

BUSINESS VALUATION NOTES

10 TOP reasons for business valuations: *(from a survey of our last 100-valuations)*

- property relationship issues
- partnership splits
- buy/sell decisions
- business planning
- succession planning
- litigation support
- dispute resolution
- insurance purpose
- exit strategy
- financing

The Direct Market Data method

When valuing businesses we believe all three approaches should be considered, i.e. asset-based, earnings-based, and market based. Ideally, more than one method is appropriate and the answer can be triangulated.

Capitalised future maintainable earnings (CFME) is the most commonly used method in court cases and in practice in New Zealand. It is readily understood, and apparently, simple, only requiring an earnings figure and a capitalisation rate / multiplier to apply to the earnings. The devil is in the details, determining the proper level of sustainable earnings and calculating a capitalisation rate that will balance risk and reward.

For SME the most persuasive method is often the **Direct Market Data** method. This has been defined as *“a method of appraising closely held businesses that uses information on actual sales of other closely held businesses to estimate the value of the business being appraised”* (by Raymond Miles), or as Shannon Pratt said *“the theory of the market approach to valuation is the economic principle of substitution: One would not pay more than one would have to pay for an equally desirable alternative. Therefore, we seek valuation guidance from the price of other similar companies (or interests in companies) that have sold.”*

BizStats™ collates transaction data from actual business sales nationwide and has data on over 7,000 sales to assist accountants, valuers, and brokers in appraising businesses. It is an invaluable resource for providing comparables in many categories. Courts here and overseas are increasingly recognising the credibility of this approach.

The **market is the market** and it is dangerous to ignore reality.

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.