

Valuation

The objective of a valuation process is to arrive at a fair price for buyer and seller. If you are selling your business, fixating purely on price (or valuation) is understandable. However, there are a number of moving parts to consider in a sale beyond price, including assessing the suitability of a deal:

- The value of a business is what someone else is prepared to pay for it. Finding a purchaser whose strategy aligns with yours will allow them to realise value from your firm with minimum disruption to clients and staff. This alignment is also key to realising a strong valuation.
- Valuation calculations can be based on historic or future performance. A valuation based on historic performance (of revenue, profit or some other key factor) assesses the most recent years' performance, adjusts for exceptional costs and owners' compensation, and then applies a multiple based on market experience.
- The valuation should be designed to provide a fair value for buyer and seller. As such, the parties should be focussed on enabling the most recent business performance to remain consistent (or even improve).
- A valuation based on forecasting future cashflows typically involves making assumptions of future performance to arrive at forecast free cash flow and then applying a discount factor to give a net present value for the business. This is called a Discounted Cashflow (DCF) valuation.
- It is quite common for a purchaser to undertake both historic and forecast-based valuations in order to come up with a range within which to negotiate.

Do

- Take a proactive interest in how the valuation is being constructed.
- Strive for a valuation process which is fair for buyer and seller by reducing complexity and uncertainty.
- Consider value in the context of the valuation and terms (uncertainty of future performance, handover responsibilities, exit timelines).
- Take great care over the accuracy of data provided to the purchaser.
- Determine how assets & liabilities will be treated at completion.

Don't

- Fixate on getting the biggest headline price for the firm.
- Take a casual approach to the initial offer, in the hope of re-negotiating at a later date.
- Be distracted by a high valuation multiple before contingency, as this may be significantly reduced in the future.
- Feel obliged to accept the first offer you receive.
- Neglect your business during your deal process as you may erode value and weaken your bargaining power later on.

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