

A valuation is an opinion of value, based on the information available to the valuer. The validity and usefulness of that valuation can depend on the quality of the information gathered; and that information is not limited to a set of financial accounts.

Many experienced valuers use a check list of the information when preparing to assess the value of a business. Such a list can speed up the data gathering process and can ensure that key information is not overlooked. While the data needed may differ on a case by case basis, a check list provides a discipline and a valuable starting point for any assessment of a businesses value. The gathering of information is often called “Due Diligence”.

There is no standard checklist for the information that should be collected, but a little thought will quickly suggest a number of items that could be in that list. The level of in-depth detail may depend on the nature of the business being valued and the purpose for which the valuation is being prepared.

Here are our suggestions for some items that could be on your information gathering check-list. It is not **THE** definitive list – just some suggestions to help you compile your own. Some of the following items may be too detailed for some small businesses – for other businesses you may want to extend the list:

1. Business background:

- The history and nature of the business (Sole trader / Partnership / Company)
- The legal title, Company registration, date of registration, Officers of the company
- Shareholders and their holdings
- Trading name(s)

2. Nature of the Business Operations

- General Description of activities
- Locations of premises, previous locations.
- Hours of business operation
- Hours of owner’s input
- Organisational structure, key personnel, number of employees.
- Industrial relationship history (strikes/lock outs etc)
- Key suppliers, terms of trade

3. Sales & Markets

- Catalogues, price lists
- Sales analysis (what are the major products/services – which are fastest growing)
- How seasonal are sales?
- Distribution system
- Key customers, terms of trade
- Competitors, market share

4. State of Plant, Equipment & Materials

- State of plant equipment & vehicles – need for replacement / the likelihood of major repairs / upgrade / refit
- Is there a maintenance programme? Is it up t date?
- Materials: storage requirements, dangerous goods, reliability of supply
- Discharge permits
- Environmental restrictions

5. Legal

- Lease – date of expiry, rights of renewal, dates of rent reviews, demolition clauses, special terms.
- Agency agreements / Restraints of trade
- Contracts: staff employment contracts, bonus agreements, sales representatives agreements, special commissions
- Supplier or customer contracts
- Trade mark registrations, domain names, patents (& expiry dates)
- Special software licenses or software copywrite
- Special certifications: ISO 9000, organic food production, etc
- Lease or finance agreements for plant & equipment
- Banking covenants, agreements
- How comprehensive is insurance? key person insurance?

6. Financial Statements:

- Financial accounts for the past 3 – 5 years
- GST returns to support accounts.
- IRD returns and assessments
- Latest Depreciation schedule
- Plant & Machinery list and valuation (is it at book value or has it been independently re-valued.)
- What assets/expenses are not business related (boats, family cars, travel)
- Budgets and forecasts
- Creditor lists, have accounts been paid on time?
- How current are debtors? - potential bad debts.

7. Strength & Weaknesses:

- How easy is it to enter the industry
- What are the specific strengths and weaknesses of this business
- What opportunities do they have
- What threats do they face
- Is there any pending Government legislation or social pressure that could affect this business.

My guess is that many of the above items may have no relevance to many small businesses that you are asked to value. However note that of the above seven subheadings, only one is concerned with the financial statements. Much important and relevant information is to be found **outside** the financial accounts.

Julian Roche in his excellent book “The Value of Nothing” cautions:

“Intellectual curiosity is the one requirement to be sought above all in prospective valuers.

I would add next, skill in acquiring information at negligible cost.

Rigidity of thought and addiction to spreadsheets, combined with a trusting nature are two vices to be avoided.”

By compiling your own list of essential information for valuations you will have a structure that will assist you to gather information in a comprehensive and economic manner.

Bibliography:
Julian Roche

The Value of Nothing
The Small Business Valuation Book

Les5ons Publishing 2005

Shannon Pratt