

"A business is worth what someone will pay for it... The market is the market."



Capitalisation Rate

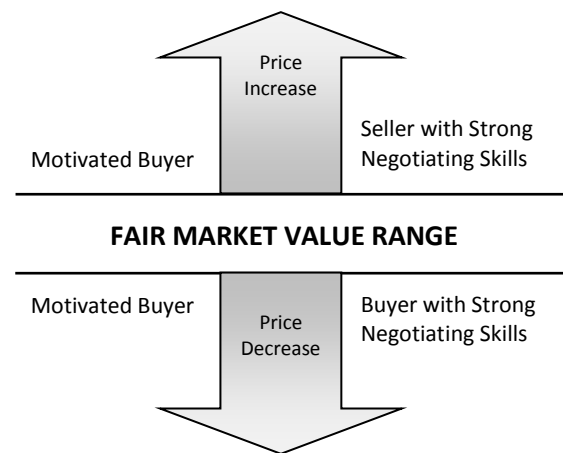
- This will usually be established by using a “built-up method from a base risk-free rate and adding increments for equity risk and specific company risk.
- Factors which may impact the Specific Company Risk Premium include:
 - Availability of finance
 - Breadth of products and services
 - Business size
 - Competitive environment
 - Condition of plant and facilities
 - Customer spread
 - Financial history and profitability
 - Future
 - Location
 - Management requirements and quality
 - Market share
 - Marketing capacity
 - Organisation structure
 - Prospects
 - Reliance on key personnel
 - Security of tenure
 - Staff stability and availability
 - Supplier relationships
 - Time in business, and so on

Direct Market Data

- This method obtains guidance on business value from data on actual sales of similar businesses and develops price/earnings and price/revenue ratios.
- All comparable data should be considered.
- Adjustments must be made for the unique features of the subject business.
- It may be the only method that reflects the reality of the market but other methods should be attempted.
- Transaction data can be obtained from www.bizstats.co.nz.

Price vs. Value

- Price is what is actually paid for a business. Valuation is an option.
- Price may be affected by the motivation and negotiating skills of the parties.
- The terms of the sale can have a major impact on the price... as can supply and demand and promotion



Intangibles

- On average over 70% of the sale price of SME is for intangibles.
- These are “non-physical factors that contribute to or are used in producing goods or providing services or that are expected to generate future productive benefits for the individuals or firms that could make use of these factors.”
- Most do not appear on the Statement of Financial Position of the business.
- They range from trademarks, patents, domain names, franchise agreements, contracts, leases, databases, relationships, to general goodwill.
- To have value they must be identifiable and transferable.
- In many SME there will be personal goodwill pertaining to the owner and not transferable.