



**VIRTUS  
GROUP**  
Chartered Professional Accountants  
& Business Advisors LLP

## VALUATION

### WHAT YOU AND YOUR CLIENTS NEED TO KNOW ABOUT BUSINESS & MATRIMONIAL ISSUES

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1

## OBJECTIVE OF TODAY'S SESSION

- Introduction
- Business Valuation Basics
- Litigation Support
- Other Business Valuation Issues



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2

## INTRODUCTION



- About Virtus Group
  - Full service accounting and professional services firm
  - Approximately 110 staff and partners
  - Located in Regina and Saskatoon
  - Largest group of Business Valuators in Saskatchewan
  - Tax group has extensive experience with private businesses and professional entities
  - Allinial Global affiliation; over 100 member firms in 35 countries

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3

## BUSINESS VALUATION BASICS



- Valuation Date
- Liquidation Approach
  - Where operations of active business are not viable as a going concern
  - Quantify and deduct costs of liquidation
- Going Concern Approach
  - Business has reasonable expectation of profit in foreseeable future
  - No liquidation costs quantified or deducted

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4

## BUSINESS VALUATION BASICS



- Going Concern Approach
  - Asset Based Techniques (value underlying assets and liabilities)
    - Holding companies
    - Asset intensive operating companies (typically farming)
    - Expected earnings, while positive, are not expected to be high enough to warrant goodwill
    - Personal goodwill (Often, Professional Corporations)

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5

## BUSINESS VALUATION BASICS

- Going Concern Approach
  - Income Based Techniques
    - Capitalization of EBITDA, cash flow or earnings
    - Normalize historical earnings
      - Attempt to determine future earnings
    - Apply multiple
      - Industry research, professional judgment
    - Assess reasonability
    - Review for redundant assets
      - Operating building
      - Excess working capital



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6

## BUSINESS VALUATION BASICS

- Going Concern Approach
  - Market Based Techniques
    - Very difficult to find relevant data
      - Private company
      - Geographical differences
      - Details of transactions
        - » “5-7x”
        - » Times what base?
        - » Deduct debt after?
        - » Including how much working capital?



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7

## BUSINESS VALUATION BASICS

- Going Concern Approach
  - Market Based Techniques
    - Can be helpful and useful in some situations
      - Auto dealers
      - Insurance agency



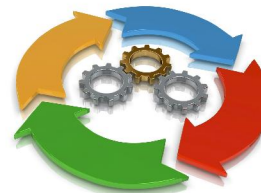
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8

## BUSINESS VALUATION BASICS

- Typical process
  - Discussions with management
  - 5 year income analysis
    - Normalizing for unusual or non-recurring items
  - Determine expected ongoing income
    - How relevant is past information to the expected future results?
  - Apply multiple to ongoing income
  - Review of balance sheet at Valuation Date for redundant assets
  - Sanity check
    - Years of income in goodwill; ability to finance



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9

## LITIGATION SUPPORT SERVICES

- Critique of Business Valuation Report
  - Often judgment is applied throughout the report writing process
  - One valuator's opinion on the future outlook of the business and/or industry can be quite different than another's
  - Critique **does not contain opinion of value** of the writer

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10

## LITIGATION SUPPORT SERVICES

- Estimated guideline income for support purposes report
  - Flow income through corporate group to shareholders
  - Reconciliation of corporate income with dividend and salary income reported on shareholder personal tax returns
- Critiques of other guideline income reports
- Calculation of value of tax on growth in value of corporate interest



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11

## LITIGATION SUPPORT SERVICES

- Pre-Trial Support and Attendance
- Comparison of different reports
  - Can be done to identify where significant differences exist
  - Also can show where there is consensus between valutors even if it appears that they differ in a certain area



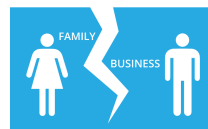
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12

## OTHER BUSINESS VALUATION ISSUES

- Petition date vs current date (trial date)
  - May need to prepare conclusion as at two different dates if relevant
  - Valuation date is an issue to be determined at trial
- Implications of shareholder agreement
  - If shareholder is bound by shareholder agreement, that can greatly influence valuation conclusion
- Practical issues with non-active spouse owning shares in corporation as part of settlement



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13

## OTHER BUSINESS VALUATION ISSUES

- Personal vs. Commercial Goodwill
- Redundant assets
  - Real estate
  - Excess working capital
- Minority discount
- Tax considerations
  - On value of business
- Pay attention to what is (and what is not) included in the report
  - En bloc value vs shareholder's interest
  - Amounts due to/from shareholder
  - FMV of tax on value of business

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14

## OTHER BUSINESS VALUATION ISSUES

- Source of cash for settlement
  - In many cases, where sufficient equity and cash flow exists in the business, the valuation conclusion should be reasonable enough such that the settlement amount may be able to be financed by the corporation.
  - Business owner increasing debt of business increases the risk of the business going forward
  - Generally beyond the scope of conclusion, as at the Valuation Date, but important to note to your clients
  - Implication for market value of tax on redundant assets

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15

Questions?



Thank You!

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16





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