BUSINESS VALUATION CHECKLIST

INFORMATION REQUIREMENTS

Yes or No?	Information Items	Method of Collection

	Financial Information
	• Last 3 - 4 years financial statements from accountant
	  ○ Profit & Loss Statement
	  ○ Balance Sheet Statement
	• Year to date management reports (accounting software)
	• Budget for business or financial projections (if exist)
	• ATO commitments and agreements (plus current ATO balance).
	• Assets details (if not itemised in Balance Sheet)
	• Details of liabilities (if not itemised in Balance Sheet)
	• Depreciation schedule (if not detailed in financial statements)
		Supplied by owner / accountant

	Business Information • Description of business sales, operations and management. • Employee agreements and arrangements • Organisational chart (if relevant) • Payroll details if not detailed on financial statements • Details of any customer contracts or agreements • Details of any supplier contracts or agreements • Breakdown of customers by market segment • Top 10 or Top 20 customers by % sales • Accounts receivable (aged) • Accounts payable (aged) • Extent of systems and procedures in business • Details of intellectual property • Shareholder or unitholder meeting minutes (if relevant)	**Collated / requested during discovery interview**
	Legal Documentation • Legal structure of business and documented roles of all owners • Shareholder or Unitholder agreements (if exist) • Lease and franchise agreements (where relevant)	**Supplied by owner / accountant**

- Depending on the nature of the business and circumstances, some information may not be available and/or needed. Your business valuer will indicate which information may not be required.

FREQUENTLY ASKED QUESTIONS

Does a business valuation include the value of the assets?

- Most business valuations are done on the basis of representing enterprise value (the working assets of the business) or equity value (the value of the entity).
- Enterprise value includes all tangible and intangible assets (excluding cash and bank balances) necessary to operate the business. It includes goodwill, intellectual property and physical assets, but does not include any surplus assets (such as investments or assets not required to operate the business). The assets are adjusted for most current liabilities associated with the operations of the business but not long term commercial liabilities.
- Equity value is enterprise value less net debt (Long term debt less cash) and represents the value of the entity that owns the business.

What Does the ATO & ASIC Need To Know?

The ATO will require valuations where:

- A transaction has occurred.
- Where an asset is to be reported and the market value of the asset is not clear.

The implications of the transaction are associated with what is considered income associated with a capital gain or whether the sale proceeds is in excess of market value and hence influences the income of the relevant owners of the business.

This often happens when restructuring a business from partnership or trust structure to a company structure, or when a business has been sold.

There are other circumstances where a transaction has occurred and the ATO requires market value to be reported.

One-Off Adjustments or AddBacks

A valuation looks at the ongoing cash flow of a business:

- Independent of the source of finance (debt, equity or some mix of both).
- Typically from before tax earnings (although some DCF methods will consider after tax cash flows).
- Adjusted for one-off and non-operational costs.

Valuers are looking for the cash flow associated with the business, and seek to "smooth out" or normalise cash flows that are affected by "lumpy events" (such as redundancy payments or purchase of new software) that might otherwise cause EBITDA to be artificially low or high.

In order to normalise EBITDA results we will make adjustments that:

- Exclude non-operational revenue.
- Non-operational costs.

We do not consider revenue or income from:

- Interest earned on bank accounts (non-operational).
- Profits from sale of assets.
- Profits or losses from foreign exchange transactions.
- One off grants or government assistance.
- Rent paid from lease of property to assets that do not relate to ongoing nature of the business.

The types of non-operational costs include:

- Personal use of assets such as motor vehicles and mobile phones.
- Personal travel costs paid for by the business.
- Accounting costs for managing personal affairs.
- Payment of expenses not otherwise considered part of the ongoing affairs of the business.

Typical one-off costs may include:

- A particular marketing campaign done as a one-off in the event of new product or sevice release or in entering a new market. In this case either the cost can be added back, or smoothed out over the next 2-3 years.
- Purchase of software (typically as a one off item).
- Legal and/or accounting costs associated with restructuring the business or defending any legal action.
- Costs of relocating or expanding the business.
- Redundancy costs or one-off medical expenses.

In some cases a year's trading results may be excluded from the valuation as there were particular events that resulted in a poor performance that can be shown to be a one-off. Examples may include recovery and clean up costs from a 100 year flood, fire damage to a warehouse or a particular failure of equipment that can be shown unlikely to occur again in the future.

A valuers' challenge is to make reasonable adjustments that are based on or can be supported by evidence. In this sense the adjustments will reflect the ongoing performance of the business and hence the outcome will give a measure of market value.

Non-Arms Length Transactions

Non-arms length transactions occur frequently in small business and typically involve some arrangements that are specific between shareholders, directors and management. Examples include:

- No formal payment of directors fees.
- Special arrangements for payment of loans, vehicles or computer equipment in lieu of wage or salary.
- Loans to and from directors.

A market valuation will seek to "normalise" to an arms-length commercial basis, and hence these transactions should be documented and the valuation should include an adjustment for these transactions.

What Qualifications Should The Business Valuer Hold?

- There is no regulatory body or formal training for business valuers in Australia.
- Both CPA and CA hold specialisation training courses for business valuation, however these courses are not mandated by any association or regulatory body.
- In ASIC matters, the business valuer must have valuation experience within the industry that the business belongs.
- As a minimum the business valuer should be able to demonstrate:
  - Financial and business training which may include accounting, corporate finance and business management.
  - Understanding and compliance of APES 225 (Standard applied to Valuation Services as nominated by Accounting Professional and Ethics Standards Board)
  - Relevant court standards for Expert Witness reports
  - Five years' experience in conducting formal business valuations for court purposes.
  - Primary principles of formal business valuation as outlined in APES 225 and IVSC Guidelines (International Valuations Standards Council).
  - Differences between enterprise value and equity value.
  - Requirements for multiple methods of business valuation.
  - Access to market transactions and other information to support any business valuation.
- It is critical that the business valuer can not only demonstrate experience and competence, but also independence. For this reason is it is important to not just engage your accountant or lawyer but a person who can investigate and opine on key valuation concepts and principles and how they dispassionately apply to your circumstances.

How Do I Know The Business Valuer Has Taken Everything Into Account?

- All business valuers should provide a documented process that will be undertaken and it should include an opportunity for each party to present information about the business. We will often undertake discovery interviews for each party to ensure everyone has the opportunity to present their understanding of the business and its performance.
- Where a party has not been involved in the operations of the business we offer an opportunity to discuss the draft valuation and to make any comments or adjustments as required before a final report is issued.
- All business valuations should be made on the basis of agreed information that presents a reasonable statement of the business and its performance.

ABOUT US

At Exit Value Advisers we believe the concept of value is at the heart of all successful businesses and should be considered in any business decision.

Our focus is to illuminate the value decisions that privately held business owners make through in-depth business valuations and innovative exit strategies.

We use detailed valuation research and the latest transaction trends to facilitate strategic exits by business owners at an attractive premium price.

Our detailed analysis and research on the value of a business is used to inform and guide business owners when:

- Buying or selling a business.
- Growing a business through organic improvement.
- Making capital investment decisions.
- Developing and implementing succession plans.
- Finding the best exit strategy for owners.
- Negotiating the exit of an owner.
- Defending or resolving a commercial dispute.
- Restructuring for tax purposes.

Our approach to quality is based on two principles:

- Extensive and illuminating evidence-based analysis that explores the roles of the business model, the business and economic environment, systems and processes and people in generating financial results.
- Using systems and processes to cross check our results against the evidence.

Our values are based around the key principles fundamental to those at Exit Value Advisers:

- Understanding the "why" of business outcomes.
- Educating people on the connection between business value and strategy.
- Research on the latest trends and theory and how this can be applied to business.
- Quality outcomes for the client and our associates.
- Embellishing fun into our serious passion.

OUR CEO

Mike Williams B App Sc, MBA

Mike is a small business valuation expert with ten years' experience in valuing privately held businesses and more than 15 years management consulting experience.

He is CEO of Exit Value Advisers Pty Ltd, Founding Principal of Maxell Consulting and a past and present director of a diverse range of small businesses. He has the knowledge, skills and experience to help any business owner when it comes to valuation, business growth, exit strategies and succession plans.

He has valued hundreds of businesses in almost every industry, for a variety of reasons including supporting selling, buying or merging businesses, tax restructuring, commercial disputes, family law matters, seeking investment and making management decisions.

His background has given him a diversity that can be applied to almost any business. He has formal training in science, mathematics, computing and business, more than 10 years management experience in the manufacturing and process industries, and more than 15 years consulting experience.

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