

3 Things You Need To Know About Business Valuation

What is Business Valuation?

Business Valuation refers to the process of determining the value of a business, its ownership interest or a particular asset or liability of the business; and is an important aspect of investor and corporate activities in the financial markets.

Understanding this value is critical in any effort to make better informed, strategic business decisions. Such an exercise will help to identify and understand the value drivers influencing the business success so that the necessary action can be taken to maximise the value of the business.

Who Does Business Valuation?

Business Valuers	They work in valuation teams of Accounting Entities as well as in boutique valuation firms. They conduct Business Valuation for third parties' use for activities such as M&A, purchase price allocation, goodwill impairment testing, etc.
Accountants	Accountants perform the role of financial reporting to board, management, regulators and investors. As part of their role, they carry out activities such as purchase price allocation and goodwill impairment testing.
Corporate & Investment Bankers	Corporate & Investment Bankers assess companies for transaction purposes. They need to value the assets and liabilities of these companies so as to ascertain the suitable amount of financing to be provided.
External Auditors	External Auditors audit the financial information of companies for financial reporting purposes. They need to ascertain the valuations of the assets and liabilities of the companies they are auditing so that a true and fair picture can be presented to the public in light of the implementation of fair value measurement.
Fund Managers & Investment Analysts	Fund Managers & Investment Analysts assess companies for transaction purposes. They assess the performance of companies against the larger economic environment, which will impact investment decisions.
Legal Professionals	Legal Professionals include lawyers as well as the judiciary who rely on Business Valuers as expert witnesses in commercial and civil disputes involving valuation as well as providing assessments of damages.
Regulators	Regulators strive to promote a trusted regulatory environment for investor and corporate activities. This includes promotion of high standards of ethics and professionalism in the practice of Business Valuation to build public confidence.
Board members	Board members discharge their fiduciary duty to shareholders by presenting an accurate picture of the value of the company's assets and liabilities.

Where is Business Valuation Applied?

Financial Reporting	<p>Includes activities such as purchase price allocation, goodwill impairment testing, portfolio valuations, etc. In scenarios where the company acquires another company, a valuation would need to be carried out to determine the price paid for each asset and liability in the business.</p> <p>The acquiring company would then need to value the goodwill of the business and write off any value that has been lost after the acquisition. In fund management companies, portfolio valuations are carried out for the purpose of investor reporting, financial reporting, and audits as well as regulatory requirements.</p>
Transactions	<p>Includes activities such as exit planning, mergers and acquisitions (M&A), financing etc. In scenarios where the company is seeking an Initial Public Offering, a valuation be carried out so that investors can make an informed decision regarding whether or not to subscribe to its IPO.</p> <p>In scenarios where the company is seeking to acquire another company, the potential buyer will carry out a valuation to ensure the price he is paying is fair. In scenarios where the company requires financing, valuation of the company's assets will need to be carried out before the financing can be provided.</p>
Litigation & Arbitration	<p>Includes activities such as shareholder disputes, bankruptcies, damages assessments, purchase of majority or minority shares, etc. In scenarios where there are disputes amongst shareholders, valuations need to be carried out to assess how much is due to each shareholder after the dissolution of the company.</p> <p>Similarly, when a company files for bankruptcy, a valuation of its assets and liabilities needs to be carried out for the purpose of resolution with debtors and shareholders. In scenarios where a judgement has been obtained, valuation principles are often applied to assess the damages to be awarded.</p>

This article is brought to you by the Institute of Valuers and Appraisers, Singapore (IVAS).