

Business Values Post Katrina

New Orleans Estate Planning Council

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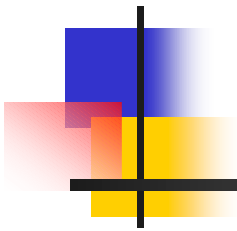
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Why do you need to know?

- 1) Sale or purchase of a business
- 2) Estate and gift taxes
- 3) Sale to employees or employee share ownership plans (ESOP)
- 4) Buy-Sell Agreements
- 5) Executive compensation (options/SARS)
- 6) Stock repurchase or recapitalization
- 7) Transfers/sales among family members
- 8) Raising expansion capital



What is value?

Expected future **cash flows**
discounted to the present using
a **risk adjusted rate**

EBITDA x multiple



EBITDA

Earnings before interest expense, taxes,
depreciation and amortization

Net income

+ interest expense on long term debt

+ income taxes

+ depreciation and amortization

EBITDA



Three examples

nHotel

nLocal Bank

nAuto sales



Hotel

Scenario: 500 room hotel, high end, high occupancy

Storm: No physical damage

Short term: closed 6 weeks, spurt in occupancy due to relief workers, evaporation of tourism

Long term: labor shortage and increase in wages



Hotel – 2004

HOTEL-500 rooms														
		Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
Occupancy		85%	100%	85%	95%	93%	60%	60%	50%	90%	90%	95%	100%	84%
Avg Rate		\$ 250	\$ 250	\$ 250	\$ 250	\$ 250	\$ 200	\$ 200	\$ 185	\$ 250	\$ 250	\$ 250	\$ 250	\$ 236
Revenue		106,250	125,000	106,250	118,750	116,250	60,000	60,000	46,250	112,500	112,500	118,750	125,000	1,207,500
Variable costs	50%	53,125	62,500	53,125	59,375	58,125	30,000	30,000	23,125	56,250	56,250	59,375	62,500	603,750
Fixed costs		10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	120,000
Pretax income		43,125	52,500	43,125	49,375	48,125	20,000	20,000	13,125	46,250	46,250	49,375	52,500	483,750
Economic drivers-visitors														
Convention Center		25,000	25,000	25,000	25,000	20,000	10,000	10,000	10,000	40,000	40,000	40,000	20,000	
Cruise Ships		500	500	500	500	500	2,000	2,000	2,000	2,000	2,000	2,000	2,000	
Special Events		-	100,000	-	25,000	25,000	-	10,000	-	-	-	10,000	-	
Other		15,000	15,000	15,000	15,000	15,000	10,000	500	500	15,000	15,000	15,000	15,000	
		40,500	140,500	40,500	65,500	60,500	22,000	22,500	12,500	57,000	57,000	67,000	37,000	



Hotel – 2005

HOTEL-500 rooms		Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
Occupancy		85%	100%	85%	95%	93%	60%	60%	50%	0%	50%	100%	100%	73%
Avg Rate		\$ 250	\$ 250	\$ 250	\$ 250	\$ 250	\$ 200	\$ 200	\$ 185	\$ -	\$ 250	\$ 250	\$ 250	\$ 215
Revenue		106,250	125,000	106,250	118,750	116,250	60,000	60,000	46,250	-	62,500	125,000	125,000	1,051,250
Variable costs	50%	53,125	62,500	53,125	59,375	58,125	30,000	30,000	23,125	-	31,250	62,500	62,500	525,625
Fixed costs		10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	50,000	50,000	10,000	10,000	200,000
Pretax income		43,125	52,500	43,125	49,375	48,125	20,000	20,000	13,125	(50,000)	(18,750)	52,500	52,500	325,625
Economic drivers-visitors														
Convention Center		25,000	25,000	25,000	25,000	20,000	10,000	10,000	10,000					
Cruise Ships		500	500	500	500	500	2,000	2,000	2,000		-	-	-	
Special Events		-	50,000	-	25,000	25,000	-	10,000	-		-	-	-	
Other		15,000	15,000	15,000	15,000	15,000	10,000	500	500		15,000	70,000	70,000	
		40,500	90,500	40,500	65,500	60,500	22,000	22,500	12,500	-	15,000	70,000	70,000	



Hotel - 2006

HOTEL-500 rooms	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total	
Occupancy	40%	90%	40%	85%	85%	50%	50%	20%	85%	85%	95%	90%	68%	
Avg Rate	\$ 150	\$ 200	\$ 150	\$ 250	\$ 250	\$ 150	\$ 150	\$ 150	\$ 250	\$ 250	\$ 250	\$ 250	\$ 204	
Revenue	30,000	90,000	30,000	106,250	106,250	37,500	37,500	15,000	106,250	106,250	118,750	112,500	896,250	
Variable costs	60%	18,000	54,000	18,000	63,750	63,750	22,500	22,500	9,000	63,750	63,750	71,250	67,500	537,750
Fixed costs	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	120,000
Pretax income	2,000	26,000	2,000	32,500	32,500	5,000	5,000	(4,000)	32,500	32,500	37,500	35,000	238,500	
Economic drivers-visitors														
Convention Center	-	-	-	-	-	1,000	1,000	1,000	20,000	20,000	20,000	10,000		
Cruise Ships	-	-	-	-	-	-	-	-	1,000	1,000	1,000	1,000		
Special Events	-	75,000	-	25,000	25,000	-	10,000	-	-	-	10,000	-		
Other	7,500	7,500	7,500	10,000	10,000	10,000	500	500	15,000	15,000	15,000	15,000		
	7,500	82,500	7,500	35,000	35,000	11,000	11,500	1,500	36,000	36,000	46,000	26,000		



Hotel - 2007

HOTEL-500 rooms		Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
Occupancy		80%	90%	85%	95%	93%	60%	60%	50%	90%	90%	95%	100%	82%
Avg Rate		\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 185	\$ 250	\$ 250	\$ 250	\$ 250	\$ 215
Revenue		80,000	90,000	85,000	95,000	93,000	60,000	60,000	46,250	112,500	112,500	118,750	125,000	1,078,000
Variable costs	60%	48,000	54,000	51,000	57,000	55,800	36,000	36,000	27,750	67,500	67,500	71,250	75,000	646,800
Fixed costs		10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	120,000
Pretax income		22,000	26,000	24,000	28,000	27,200	14,000	14,000	8,500	35,000	35,000	37,500	40,000	311,200
Economic drivers-visitors														
Convention Center		25,000	25,000	25,000	25,000	20,000	10,000	10,000	10,000	40,000	40,000	40,000	20,000	
Cruise Ships		500	500	500	500	500	2,000	2,000	2,000	2,000	2,000	2,000	2,000	
Special Events		-	100,000	-	25,000	25,000	-	10,000	-	-	-	10,000	-	
Other		15,000	15,000	15,000	15,000	15,000	10,000	500	500	15,000	15,000	15,000	15,000	
		40,500	140,500	40,500	65,500	60,500	22,000	22,500	12,500	57,000	57,000	67,000	37,000	



Hotel Valuation

Pre Katrina Value		
Cash Flow	483,750	
Capitalization rate	15%	
Value	3,225,000	
<u>Year</u>	<u>PreK</u>	<u>Post K</u>
2006	483,750	238,500
2007	483,750	311,200
2008	483,750	423,375
2009	483,750	423,375
Terminal	3,225,000	2,352,083
Cap rate	15%	18%
Value	3,225,000	1,929,786
Decline in value	40%	



Local Bank

Scenario: Most assets are in mortgage backed loans to local residents, allowed debtors to delay payments for 60 days

Storm: Underlying loan collateral-damage unknown

Short term: earnings down slightly

Long term: large increase in overdue loans- future payments uncertain and condition of collateral is unknown



Local Bank – Pre Katrina

Earnings	1,000,000		
Assets	100,000,000		
Capital	20,000,000		
Loans	80,000,000		
Performing	74,400,000	93%	
30-60 days	4,000,000	5%	
60-90 days	1,600,000	2%	
90+ days	800,000	1%	
Assets			
Loans	80,000,000		
Investments	15,000,000		
Other Real Estate	5,000,000		
	100,000,000		
Value Indicated:			
		Multiple	
PE	1,000,000	18.00	18,000,000
P/Book value	20,000,000	1.00	20,000,000
Value of Bank			19,000,000



Local Bank – Post Katrina

Earnings	900,000		
Assets	100,000,000		
Capital	20,000,000		
Loans	75,000,000		
Performing	45,000,000	60%	
30-60 days	18,750,000	25%	
60-90 days	3,750,000	5%	
90+ days	7,500,000	10%	
Assets			
Loans	75,000,000		
Investments	15,000,000		
Other Real Estate	10,000,000		
	100,000,000		
Value Indicated:			
		Multiple	
PE	900,000	13.00	11,700,000
P/Book value	20,000,000	0.75	15,000,000
Value of Bank			14,000,000
Decline in value			26%



Auto Dealer

Scenario: Local auto dealer

Storm: \$4MM of inventory wiped out

Short term: Citizens need new cars!

Long term: What is uninsured loss? What will future sales be in the smaller market area?



Auto Dealer





Auto Dealer - 2004

		Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
# units sold		150	150	150	150	150	150	150	500	500	150	150	150	2,500
Avg gross/unit		2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Total Revenue		300,000	300,000	300,000	300,000	300,000	300,000	300,000	1,000,000	1,000,000	300,000	300,000	300,000	5,000,000
Variable cost	50%	150,000	150,000	150,000	150,000	150,000	150,000	150,000	500,000	500,000	150,000	150,000	150,000	2,500,000
Fixed cost		100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	1,200,000
Cash Flow		50,000	50,000	50,000	50,000	50,000	50,000	50,000	400,000	400,000	50,000	50,000	50,000	1,300,000

Inventory	10,000,000
PP&E	2,000,000
TOTAL ASSETS	12,000,000
Floor Plan	(9,000,000)
Book Value/Equity	3,000,000

Value Indicated:			
P/Cash Flow	1,300,000	5.00	6,500,000
P/Book Value (1)	3,000,000	2.00	6,000,000
Value			<u>6,250,000</u>
(1) Blue sky-price in excess of book value			



Auto Dealer - 2006

		Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
# units sold		300	300	300	300	300	300	300	350	350	150	150	150	3,250
Avg gross/unit		2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Total Revenue		600,000	600,000	600,000	600,000	600,000	600,000	600,000	700,000	700,000	300,000	300,000	300,000	6,500,000
Variable cost	60%	360,000	360,000	360,000	360,000	360,000	360,000	360,000	420,000	420,000	180,000	180,000	180,000	3,900,000
Fixed cost		125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	100,000	100,000	100,000	1,425,000
Cash Flow		115,000	115,000	115,000	115,000	115,000	115,000	115,000	155,000	155,000	20,000	20,000	20,000	1,175,000

Inventory	6,000,000
Insurance receivable on flooded inventory	3,000,000
Contingent receivable	500,000
PP&E	2,000,000
TOTAL ASSETS	11,500,000
Floor Plan	(9,000,000)
Book Value/Equity	2,500,000

Contingent asset:	
Insurance receivable on inventory "seized by civil authority"	
Losses	1,000,000
Probability of collection	50%
Estimated value	500,000

Value Indication:			
P/Cash Flow	1,175,000	4.00	4,700,000
P/Book Value (1)	2,500,000	1.75	4,375,000
Value			<u>4,500,000</u>
Decline in Value	1,750,000		28%



Auto Dealer - 2005

		Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
# units sold		150	150	150	150	150	150	150	350		1,000	1,000	1,000	4,400
Avg gross/unit		2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000		2,200	2,200	2,200	2,200
Total Revenue		300,000	300,000	300,000	300,000	300,000	300,000	300,000	700,000	-	2,200,000	2,200,000	2,200,000	9,680,000
Variable cost	50%	180,000	180,000	180,000	180,000	180,000	180,000	180,000	420,000	-	1,320,000	1,320,000	1,320,000	5,640,000
Fixed cost		100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	1,200,000
Cash Flow		20,000	20,000	20,000	20,000	20,000	20,000	20,000	180,000	(100,000)	780,000	780,000	780,000	2,840,000

Value Pre-Katrina	\$ 6,250,000
Value Post Katrina	4,500,000
Decline in Value	1,750,000
2005 "Excess" Profit	1,540,000



Conclusion

Each business was affected differently by the hurricane. External and internal factors must be reviewed to determine their short term and long term consequences.

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