



Private Company Valuation: Tips and Tricks for Higher Ed

What to do when \$0 is returned

David Lamb

Consultant, Target Analytics

Closely Held Stock

- When a company incorporates, it issues shares, known as “outstanding stock”
- The value of the company is divided evenly among the shares
- “Publicly held” stock vs. “closely held”
- Finding the value of public company stock is easy
- Finding the value of private company stock is difficult and expensive

What is the company's value?

- Fair market value is what a willing buyer will pay a willing seller when neither is under pressure
- Information typically is not available on private companies
- To find out what a company is worth, sell it
- Short of that, measure value against comparable companies of known value

Company valuation in ResearchPoint

- Only applies to private companies
- Valuation based on ratio of company value/annual revenue
- Ratio provided by a 3rd party called IBA Market Data
 - Works with business brokers
 - Observes companies when they are sold
 - Information collected includes industry, annual sales/revenue, purchase price

IBA Market Data

- 33,000+ comparables
- 780+ industries
- 4,000+ purchase price over \$1 million
- 5,000+ transactions in the last 5 years

How it works in ResearchPoint

- View ResearchPoint Records

Finding Private Co Comparables

- Business Valuation Resources (www.bvmarketdata.com)
 - Bizcomps
 - Database of over 11,000 private company sales
 - Median revenue: \$362,000; median selling price: \$165,000
 - “Main Street” business – gas station, restaurant, travel agent, florist, etc.
 - \$435
 - Pratt’s Stats
 - Database of over 16,000 private company sales
 - Median revenue: \$859,000; median selling price: \$450,000
 - “Main Street” and larger M&A transactions
 - \$649
- INC. Magazine’s [Ultimate Valuation Guide](#)

BizStats Rules of Thumb

<http://www.bizstats.com/reports/valuation-rule-thumb.asp>

Type of Business	"Rule of Thumb" valuation
Accounting Firms	100% - 125% of annual revenues
Auto Dealers	2-3 years net income + tangible assets
Book Stores	15% of annual sales + inventory
Coffee Shops	40% - 45% of annual sales + inventory
Courier Services	70% of annual sales
Day Care Centers	2-3 times annual cash flow
Dental Practices	60% - 70% of annual revenues
Dry Cleaners	70% - 100% of annual sales
Employment & Personnel Agencies	50% - 100% of annual revenues
Engineering practices	40% of annual revenues
Florists	34% of annual sales + inventory
Food/Gourmet Shops	20% of annual sales + inventory
Furniture & Appliance Stores	15% - 25% of annual sales + inventory
Gas Stations	15% - 25% of annual sales + equip/inventory
Gift & Card Shops	32% - 40% of annual sales + inventory
Grocery Stores	11% - 18% of annual sales + inventory
Insurance Agencies	100% - 125% of annual commissions
Janitorial & Landscape Contractors	40% - 50% of annual sales
Law Practices	40% - 100% of annual fees
Liquor Stores	25% of annual sales + inventory
Property Management Companies	50% - 100% of annual revenues
Restaurants (non-franchised)	30% - 45% of annual sales
Sporting Goods stores	30% of annual sales + inventory
Taverns	55% of annual sales
Travel Agencies	40% - 60% of annual commissions
Veterinary Practices	60% - 125% of annual revenues

Excerpted from the “Business Reference Guide –
the essential guide to pricing a business”

Business Classifieds

- Bizbuysell.com
- GlobalBX.com

Religious Books and Gifts, New Price

Fort Collins, Colorado (Larimer County)

Retail - Miscellaneous Retail | Services - Other Miscellaneous services

Asking Price ?	\$1,100,000	Inventory ?	\$500,000*
Gross Income ?	\$1,332,541	Real Estate ?	
Cash Flow ?	\$133,320	Year Established	1961
FF&E ?	\$150,000*	Employees	2 ft, 10 pt

* included in the asking price

** not included in the asking price

This is the premier store in the world for religious books, gifts and music. It is #1 in its segment for market penetration and sales per square foot. Even against the largest book and gift chains and large discount stores, this business is 6th in the world for total sales of books and gifts in its category. The store has a long history and excellent reputation. Everyone in the community knows and respects this business. Christians throughout the Mountain States as well as the whole USA travel to visit and shop at this establishment. The business is poised for increased success and a new owner can make an immediate positive impact with focused daily management and by increasing and improving the web presence. The business and the name can be purchased together or separately at the discretion of the buyer. This is a fantastic, very profitable business that provides a service to the large vibrant Christian community in its surrounding area. Do not miss out!

Facilities: 16,000 sq ft mall unit

Support/Training: Seller will train for four weeks.

Reason Selling: Retirement, other interests

Comparison to public companies

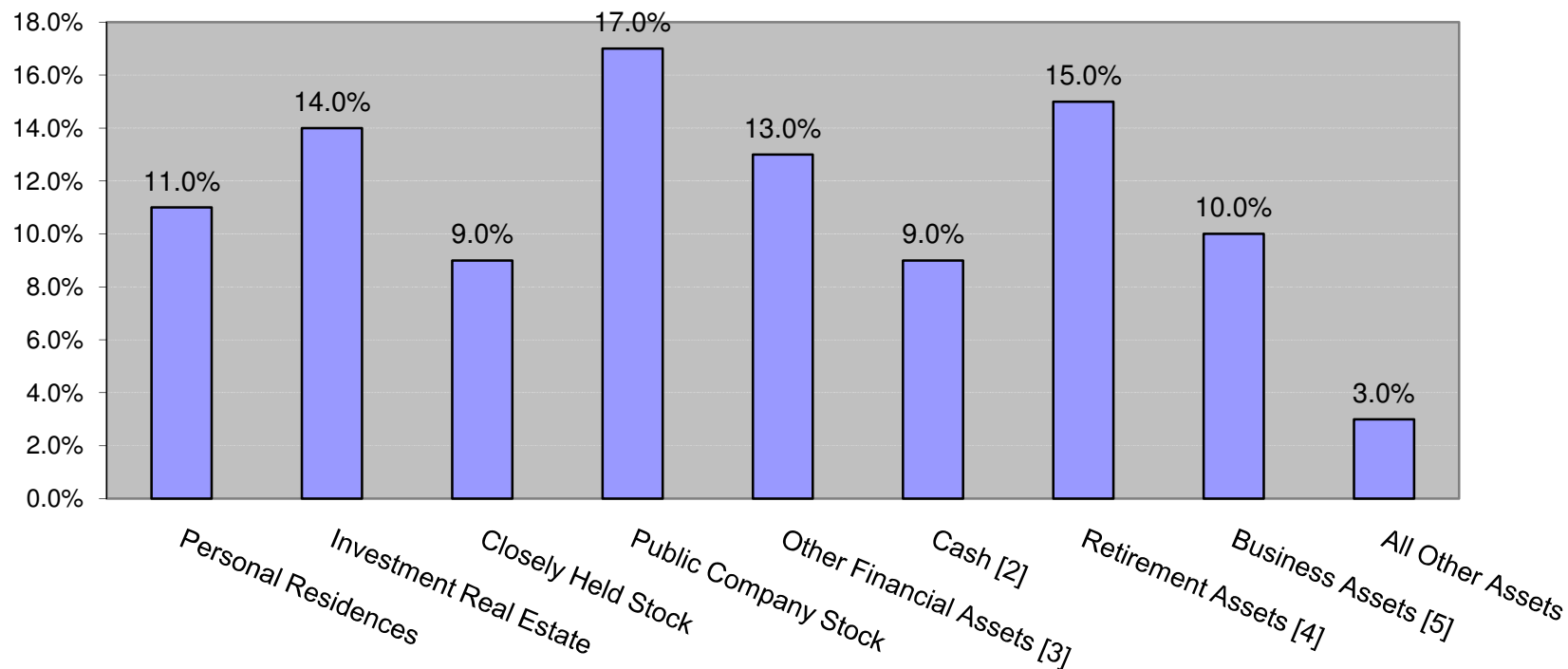
- Yahoo Stock Screener (<http://screen.yahoo.com/stocks.html>)
 - Parameters that can be used
 - Industry (SIC or NAICS)
 - Sales
 - Enter relevant info for the target company
- [SEC.gov](http://www.sec.gov) company search allows SIC search
 - If you don't know the SIC, check <http://www.osha.gov/pls/imis/sicsearch.html>
 - If your search turns up no companies, try replacing the right-hand numbers with zero's: 5943 becomes 5940 or 5900
 - Once you know the company name, look it up on your favorite public company site (e.g. finance.yahoo.com)

Comparison considerations

- Market Capitalization is one good measure of public company value
- Enterprise Value, if offered, can be better - incorporates debt and cash into the equation
- Your target private company value is probably considerably less, even if otherwise equivalent
- Public companies tend to be much larger than their private counterparts
- Calculate a ratio of annual sales to value to get a “multiple” for the relevant industry
- The more examples the better
- Read the profile to see if the comparison company is similar in purpose to the target

IRS Wealth Statistics

Distribution of assets across net worth



Households with a net worth of \$1.5M-\$10M, 2004 IRS data, published in 2008

[2] Includes cash and cash management accounts.

[3] Includes all government bonds, bonds issued by corporations and foreign governments, mortgages and notes, cash value life insurance, and diversified mutual funds.

[4] Includes Individual Retirement Accounts, annuities, and self-employed or Keogh plans.

[5] Includes non-corporate businesses, farms, and limited partnerships.

Consolidated resource list

- × Yahoo! Stock Screener: screen.yahoo.com/stocks.html
- × BV Resources: www.bvmarketdata.com
- × Inc. Valuation Guide: www.inc.com/valuation/index.html
- × BizStats: www.bizstats.com
- × BizBuySell: bizbuysell.com
- × GlobalBX: www.globalbx.com
- × www.lambresearch.com
- × White Paper www.blackbaud.com/resources/white-papers.aspx