Practical aspects of SME valuation
7 basic principles

SME dance to a different drum when it comes to business valuation, compared to larger enterprises. Value is more affected by social and psychological factors and by the non-financial benefits provided by ownership of the business, e.g. independence, challenge, employment, lifestyle.

1. **Valuation should be forward-looking.** The value is the net present value of the future cashflows likely to be derived from ownership of the asset.

2. **Value will change with time and place.** The "as of" date can be critical, particularly in recent times when many SME are experiencing wild fluctuations in sales and profits – and no one can confidently predict the end of this downturn.

3. **Business valuation is an art, not a science.** All valuations are opinions, and all will involve a number of subjective judgements and assumptions.

4. **Valuation should be independent, objective and unbiased.** It is not an advocacy function. Whoever is paying you should not influence your answer.

5. **The market is the market.** The only true test of value is a sale on the open market. **BizStats** transaction data can provide you sound guidance as to how the market is likely to act.

6. **Curiosity is more important than calculating ability.** A professional valuer will ask lots of questions on the operational details, background history, and the intangible assets of the company – and not just focus on the financial details.

7. **To produce credible and defensible valuations a process should be followed.** All steps in the process should be followed and the appraiser must ask three fundamental questions before proceeding.

   - **what is being valued? –** assets, shares, partial interest?
   - **the "as of" date?** – and there may be more than one.
   - **the purpose of the valuation?** – as this may mandate a certain standard or a specific methodology.

Kia ora…