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Business Valuations

Are you aware of the value of your business? For a variety of reasons, you may be pondering this important question all too often, when thinking about business insurance, making new investments, changing the capital structure or even selling your business.

Knowing the value of your business will ensure that any decision you make, can be prudently considered in terms of whether you are building value and hopefully not destroying value.

Like valuing any asset, the valuation of a business is a complex process and often filled with emotion. There are many approaches to valuing a business, all of which are underpinned by financial calculations. There are fundamental financial calculations and in addition financial calculations that may consider more value contributing components than the basics like PE, DCF NPV, IRR calculations and the consideration of how future cash flows may be impacted by the factors out of control of the business. The latter constitutes the risk element of valuations. It is essential that the treatment of tax in a valuation is also factored into the financial valuation.

The underlying asset base is also an important component of a valuation, the types and classes of assets vary considerably depending on the type of business being valued. Not only are tangible assets important but also intangible assets. The accurate valuation of tangible assets is very important, and many factors need to be considered in these valuations such as the condition, age, technological appropriateness / relevance, accessibility. The valuation of tangible assets should not only be a financial assessment, but also a scientific or engineering assessment. The valuation of intangible assets is even more challenging and in certain types of businesses, but no less important, as in many cases it is these assets also enable revenues to be generated.

Other than these important components there are others such as brand, reputation / customer loyalty in the market and goodwill. These are more challenging elements of a valuation that also need to be considered. Each business is likely to have its own unique qualitative components of value that would need to be taken into consideration.
One aspect that is often overlooked is the positioning of the business. Determining the value of a business in an industry or a sector that is performing, compared to one that is not performing is vitally important, as it will impact future revenue streams. Competitors and the level of competition in the sectors which the business operates is also important, including how the business being valued is differentiated in the market. How competitive the business being valued is, is thus an important determinant of value.

Of late there are other aspects such as the extent of innovation in the business and how innovation is being leveraged in the development and delivery of products and services. How the business may be disrupting the market, is also an important factor to consider.

People aspects of a business should not either be overlooked. The strength of management and the experience in the management team should be a factor in every business valuation, as this is an important consideration in the sustainability of the business. Not only is management important, but so is how the business is organised and the extent to which the business processes operate either formally or informally.

All of the above components are therefore important consideration in determining a realistic value for a business.

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