

## IACVS ICVS EXAMINATION CASE STUDY

### INSTRUCTIONS

#### General Instructions:

For purposes of your doing an evaluation on this company, you may use information from the following SIC (NAIC) codes to generate industry and economic information (choose only one):

1711 (23511)	Plumbing, Heating and Air-conditioning Contractors
1731 (23531)	Electrical Contractors
1761 (23561)	Roofing, Siding and Sheet Metal Contractors
1794 (23593)	Excavation Contractors

When developing your report, please clearly state which one of the SIC (NAIC) codes you are using.

You have been engaged to value a company called Baumbach Construction. The owners, Adolph and Wilma Baumbach are selling the company. The valuation is for the purpose of valuing the stock in Baumbach Construction as of June 30 of Year 5, the date Adolph and Wilma's potential buyer wishes to conclude this purchase. You have been retained to prepare a full valuation report.

Baumbach Construction is a closely held company with the following stock ownership:

<u>Shareholder</u>	<u>Number of Shares</u>	<u>Percent</u>
Adolph Baumbach	30,000	54.5%
Wilma Baumbach	20,000	36.4%
Fritz Baumbach	3,000	5.5%
Hilda Baumbach	<u>2,000</u>	<u>3.6%</u>
Total	55,000	100%

Adolph and Wilma Baumbach are husband and wife. Fritz and Hilda, their adult children, are not involved in the daily operation of the business.

Baumbach Construction is a specialty construction company in the area of (select an appropriate SIC code from the list above). Karl Baumbach, Adolph's father, founded the company in 1985. The company remained fairly small until 1996 when the founder, Karl Baumbach died and Adolph, Wilma and their family inherited the Company. It was the intent of Karl to provide something for his two grandchildren. Karl Baumbach's will specifically directed the distribution of the 55,000 shares of the company as outlined above. Under Adolph and Wilma's direction, the company has been more aggressive in their marketing the company to the general construction trade. The company is located in their own facilities, which are owned by the Baumbach & Schlüter Partnership and leased back to the Company. The lease rate is US \$3,000 per month for the land and buildings from which the Company operates, which consists of the office building, shop, equipment washing facility and 8 acres for equipment storage.

Baumbach Construction now has gross sales of US \$7,295,000 and employs 51 people. The employee turnover rate is low by industry standards, which implies a high degree of employee satisfaction, a relative constant level of construction work, and low employee costs. The Company's production workers have excellent skills and are paid accordingly. There is an adequate supply of labor in the area

when occasional help is needed and the compensation for these individuals is average for the area. The Company operates as a guild shop.

Management below the owner level is very good and capable. They are quite capable of doing their own jobs without a lot of supervision or control. The owners (both Adolph and Wilma) work 100% of the time in the business. Adolph is responsible for bidding jobs, marketing the company to the construction industry and supervising the constructions crews. Wilma is the office manager and directs all office activities. Each owner is paid US \$10,000 per month. It is expected that an adequate replacement for Wilma can be found at an annual salary of US \$50-60,000. Adolph's salary is at the market rate for the area.

Financial statements for Baumbach Construction are prepared monthly on an accrual basis. Tax returns are also filed on an accrual basis. The financial statements are compiled by an outside accounting firm and are available seven days after the end of each month. Tax planning is done annually, and the Company's financial plan is updated quarterly. The Company's banking relationship is excellent. The Company has a US \$500,000 credit line at their bank, which they rarely, if ever, need to use.

The primary market for the Company's services is the general construction markets of Western Germany and Saarland to Westphalia, with the major share of its business coming from North Rhine – Westphalia District. The market for these services is moderately large and stable. There is no single large customer because of the nature of the business. Most of the Company's services are marketed through the reputation of the Company as well as through Adolph's association and reputation through construction trades organizations.

Entry into this type of specialized construction is moderately difficult as it takes large sums of money and equipment. Exit, on the other hand, is relatively easy.

The Company's management perceived the Company's strengths to be:

- Well established with 16 years of successful operations
- Constant and steady work with no dependence on any one general contractor
- Excellent work product and ethic
- Low employee turnover
- Well known and respected in the Western Germany construction industry
- Excellent facilities, equipment and location

You have been provided the following information to assist in preparing your valuation report:

- Historical income statement, unaudited
- Historical balance sheet, unaudited
- Appraisal letter for real estate rented—for the purpose of this exam, you may assume the number provided in the appraisal letter is substantiated and correct.
- Appraisal letter for equipment owned—for the purposes of this exam, you might assume the number provided in the appraisal letter is substantiated and correct. As this is not a report on assets current operating location intended for future expansion. If the company were themselves, the individual items are not identified in this packet. Assume the value is the current fair market appraisal value, and if the equipment were sold at June 30, year 5 it could bring the stated amount.
- Industry sources advisory on reasonable compensation.

# BAUMBACH CONSTRUCTION

