



Economy, Interest Rates, and Valuation

Overview

- ▲ **1** Introduction
- ▲ **2** Inflation and the Economy
- ▲ **3** Interest Rate Environment
- ▲ **4** Impact on Cost of Capital
- ▲ **5** Impact on Valuation
- ▲ **6** Management Opportunities
- ▲ **7** Q & A





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Leads the Valuation Services Group

Co-authored “A Field Guide to Business Valuation”
with Casey Karlsen.

Focused on helping owners and leaders understand how to drive
value in their companies and organizations.

Valuation of closely held businesses

Mergers and Acquisitions
Due Diligence Support
Succession Planning
Trust and Estate Planning
ESOPs

Learning objectives

- ▲ Understand current interest rate environment
- ▲ Understand impact of interest rates on valuation
- ▲ Understand what management actions can be taken to offset valuation impact

Polling question

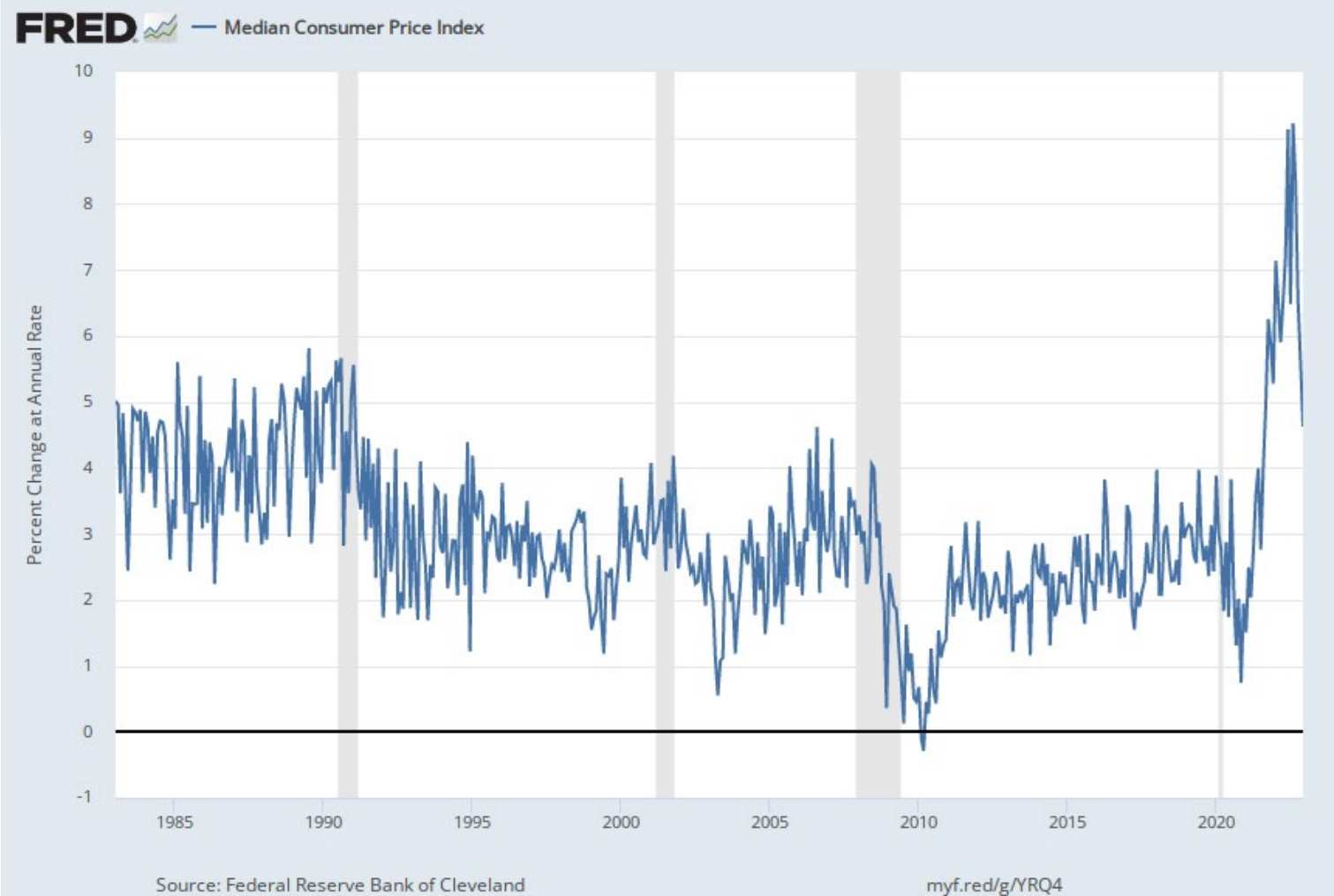
When I look forward, my biggest concern is:

- a) Availability of labor
- b) Inflation increasing costs
- c) Increased borrowing costs
- d) Slowing growth
- e) Other



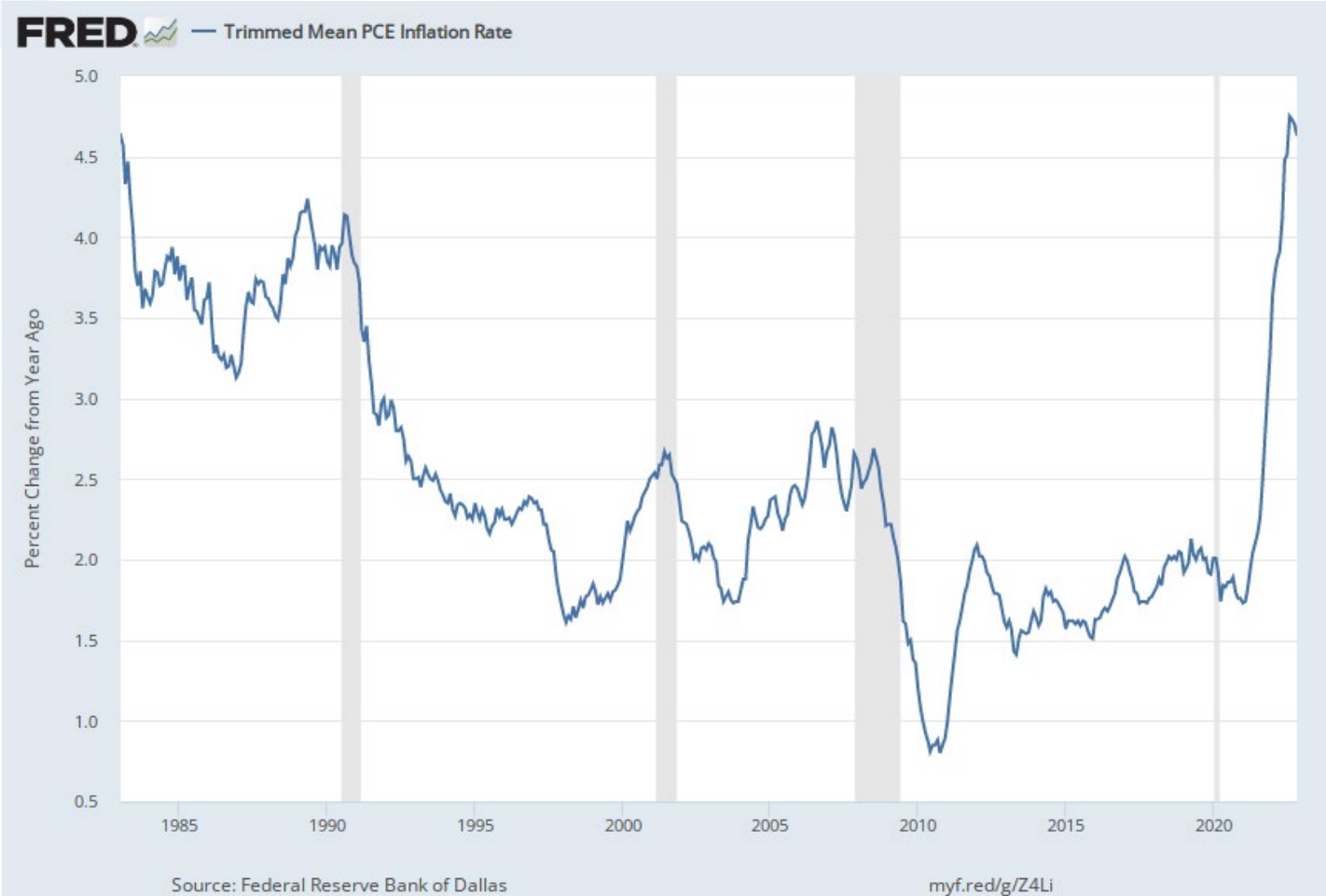
Inflation

Median Consumer Price Index – January '83 to December '22



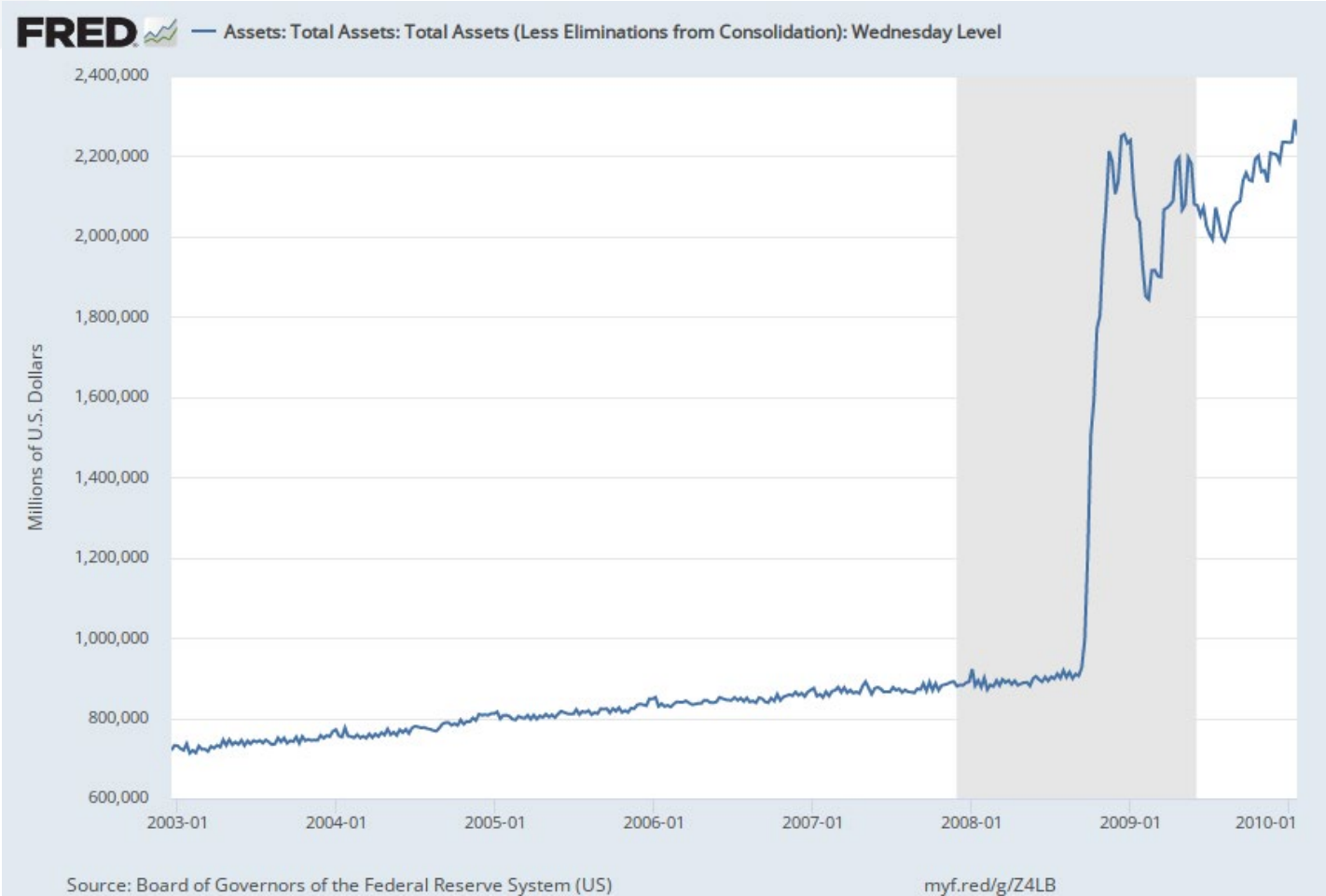
Inflation

Personal Consumption Expenditures – Trimmed – January '83 to November '22



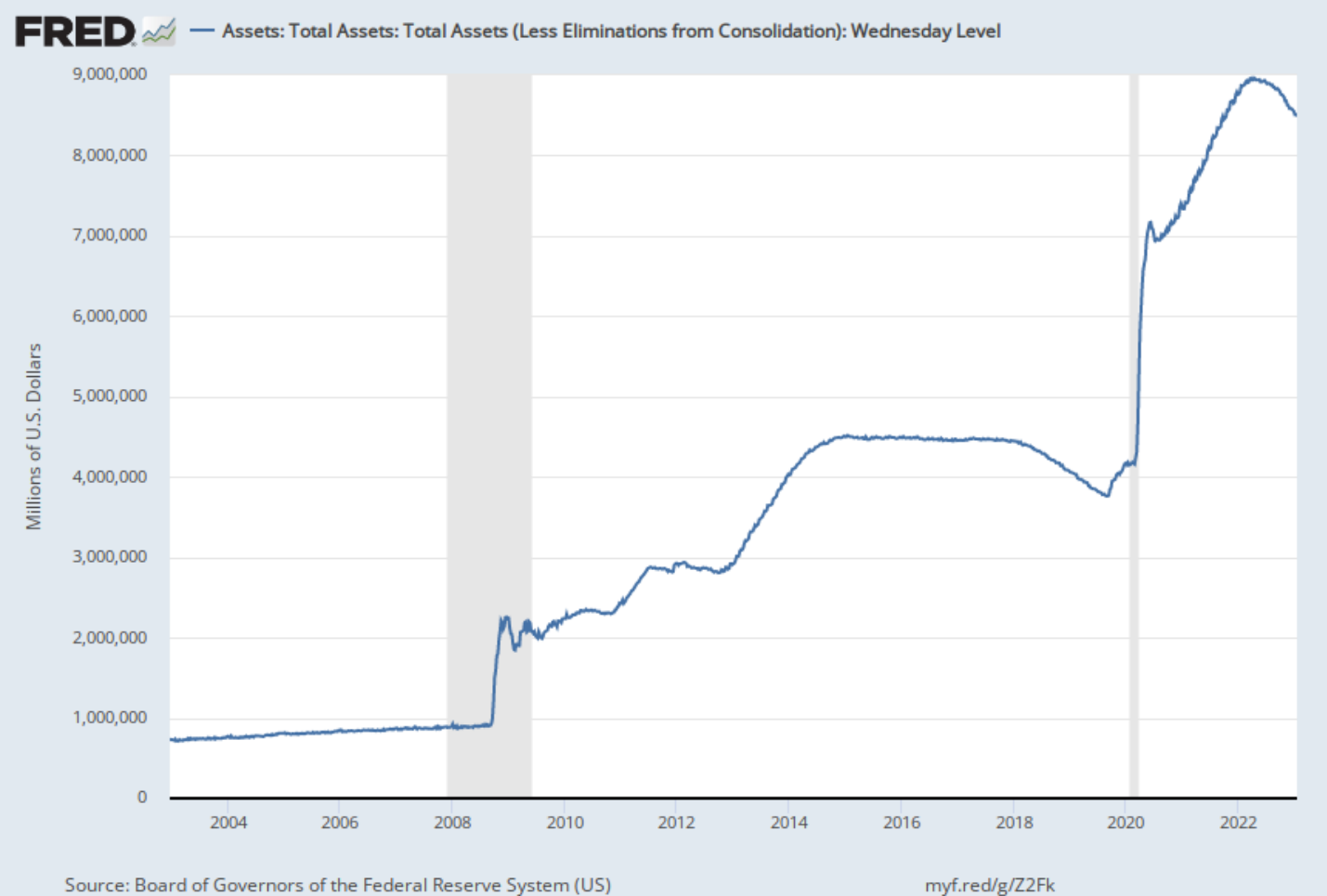
Federal Reserve Balance Sheet

Remember TARP?



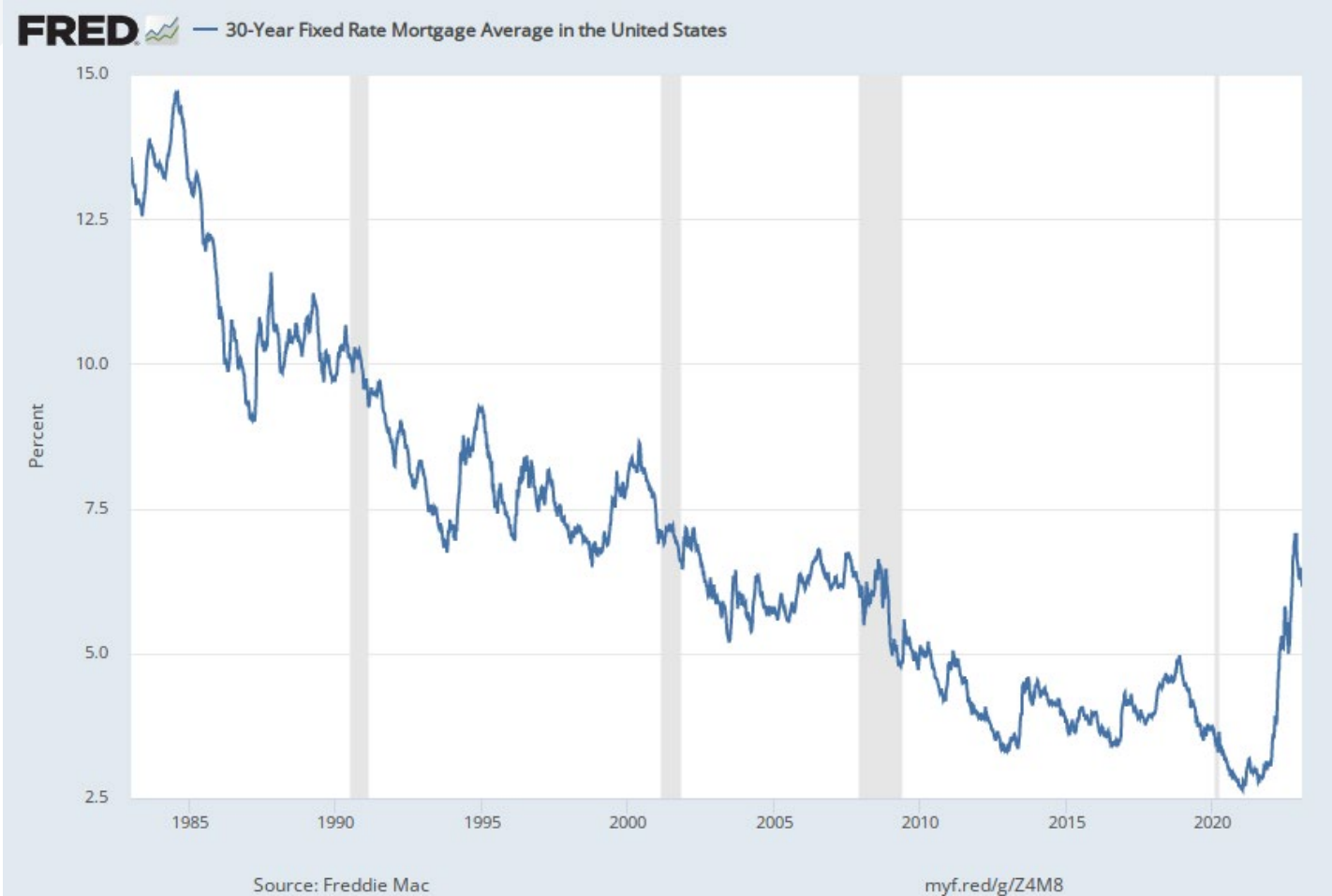
Federal Reserve Balance Sheet

Impact of tax cuts and stimulus packages



30-Year Fixed Rate Mortgages

January '83 to December '22



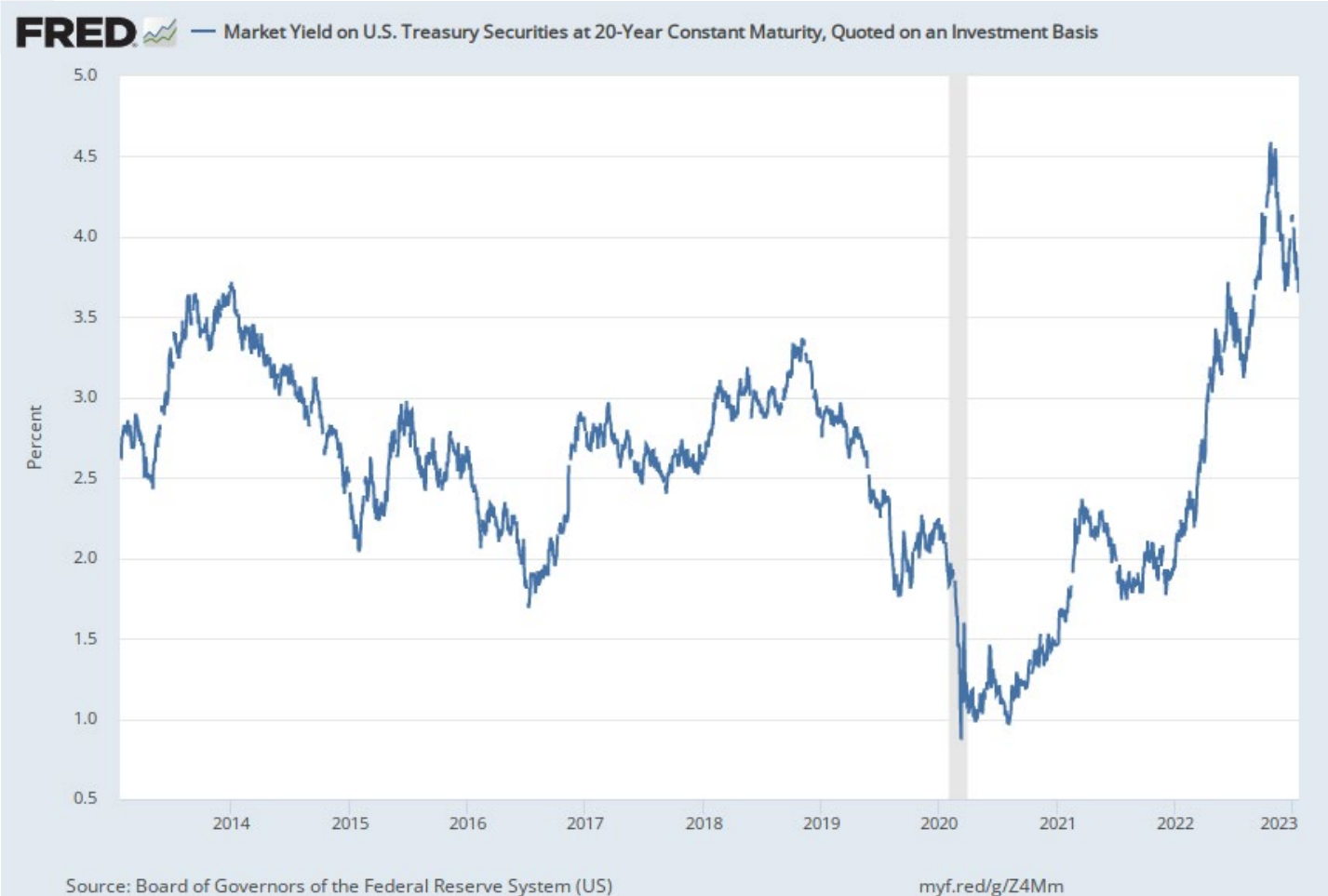
30-Year Fixed Rate Mortgages

Past 10 Years



Yield on 20-Year US Treasuries

Past 10 Years



Polling question

Over the past year, borrowing costs for my business/organization have:

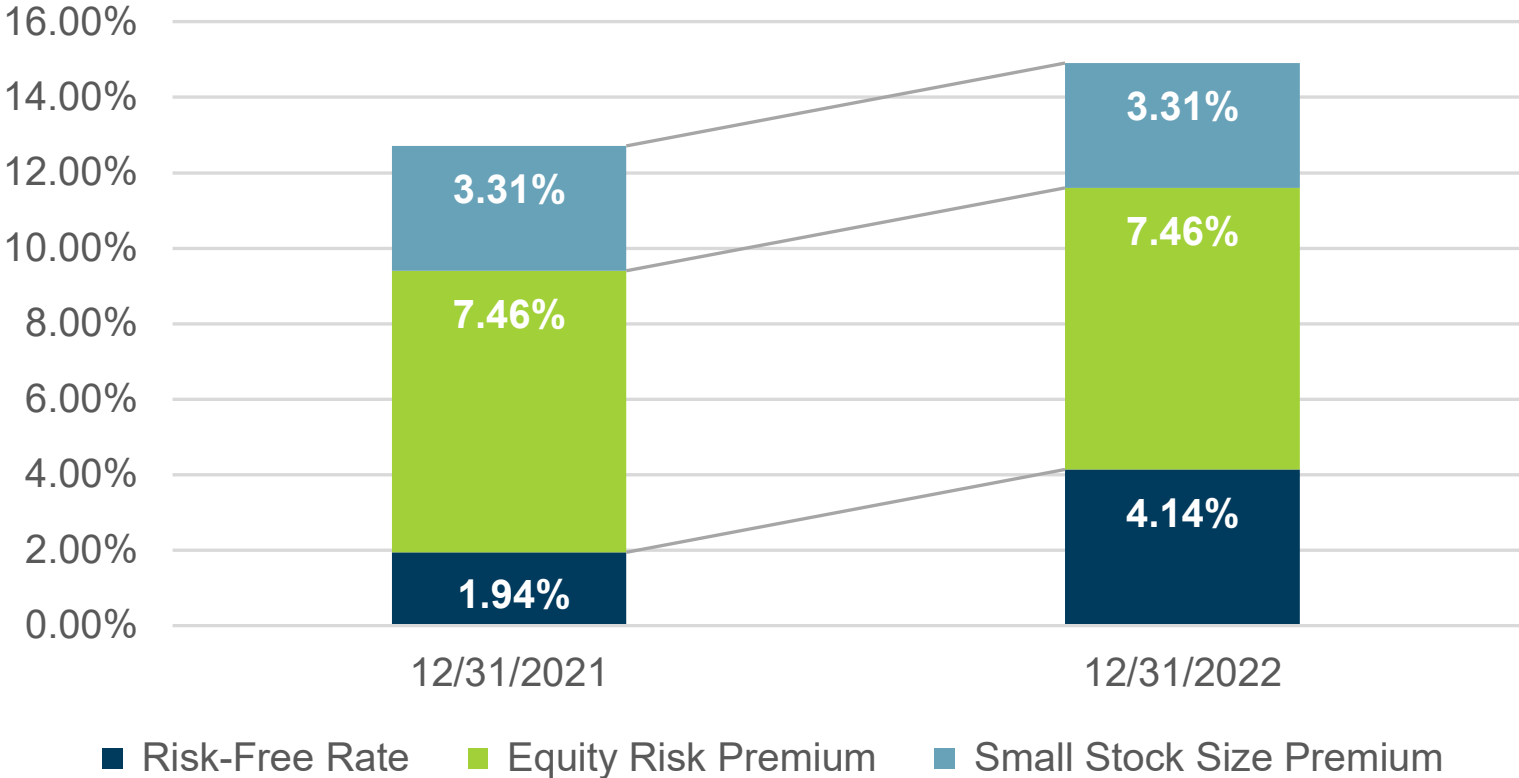
- a) Increased
- b) No change
- c) Decreased
- d) Unknown



Impact on Cost of Capital

Interest rates alone have driven cost of equity up ~ 17% year over year

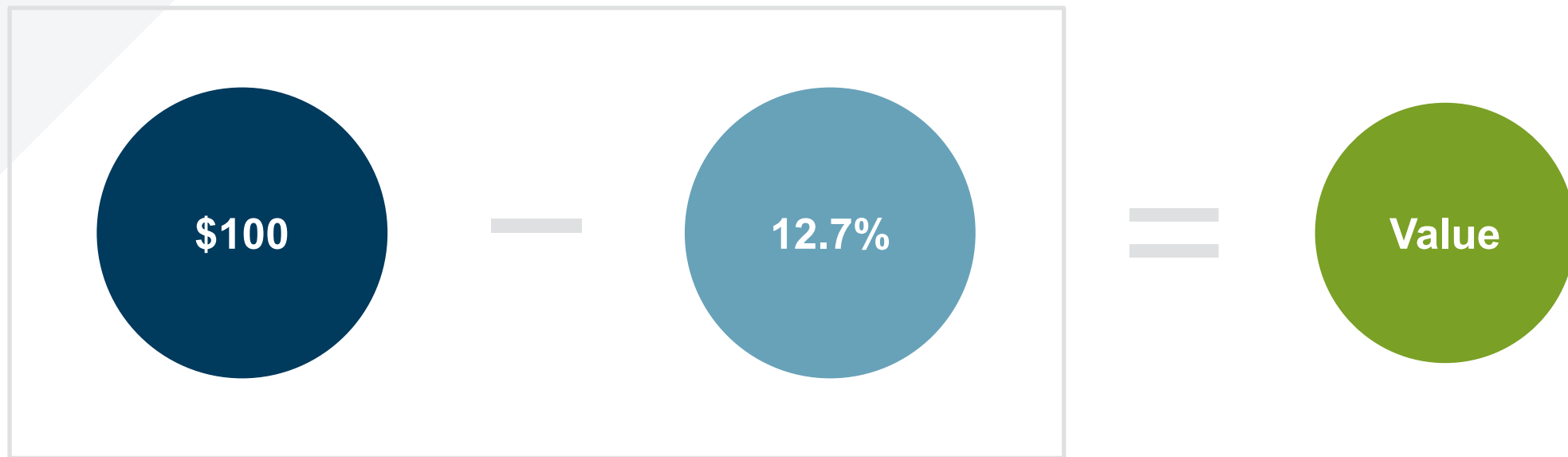
Impact of Risk-Free Rate on Discount Rates



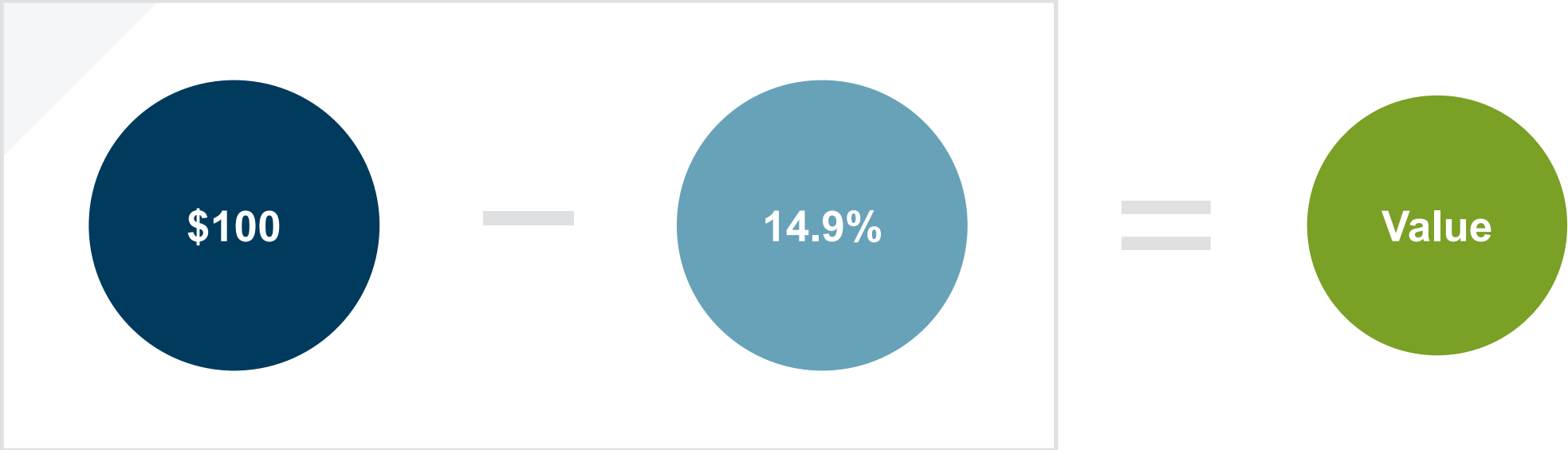
Valuation - Simplified



Valuation - Simplified



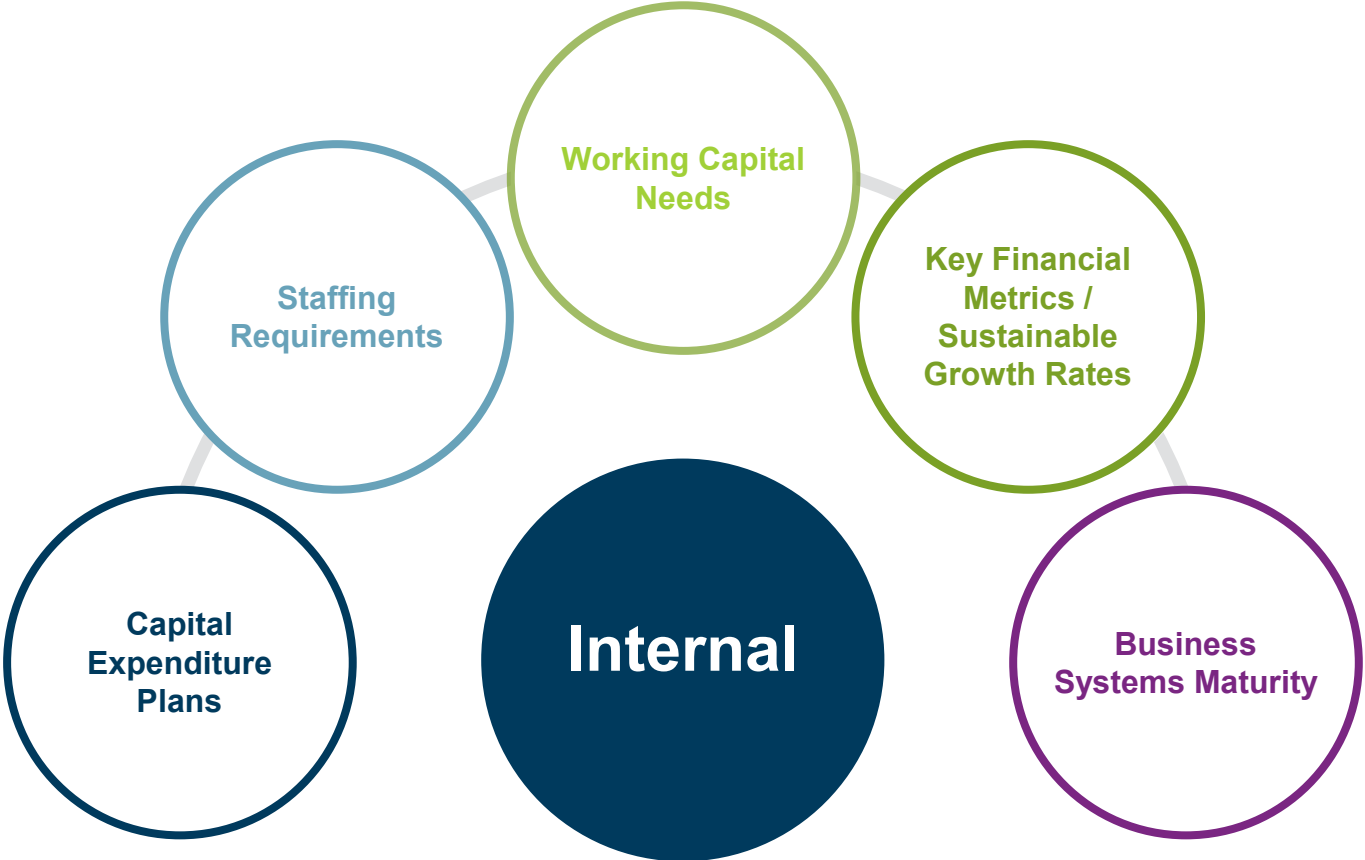
Valuation - Simplified



\$116 drop from interest rates alone



Opportunities to Improve Forecasting / Planning



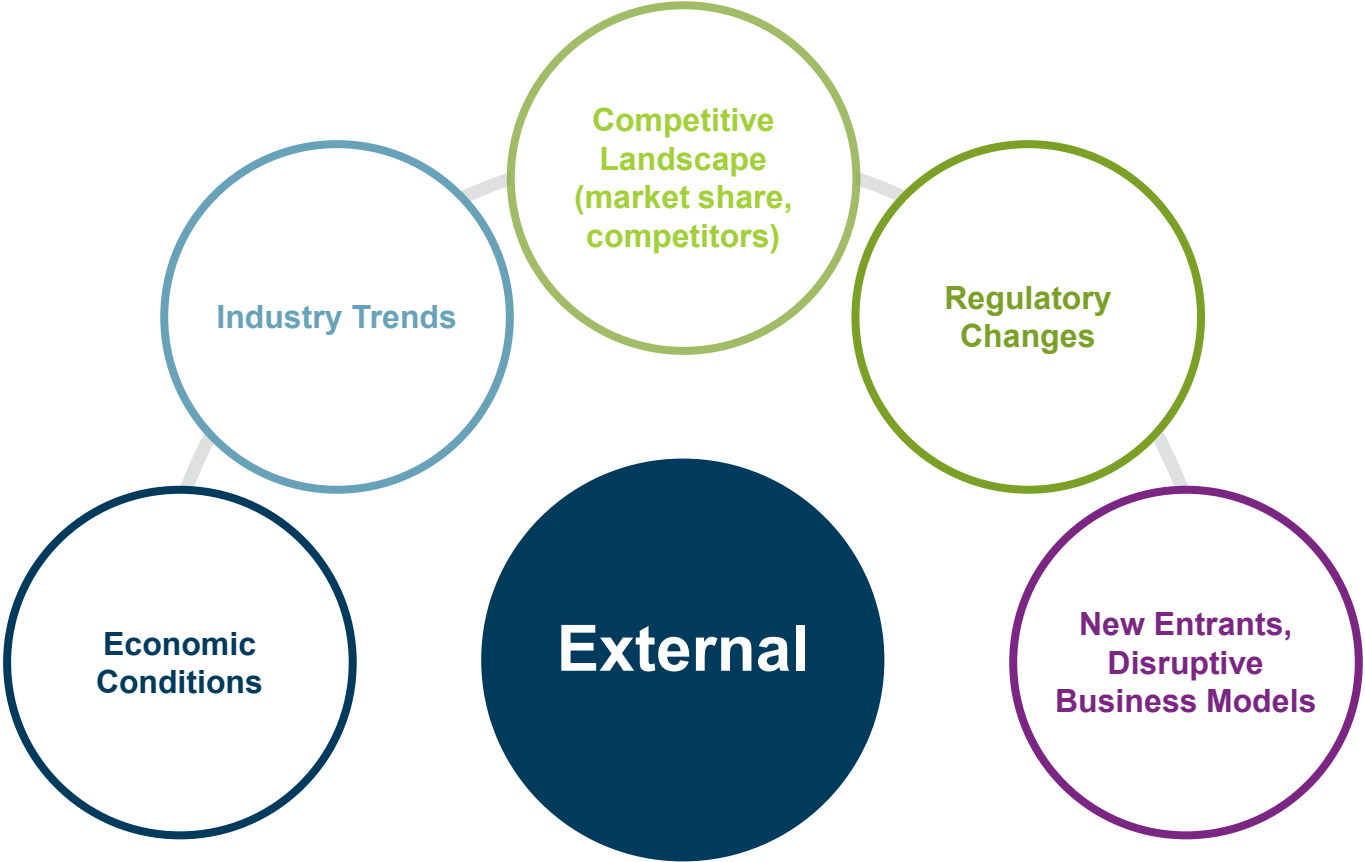
Polling question

Over the past year, borrowing costs for my business/organization have:

- a) Increased
- b) No change
- c) Decreased
- d) Unknown



External Forces to Consider in Planning



Questions?

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