

VALUING THE PRIVATE COMPANY IN A RECESSION

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Comparable data for private companies has changed dramatically over the last eight to ten years. In light of current economic conditions, the valuation professional must be aware of these changes and carefully consider the reliability of sales multiples and transaction data. Following is a short history of what has transpired from the private company perspective from 2002 to the present.

2002	The dot.com boom and bust subsided and the value of private companies began to go up.
2003-2007	Relatively easy access to money from 2002 to 2007 facilitated an increase in private company transactions just as it did for real estate transactions. This trend toward an increase in the size of deals, sales multiples and the number of transactions started in 2002 and continued until 2007. The market for private companies peaked in 2007 both in the number of transactions and multiples paid.
2008	By late 2007 and early 2008, there were signs that the market was in trouble. A few Wall Street insiders took notice, but the public markets came crashing down in 2008 as stock prices plummeted. In January of 2008, the Dow Jones Index was over 12,000. By the end of the year, it had fallen to 8,777 – a decline of 27% in one year. Private business transactions would follow the same decline.
2009 1 st Q	In early 2009, the market for private companies continued to retract. Declining profits, little or no available financing, and an overall sense of uncertainty prevailed amongst consumers.
2009 3 rd Q	The market has rebounded, but not to its previous levels. The decline in profits has slowed. However, growth remains weak.

If the economy expands with new jobs before the federal subsidy runs out, we will come out of the recession. If not, we will stay flat or slide a bit more for the next several years. For further information on sales multiples, go to: www.inc.com/valuationmedia/2009. *INC's Valuation Guide 2009* features a business valuation tool which allows you to calculate the value of your own company. It also includes the results of a study of private company sales from 1/1/2007 to 3/31/2009.