

**In private company M&A transactions, 3 out of 4 sellers leave significant value on the table**

**Often, deals that were priced based on historical financials do not generate maximum valuation**

### Negotiating valuation based on tax returns will not reflect the true worth of a business

- A buyer will gain confidence in the growth potential of a business by performing analysis and thoroughly understanding its historical financial performance.
- However, applying historical financial data to assess value may result in an inaccurate valuation. It is common for many privately held businesses to report minimal profits on tax returns. While this is smart for tax purposes, basing valuation on these figures can severely underestimate the worth of the business.
- Therefore, when negotiating valuation, it is important to present properly “recasted” financial statements to the prospective buyer. To obtain maximum value, valuation discussions must be focused on the future cash flow potential of the business, not historical financial results.

### How are financial statements recasted?

- Recasting financial statements involves:
  - adjusting tax returns to conform with generally accepted accounting principles (GAAP)
  - quantifying the market value of company assets (not book value)
  - eliminating owner-related expenses and charges from company financials

### Does recasting financial statements increase the value of a company?

- Absolutely. Recasting financials will often add 10-50% of incremental value to a company.
  - **Key example:** A buyer has offered to pay 10 times a company’s net income of \$5 million, or \$50 million for the business. As a privately-held business, the owner incurs \$500,000 of expenses annually. However, once the business is purchased, those expenses will no longer be incurred. Recasting these expenses prior to engaging in valuation discussions will effectively produce an additional \$5 million (\$500,000 x 10) of value for the business.

### GW Equity’s representatives are experts at recasting financial statements

- The representatives at GW Equity have decades of collective experience in analyzing and recasting financial statements to maximize value paid to our clients