

Valuation for Mergers and Acquisitions

TT Profession



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Business valuation for Mergers & Acquisitions

There are various reasons for valuation:

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

Business valuation for Mergers & Acquisitions

In M&A, 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 sustainable 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 the controlling shareholder may share some private and company assets and expenses. Then, maintainable EBITDA is determined.
- multiple – it is a crucial part of the valuation. The factors that affect the multiple include the size and growth of the market, the business market share (if you have a 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 professional

Thomas Tsang

Partner

Thomas is a practicing public accountant in Singapore. He has been a partner in mid-tier public accountancy firms since 2005, where he had led public and private companies' audit, initial public offerings audit, and financial advisory of cross border acquisitions.

Thomas possesses over 15 years practical knowledges and experiences in valuation for mergers & acquisitions, purchase price allocation in acquisition accounting, annual goodwill impairment assessment, and employee share option pricing for private company. His dissertation paper subject in the MBA was valuation in mergers & acquisitions.

Qualifications:

Public Accountant (Singapore)

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

MBA (University of Warwick, UK)

Our team of professional

Stanley Lee Ban Seng

Principal, M&A and Deal Advisory

Stanley is responsible for overseeing the M&A and transactions services related to financial and operation functions including accounting, internal controls, financial and management reporting, financing, capital management, tax, treasury, financial analysis, overall financial due diligence support and risk management. He has extensive experience in the finance industry and accounting profession for approximately over 20 years.

Prior to joining TT Profession, Stanley was the Lead Internal Auditor of a China plastics precision components manufacturer group based in China (a ChiNext Board listed company in Shenzhen Stock Exchange) and he was responsible on the internal controls, risk management functions and M&A support of the group. He had approximately 10 years audit experiences in international well-known public accounting firms and was involved in several international IPO audit engagements and transaction services.

Qualification:

Bachelor of Commerce major in Accountancy (University of Otago, New Zealand).

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 investor	DCF

Past experiences – completed valuation

	Nature of business	Purpose of valuation	Method used
9	Assets management company in the provision of investment management	For disposal	DCF and capitalisation rate
10	Losses claim	For submission to court by plaintiff	DCF
11	Taxi operation and car rental	New investor	DCF
12	Fair value on financial assets	Accounting purpose	DCF
13	Car hiring mobile app platform – Start up business	New investor	DCF and Venture capital method
14	A Fintech company	New investor	DCF



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(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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