



inspire Trust

Valuation for SME

TT Profession

Business valuation for SME

There are various reasons for valuing a SME:

1. Selling a business
2. Fund from investor(s) for expansion
3. Merger with competitor
4. In SME, what would be the value hidden in the business

Business valuation for SME

In SME, there is always assets hidden in the business attribute to the value.

It is always important to prepare a valuation of the business to identify those hidden value, such as:

- Technology
- Patents
- Customer relationship

Business valuation – Future cash flows

As you are selling the future cash flows of the business, future cash flows forecast is crucial. There are a various factors which will form a basis of assumptions in the future cash flows forecast of the business.

Business valuation – Factors to consider

The factors which are need to consider:

- The customers
- The products
- The management team
- The staff
- The industry
- Economy
- Environmental
- Inflation
- Political
- Legislation

Business valuation - Basis

The factors are uncertain and therefore, the buyer may deal with the factors differently.

With the uncertainty in assumptions applied, the valuation will be different.

Valuation will form a base for the both seller and buyer in the price negotiation process.

Business valuation - Methods

For SME and growing business, the common methods are:

- Discounted Cash Flow (DCF)
- Price earning multiple (P/E)

Business valuation – Methods DCF

DCF is a usual valuation method that:

- Needs a forecasts of cash flow for next year and projections for minimum the next 2 to 4 years with assumptions
- Needs a long term growth rate for the rest of the life of the business
- Needs to determine the discount rate based on a weighted average cost of capital between equity and debt. It is the expected return from the market

Business valuation – Methods P/E

Price Earnings Multiple (P/E)

- earnings before interest tax depreciation and amortization (EBTIDA), or a form of adjusted earnings which is often used for private and family companies where are controlling shareholder may share some private and company assets and expenses. Then, maintainable EBITDA is determined.
- multiple – it is crucial part of the valuation. The factors affect the multiple include the size and growth of the market, the business market share (if you have leading market share the multiple will be higher as it protects earnings and reduces risk), any unique selling points, and Intellectual Property which will protect your earnings going forward.

In practice, we will search for comparable earnings multiple and revenue multiple of public listed companies (discounted down to allow for size and risk) and then use a range.

Business valuation – Information required

- Financial statements for the past 3 years
- Management accounts for the past 3 years reconciled to the financial statements which show the details of revenue stream by products, the gross profit margin, the expenses details.
- Management accounts for the current year up to date.
- Forecast for the next year with assumptions and support such as orders, target market demand
- Organisation chart and management structure
- Brief description of products, geographies, business plans for the future
- Brief descriptions of Intellectual Property, significant market share as well as any particular barriers to entry to the market.

Business valuation – Report

- A valuation report which detail the assumptions and support the value.
- It is a guide in the price negotiation.

Our team of professionals

Thomas Tsang

Thomas engaged in valuation of business for merger and acquisition, and fair value measurement for accounting purposes for over 15 years.

He has over 20 years of experiences in audit and assurance of listed and private companies in Singapore, Hong Kong and China.

Dissertation paper subject for MBA was valuation in mergers and acquisitions.

Qualifications:

Public Accountant (Singapore)

FCA (Singapore), FCCA, CA (ICAEW), CPA (HK), MAAT (UK)

MBA (University of Warwick, UK)

Our team of professionals

Winston Yeo

Mr Yeo began his career in public accounting before joining the banking industry, where he was involved in internal audit, financial planning & analysis, credit risk management and corporate finance. Thereafter, he joined a company as Chief Financial Officer and took it to list on the Singapore Exchange. He went on to become the Chief Financial Officer of a group of companies, which became an Enterprise 50 winner.

Over the years, Mr Yeo has also taken on other roles in various organizations. He was a management consultant to small & medium enterprises as well as an organization which carries out relief and development work in the region. He was a Board member of a registered charity that develops individuals with special needs to their fullest potential. He was also an adjunct associate professor at Singapore's flagship university and an associate faculty at Singapore's only private university. He had conducted courses on company valuation at various institutions.

Qualifications:

Bachelor of Accountancy

Fellow Chartered Accountant of Singapore

Graduate Diploma in Systems Analysis

Professional Diploma in Enterprise Risk Planning & Management

Certified Enterprise-wide Risk Manager

Past experiences – completed valuation

| | Nature of business | Purpose of valuation | Method used |
|---|--|--|------------------|
| 1 | Manufacturing of precision components for mobile handsets in China | For privatisation of the company delisted from Germany | DCF |
| 2 | Consulting services company in Singapore | For internal restructuring | DCF |
| 3 | Childcare services in Singapore | For management buy out | P/E |
| 4 | Trading in defence and security equipment | For sales of business | P/E |
| 5 | Telecom service in Singapore | For accounting purpose | P/E |
| 6 | Financing company in Japan | For accounting purpose | DCF |
| 7 | Special steel | For accounting purpose | DCF/ Assets base |
| 8 | Technology in transport management | For venture capital inventor | DCF |



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TT Profession

(Public Accounting Firm registration no.: T19PF0001K)

- One of our professions is business valuation for mergers and acquisitions or accounting purposes.
- We are professionals in the provisions of tailor-made and client focused services.
- We provide services to business in cost effective and efficient manner.

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