



## BUSINESS VALUATION NOTES

### The “as of” date

Three critical questions to ask when undertaking a valuation engagement are:

**What?** – are we valuing? Assets, shares, or a partial interest?

**Why?** – the purpose of the valuation, which may mandate a specific standard of value

**When?** – “as of” what particular date, as value can change over time.

This latter question can be very important in property relationship disputes, particularly when one of the parties continues to run the business. The Property Relationship Act states that relationship property should be valued at the date of hearing (DOH) in the first instance, **but** gives the Court a discretion to decide that the value is to be determined at another date.

It is not uncommon for the date of separation (DOS) to be the date of valuation. In a recent engagement the business deteriorated hugely in the period between DOS and DOH, through the ill-health of the owner-operator and closed down. It does not seem fair to us that the spouse not involved in the business should suffer because of this.

As Shannon Pratt says: *“the date, or dates, on which the business is being valued is critically important because circumstances can cause values to vary materially from one date to another, and the valuation date directly influences data available for the valuation.”* Major events such as the GFC or loss of a large customer content can have a substantial effect on value.

### Difficult decisions

Some of the most challenging valuation engagements come from mid-sized businesses, say from \$10 million to \$100 million in value. 97% of NZ enterprises are defined as “small businesses” and BizStats™ often has transaction data that will provide persuasive guidance on value. It is much more difficult to find worthwhile guidelines for larger mid-market businesses.

It is generally accepted that larger companies command higher multipliers of FME (Future Maintainable Earnings) than do smaller similar businesses. But the premium is often a very subjective judgement, as is an attempt to arrive at a discount from listed public companies.

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**For clear, accurate and affordable business valuation**

**We supply independent business valuations for partnership splits, property relationship matters, business planning, expert witness, and litigation support.**

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