

# 2020 BENCH-BAR CONFERENCE

Do I Need a Valuation?

## BUSINESS OWNER INTERVIEW

### Sample Questions

The viewpoint of Thomas Gillmore, CPA/ABV

Moderator, Honorable Donald Myers

**Note: The methods and results of this interview sample are provided by the Appraiser for educational and discussion purposes only and do not reflect the opinion of the Judiciary or legal position of an attorney.**

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October 2, 2020

Dear Conference Attendee:

In this sample, a divorcing couple and their respective counsel cooperatively hired a financial neutral to perform a business valuation. Everyone agreed to use the revenue-multiple valuation approach because the parties admittedly used the company to pay personal expenses, and they did not want to spend the time and money to unravel and correct the books. An integral part of this valuation was to determine the role of each spouse and their relative impact on cash flows coming into the company, which sells landscaping, irrigation design, and well-drilling services. Questionnaires were sent to each spouse, with the following to the Wife. Some questions encourage the client to recognize the differences between corporate goodwill and the level of an economic impact the owner has on the company.

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Dear Jacqueline,

In valuing Sprinkle Rite, Inc. (“Sprinkle Rite”) for your marital dissolution case, I will analyze your current, ongoing efforts and attributes associated with client relationships and payments. Accordingly, please take a few moments to consider each of the following questions and respond to me at your earliest convenience. As you know, time is of the essence.

1. Non-Competition-Agreements
  - a. Did you sign a Non-Competition-Agreement with Sprinkle Rite?
  - b. Did your spouse sign a Non-Competition-Agreement with Sprinkle Rite before you fired him two years ago?
  - c. Does Sprinkle Rite have any Non-Competition-Agreements in place with any key employees?
2. Describe your role in the company
3. Describe your spouse’s prior role in the company
4. What percentage of the company is pre-marital, in your opinion?
5. Did Sprinkle Rite take a PPP loan?

6. How much was the PPP Loan?
7. Will the PPP Loan be repaid in your CPA's opinion?
8. Describe the impact of COVID-19 on this business.
9. Describe the foundations and background of the company, i.e., who started it, or bought it, who developed the client relationships?
10. Who designs new irrigation systems?
11. Who is the field service manager at this time?
12. Percentage income from service contracts
13. Percentage income from drilling work
14. Percentage income from new irrigation systems
15. Who "runs" the company when you are gone temporarily?
16. Who "runs" the company when you are on vacation?
17. Hours worked per week - Franklin?
  - a. How many hours per week did Franklin work?
  - b. How many hours per year did Franklin work?
  - c. How many weeks of vacation did Franklin normally take?

18. Hours worked per week - Jacqueline?

- a. How many hours per week do you work?
- b. How many hours per year do you work?
- c. How many weeks of vacation did you normally take?

19. Personal Expenses

- a. To what extent are personal expenses paid through the business?

20. Ability, Skills, Judgment

- a. *Jacqueline, I need your input on how your expertise, skills, and judgment are superior compared to an equally well-trained and dedicated Chief Executive Officer earning a similar salary*
- b. *What differentiates you from your competitors?*

21. Age & Health of Owner

How do your age and health impact the Sprinkle Rite operations, i.e., is there any physical or mental condition that affects your ability to engage with clients and employees?

22. Proximity of Contact

- a. How frequently do you physically meet with clients?
- b. How important is this physical contact?

23. Comparative Professional Success

Compared to other business owners in this industry, what sets you apart from your peers?

24. Marketing, Branding of Person

To what extent does marketing material incorporate references to you personally?

25. Personal Referrals  
Describe the extent to which current customers refer new business to you personally.
26. Personal Reputation Among Peers  
Describe the extent to which your reputation is known among your peers and your customer base.
27. Personalized Staff  
Describe the extent to which individuals desire to work for you, e.g., to learn business and life skills from you.
28. Work Habits  
Describe the extent to which your work habits differentiate you from your peers. To what extent are you actively involved in the management of Sprinkle Rite on a day-to-day basis, e.g., your critical role in human resource decisions and customer relationships.
29. List of Company Assets  
Provide a list of company assets, from (1) Federal Asset Depreciation Schedule on IRS tax form, or (2) local property tax assessment form.
30. Barriers to Entry  
Describe your competition, i.e., how difficult is it to develop a local presence in this industry?
31. Business Location  
Describe the amount of foot traffic to your headquarter office. Does this specific location rise a level of materiality, i.e., does it make a difference to your customers?
32. Multiple Business Locations  
Describe the amount of foot traffic to your various offices or company stores. Do these locations rise a level of materiality, i.e., does it make a difference to your customers?
33. Business Name  
Sprinkle Rite is a recognized name and is recognized in the community. How long did it take to become a recognizable name in the central Florida region?

34. Business Reputation

Describe Sprinkle Rite’s reputation in the community. Is the reputation tied at all to your support staff, technicians, sales personnel, and other employees?

35. Client List

Describe the magnitude and importance of your client list? How important is this list?

36. Recurring Revenue Streams

Describe the importance of having recurring revenue from service contracts and the importance of having recurring revenue from loyal customers

37. Systems and Organization

Does Sprinkle Rite have written operating manuals and procedures for employees to understand “how” things are done at Sprinkle Rite?

38. Workforce in Place

How many employees?

Critical Key-Person employees?

List Covenants-Not-to-Compete