SECA

Swiss Private Equity & Corporate Finance Association
Schweizerische Vereinigung für Unternehmensfinanzierung
Association Suisse des Investisseurs en Capital et de Financement

Valuation of Private Companies and Assets

Training program

Date

March 9, 2023
09:00-13:00

Location

Online

Speaker

Yanik Costa, Capitalmind AG

Audience

Professionals active in areas that require the valuation of unlisted companies and assets: M&A departments of (large) companies, private equity firms, M&A advisors, family offices, bankers and others.

This course offers an introduction to, and the evaluation of, various valuation methods and provides practical examples.

Pre-requisite knowledge

The audience is expected to be proficient in finance and to have an understanding of financial statements, as well as business fundamentals.

Akkreditiertes cicero Bildungsangebot

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Content
Valuation of Private Companies and Assets

Description

As opposed to publicly traded companies with transparent and continuously updated price signals, the valuation of privately held assets and companies is far more complex and less objective. It is the task of professionals in the field of corporate finance and private equity to navigate this balancing act of art and science as objectively as possible. Additionally, the valuation expert needs to be aware of, and be able to, avoid obvious and hidden biases and fundamentals affecting the valuation.

Goals

Each expert has to distinguish between a somewhat objective valuation and a subjective agreement on the price paid between parties. To support this endeavor, this course aims to provide the tools to perform a solid and reliable valuation and help the audience:

- Understand which criteria and tools should be used in the context of private companies and assets
- Understand how the Profit and Loss, Balance Sheet and Cash Flow statements should be considered
- Explore retrospective and prospective approaches to valuation
- Learn about qualitative measurements such as the recurrence of revenues, diversification, changes in fundamentals following a transaction, field of business/industry, etc.

Description

Introduction to valuation and overview of methods

A wide range of valuation methods will be presented. We will explore when and how to use them, as well as who is using them for what reason. Special cases such as valuations of intangibles and young companies (start-ups) or old companies (finite life) will be briefly covered.

Each method will be accompanied by an example and/or exercise to help each participant understand the workings of the method as well as its limitation.

“Classical Methods” and history of valuation

Classical methods such as Net Asset Value (NAV), Capitalized Earnings or the averages thereof (such as the Swiss “Praktikermethode”) are considered outdated by experts in the field of valuation, but still widely used by taxed authorities or smaller fiduciaries (“Treuhänder”).

It is therefore important to know these methods and why they should (not) be used.

DCF method

The discounted cash flow model (DCF) is a commonly used method for both listed and unlisted companies as well as individual assets. The DCF method postulates that the value of an asset is equal to the sum of all future cash flows (into perpetuity) discounted with a risk-appropriate rate. To derive the appropriate discount rate, the DCF method relies on the concept of weighted average cost of capital (WACC).

The DCF method is mostly used as a secondary confirmatory method in a transactional context but is very helpful to test/confirm the value of existing assets or certain future cash flows. In the context of speculative cash flows (e.g. start-ups, drugs/biotech or other binary assets) this method reaches its limit.

Benchmarking

The Benchmarking method determines the value of a company or some of its assets by comparison either to comparable companies, in similar sectors, or by comparison to past transactions that are similar or sufficiently similar to be comparable. These methods include performance comparators (earnings or turnover growth) or index comparators (sectoral or circumstantial).

The limitation of this method is mainly the difficulty of finding sufficiently similar companies or assets as well as the difficulty to determine if two assets are really as similar as they seem.

Multiples method

Most commonly used and widely accepted method for transactions, and accepted by professional buyers and sellers (mostly private equity) and advisors. The value of an asset or company is determined via the multiplication of an easily observable benchmark such as revenues, EBITDA or EBIT with a multiplication factor. The multiplication factor can be based on three complementing sources: observable multiples of public companies, historical transaction multiples (public) and insights of the buyers and advisors (i.e. private historical multiples or arbitrage opportunities). Multiples can vary widely based on the industry and stage of development of a company or even buyer strategy.

In addition to the multiplication of financials (as mentioned above), it is also possible to multiply non-financial benchmarks with a monetary value; this works both in the old economy (e.g. # of residents in a retirement home) or new economy (e.g. # of monthly active users of a smartphone application).

As with benchmarking, the main limitation is finding the right comparables and multiples.

Intrinsic value, less common/exotic methods

Sometimes a company only holds one asset, or an individual asset of a company needs to be sold. These can be tangible assets such as real estate, (doubtful) receivables or even classic cars and intangible assets such as patents, options, licenses or other rights. In such a case, the value of the company is equal to the value of the asset(s) held.

Various methods to value such assets will be introduced and explained briefly.

Conclusion and comparison

Be able to understand the advantages and drawbacks of each presented method and understand where they can be applied. Use the appropriate method to derive a solid theoretical value of the analyzed asset/company but be aware that the real (or realized) value is equal to the price that a buyer and seller agree on and execute.

Participants should leave with a set of methods to approach valuation tasks, but should remember that practice and a feeling for market sentiments will make them more effective.