**DDD Entertainment Group, LLC[[1]](#footnote-1)  
Representative Valuation Case[[2]](#footnote-2)**

DDD Entertainment Group owns and operates two live-performance venues in the Denver, Colorado market, with each venue seating approximately 300. The venues are amongst the most popular of their kind in the market, attracting top talent in the alternative, indy-music space and premium prices. Tickets are presold through Artix, Ticket Fly and other lesser known online ticketing services. The venues are also used for private and corporate events, representing almost 12% of annual revenues. Though most performance dates are not sold out, the venues are sufficiently popular as to attract patronage from a growing core of millennials prepared to spend heavily on entertainment and alcohol.

The firm books alternative music artists through booking agents and presells tickets each engagement as much as six months in advance. Total ticket income for 2019, including presales, amounted to 2,259,739 with bar sales of $1,095,877 and prepared food sales of $172,630. Venue rents were approximately $336,000. The attached financial statements present the firm’s various operating ratios, cash flow dynamics, and growth rates.

The firm is operated by its founder and CEO who has a 45% stake in the business (450,000 shares); an equity partner has another 45% (each of whom invested $150,000 in the venture during its initial operating years (2005-2008). The remaining 10% is owned by a former spouse. The firm’s major stakeholders each own 50% of the venues in a separate company, DDD Holdings, that extracts rent at a rate estimated to be $30,000 below market for the two facilities, combined. In exchange, DDD pays all building maintenance, janitorial, taxes, and insurance and has paid directly for the buildout of each venue. Each of the founders contributed $150,000 towards the $1,500,000 purchase price of the initial building. They have since acquired a second building for $3 million with a current estimated value of $3.7 million. The depreciation on each property is matched by the annual capital improvements such that the buildings are essentially carried on the books of the company at their respective purchase prices. Their belief is that the first building has appreciated in value over time and estimate its current market value to be approximately $2.9 million. The combined mortgages on the two properties have a total balance $4.3 million. In addition to real estate owned, the firm has approximately $600,000 in long-term assets and $75,000 in net working capital. The firm has no long-term debt aside from mortgages on its real estate assets, but has access to a credit line of $300,000 at 7 ½% from a large regional bank.

Though neither of the equity stakeholders run much in the way of personal expenses through the company, each take an annual salary of $100,000 and the former spouse receives $24,000 annually. Both readily admit to a certain amount of inequity to this arrangement as the CEO works more than full-time for the firm while the other founder spends no appreciable time engaged in firm operations other than to show up for concerts and entertain loyal customers. The former spouse arrives only to pick up a monthly check – an arrangement that annoys and pleases the two founders.

DDD’s owners expect to increase ticket prices by 5% annually and expand seating by adding outdoor overflows in the summer months. Indoor seating is already at maximum capacity. Each venue is booked for an average of 190 nights per year, leaving modest room for expansion. The popularity of indy music has led to an expanded array of talented artists and national tours with the firm expecting to increase annual bookings by 30 nights a year. At the same time private and corporate event booking are expected to increase to 15% of total revenues.

The firm’s owners have agreed to acquire an additional, smaller, venue in Colorado Springs and is eyeing opening a venue in Boulder, both popular markets with millennials (colleges, military bases, etc.). The acquisitions are expected to cost approximately 5 times EBITDA and take the remainder of 2019 to complete, but will add upwards of 70% to top line revenues over time. The firm is prepared to finance the acquisition through capital contributions from existing owners and taking on another investor.

While the firm is operating at a positive EBIT, it’s unlikely the owners are being paid a fair market value for their time and there’s no accounting for the opportunity cost of their investment capital. As indicated, the two majority equity partners own their buildings in a separate entity following a combined investment of $220,000 in 1995, shared equally, and while the rents received from DDD cover the mortgage, etc., the only return they receive from the investment is a function of its capital appreciation. The dynamics of the firm’s growth plans call for it to not only venture into new markets, but take on another equity owner, who would then also receive a salary and possible distributions from firm level profits. This, and the projected rate of growth, is something the firm and its current ownership have yet to experience.

Each year the firm’s stakeholders have estimated the value of their operation using a simple method given them by their accountant as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Annual Equity Value Estimates** | | | | | |
| **Year** | **Value** | **Year** | **Value** | **Year** | **Value** |
| 2005 | 1,150,000 | 2010 | 1,250,000 | 2015 | 1,650,000 |
| 2006 | 1,200,000 | 2011 | 1,300,000 | 2016 | 1,715,000 |
| 2007 | 800,000 | 2012 | 1,300,000 | 2017 | 1,800,000 |
| 2008 | 900,000 | 2013 | 1,450,000 | 2018 | 1,700,000 |
| 2009 | 1,100,000 | 2014 | 1,575,000 |  |  |

Opportunity Capital, a regional venture capital firm, has approached the firm with an offer to invest $2 million in equity capital in DDD Entertainment for the express purpose of financing the Colorado Springs acquisition. They’ve also offered $6.6 million to purchase DDD Holdings through $2.3 million in equity and $4.3 million debt in a relatively common real estate purchase. They are only willing to complete the transactions if the former spouse waives all possible current and future rights to DDD Holdings and agrees to receive alimony payments from her former husband rather than through DDD Entertainment. They also require the less active founder, not the CEO, begin taking a salary from DDD Entertainment more in line with her responsibilities.



1. This Valuation Case is representative of actual firms for which live valuation estimations have been performed by the author and/or Associates. The names, locations, and quantitative details have been altered to protect the subject firms’ privacy. [↑](#footnote-ref-1)
2. Developed by Richard Haskell, PhD (rhaskell@westminstercollege.edu), Gore School of Business, Westminster College, SLC, U T, (2019). [↑](#footnote-ref-2)