

# Lets Buy a Boat ... and some Gear ... and a Permit

Use of various methodologies to determine appropriate price to pay for a fishing asset.

**Situation:** The Dusky Boat Brokerage wants \$150,000 for a power troller with a permit. A prospective investor, a hand trolled for 3 years, is ready to upgrade his operation.

## Asset Method

Asset method adds up all the identified assets for a total value.

Dusky Boat Brokerage provides a marine survey showing the market value of the boat and its gear at \$115,000. The current value of the permit is \$35,000

Boat & equipment	\$	115,000
Permit	\$	35,000
Asset price	\$	150,000

**Investor Analysis:** The survey is the best document to determine market value and CFEC's site lists the permit value at \$35,000. According to an asset valuation, the asking price is sound.

## Comparables Method

Comparables method basis the value of an asset on recent market exchange prices of similar assets.

The investor prices similar vessels on the market, including prices of recently sold vessels and determine a reasonable price for this vessel is between \$100,000 - \$125,000. The price listed by CFEC is a "comparable" price at \$35,000, with a standard deviation of \$2,500.

	Lo	High	Midpoint
Boat & equipment	\$ 100,000	\$ 125,000	\$ 112,500
Permit	\$ 32,500	\$ 37,500	\$ 35,000
Comparables price	\$ 132,500	\$ 162,500	\$ 147,500

**Investor Analysis:** The comparables price sets a low high between \$133,500 and \$162,500. The mean point is \$148,000, which demonstrates the asking price is within a reasonable range although perhaps a little high.

## Multipliers

Use of a variable (x) against a projected figure, for example gross sales or net income, to determine a reasonable investment price.

### Permit Value

CFEC reports historic prices for permits, compared to average gross earnings (sales) by power trollers is about 36%.

Year	2003	2004	2005	2006	Average
Gross sales	\$41,426	\$69,916	\$59,399	\$76,391	
Permit price	\$12,700	\$16,400	\$27,900	\$31,500	
Multiplier	31%	23%	47%	41%	36%

Your conservative financial projections estimate \$70,000 in revenues. With this calculations, you will not want to pay much more than \$25,000. This puts into question the value of this permit for your operation. You would need to earn \$97,222 in order to justify paying \$35,000 for the permit. It is noted the multiplier has increased in recent years, likely a function of improved values in the troll market.

	Gross Sales	Permit	Permit Price
Your projections	\$ 70,000	36%	\$ 24,906
Required Earnings	\$ 97,222	36%	\$ 35,000

## Entire Investment

For an investment in the troll operation, the investor expects to make 25% return on your investment. The analysis finds -

The total price paid is \$150,000, however, the investor plans to take out a loan at 80% to value, making the net investment \$30,000. At this level of investment and the desired rate of return, the investment needs to earn \$7,500. The hand troller's projections show with gross earnings of \$70,000, after paying loans, operating costs and fixed costs, he will net about \$6,000. This represents a return of 20%, substantially below the target return.

Net Investment	Target Return	Income
\$ 30,000	0.25	\$ 7,500

Income	Return	Investment
\$ 6,000	25%	\$ 24,000

**Investor Analysis:** This analysis suggests the troller would pay a total of \$120,000. This size investment would require a \$96,000 loan, necessitating a \$24,000 investment.

Desired Investment Level	% of Equity in Investment	Total Investment
\$ 24,000	20%	\$ 120,000

## Discounted Cash Flows

Discounting cash flows established the present value of future cash flows discounted back at a rate of return to determine value.

You project the vessel will earn about \$6000 each year and want a return of 25%.

Year 0: Initial Invest	Year 1	Year 2	Year 3	Sales Value at End of Four Years
\$ (30,000)	\$ 6,000	\$ 6,000	\$ 6,000	\$ 24,000

Net Present	Investment/Return
10%	\$1,194.03
15%	(\$2,242.24)
20%	(\$4,822.53)
25%	(\$6,766.08)
30%	(\$8,230.97)
Internal Rate	11.6%

Year 0: Initial Invest	Year 1	Year 2	Year 3	Sales Value at End of Four Years
\$ (21,500)	\$ 6,000	\$ 6,000	\$ 6,000	\$ 24,000

Net Present	Investment/Return
10%	\$8,921.30
15%	\$5,149.07
20%	\$2,260.80
25%	\$33.92
30%	(\$1,692.50)
Internal Rate	25.1%

**Investor Analysis:** This analysis suggests an investment around \$107,500, with a \$96,500 loan and a \$21,500 investment from the hand troller.

Desired Investment Level	% of Equity in Investment	Total Investment	Loan Amount
\$ 21,500	20%	\$ 107,500	86,000.0

## Final Analysis

Method	Lo Value	Hi Value
Asset	\$ 150,000	\$ 150,000
Comparables	\$ 132,500	\$ 162,500
Multiplier	\$ 120,000	\$ 120,000
Discounted Cash Fl	\$ 107,500	\$ 107,500
Average	\$ 127,500	\$ 135,000

In evaluating business opportunities there really is no right answer, but there definitely is a wrong one. The boat is a questionable investment at the current price. If you want to invest in this boat at \$150,000, you will need to determine a way to increase revenues significantly while reducing some expenses.