
Pandemic Valuations

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Review of Key Valuation Principles and How COVID Comes into Play



Expected Future Benefits

At its core, the theory surrounding the value of an interest in a business is rooted in one concept: **the value of a business interest is based on the benefits the owner of the interest will receive in the future.**

Future benefits = CASH FLOW

1. Cash flow from operations = income approach
2. Cash flow from sale of overall business = market approach
3. Cash flow from sale of individual assets = asset approach



Expected Future Benefits

Three specific characteristics:

1. Amount: What is the amount of benefits expected in the future?
2. Timing: When does the owner expect to receive those benefits?
3. Risk: What is the degree of uncertainty surrounding the realization of the expected benefits?

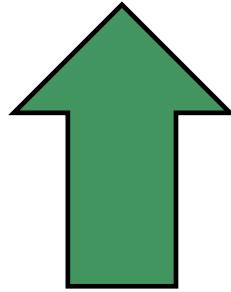


Expected Future Benefits: Amount



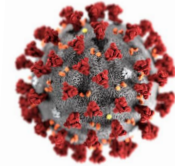
Larger benefits
(i.e. cash flow)

=



Higher value

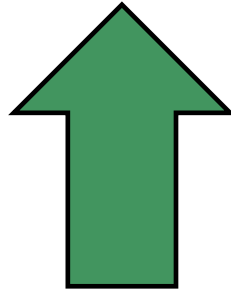
Impact of the
pandemic?



Expected Future Benefits: Timing



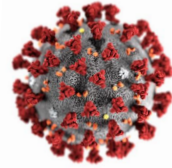
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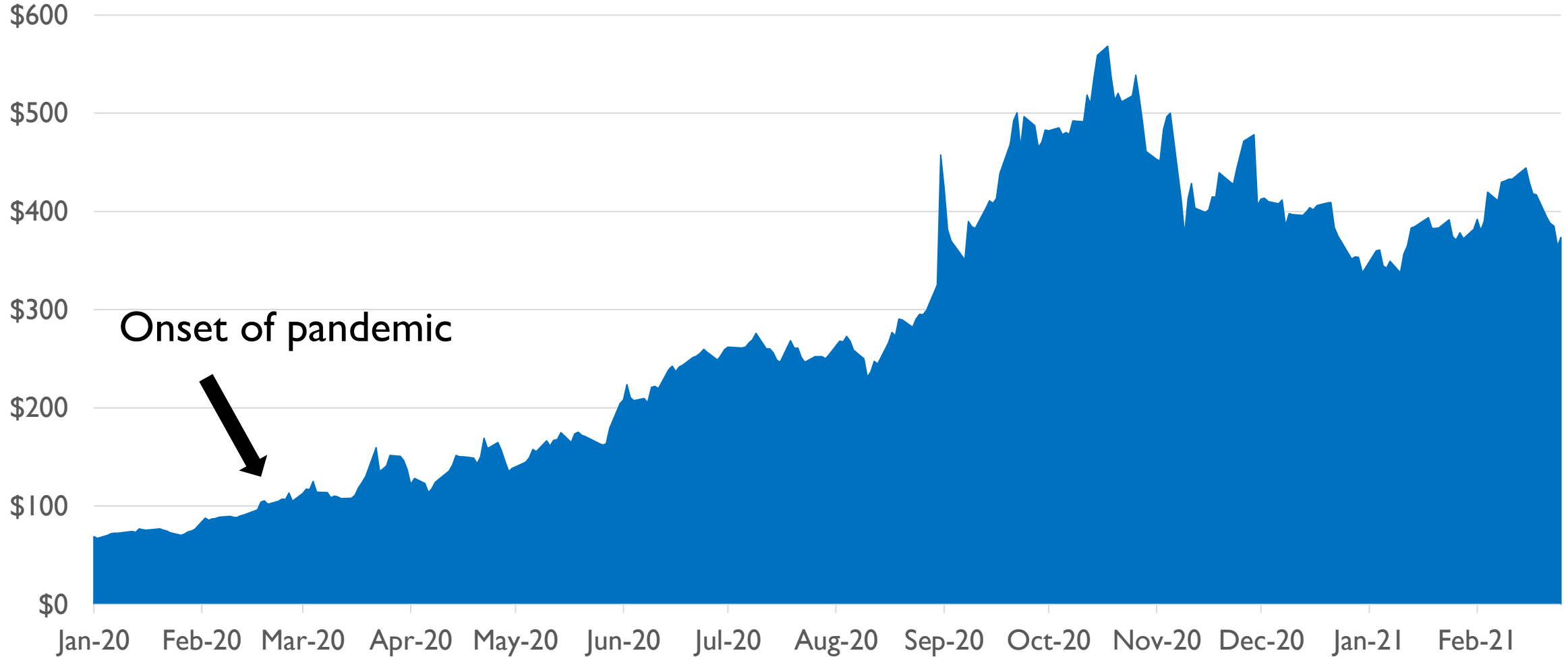
Sooner benefits
expected to be received

Higher value

Impact of the
pandemic?



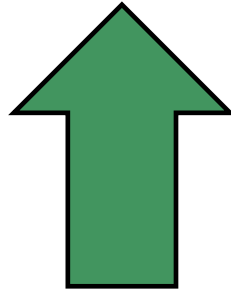
Zoom Stock Price – Jan 2020 thru Feb 2021



Expected Future Benefits: Risk



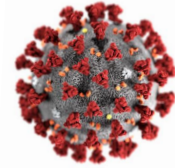
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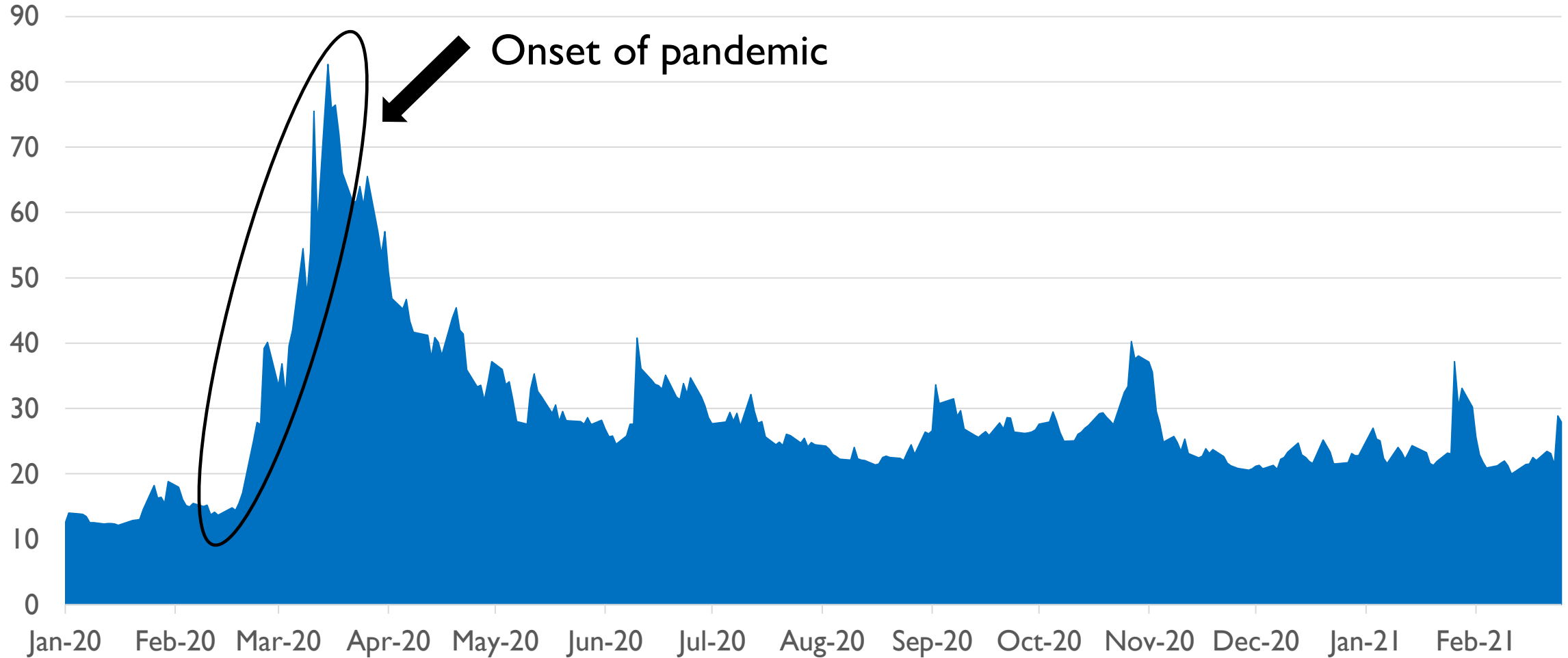
Lower risk associated
with future benefits

Higher value

Impact of the
pandemic?




Volatility Index – Jan 2020 thru Feb 2021




Forward Looking Nature of Valuation





Valuation Date: When was the Pandemic
“Known or Knowable?”



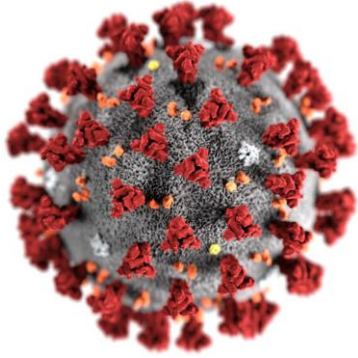
Valuation Date

Because values go up and down over time, every business valuation is performed as of a certain date in time. This date is known as the **valuation date**.

When performing a valuation, the analyst considers only those circumstances and events that were “**known or knowable**” as of the valuation date.



When was COVID-19 Known or Knowable?



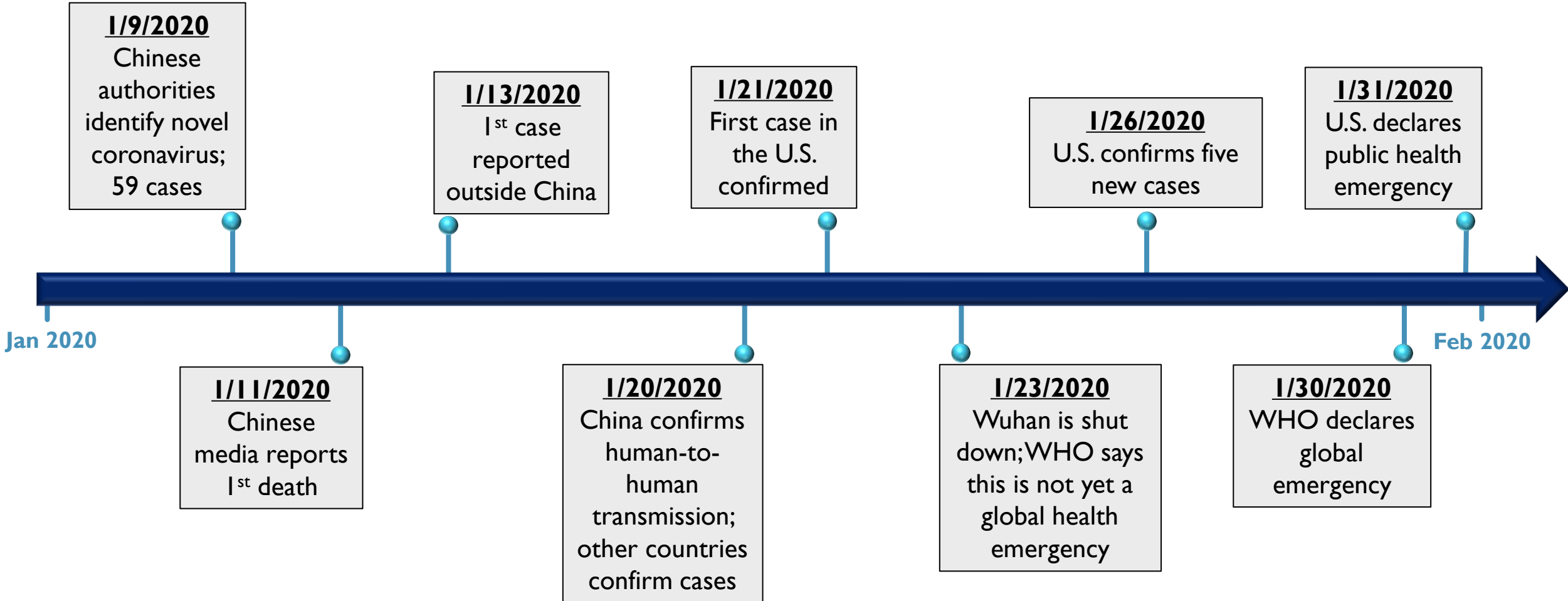
Existence of
disease

vs.

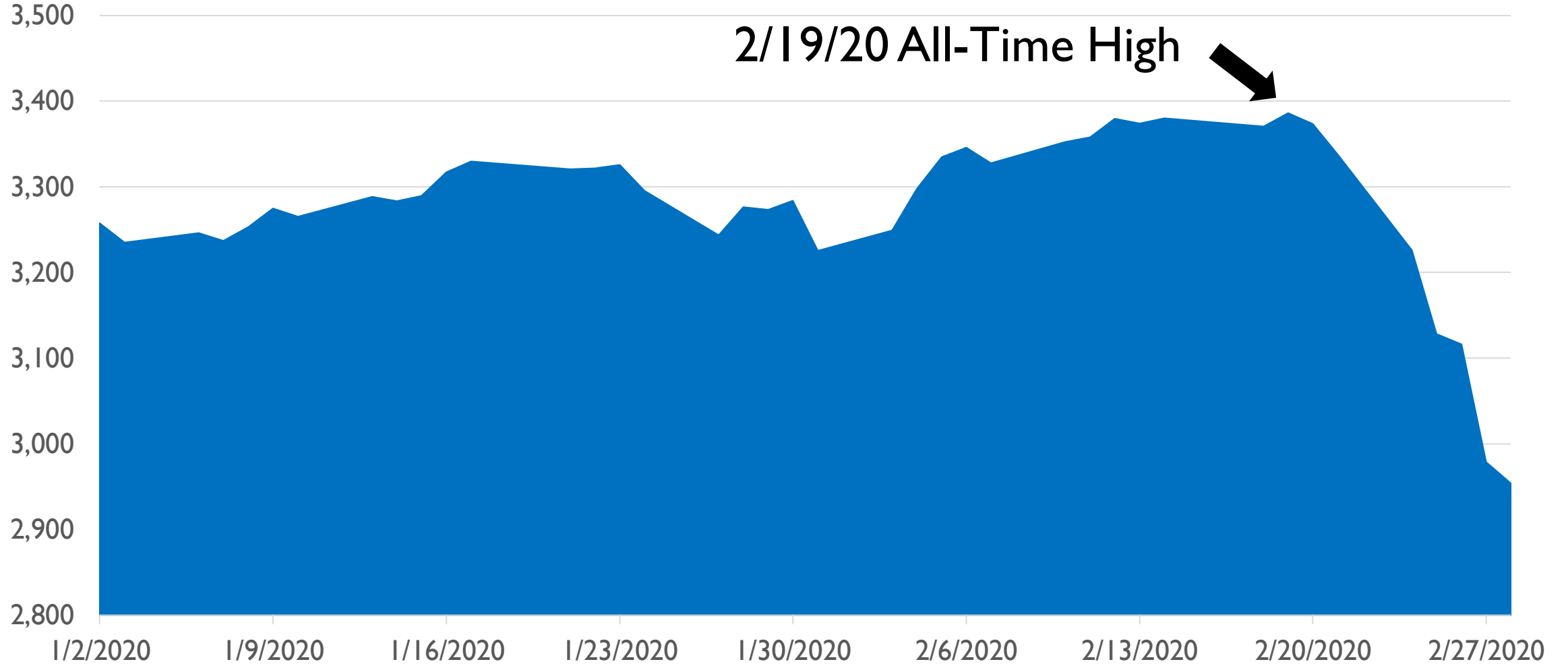


Economic
impact of the
pandemic

When was COVID-19 Known or Knowable?



S&P 500 – Jan 2020 thru Feb 2020



When was COVID-19 Known or Knowable?

Valuation community has settled on **late February** as the point in time when the pandemic's economic impact became known or knowable.

- ***Depends on the facts and circumstances of the company being valued!***

Extra scrutiny required for valuation reports issued throughout 2020/2021.

- *What was known about COVID at the valuation date?*
- *What has happened to the company since the report was issued?*
- *Does the report need to be updated?*



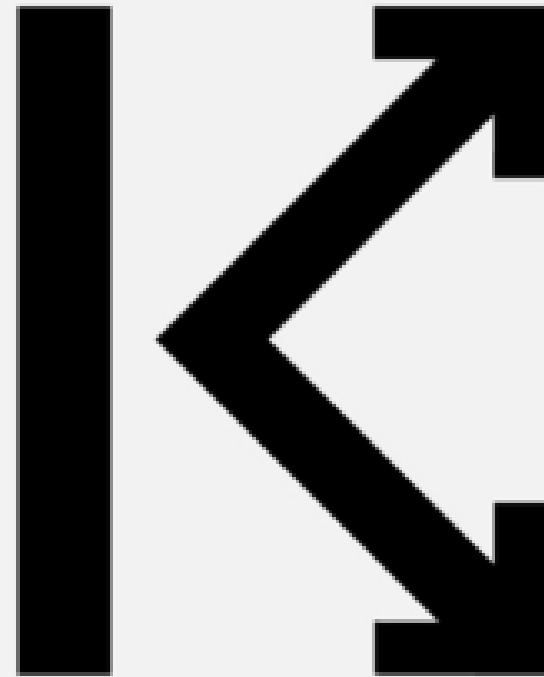


Impact of COVID by Specific Industry/Company



Industry-Specific Considerations

**The
K-Shaped
Recovery**



Industry-Specific Considerations

Step 1: Identify the relevant industries.

- Does the company operate in multiple industries?
- What industries play a role somewhere in the company's supply chain?
 - *Manufacturers*
 - *Importers*
 - *Suppliers*
 - *Distributors*
 - *End Customers*



Industry-Specific Considerations

Step 2: Research the ramifications of COVID on the relevant industries.

- Demand
- Markets and customers
- Pricing
- Supply chain
- Steps taken in response
- Government intervention
- Competitive landscape
- Access to capital
- Access to labor
- Profit margins
- SWOT
- Outlook for the future



Industries Hit Hardest by COVID

Obvious

- Bars and many restaurants
- Hotels
- Airlines
- Cruise lines
- Oil and gas companies
- Events-related industries
- Amusement parks and casinos
- Movie theaters

Under the Radar

- Dry cleaning and laundry services
- Tattoo parlors
- Caterers
- Private investigators
- Dating services
- Massage therapists
- Sports equipment manufacturers
- Pet sitters



Industries Benefitted from COVID

Obvious

- Grocery stores
- Food delivery
- Manufacturers/distributors of PPE
- Remote work companies
- Online retailers
- Cleaning products/services
- Telehealth services
- Technology companies

Under the Radar

- Beer, wine, and liquor stores
- Pizza and fast food
- Dealers of outdoor-related vehicles including RVs, motorcycles, ATVs, jet skis
- Bicycle manufacturers/sellers
- Game companies (board games, puzzles, video games)
- Used car dealers
- Home improvement and hardware stores
- Drive-in movie theaters
- In-home workout products and services
- Book industry
- Gardening industry



Company-Specific Considerations

- **Financial statements**
 - Analysis of trends
 - Normalizing adjustments
- **Management interview**
- **Assess failure risk**
 - Health of balance sheet
 - Cost structure – fixed costs vs. variable costs
 - Separate near term from long term





Three Valuation Approaches and the Pandemic's Impact



Three Valuation Approaches



**Income
Approach**



**Market
Approach**



**Asset
Approach**

Income Approach

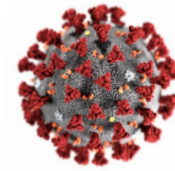
Two methods:

1. Capitalized cash flow (CCF) method
2. Discounted cash flow (DCF) method

Three key inputs:

1. Cash flow
2. Growth
3. Risk

Impact of the
pandemic?

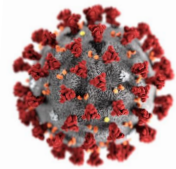


Market Approach

Four methods:

1. Guideline public company method
2. Guideline transaction method
3. Subject company transaction method
4. Rules of thumb method

**Impact of the
pandemic?**

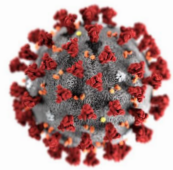


Asset Approach

One primary method:

I. Adjusted net assets method

Impact of the
pandemic?



- ✓ Accounts receivable
- ✓ Inventory
- ✓ Fixed assets
- ✓ Accounts payable
- ✓ Unreported assets/liabilities
- ✓ PPP loans



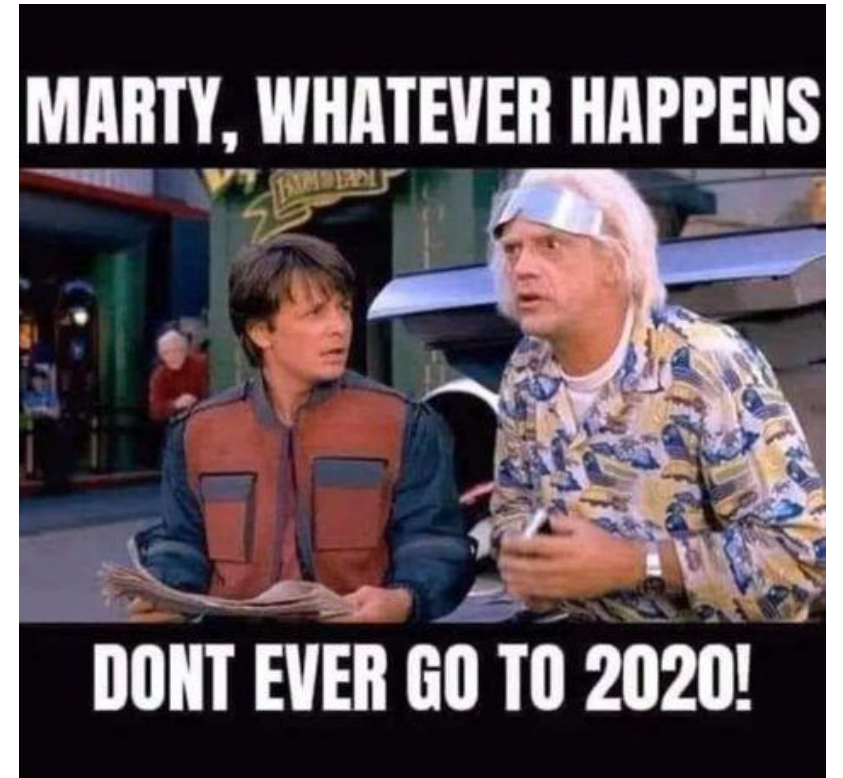


PPP Loans and Other Miscellaneous Considerations



Other COVID-Related Considerations

- Dealing with PPP loans in the valuation
- Increased time and cost for valuations
- Larger disparities in two experts' values?
- Potential options for resolution





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Thank you!