# Company Valuations should provide so much more…… than a simple Company value!

Company valuations are a constant topic of conversation in good economic times or bad. In the interests of shareholders, investors, management, staff, lenders, suppliers, customers and even advisors, the value of a company can play a critical role in the way you view the company or deal with it.

For shareholders or investors thinking of buying or selling shares in any business, the true market value of those shares is imperative to making a well-informed decision.

But suppose for a minute that you do get a sound and carefully considered valuation of those shares at a point in time. What use is that value really – it doesn't tell you how those values are trending, it doesn't give you an insight into what factors may add or detract from value, it doesn't give you a hint on what changes could be made inside the business to enhance value or what decisions might be made to avoid a drop in value. It doesn't give you an understanding of opportunities or threats on the horizon and it certainly doesn't help you make a well-informed decision.

BUT – how do most people talk about a company's valuation? The answer is usually those nefarious multiples! Why do we do it – really because it is easy, simple and quotable and perversely seems to convey some inside knowledge of the market! Nothing could be further from the truth! Multiples are the proverbial sledgehammer to crack a nut and while they may convey some sort of ball-park figure, that ball-park could be - at best - plus or minus 20%. While most investors would be happy to sell at 20% above the market value, we suspect there may be very few shareholders who would be keen to sell their shares at a value of minus 20% as a ball-park guess! And that is never more applicable than when company owners are selling the value of their life's work in building up the business to give them a good and well-earned retirement!

We are told that the valuation of shares in a private company is particularly difficult, as there is no ready market for those shares and we are often fed the old adage that "the shares are only worth what someone will pay for them!" At Pace Equity, we believe this is not a valid argument in today's rapidly advancing information age.

We continue to be critical of the way most valuations are carried out on private company shares in Britain and indeed in much of the rest of the western world today. Valuations can and should be much more sophisticated.

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Valuations should encompass factors such as:

- The business and management strengths and weaknesses
- Growth potential and market trends
- Position in the industry and the market
- Quality of products or services and the quality of the customer base
- Market reputation and brand recognition
- Intellectual property
- Market share or market dominance
- Financial history and potential

As well as a host of other factors appropriate to specific companies, industries or markets.

But even if these are taken into account in a valuation and a value range is achieved, we feel that a good valuation report can provide even more value to those trying to decipher the factors that add to or detract from value. It can and should do more for those commissioning and learning from the valuation.

For Sellers, a sound and meaningful valuation report should also provide guidelines on:

- Where the real value lies in this business as compared to other market players
- How the value might be improved, particularly in the short term – say the next 6 months
- What the big issues and risks are in the business that will detract from value
- What the really strong points are to build on in potential future negotiations
- How the business is differentiated from its peers or competitors
- Where financial adjustments or improvements could be made
- The sustainability and scalability factors associated with the future of the business

For Buyers, a meaningful valuation report could provide many of the same factors as above, but also:

- What key risks and issues are in the business
- What value can be added by the buyer to ensure it can reap value from the purchase
- How the business could be improved under the buyer's control
- Where financial adjustment should be made for weaknesses or vulnerabilities
- What detrimental trends (especially financial trends) should be carefully considered
- How cost savings might provide opportunities in negotiations or for future value added

Neither of the lists above is exhaustive, but are merely illustrative of what could be addressed in a comprehensive and meaningful valuation report and we hope that we have illustrated what we set out to do - Company Valuations can and should provide so much more than a simple Company value! We also hope that this brief article will give all readers a useful guide as to how to specify your next company valuation, whether you are buying or selling.

**Pace Equity Has been in business since 1989 and is one of the UK's longest standing and most authoratitive M&A Boutiques. We offer a full M&A advisory service specialising in mid-market private companies and have extensive expertise in valuing private companies. For more information, please contact Joelpenrose@paceequity.com or call our offices in assured confidence on 01491 577889.**

**For further information on Pace Equity, please visit www.paceequity.com**

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