Deal Structure Valuation, DSV℠ Calculation*

Sample Company, Inc. Assuming Most Probable Selling Price, MPSP**

DSV℠ Financial Factors Analyzed in Two Pages

Simplified Presentations Close Deals.

When preparing for selling or buying a business, the vast majority focus on the selling price valuation, and miss the financing and deal costs. Additional steps are needed starting with a robust pre-deal terms financial analysis. A CFO study showed 60% over paid for deals and 40% were overvalued. In addition, 80% made 15 deal mistakes (yes all 15). Each directs the need for a strong valuation with price driver variance testing (PDV℠), and deal process with a risk analysis.

Why the deal must work right. 90% of companies sold are financed. Overlooking the financing period hazards is dangerous to your wealth. Business valuations ignore five deal financing period risks.

Deals work or they don't. The risks of failure are big. The key is to do your best homework before inking the deal. DSV℠ covers the deal's complex financing process from closing to final payment. Your deal is over only when all terms are met and the last installment check clears. Only 10% of sellers are happy with their sale. Between the deal's start and finish are many chances for the deal to fail. And, many **DO** fail. The reason for failure is a bad start.

This is why we built the **Deal Structure Valuation, DSV℠** to give you a valuation validity rating and an optional warning on up to fifteen top deal risks.

Structuring Your Business Transaction Right for Success

The **PRICE** is right only when the **DEAL** works. You spend plenty of time and money to put a price on your company. After the valuation, comes the deal offer. The "price" is meaningless to you if your deal terms miss your money and risk goals. We stress with clients your top goal is to fully understand the **financial and operating consequences** of taking an offer. The **DSV℠** brings balance to your deal process price and terms. Before you seal the deal, you learn key facts about why the deal terms will work, or will not.

Your company's sale price only matters when your deal works for both seller and buyer. The smart and successful business seller accepts 'deal terms' that work for all stakeholders. This doesn't mean ignore the price. The **DSV℠** approach makes the pieces fit the parties in the puzzle to see the whole picture.

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When the terms fit, the deal closes. For the business seller, being paid is as important as price. For the buyer, you must get what you paid for. Going the distance from closing to the last payment takes serious organization, patience and forethought.

The **Deal Structure Valuation, DSV^{SM}** is a smart money ‘sanity check’ for scenarios to call a deal ‘go or no go.’ **DSV^{SM}** verifies the deal’s required cash flow and valuation results. **The analysis covers the connections between the 12 complex deal drivers**. You can DIY the data for input, or you have consulting help to set each factor.

Client comments: “Wow, we just dodged a bullet!” “We aren’t as ready as we thought.” “That’s proof the valuation is flat wrong.” “We’d better do more homework before going back to the table.” “Something’s not right, let’s check our due diligence.” “Now I understand why the terms drive the deal, not price.”

The **Deal Structure Valuation, DSV^{SM}** answers critical questions.
Will the company’s cash flow set in the valuation cover the five expense categories? Your deal only works when you can say confidently “yes” to all.

Whether you are looking for a business to buy or looking at selling your business, your success depends upon both sides agreeing to the deal.

Ample ‘Due Diligence’ applies to the company’s operations, and the deal and it’s financing. Having an objective reference of key deal parameters available during negotiations helps all parties focus on working out a successful business purchase.

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Purpose: Internal Considerations Scenario Number – Sample

A. Deal's Calculation Inputs

1. **Total Deal Purchase Price**
   Your Selected Value: **$900,000** **Price's Cash Flow:** **$375,000**

2. **Transaction Costs**
   Your Selected Value: **$28,000**

3. **Working Capital**
   Your Selected Value: **$135,000**

B. Your Deal's Structure Elements

1. **Down Payment**
   Your Selected Value: **20 %**

2. **Seller's Note**
   Your Selected Value: **50 %**

3. **Seller's Note Term**
   Your Selected Value: **4 years**

4. **Seller's Note Interest**
   Your Selected Value: **6 %**

5. **Buyer's Outside Loan Term**
   Your Selected Value: **4 years**

6. **Buyer's Outside Loan Interest**
   Your Selected Value: **9.5 %**

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C. Deal's Financial Requirements by the Buyer or Seller

1. **Return On Down Payment**
   Your Selected Value: 12 %

2. **New Owner Compensation**
   Your Selected Value: $175,000

3. **Annual Capital Investment**
   Your Selected Value: $19,500

D. Calculated Annual Targets

Purpose. Verify the business can support the financial performance requirements:

Debt Service Required From The Business Under This Scenario

Debt Service on all of your determined and disclosed borrowed capital.

Calculated Annual Debt Service Value: $ 196,875

Calculated Cash Flow Required From The Business Under This Scenario

Is 1. greater than 2. by a reasonable margin? If not, then the deal risk may be unacceptable.

1. Your Valuation's Cash Flow: $ 375,000 2. Required Cash Flow: $ 350,000

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*"A Calculation Engagement occurs when the client and member (the valuator) agree to specific (limited) valuation approaches, methods and the extent of selected procedures (what you decided to leave out including what may be "appropriate under the circumstances") and results in a Calculated Value" NACVA The result is an "approximate indication of value." ASA The following statement is included in the report. "The Calculation Engagement did not include all the procedures required for a Conclusion of Value. Had a Conclusion of Value been determined, the results may have been different." NACVA

**Most Probable Selling Price, MPSP, a Business Broker Standard and Not Fair Market Value, FMV which is defined by the International Business Brokers Association as "that price for the assets or shares intended for sale which represents the total consideration most likely to be established between a buyer and a seller considering compulsion on the part of either the buyer or the seller, and potential financial, strategic or non financial benefits to seller and probable buyer".
Note: Price and value are not equal. "Price is what you pay. Value is what you get." W. Buffett

Completed and Respectfully Submitted by:

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