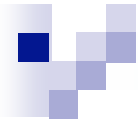




Evaluating Business Opportunities for the Alaska Seafood Industry

Anchorage, Alaska
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Alaska Sea Grant Marine Advisory Program



Evaluating a Business Opportunity

- Concepts
- Various methods
- Application

Evaluating a Business Opportunity

■ Concepts

□ Risk v. return

■ Do you feel lucky?

□ T-Bills v. a Herring Permit

□ Time

■ Money is worth more today than tomorrow





Evaluating a Business Opportunity

- Concepts

- Diversification

- Value in spreading out wealth

- A Going Concern

- Worth more than the sum of the parts



Evaluating a Business Opportunity

■ Concepts

- Types of Investments – Passive v. Active
 - A standard to apply to investments

- Size of the Investment
 - Keeping it real



Evaluating a Business Opportunity

- Various methods

- Asset value
- Comparables
- Multipliers
- Discounted Cash Flows



Evaluating a Business Opportunity

■ Asset value

- Liquidation value of the assets of a business
 - Generally the lowest value
 - Does not consider the “going concern” value of an enterprise.

Example: The estimated value of all farm supplies, equipment and leases equals the farm value.



Evaluating a Business Opportunity

■ Comparables

- The price paid for a business is based on the sales value of other “like” businesses.
 - Requires knowing values of other transactions.
 - Common in terrestrial farms – based on value of land, not earning potential of farm.

- Example: Fishing vessels of similar size, build, engine condition and harvest use might sell for roughly the same amount, plus or minus for wear and tear.



Evaluating a Business Opportunity

■ Multipliers

- Value of a business is based on common industry multipliers.
 - Requires industry information – database.

- Example: Business appraisers value corner convenience stores from 3 to 5 times their adjusted gross income, plus inventory.
 - If the 7-11 has a great location and strong historical earnings, it might have a multiplier of 5.
 - Adjusted gross earnings - \$55,000
 - Inventory - \$107,000
 - $(\$55,000 \times 5) + \$107,000 = \$382,000$



	1999	2000	2001	2002	2003	2004	2005	2006
Kodiak Seine Permit Values	\$29,800	\$20,400	\$17,100	\$9,900	\$8,600	\$10,200	\$14,300	\$18,000
Kodiak Seine Permit Average quartile earnings	\$142,915	\$107,671	\$130,768	\$101,245	\$138,850	\$180,142	\$205,604	\$226,794
Permit/Earnings Multiplier	21%	19%	13%	10%	6%	6%	7%	8%
Mean Multiplier	11%							
Standard Deviation	5.9%							

Drift Permit Values	\$89,700	\$80,500	\$34,700	\$19,700	\$29,300	\$37,000	\$51,200	\$75,000
Bristol Bay Drift Permit Average quartile earnings	\$63,853	\$48,080	\$28,920	\$37,553	\$40,001	\$65,860	\$77,459	\$79,928
Permit/Earnings Multiplier	140%	167%	120%	52%	73%	56%	66%	94%
Mean Multiplier	96%							
Standard Deviation	42.3%							

Southeast Power Troll Permit Values	\$15,000	\$14,600	\$13,000	\$14,000	\$12,700	\$16,400	\$27,900	\$31,500
Southeast Power Troll Permit Average quartile earnings	\$42,422	\$34,250	\$38,432	\$36,624	\$41,426	\$69,916	\$59,399	\$66,879
Permit/Earnings Multiplier	35%	43%	34%	38%	31%	23%	47%	47%
Mean Multiplier	37%							
Standard Deviation	8.2%							

Evaluating a Business Opportunity

■ Discounted Cash Flows

- Takes projected cash flows and discounts them back to present day based on an expected “rate of return” or “discount factor”
 - Requires determination of risk factor
 - Requires determination of pro forma

- Example: Small 10 person business expects cash flow of \$30,000 for next five years. Owner will invest \$25,000 and expect a rate of return of 20%.

	Year 1	Year 2	Year 3	Year 4	Year 5
Cash Flows	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000
Expected rate of return	20%				
Initial investment	(\$25,000)				
Present value of cash flows	\$89,718				
Value of Business	\$64,718				



Evaluating a Business Opportunity

■ Application

- Past Performance
- Recasting Pro Formas
- Running the Numbers
- Organizing Personal and Business Portfolios
- Engaging a Lender



Evaluating a Business Opportunity

- Real examples

- Using the pro forma model
- Vessels
- Permits/IFQs
- Processing opportunities

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