



ONYX PARTNERS GROUP



*Offering Valuation Solutions
for Privately Held Businesses*

Quarterly Report – Q1

A NEW DAY... YEAR... DECADE...





Table of Contents

What is Your Business Worth	1
Calendar	3
Seeking Liquidity	4
Staying the Course	6



*Stephen A. White, CVA
Managing Partner
Onyx Partners Group*

Valuation Pulse is a quarterly report distributed by Onyx Partners Group, an independent Valuation advisory service company. Providing valuation services for a variety of valuation reasons such as ESOP, Acquisition and Selling, SBA, litigation and consulting.

Valuation Pulse is a quarterly report designed to inform and educate business owners, CPA's, attorney's and investment advisors on the world of valuation.

This quarter, Valuation Pulse will focus on assisting businesses that have been affected by the COVID-19 pandemic that has run rapid through our economy. In this issue we will focus on liquidity, navigating through these uncertain times and seeking ways to unlock privately held businesses potential value.

What is your Business Worth?

Whether you are professional services, construction, technology or even in the medical field, just to name a few, most Business Owners will gladly tell you what their business/practice is worth. However, there is an issue with that comment. If and when that time comes, and you decide to do one of the three things

1. Sell
2. Expand
3. Acquire another business

Going by the “Rule of Thumb” is not always the best practice to use in order to determine the accurate value of your business or even the business that you may have an interest in acquiring.

Each business and practice may have some similarities but yet, they are all different. Only if your business is a franchise (Valuation Pulse 2020 2 Quarter Report – How to value a franchise), will the businesses be similar. Even then, the value of the business will not have the same value. Each business is unique and they each offer their special qualities. Which is why, bundling your business or your practice into a field of other businesses to come up with a multiple to give you a value to your business can not only be a colossal mistake, it can also



cost you a significant amount of money in the end!

By definition, the Rule of Thumb when it comes to business valuation according to America SBDC Small Business DC as *a brief measurement, typically based on a specific part of the operations of a **business**, such as revenues or some other easily calculated income stream*. Based on this description, do you really want to value your business, a business that you have built from the ground up and made it the success that it is today, just to only use only certain parts of the business? Probably not!

Here is the challenge with relying on Rules of Thumb to assist in determining the value of the business, it leaves out a lot of important facts about your business. When valuing a business,



it is known that this process is part science and part art. That stated, the science is the part that you as a business owner or an investor can see, touch and feel. It is the items that you see on your financial statements. But what you are not able to see are the things that are intangible.

Intangible assets, when it pertains to business valuation, can play an integral role in determining the value of your business. These are things that you cannot touch or see or feel. No, these are the things that assist in the operation of your business and without them, perhaps your business or practice would not be the success that it currently is today.

When discussing intangible assets, we are referring to items such as trademarks or patents that your business may have. You also have to take under consideration the location of your business. The role you might play in the community. The company's marketing efforts play a role in the value of the business. What about your staff or your management team? Far too often, many overlook how valuable your team may be to your business when it comes to understanding how much they contribute to the success of the business. And then there is YOU....the owner.

As an owner, you know only are in charge of the day to day operations and assembling an awesome management team, often times, you are the face of your company. You have developed a name and reputation with your clients and in the industry.

As a business owner, it is good practice to do a self-assessment of your worth. If you took a

notepad and jotted down all of the things that you bring to the table. All of the training that you have done for your management team and employees, along with all of the work that you have done in the community, you might just surprise yourself with your worth. That worth that roles right back into your company. In addition to all of the other items discussed earlier, your worth is considered an intangible asset. Now ask yourself, is having a rules of thumb valuation really whats best for determining the accurate value your business? Probably not.

When the time comes as a business owner, whether you are contemplating selling, or expanding your business or even potentially acquiring a business, it would beneficial to seek advice from a professional in the field of business valuation. Not your accountant, who does a fantastic job with your taxes. Not your attorney, who handles your family estate and other labor and legal issues. Not your wealth manager, who has managed your investable assts for a number of years. Those individuals are experts in their respective fields. When it is time for you to know the accurate determination of value of your business, you need to seek a valuation expert.

A valuation expert not only can provide you with an accurate determination of value of your business, that person can also assist you with how to address the key value drivers that have been identified within your valuation report. These drivers can be used to assist in enhancing the value of your business or perhaps the business that you have an eye out on to acquire.



Calendar of Past and Current Events

January:

8-12 Nuts and Bolts of Business Valuation
NACVA Webinar

February:

24 Around the Valuation World (Monthly Podcast)
Industry Update: ESOP

March:

17 What is Your Practice Worth? **(POSTPONED)**
White Jacket Profession Seminar
UBS Private Wealth and
Onyx Partners Group
Short Hills UBS Private Wealth office

April:

20 Around the Valuation World (Monthly Podcast)
Industry Update: HVAC Valuations

21 NCEO (*National Center for Employment Opportunity*)
7 Ways to Increase Your ESOP Stock Value
- Minneapolis, Minnesota **(Webinar)**

May:

20 Creating Value in your Business During
Challenging Times
(Webinar)

June:

18 NACVA
(*National Association of Certified Valuators and Analysts*)
NACVA Super Conference
ESOP: Disrupting the Exit Strategy Platform
(Webinar)

OPG

Seeking Liquidity



Every business, at some point in the business cycle, is confronted with a challenge. Today's challenge is a challenge that no business owner could plan for. However, that does not mean that a business owner cannot continue to survive.

Over the last several weeks during the COVID-19 pandemic, hundreds and thousands of small business have been confronted with several major decisions. Decisions which include, ways to stay healthy, the safety of their employees and of course, survival of their business. Each day, owners are seeking ways to keep their

employees instead of the alternative, of laying their employees off. The critical decision to layoff brings along ramifications to a business. Layoffs bring about loss of production. Loss of production means loss of revenue. Loss of revenue means potential business closure.

To assist in the effort of not laying off employees, some businesses have resorted to creative ways to keep their businesses running. Some companies have created split shifts for their employees. Some have adopted working remotely. Both are viable options to keep the business operating and satisfying their business obligations to their clients. Even with these great ideas, the amount of revenue coming in is still not at the normal activity for some businesses. These companies need liquidity in order to survive. This may be their next step.

A simple and quick solution for liquidity could be as simple as filing your taxes. Yes, the Federal tax return date has been pushed out until July 15, 2020, but that should not deter business owners from filing their tax returns earlier. This act could provide some necessary liquidity. Funds to keep the business operating during this crisis.

Another source to consider and understand, on March 25, 2020, the US government passed a bill called, Coronavirus Aid, Relief and Economic Security Act (CARES Act). The focus of this bill was designed to support the interruption that COVID-19 has caused businesses across the United States.

Forgivable loans created for Small Businesses that have been interrupted by COVID-19. Here are a few brief details and eligibility:

Businesses (including sole props & self-employed) & nonprofits except those with Medicaid funds and

- with fewer than 500 employees (subject to the limited exceptions); or
- that meet the Small Business Administration's ("SBA") industry based "size standard" requirements for the applicable NAICS code (based either on number of employees or annual receipts)

Must have been "substantially affected by COVID-19," which are described as:

- supply chain disruptions
- staffing challenges;
- a decrease in sales or customers; or
- shuttered businesses

For those businesses that are eligible for Phase III, these funds are to be used assist the business in the following form:

- Payroll support (up to \$100k annual salary), including paid sick, medical, or family leave, and costs related to the continuation of group health care benefits during those periods of leave;

- Employee salaries;
- Mortgage payments;
- Rent (including rent under a lease agreement);
- Utilities; and
- Any other debt obligations that were incurred before the covered period.

Additional relief programs available for business through **"Phase II" Coronavirus Stimulus: Families First Coronavirus Response Act.** • Tax credits for businesses with fewer than 500 employees to cover:

– Two weeks of paid sick leave for employees who have been quarantined, have a sick family member, or have been affected by school closings

– Up to three months of paid family and medical leave amounting to no less than two-thirds of regular pay for those employees listed above

- The option for the Labor Department to exempt businesses with fewer than 50 employees from abiding by the paid leave mandate, if the Labor Department decides the new law could pose an existential threat to the company.

For more additional information on both Phase II and Phase III of the CARES Act can be found via Congress.gov website, US Treasury Department and the Internal Revenue Service. Information may also be made available at your local lending institution or Economic Relief centers within your respective states.

Sources: Congress.gov, US Treasury Department and Internal Revenue Service

Staying the Course



Staying the course of your plan to exit your business may have taken on a different view over the last few weeks. The stock market has wiped out the majority of their positive gains over the last three years. Those profits could be a significant part of a business owners overall net worth. So, what now?

Exiting from a business is not an overnight decision. In some cases, business owners have been planning for this day for years. With the recent events in our world, business owners are left with what is still their largest asset, their business. Utilizing the resources that the government has provided companies that have been interrupted by COVID-19, it will allow your business to have some resemblance of “business as usual”.

Assuming that value optimization is your goal, there are a number of factors that can assist in enhancing the value of your business. Here are three that potentially can offer the highest value to a business owner.

- The performance of the business
- The current state of the Private Equity and M&A market
- Teamwork

During times of uncertainty, it will be a challenge to have all three working together. Preparing your business for transition, can still be a very viable, and potentially lucrative, exit option during a time of economic decline.



Performance:

Selling a business that is either exhibiting exceptional growth or stability in their financial performance is always easier to transition to a third-party investor. What happens when things are not as easy?

Keep in mind, cash flow is the lifeblood of your business; to keep your small business healthy, cash needs to continue flowing through. No matter how tough times may get, having positive cash flow out of your business will never be a problem when transitioning to a potential acquirer. That being stated, positive cash flow may not necessarily be the “all to end all” but it certainly can be an attractive feature for enhancing your performance.

Private Equity

Certain things can affect business valuation and the marketability of a business. The current economic environment whether it is micro or macro, can be a factor. If the downturn in the economy continues, businesses may begin to see a reduction in private equity and M&A activity. In addition, a decline in your industry or just in your respective geographic area can show a decline in acquisitions.

If history has taught us anything, past economic downturns have produced a notable decline in acquisition activity. However, current activity in the private equity and M&A space, may continue to remain well above historical norms, indicating that there are still many buyers looking for viable targets. Keep in mind, there may be buyers, but they are also more selective in their purchases. The primary criteria are seeking companies that

were healthy, before the downturn and how they will respond afterwards. Those will be considered profitable targeted businesses.

Teamwork:

One of the most important pieces of the puzzle, when staying the course for exiting or transitioning from a business during an economic downturn, is teamwork. Many business underestimates how important this point is to the overall transition.

Having the ability to have your employees involved in this process from the beginning may determine the timing of your exit from staying on longer than anticipated or not leaving at all. One exercise that may help in this area could be to bring in your team for a meeting. In this meeting, have everyone brainstorm in an effort to generate new ideas that can help reach your current clients and potentially new clients. This meeting could also blossom an idea that may create a new revenue stream.

Brining in your team and letting them know how valuable they are to the business survival, can provide a very positive spin on a bleat period of time.



valuation experts who understand your industry