



10 THINGS TO KNOW ABOUT BUSINESS VALUATION
WHITEPAPER BY MAX WENSEL

PACIFIC M&A AND BUSINESS BROKERS LTD.

THE LINK TO SELLING YOUR BUSINESS | LOCAL KNOWLEDGE WITH A GLOBAL REACH

Unauthorized duplication or distribution is forbidden



1. Why do I need a business valuation?

There are many reasons to have a valuation of your business performed including tax purposes, dispute resolution, dissolution of partnerships, and prior to going to market among many more. Valuations for any purpose should be performed under the Uniform Standards of Professional Appraisal Practice.

In this whitepaper, we will focus on the *“Going to Market”* purpose.

The best assessment of value for this purpose is one that considers not just the numbers reflected in a company’s financial statements, but that also includes multiple factors such as growth potential, historical and future performances, risk, capital intensity, buyer pool, and market and industry economics.

2. How is the Most Probable Selling Price determined?

Most valuations of almost everything are based on one, or multiple approaches where under each approach, there are multiple methods used:

- **Income Approach:**

The income approach relates the value of an asset to its future earning potential – think of rent for an apartment or commercial property, or the interest paid on a GIC. In the income approach, a greater level of earnings will increase asset value and a higher level of risk will decrease asset value. Commonly used terms that relate to the income approach include *“cap rates”* and *“required rate of return”*.

- **Market Approach:**

The market approach relates to the value of an asset to similar assets that have sold recently. The asset is then adjusted for any difference in characteristics that set it apart from its comparables, and an estimate of value is made. This approach is best used when there is a highly liquid market and the assets being compared are relatively homogenous.

- **Asset Approach:**

The asset approach relates the value of an asset to the cost incurred to create that asset. The simple premise behind this approach is that a rational buyer will not pay more for an asset than it would cost to create that asset. This approach is best used when costs are easily identified and the intangible value of the asset, or goodwill, is low in relation to tangible asset backing.



3. Can a business have more than one value?

Business value can be defined in many ways, some of which are book value, liquidation value, intrinsic value, and market value. Even within these categories, some separation exists: in a given market, buyers have different characteristics and some may be more compelled than others to purchase a given asset, if synergies exist for example. At Pacific M&A and Business Brokers we use market value, as defined by the Most Probable Selling Price, as our primary definition of value.

This is defined as *“the price for the assets or shares intended for sale which represents the total consideration most likely to be established between a buyer and a seller considering compulsion on the part of either the buyer or the seller, and potential financial, strategic, or non-financial benefits to seller and probable buyer”*.

4. How do I select the best company or person to perform my valuation?

A good valuation should be grounded in reason and evidence, and performed by a practitioner with education and experience. It should incorporate market information as well as industry data and look at business value from more than one perspective. In addition, whichever company you choose should be able to provide data on how their valuations hold up in practice. Our valuation practitioners at Pacific are highly regarded throughout the industry, and in aggregate, our valuations have been within 5% of the final selling price. All of Pacific’s valuation practitioners have been completed or are enrolled in the CFA program, and we have advised on valuation best practices throughout North and South America. A company that offers to perform your valuation for free or on the condition of you signing a brokerage agreement is not acting with your best interests in mind.

5. What information do I have to provide to get a Business Valuation?

In order to complete your valuation, you will have to provide your company’s most recent five years of financial statements, as well as interim statements, and a questionnaire profiling your business that will be provided by your advisor. After preliminary work is completed, you will be asked to complete a second questionnaire developed by our valuation team that will take a deeper dive into your company’s financials.

6. How do I get assurance that the information I provide to the appraising company will be maintained as confidential and not disclosed?

Pacific maintains client confidentiality with the utmost care and has a standardized non-disclosure form that will be shared with you.



7. How much does a valuation cost?

At Pacific M&A and Business Brokers, our valuation fees start at \$4,000 and will increase depending on the size of the business and the complexity of the valuation that we have been engaged to perform. Some commonly encountered situations that will raise valuation fees include the presence of multiple legal entities, complex share structures, and the presence of non-operating assets.

8. How long does it take to get a valuation done?

As long as you provide Pacific with documentation in a timely manner, you can typically expect to have a valuation completed in approximately four weeks. This timeline may be extended if the valuation is unusually complex or more questions than typical arise during the valuation process.

9. Do I have to go to market with Pacific once I sign up for a valuation?

No, though our valuations are with the specific purpose of going to market in mind, they are not tied to listing your business for sale with us and are performed totally independent of such expectations.

Once the valuation is complete, the report provided to you, and meets your expectations, you may then elect to go to market with us but are not obligated to.

Our goal is to provide you with the information you need to make informed decisions about your business value, and related value drivers.

10. What if I don't like the result of the valuation?

Our role is to interpret the data and characteristics of the business that we are provided with, not to give a valuation tailored to your expectations. In this manner, you get a realistic interpretation of your business value that helps you with your exit plan – after all, this may be the largest transaction in your life.

That being said, after we have presented our opinion of the Most Probable Selling Price, we are more than happy to discuss all aspects of the valuation with you, and can explain and revisit any of the assumptions that we have made. If your goal is to get a specific number in mind, we are happy to work with you to develop your understanding of what would be required to reach that number, and perform an update when these improvements are made. We often recommend that our clients make certain improvements to their business prior to going to market to maximize their value rather than listing immediately and leaving money on the table.

PACIFIC M&A AND BUSINESS BROKERS LTD.

625 Howe Street, Suite 215
Vancouver, BC | Canada V6C 2T6

3295 Lakeshore Road, Suite 201
Kelowna, BC | Canada V1W 3S9

Phone: 604-696-6111
Fax: 604-696-6119
Email: info@pmabb.com