Business Valuations for Restructures

Disclaimer

This presentation is general and should not be relied upon for commercial decisions. No liability will be accepted by Groves & Partners for any reliance on the information contained herein. You should consult a properly qualified and experienced advisor to seek guidance on all transaction and valuation matters.

What do we mean by restructures?

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A restructure is often taken to mean the re-organisation of a corporate or business structure.

- This may mean that the legal ownership of a business or company may be changed.
- It can also entail the establishment of new entities in order to re-organise how assets are held.
- Restructures are often done for:
  - Asset protection reasons;
  - To assist with succession planning, and;
  - For tax minimisation.

What do we mean by restructures?

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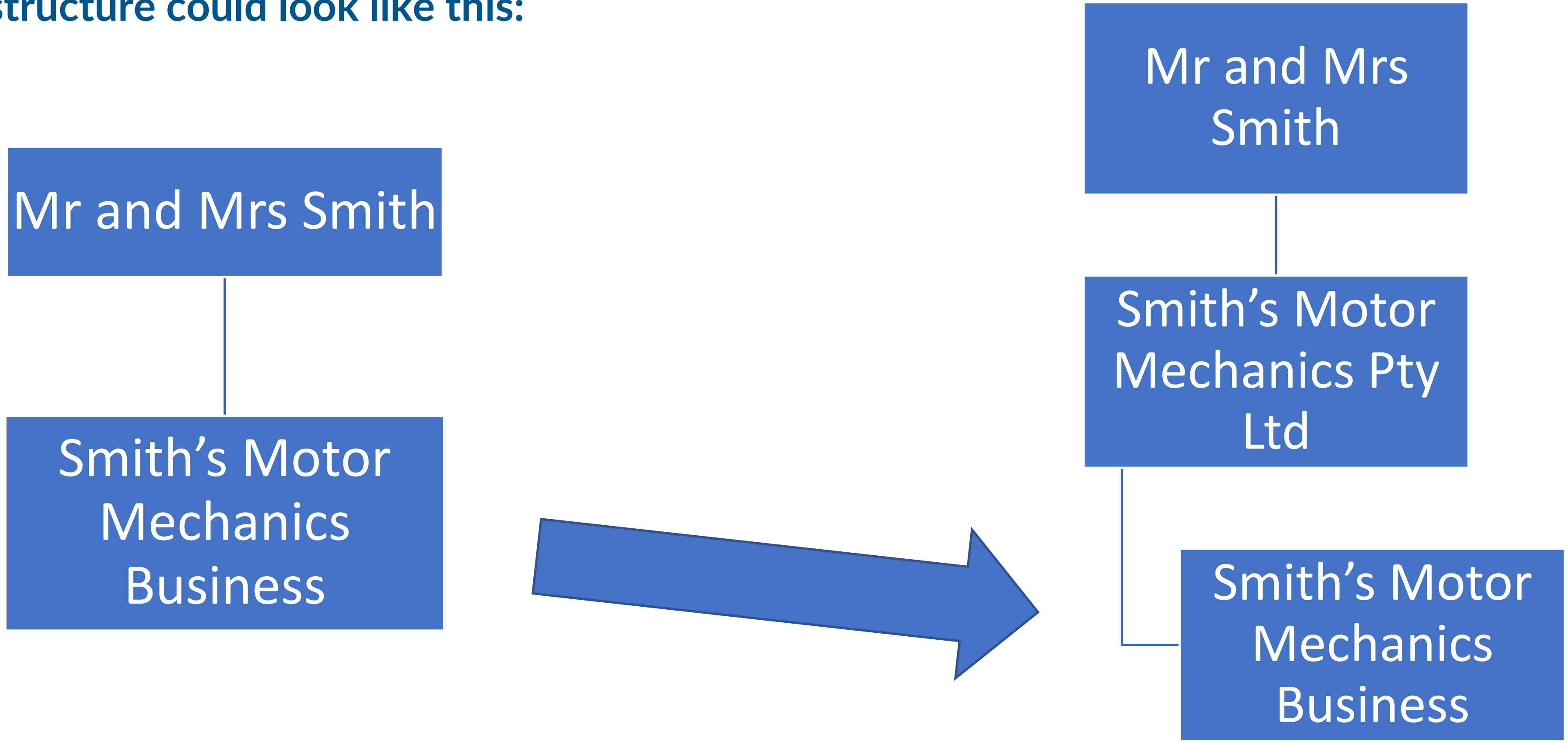
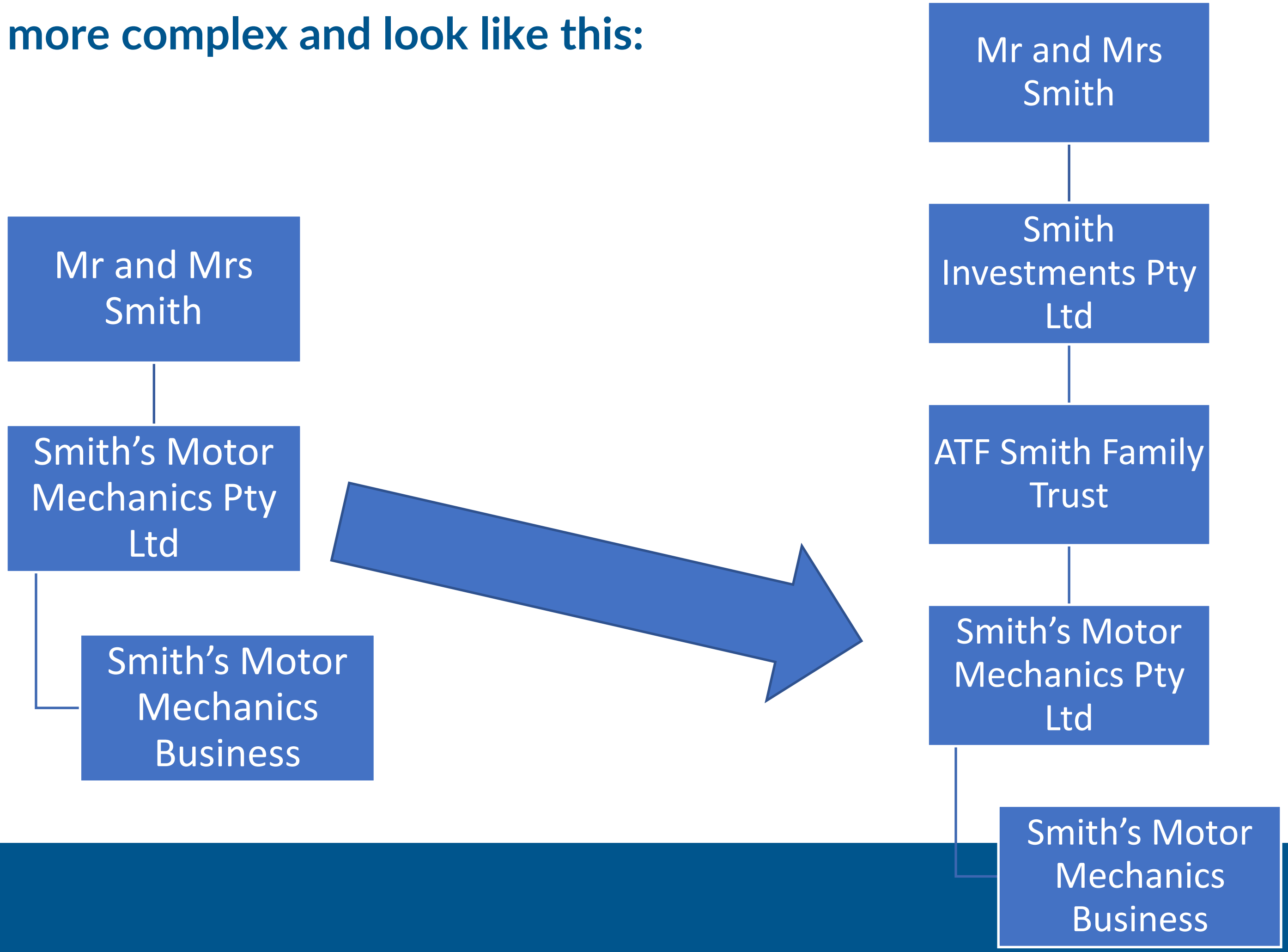
A restructure could look like this:



What do we mean by restructures?

Or it could be more complex and look like this:



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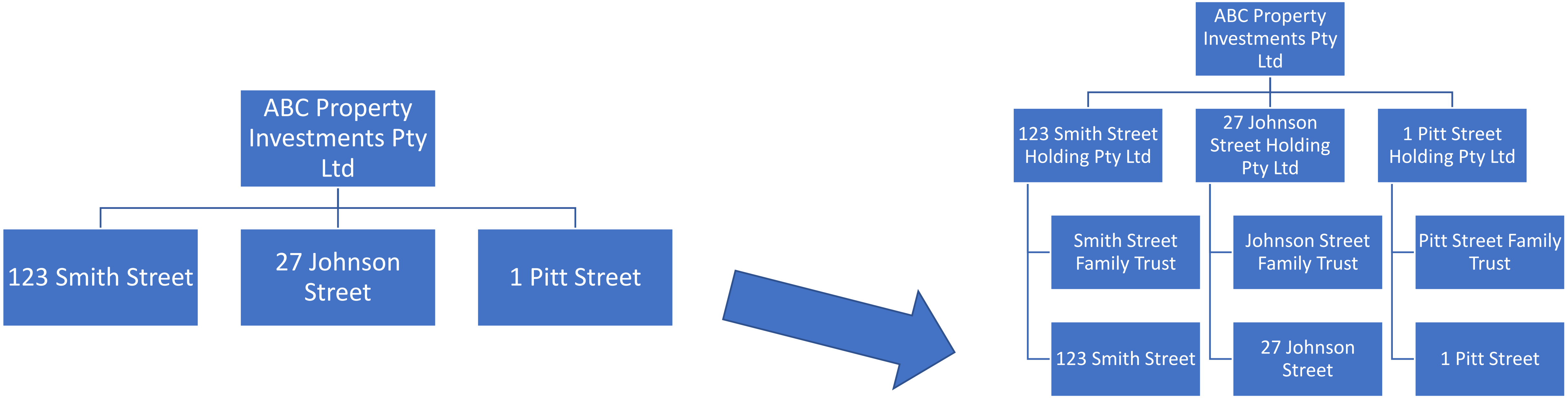
Or it could even look like this:



Why do restructures require valuations?

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Generally, the sale and purchase of assets creates tax obligations on the parties to the transaction.

- As restructures are typically conducted between related parties, it is vital for an independent valuer to assess what the market value of those transactions is, as the actual nature of the transactions is not done in a market manner.
- An independent valuation of the assets which are transferred (purchased and sold) as part of a restructure ensures that all tax obligations are appropriately met and ensures the appropriate cost base is recognised as part of the transaction.
- Often, the valuation report can be annexed to a contract for sale, demonstrating that the relevant transactions were conducted at market value.

So, what is being valued?

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Too often, valuers fail to value the particular assets that are being transferred as part of a restructure, and hence the valuation is redundant!

- It is vital to ensure that the assets valued as part of a restructure are consistent with those assets which assets which are going to be transferred. For example:
  - If a business is being transferred from a partnership structure to a corporate holding company then that business should be valued in full, inclusive of its tangible and intangible assets.
  - If a company is being transferred from an individual shareholder to a company shareholder, then 100 percent of the shares in that company (inclusive of the business held by the company, the company's cash holdings and its liabilities) is being transferred.

Ensuring your valuation is ATO compliant

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Noting that valuations for restructures are often scrutinised by the ATO, it is vital to ensure you are compliant with their valuation requirements. So what needs to be addressed in a valuation report to ensure this is the case?

- The ATO expects that you explain your choice of **valuation method(s)** and demonstrate why it is appropriate.
- It is best practice to apply more than one valuation method in an ATO valuation then to explain *why* one method is the most appropriate – this will clearly demonstrate that you have considered multiple options!
- The most common methods to apply for business valuations are:
  - Market methods (for example, a comparable transaction method)
  - Income methods (for example, capitalisation of earnings)
  - Cost methods (for example, market value of assets)

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- You must state the **date** at which your valuation is accurate for. For example:

  This valuation is accurate as at 30 June 20XX.

- It is useful to consider the use of **expiry dates** – I.e., state a date after which the valuation is no longer accurate.
- Take caution when valuing shares and companies – the valuation date should be the same as the balance sheet date you are relying on, with the expiration date being the same.

- You must state what the **purpose** of the valuation is. For example:

  This valuation has been completed in consideration of the proposed sale of shares in company X.

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- You must state what your **premise of value** is.
- There are four primary premises of value:
  - Going concern;
  - Assemblage of assets;
  - Orderly disposition;
  - Forced liquidation.

- The ATO expects you to provide an **overview of the business** and what it does.
- A description of the business should include items such as:
  - The business' date of establishment;
  - Details of ownership changes in the past;
  - The number of owners;
  - The address(es) of the business;
  - Key customers and suppliers.

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- The ATO expects that you address a number of **non-financial factors** within your valuation, including market information, operational factors, product and service details, sales and marketing and strategic activities.
- To meet this criteria, it is wise to not only state non-financial characteristics of the business but explain what impact they will have on the value in your opinion.

- The ATO expects that you properly analyse the **financial performance** of the business, including factors like historical and projected financial performance, capital expenditure and appropriate financial statement adjustments.
- If you are valuing a business then an analysis of profitability, cash flow and capital expenses is sufficient.
- If you are valuing a company or shareholding then you must analyse profitability, cash flow, capital expenses and each balance sheet item.

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Groves & Partners

Our clients trust us to negotiate business sales and acquisitions that provide outstanding commercial outcomes, assist them with complex financial analysis, business valuation and due diligence matters, and provide reliable, forward thinking strategic advice.

We approach each matter in an energetic and non-nonsense manner, and pride ourselves on creating innovative and efficient solutions to difficult problems.

Our expertise includes:

Business Sales

- Exit planning advice
- Pre-sale reviews
- Business brokerage services
- Post-sale integration management
- Business sales advice

Valuations

- Expert business valuation reports
- Company valuations
- Minority shareholding valuations
- Shadow expert reports and critiques
- Business appraisals
- Expert witness services

Due Diligence

- Preparation of due diligence reports
- Independent due diligence reviews

Acquisitions

- Sourcing off-market acquisition opportunities
- Negotiating business purchases
- Purchase price advice

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WHY US?

We offer six reasons why advisors and business owners should engage Groves & Partners to assist with their business transaction and valuation needs.

1. Clear & Frequent Communication
We communicate frequently with our clients and referrers, always responding promptly and providing regular feedback throughout our conduct of matters.

2. Specialists
We only provide business transaction and valuation advice – we're not tax accountants or lawyers.

3. Timely
Our specialisation and efficiency mean that we can produce work in faster timelines. Whatever your deadline is, we can help.

4. Complimentary
We compliment the skills, advice and relationships of our client's professional advisors and partner with our client's established advisors to provide excellent outcomes.

5. Cost Effective
We never charge for initial consultations, simple advice, short phone calls or emails, and ensure our bills are always commercial and cost-effective.

6. Experts
Our team comprises Chartered Accountants, Certified Minority Interest Valuers, Registered Business Valuers and Licenced Business Brokers.