



Privately Speaking

Insights on private company growth
from private company insiders

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Getting ready for an exit: 409A valuation and other complex equity compensation issues

As private companies move towards realizing their exit strategy, there are often key milestones where valuations are required. This article offers insights and practical advice to help business leaders understand the process and techniques used to value different equity classes within a complex capital structure.

A daunting but necessary exercise for private companies

Valuations play a critical role in tax reporting, financial reporting, and in informing strategic decisions. Additionally, stakeholders who have made an investment in a private enterprise may require a valuation to understand the performance of their investment on an interim basis.

Listed below are various approaches used by valuation specialists.

Total equity valuation approaches

- Income approach
- Market approach
- Asset-based approach

Equity allocation approaches

- Simple capital structure
- Complex capital structure

“Valuation of various equity classes issued by an enterprise, sometimes within a complex capital structure, can be a daunting but necessary exercise for a private company when certain key business milestones occur or for meeting tax and financial reporting requirements.”

—**Anthony Doughty, Jr.**,
KPMG’s Managing Director of Economic and Valuation Services

When and why is a valuation need?

- 1 Tax purposes**
A timely valuation of an enterprise’s shares may be required to tax compliance if management plans to issue share-based awards in the form of options or restricted stock.
- 2 Financial reporting purposes**
Financial reporting guidelines frequently recommend disclosures to aid investors.
- 3 Strategic purposes and goals**
Valuation can be essential to the process of raising capital.

Learn more...

The valuation process helps enterprises prepare for major transitions and milestones, such as IPOs, mergers and acquisitions, and regulatory compliance.

This *Privately Speaking* issue has provided a high-level summary. For additional information, please download the book [The Entrepreneur's Roadmap: From Concept to IPO](#) and reference chapter 38.



Do not miss a thing

The environment for private companies is changing rapidly, and new opportunities are emerging every day.

Do not let an opportunity pass you by—sign up to receive KPMG's **Privately Speaking** series and make sure you are making the best decisions possible for your private company.

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Privately Speaking focuses on the issues that matter most to privately held entities, including private equity- and venture capital-backed companies.

KPMG LLP's (KPMG) Private Markets Group understands what it takes to drive private company growth. In each edition of **Privately Speaking**, we share our insights—along with practical and actionable tips—to help boards, executives, and management grow, strengthen, and transition their privately held businesses.

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