

10 Insights on Business Valuation

A joint market study by the Institute of Valuers and Appraisers, Singapore (IVAS) and Ernst & Young Solutions LLP.

#1 Financial reporting is the key purpose for carrying out valuation
Valuation for financial reporting is required and carried out across the corporate sector regardless of the revenue size. Business Valuation professionals with less than 4 years experience are frequently involved in valuation for financial reporting purposes and were involved in more than 12 financial reporting valuations per year. The other purposes are for transactions, followed by tax related purposes, and litigations/dispute resolutions.
#2 Equity valuation is most common
Among the 8 common classes* of valuation identified, valuation for equity is more frequent with 78% of Business Valuation professionals performing > 1 equity valuation per year. This includes valuation for securities, mergers, and acquisitions, disposals and compliance to stock exchange requirements. <i>*Business enterprise value, equity value, biological assets, intangible assets, plant & equipment, real estate, financial assets, and financial liabilities</i>
#3 Valuation of intangible assets, biological assets and financial instruments are most challenging
The nature of these asset classes and the complexity of the mathematical models required for their valuation could have contributed to the difficulty in the valuation process. 79% of Business Valuation professionals have not encountered valuation for biological assets. On the other hand, only 2% and 3% of Business Valuations professionals had difficulty in valuing real estate and plant equipment respectively.
#4 Crosschecking is important
It is a good practice to adopt at least 2 approaches when carrying out valuations, of which 1 will be the primary approach and the other will be used as a crosscheck. 100% of securities analysts and 90% of valuation specialists often adopted income and market approaches in their valuation work, whereas Business Valuation professionals from corporates tend to adopt 1 valuation approach and may not perform crosscheck via another approach.
#5 Confidence in the quality of third valuation is low
Despite 88% of Business Valuation professionals relying on third valuation results during the course of their work, only 42% of Business Valuations professionals are confident about the quality of work produced by the third party.
#6 Quality and independence are the top selection criteria
Quality, independence and reputation are identified as the top 3 criteria when selecting Business Valuation professionals to perform valuation work. The other criteria include credentials, qualifications and fees charged. Global Network is ranked the least important factor.
#7 Structured training programmes are necessary
92% of Business Valuation professionals who identified quality as a key selection criterion agreed on the need for a formal and structured training programme to enhance practice standards.
#8 Professional qualification is also needed

84% of Business Valuation professionals who identified independence as a key selection criterion agreed on the need for a specific code of conduct, standards and ethics for the Business Valuation professionals.

#9 Valuation plays an increasingly important role in businesses and financial activities

78% of Business Valuation professionals felt that there is an increase in the importance of valuation for businesses and financial activities in the last few years and 85% of Business Valuation professionals anticipated a further increase in importance of valuation in the near future.

#10 M&A and financial reporting are the future key drivers

Mergers, acquisitions and disposals, financial reporting, and investment analysis for share investment analysis for share investments have been identified as top 3 areas in which the role of valuation will increase over the next few years. In addition, a potential growth area can come from compliance to stock exchange requirements.