



Essentials of Valuation For Lawyers[©]

Economic Value, Market Value & Intrinsic Value

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Background – Chaka Patterson



- Partner at Alston & Bird (and former Partner at Jenner & Block and Jones Day)
- Professor at University of Chicago Law School
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Basics of Valuation

- **Definition of Valuation:** Process of determining economic value.
- **Importance for Lawyers:** Representation, Decision-Making, Negotiation.
- **Key Concepts:** Economic Value, Market Value, Intrinsic Value.
- **Valuation Methodologies:** Market, Income, and Asset-Based Approaches.
- **Factors Influencing Valuation:** Financial Performance, Market Conditions, Growth Potential.

Why Valuation Matters to Lawyers

Litigation:

- Shareholder disputes
- Divorce settlements
- Bankruptcy

Mergers & Acquisitions:

- Deal negotiation
- Transaction structuring
- Due diligence

Taxation:

- Compliance
- Tax planning

— Key Valuation Methods

Market Approach: Comparable Transactions, Market Multiples.

Income Approach: Discounted Cash Flow (DCF), Capitalization of Earnings.

Asset-Based Approach: Book Value, Liquidation Value.

Pros & Cons: Each method has its advantages and limitations.

— Standards of Value

Fair Market Value: Used in tax assessments and legal proceedings.

Fair Value: Defined by statutes or case law, used in disputes.

Investment Value: Specific to an investor's perspective.

Intrinsic Value: Based on fundamental analysis.

Liquidation Value: Used in bankruptcy scenarios.

Common Complications in Valuation

Intangible Assets: Goodwill, patents, trademarks.

Minority Discounts & Control Premiums: Influence on valuation.

Market Conditions: Economic trends, industry shifts, global events.

— Practical Steps for Lawyers

Gathering Documentation:

- Financial statements
- Legal agreements

Engaging Valuation Experts:

- Selection criteria
- Collaboration

Staying Informed:

- Standards
- Methods
- Legal precedents

— Negotiation and Mediation

- Bargaining Power
- Incentives
- BATNA (Best Alternative to a Negotiated Agreement)

Example 1: Mergers & Acquisitions

Scenario: A company is acquiring a competitor.

Lawyer's Role:

- Due diligence
- Valuation analysis
- Negotiation support

Outcome: Ensuring fair purchase price and favorable deal terms.

Example 2: Shareholder Disputes

Scenario: Minority shareholders are disputing buyout terms.

Lawyer's Role:

- Valuation report
- Legal framework
- Mediation

Outcome: Fair settlement for minority shareholders.

Example 3: Litigation Support

Scenario: A company involved in financial damages litigation.

Lawyer's Role:

- Damage assessment valuation report
- Court testimony

Outcome: Strengthened litigation case.

Example 4: Intellectual Property Valuation

Scenario: A company is licensing a patented technology.

Lawyer's Role:

- Patent analysis
- Market research
- Valuation
- Negotiation

Outcome: Fair licensing fee for the patent.

Example 5: Bankruptcy & Restructuring

Scenario: A company is valuing assets for liquidation.

Lawyer's Role:

- Asset inventory
- Valuation methods
- Court presentation

Outcome: Equitable asset distribution in bankruptcy.

Example 6: Real Estate Transactions

Scenario: A company is purchasing commercial property.

Lawyer's Role:

- Property analysis
- Market comparisons
- Valuation

Outcome: Fair purchase price for the client.

Key Takeaways



Valuation is crucial for lawyers in:

- Bankruptcy/Restructuring
- Intellectual Property
- Litigation
- M&A
- Taxation



Accurate valuation leads to fair outcomes and effective legal strategies.



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