

## **Do You Know What Your Club Is Really Worth?**

### **Rick Caro**

It may be more important today than previously to know what a realistic value of your club is. This is further compounded if your company has more than one club in the company. Traditionally, club owners and CEOs have used shortcuts and quick simplistic formulas to obtain a broad valuation. However, there are a variety of factors which suggest that a proper independent valuation may be needed. Too often, a club's own accountant or a local real estate appraiser are not knowledgeable enough about this club industry to be accurate.

There are at least 10 different situations where an independent club valuation may be needed.

#### **1- Potential Club Purchase**

In any economic times -- and certainly during downtimes -- clubs may be available for purchase. In many cases, the seller may be a proficient club operator but not a learned expert in valuing his own club. He may be using inappropriate valuation methods or may be referencing other measurement techniques used by other industries. A great deal of time and money can be saved with the use of a proper third-party club valuation.

#### **2- Sale of Club (Or Partial %)**

Similarly, if you or your fellow owners have an inflated sense of worth of your club or clubs, no purchase may ever occur. This may save the club needless expense, an avoidance of unnecessary rumors and a major distraction of the owner's time. If selling a minority share, it may only lead to a successful result if there is an independent calculation of a share of club value.

#### **3- Purchase of Minority Shareholder**

There are numerous reasons why a specific shareholder of a club may want to sell his ownership position and the majority shareholder might be in agreement to do so. Unfortunately, any investor may want liquidity of his interest due to financial, personal or business reasons. Sometimes, it is due to fundamental disagreements amongst owners. In other cases, it is due to unfortunate factors beyond an individual's control (e.g. illness, death, financial problems, re-location, etc.). There are elements that are part of a minority shareholder's calculation that are more complex than a simple multiplication of a percentage of ownership times the club's total value.

#### **4- Estate Planning**

In small closely-held businesses, it is common to transfer ownership from one generation to another at key opportune times. IRS and other government entities may question such ownership transfers without proper independent evidence of valuation.

## **5- Divorce of Shareholder**

A club may be treated as a jointly held asset by an individual and his spouse. Clearly, with legal representation involved, there is a need for a defensible third-party valuation of the club or clubs and the size of share owned. The valuation firm may also be required to defend such methodology leading to the valuation total in a legal proceeding.

## **6- Obtain Debt Financing**

It is common for debt institutions to require an approved local real estate appraiser to value a business to obtain a mortgage if real estate is involved. For leasehold properties, business debt may be tied to personal collateral and resources. If a club owner has a previously successful track record, then an independent club valuation may be needed to help secure the debt.

## **7- Reduction of Real Estate Taxes**

It is often the norm that local tax assessors assign a much greater value than appropriate to clubs. They are not familiar with unique industries, like the club industry, nor are they competent to value single-purpose buildings where the business and real estate are so entwined. In some cases, the assessments have been lowered by 40% when proper club valuation methodology has been used. Also, in cases where the club is leased, the landlord is not equipped to protest such a real estate tax reduction. The landlord will often allow the tenant to do so on his own. In some cases, such tax reductions have been financially beneficial to the club operator.

## **8- Personal Net Worth Calculation**

In some cases where owners of clubs are pursuing certain financing opportunities or needing to defend their net worth on a personal financial statement, a large part of their assets may be directly related to their ownership of clubs. Due to recent mortgage industry failings, much more scrutiny is now common and thus requiring independent, third-party support.

## **9- Incentive For Senior Company Executives**

More club companies are tying current and future compensation to the increased value of clubs. In some cases, this has even penetrated to the General Manager Level. In certain larger club companies, this has translated to “phantom stock” holdings. In all cases, the fairness of this arrangement is validated when the annual calculation is done by a proper third party.

## 10- Legal Situations

There are a variety of legal circumstances where a club valuation is pivotal. A proposed eminent domain annexation by a local government entity was thwarted once they were confronted with a defensible total club damage valuation. Recent accounting regulations now require club companies of certain size to have an independent analysis of their goodwill total to determine if there is any “impairment.” In some cases, clubs that are closing and dealing with creditors need a valuation of the club or its component parts.

Today, clubs need to really understand their real value and fully understand their worth for a wide variety of reasons.

### 10 REASONS TO KNOW WHAT YOUR CLUB IS WORTH

- 1- Potential Club Purchase
- 2- Sale of Club (Or Partial %)
- 3- Purchase of Minority Shareholder
- 4- Estate Planning
- 5- Divorce of Shareholder
- 6- Obtain Debt Financing
- 7- Reduction of Real Estate Taxes
- 8- Personal Net Worth Calculation
- 9- Incentive For Senior Company Executives
- 10- Legal Situations

*Rick Caro is President of Management Vision, Inc., a consulting company which specializes in independent club valuations and expert witness testimony. He is a 35-year club industry veteran with experience as an owner, operator and consultant. He has more experience than anyone else in the conducting independent market analyses, club valuations and serving as an expert witness in club legal matters. He has been a Chairman & Director of club companies as well as an Advisory Board member of smaller club groups. He is considered a guru of club finances.*

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