OnlineBIZvaluations
We value your business!

MOST COMMON VALUATION QUESTIONS AND ANSWERS

Q1. WHY ARE BUSINESS VALUATIONS SO IMPORTANT?

A Business Valuation tells you:

1. **If you are in the right Business**
   Why be in Business if you are not growing value?

2. In terms of the New Companies Act – every Company/Close Corporation must meet the **Solvency and Liquidity Test**. This means a Valuation is needed

3. It guides one on the strategic decision **to Buy or Sell a Business**

4. Acts as the **Business Performance Scorecard**

5. Financial Statements looks backward (historical performance), whereas Valuations looks forward to **future performance**

6. A Valuation is needed for **Tax Planning purposes**, in relation to both Capital Gains Tax (CGT) and Estate Duty exposure

Q2. WHERE DOES ONE START IN DOING A BUSINESS VALUATION?

1. Understand and research the **Business model**
   - Is it income generating?

2. Does it have a **Value Platform** E.g. – Tangible and intangible productive assets

3. Is it **Asset-based** or **People-based**

Q3. WHAT ARE THE FUNDAMENTALS OF A BUSINESS VALUATION?

1. It is a **Going Concern**? Assets > Liabilities
   Has the Asset Base got capacity to handle future growth

2. **Quality of the Assets**

3. **Quality of Earnings**
   - Is it profitable

4. **Quality of Cash Flow**
   - Is it generating positive cash flow from operations

5. Is the **Revenue/Earnings** stream **sustainable** into the future

6. What are the **Value Drivers**?

7. What is the **Risk Profile**? Is Return > Risk

Q4. WHAT ARE THE FACTORS THAT DRIVE VALUE?

- Quality Profits : Margin…..margin…..margin
- Quality Cash Flow : Positive cash flow from Operations
- Quality Products and Services : e.g. niche products and services
- Quality Customer Base : growing customer base
- Quality Suppliers : supply chain
- Quality Organisation : management and employees

Q5. WHAT ARE THE BIGGEST CHALLENGES IN DOING A BUSINESS VALUATION?

- Whether forecast earnings and cash flows realistic and achievable

- Determination and calculation of the right discount rate / cost of capital (or internal rate of return)

- Sourcing and obtaining accurate historical information

- Obtain and do the necessary research on the Business model and industry/sector

- Getting evidence to support the forecasts
- Selecting the right valuation method

Q6. HOW DOES ONE DECIDE ON THE RIGHT VALUATION METHOD TO USE?

3 Questions to ask :

1. Is it income generating?
2. Are earnings / cash flow fluctuating or growing constantly?
3. Are earnings / cash flow for a fixed period or an indefinite period/in perpetuity?

Use the OnlineBizValuations Valuation Method Decision Matrix (under internal Resources for logged in users)

Q7. HOW ARE PRIVATE COMPANIES VALUED COMPARED TO LISTED COMPANIES?

- Both require a **fundamental valuation methodology**
- It is important to recognise the difference between **market value and market price**
- The **Share Price of listed Company** is market price reflecting a **Price:Earnings** multiple which changes periodically based on reported results and forecast results and information on the listed Company

Q8. WHAT ARE THE COMMON MISTAKES MADE IN VALUEING A BUSINESS?

- Unrealistic forecasts (e.g. Long-term Growth Rate of Company)
- Not doing a due diligence on the Business model
- Incorrect cost of equity calculation
- Using the wrong Valuation Method

Q9. WHAT ARE THE TOOLS AND TECHNIQUES THAT CAN BE USED?

1. Due Diligence Audit
2. Financial Statement Analysis
3. Company Specific Risk Analysis
4. Interviewing Management
5. Supporting Evidential Documentation

Q10. IS THERE ANY SOFTWARE THAT WILL ENSURE AN ACCURATE, REALISTIC AND OBJECTIVE BUSINESS VALUATION THAT I CAN USE?

YES! WWW.ONLINEBIZVALUATIONS.COM

An Online web-based Valuation Tool that produces an accurate, reliable and objective Enterprise and Equity Valuation Report for your business or your client's business

Q11. WHEN AND WHERE IS THE NEXT BUSINESS VALUATIONS TRAINING MASTERCLASS?

SEE "**TRAINING**" PAGE ON THE WEBSITE: www.onlinebizvaluations.com