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Business Valuation: How to Make the Most of Your Business



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About mba

mba is a global consulting firm with offices in the U.S. and Asia, providing a broad spectrum of services to airlines, governments, and investors since 1992.

Industry Expertise |

- Legal Background
- Government
- Airline Operations
- Aircraft Maintenance

Integrated Teams |

- Aerospace Engineers
- MBAs
- Pilots
- CPAs

Credentials |

- ISTAT Certified Appraisers
- ABV / CVA Certified Valuators
- IATA Audit / Training Org.
- SMS Licensed Training Org.

Consulting Services Include |

- Valuations
- Market Analysis & Evaluation
- Cost Benefit Analysis
- Due Diligence
- Asset Management
- Technical / Audit Services
- Financing Support Alternatives

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services include



Valuation Solutions



Modeling & Analysis



Asset Management



Technical Support



Training



Expert Witness

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Ms. Pooja Gardemal, Vice President

BUSINESS VALUATION & ECONOMIC ANALYSIS

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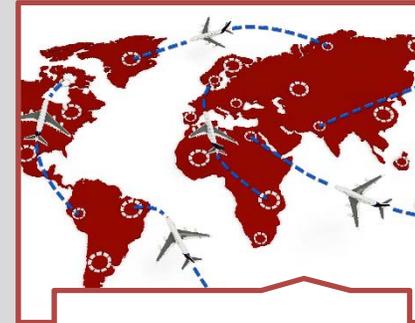
Intangible Asset Valuations



Business Valuations



Market Study & Trend Analysis



Route Analysis



Fleet Planning



Due Diligence



Cash Flow Modeling

How to Make the Most of Your Business

BUSINESS VALUATION

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Agenda

Reasons to Obtain a Business Valuation

- Purpose of Engagement

Raising Capital

- Sale Options
- Market Options
- Avenues for Sale

Industry Trends

- Airline Industry Overview
- Aviation-Related Company Ratios & Multiples

How Value is Derived

- Valuation Approaches: Income, Market, Asset
- Asset Approach Methodologies: Net Assets
- Market Approach Methodologies: Comparable Transactions, GPC
- Income Approach Methodologies: DCF, Capitalization of Earnings

Valuation Methodology

Valuation Exercises

Today's challenging global environment has raised the significance of valuations that aid in financial reporting requirements, tax planning, litigation, and mergers and acquisitions.

REASONS TO OBTAIN A BUSINESS VALUATION

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Purpose of Engagement

Litigation

- Divorce
- Bankruptcy
- Intellectual Property (IP)
- Shareholder, Owner, Employee Disputes

Financial & Tax Reporting Compliance

- Corporate Reorganization
- S Corporation Conversions
- Income Tax
- Estate Tax
- Gift Tax

Planning

- Income Tax
- Estate Tax
- Gift Tax
- Mergers & Acquisitions
- Personal Financial Planning

Transactions

- Mergers
- Acquisitions
- Buyout
- Initial Public Offering (IPO)
- Employee Stock Ownership Plans (ESOP)



RAISING CAPITAL

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Options

DEBT

- Private Banks
- Capital Markets

EQUITY

- Minority Interest Sale
- Joint Venture
- Earn-Out
- Merger
- IPO
- 100% Sale

Avenues for Sale

Competitor

Complimentary
Business

Consulting
Firm

Private Equity

Hedge Fund

Bank

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What to Expect

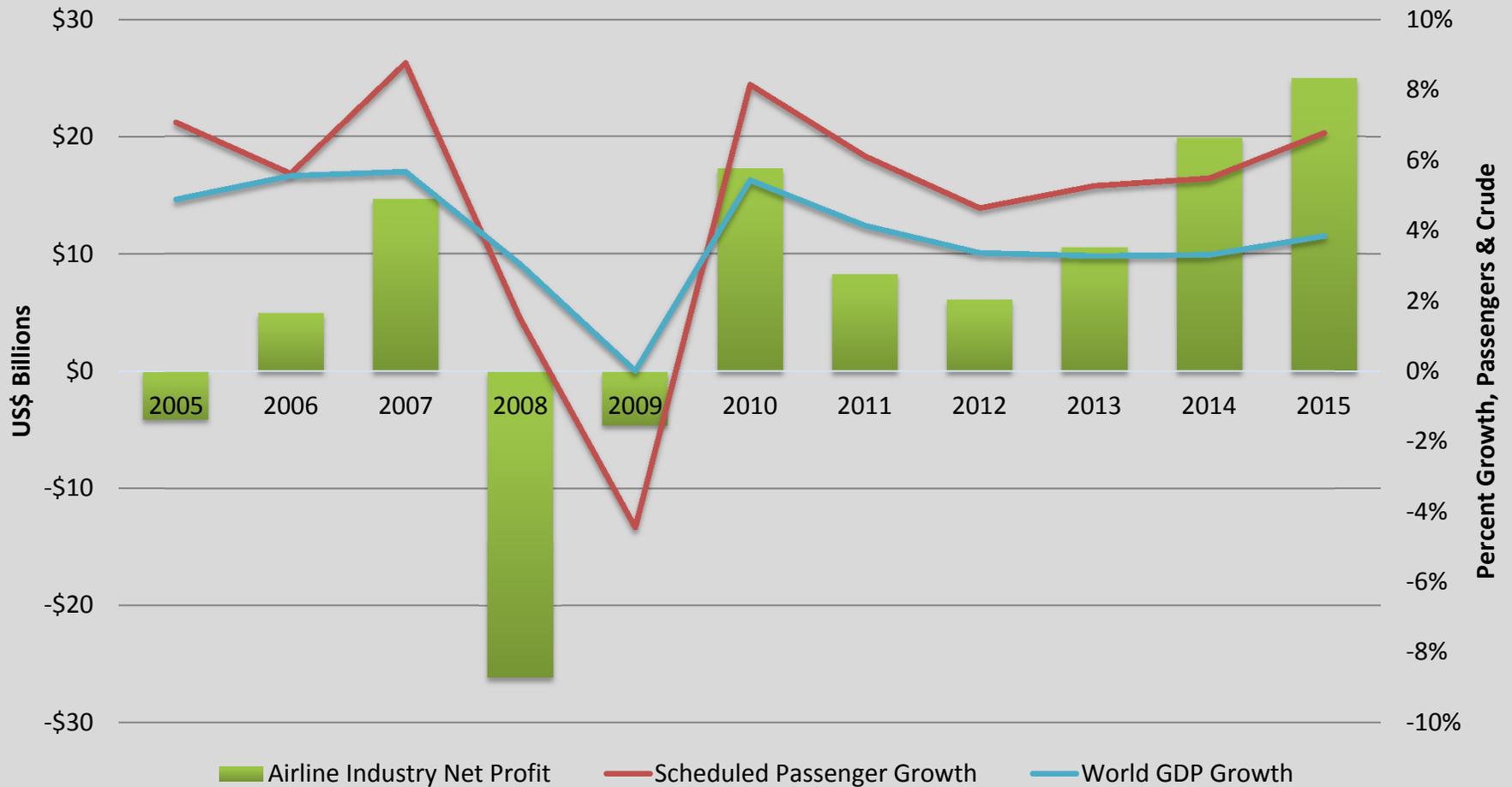
Requirements



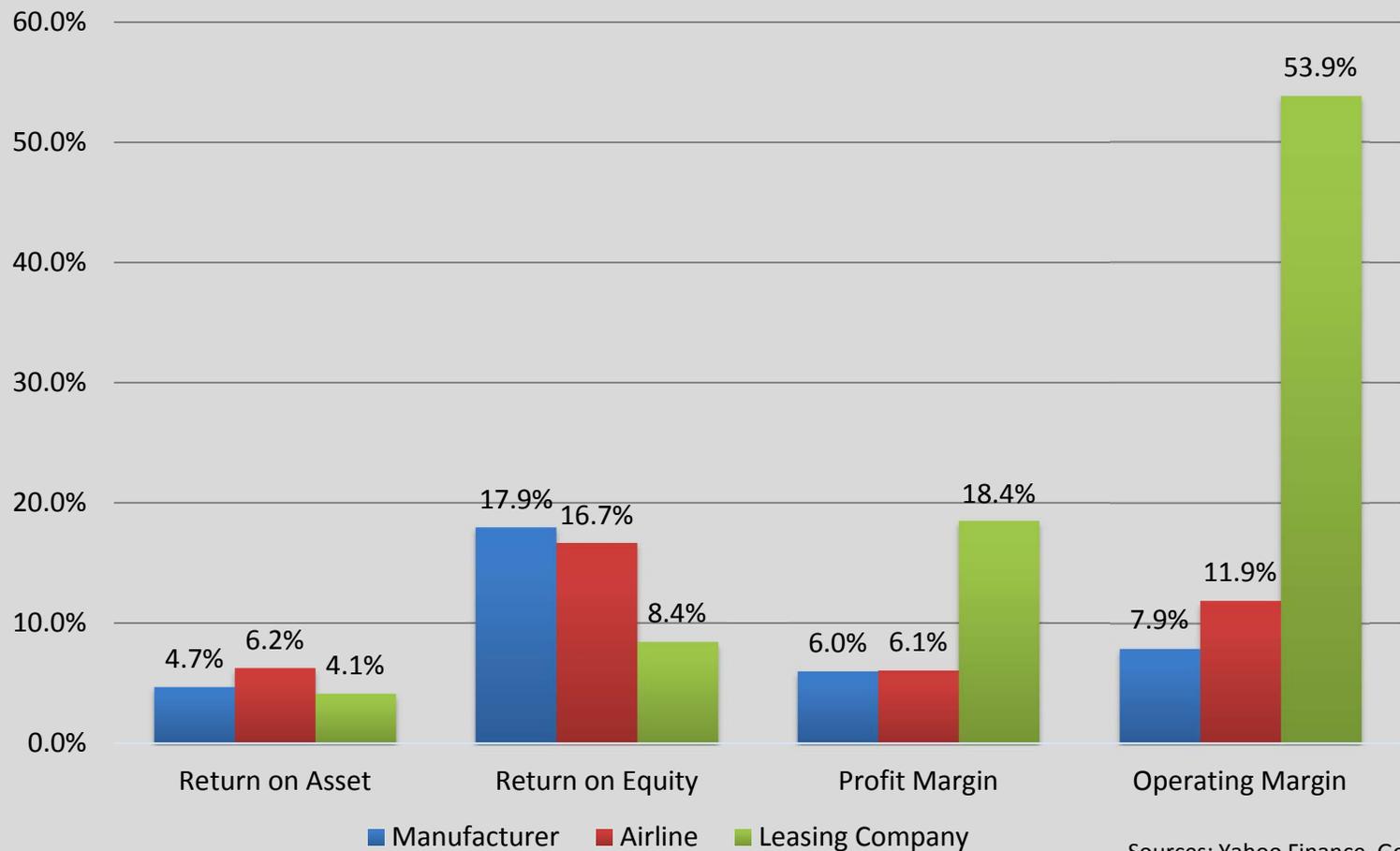
INDUSTRY TRENDS

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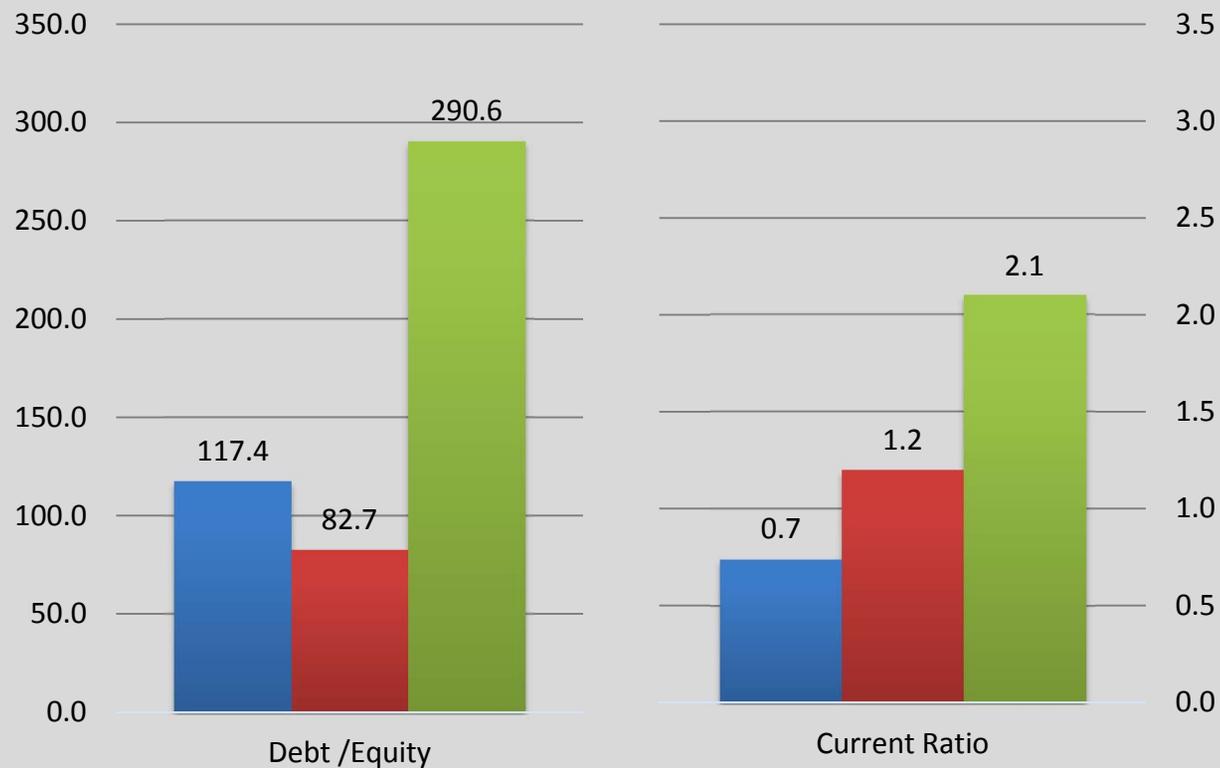
Industry Volatility



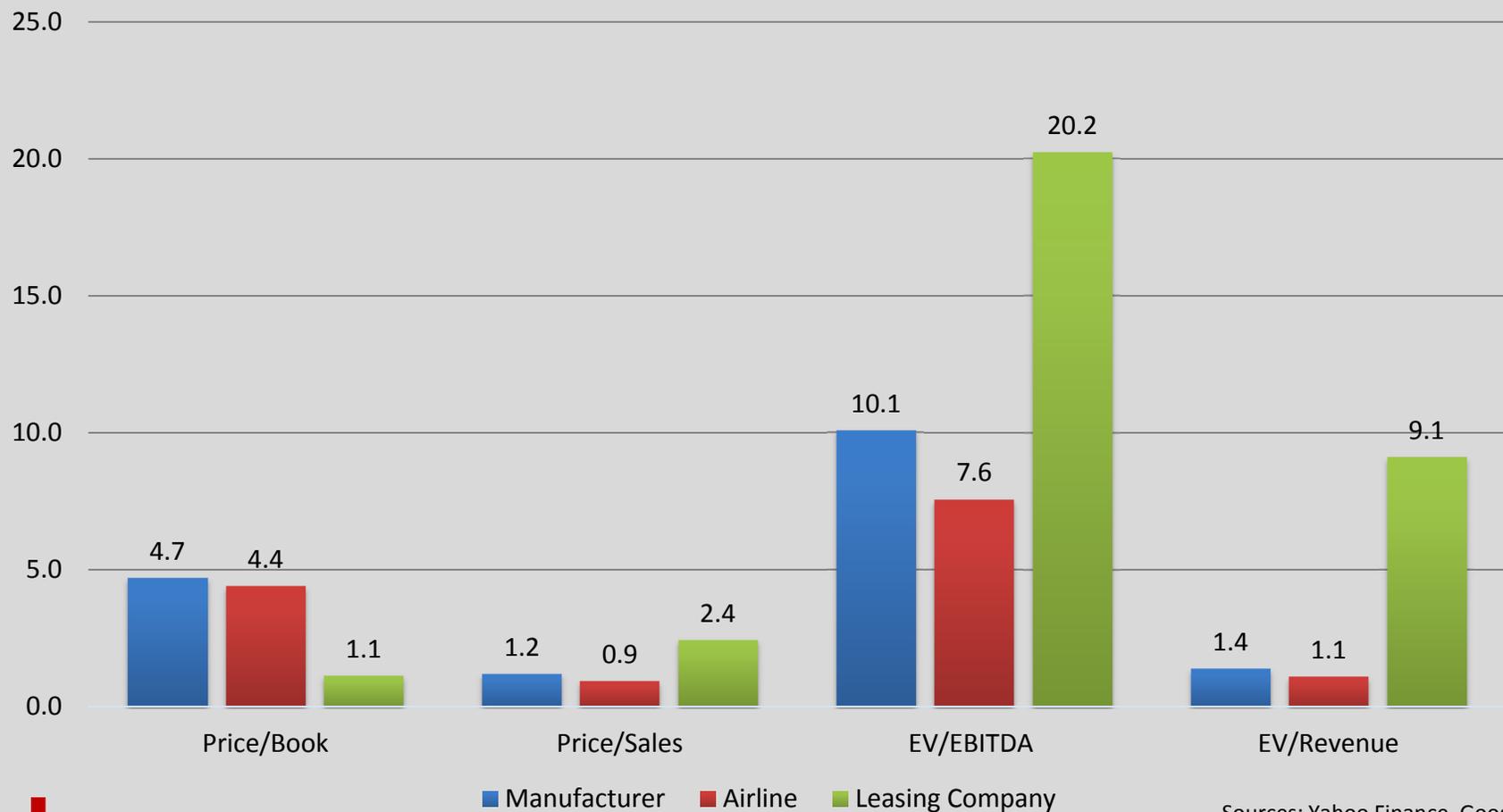
Profitability & Efficiency Ratios

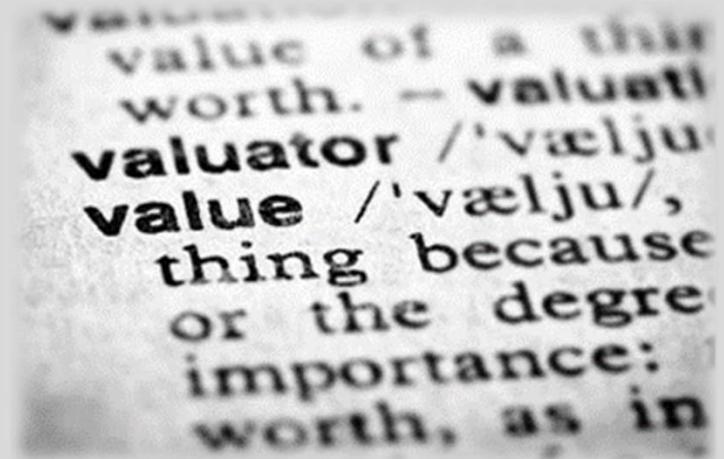


Leverage & Liquidity Ratios



Valuation Multiples





HOW VALUE IS DERIVED

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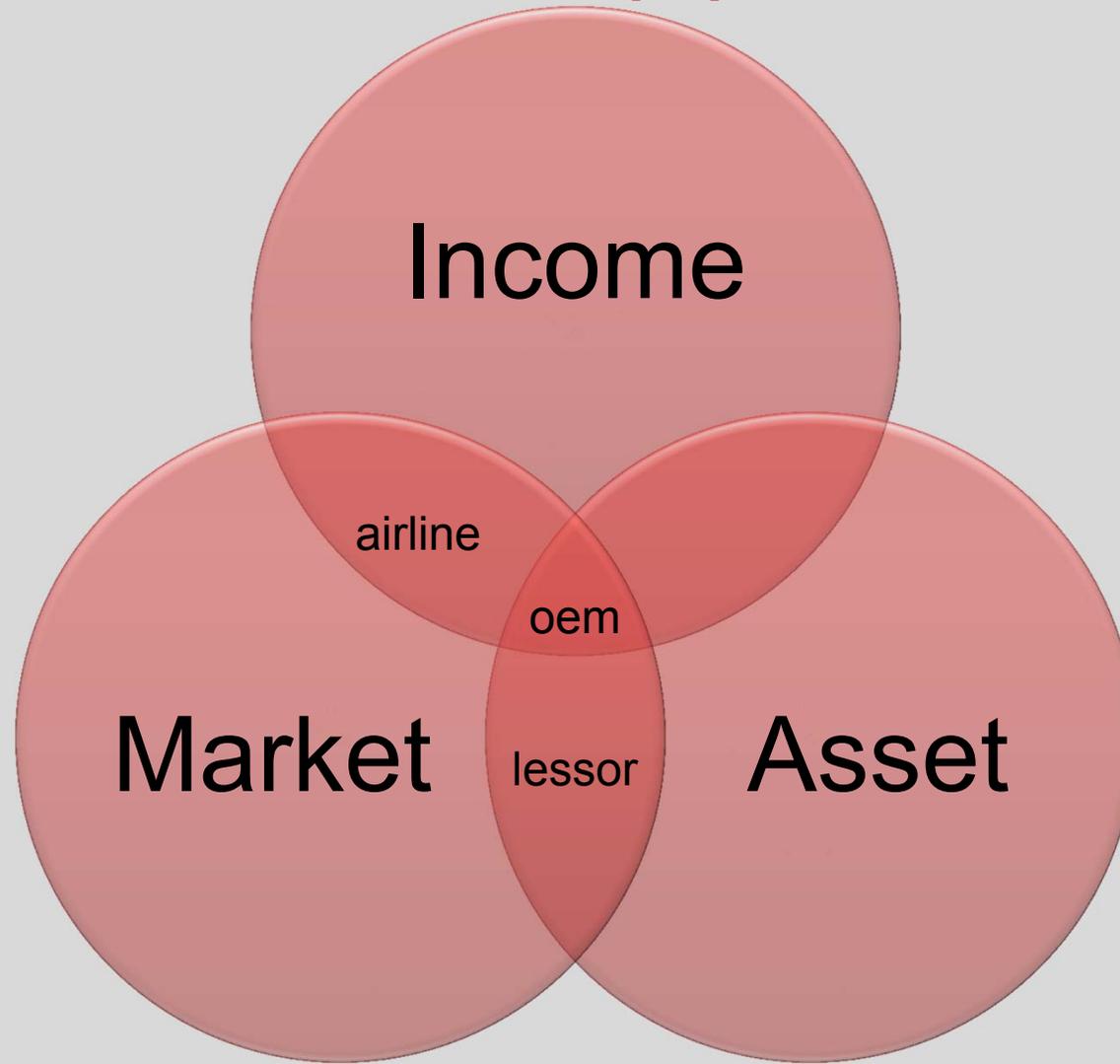
Standard of Value

- Type or definition of value.

Premise of Value

- Circumstances under which the business will be analyzed.

Valuation Approaches



Asset Approach

- Method Typically Utilized: Net Assets
 - Adjust Assets and Liabilities to FMV
 - Liquidation Costs (if applicable)
 - Apply Discounts
- Provides Floor for Value

Market Approach

Comparable Transactions

vs.

Guideline Public Company

Market Approach: Comparable Transactions

- Arm's - Length Sales
- Sale of Entire Enterprises
- Qualitative and Quantitative Measures are Used for Comparability
- Dates of Transaction and Relevance of Market are KEY

Market Approach: Guideline Public Company

- Publicly Traded Company Multiples
- Benchmarking for Balance Sheet and Income Statement Items
- Typically Provides a Minority Interest

Income Approach

Discounted Cash Flow

v.

Capitalization of
Earnings

Equity Value

v.

Enterprise Value

Income Approach: Capitalization of Earnings

- Expected Benefits are Capitalized into Perpetuity Using a Capitalization Rate

Cap Rate = Discount Rate – Long-Term
Growth Rate

Income Approach: Discounted Cash Flow

- Future Benefit Streams are Forecasted for Typical Business Cycle or Expected Period of Volatility and then Discounted Back to Today
- Used When Historic Earnings and/or Market Conditions are not Indicative of Future Earning Capabilities

VALUATION METHODOLOGY

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Where to Begin?

1. Financial Statements: Income Statement, Balance Sheet, Cash Flows for Past 5 Years
2. Tax Information
3. Corporate Structure and Key Persons
4. Competitors and Customers
5. Internal Forecasts, Projections, and Strategy
6. Industry Projections
7. Industry Ratios
8. Site Visit

Then What?

1. Review Financial Statements Through Common Sizing and Year Over Year Growth
2. Perform Ratio Analysis to Establish How the Company Operates Within its Own Industry
3. Forecast Revenues & Expenses, Depreciation & Amortization, Capital Expenditures
4. Determine a Discount Rate

Analyze & Employ Judgement

Reasonability of
Internal
Projections

Fuel Prices

Sales

Economic
Forecasts

Political Climate

Inflation

Inventory
Changes

Taxes

Exogenous
Events

Forecast Cash Flows

Risk-free rate		2.5%
Equity risk premium	6.6%	
Beta	0.54	
Beta-adjusted equity risk premium	<u>3.6%</u>	3.6%
Size premium		0.8%
Specific company risk premium		3.5%
Estimated cost of equity capital (after-tax)		<u>10.4%</u>
Estimated pre-tax cost of debt capital		6.5%
Income taxes, wh	35%	<u>-2.3%</u>
Estimated after-tax cost of debt capital		4.2%
Weight of Equity		47.2%
Weight of Debt		52.8%
Weighted average cost of capital		7.1%

Forecast Cash Flows

Revenues
Less: Expenses
Operating Earnings
Less: Taxes
After Tax Income
Add back: Depreciation
Less: Capital Expenditures
Adjust for: Changes in Net Working Capital
Net Cash Flow

Assess Specific Company Risk

- Key Person Risk
- Reliance on Related Parties
- Depth of Management
- Competitive Position
- Quality of Earnings
- Financial Strength
- Financial Leverage
- Diversification of Products
- Diversification of Customers
- Diversification of Suppliers / Subcontractors
- Company Reputation

Apply Valuation Discounts

- Lack of Marketability
- Lack of Control

Recap

- If You Are in Need of Cash, There Are Many Avenues to Obtain it
- Be Reasonable in Your Expectations
- Understand How a Business Valuation is Derived
 1. Income Approach
 2. Market Approach
 3. Asset Approach



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Thank You

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