire bankers, lawyers, insurance brokers, etc.

Jason Woon, 2025-07-11T05:42:59.694

Thank you for
attending

Additional Questions?

Reach out to us at

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