BLACKLEAF

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BLACKLEAF CORPORATE ADVISORY

Business Valuation *Guide*

How private businesses are valued: the methods, how earnings are normalised, what moves value, and how to read a valuation range.

INTRODUCTION

Value is *a range*, supported by a method.

A valuation is an informed opinion of what a business is worth for a stated purpose, at a stated date. It is a range with reasons, not a single true number.

Owners meet valuation when they sell, buy, bring in a partner, settle a shareholder dispute, plan succession, or raise funding. The purpose changes the answer, so the purpose should be agreed first.

Methods

Income, market and asset approaches, used together.

Normalising

Adjusting earnings to show what a buyer would own.

Judgement

Risk, size, growth and control move the multiple.

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Why and when *to value*.

The same business can carry different values for different purposes.
State the purpose, the date and the standard of value before work starts.

PURPOSE	WHAT THE VALUATION IS USED FOR	TYPICAL EMPHASIS
Sale or acquisition	Setting an asking price, or testing an offer.	Market evidence, buyer synergy
Shareholder exit	Pricing a buy-out between shareholders.	Fairness to both sides, control
Raising capital	Pricing new equity or supporting security.	Growth, cash flow, downside
Succession and estate planning	Transfers within a family, or estate duty planning.	Defensible, documented basis
Dispute or settlement	Resolving a disagreement over value.	Independence, evidence trail
Management information	Tracking value over time.	Consistency from year to year

QUESTIONS TO SETTLE BEFORE VALUING

- ✓ What decision will the valuation support?
- ✓ What is the valuation date?
- ✓ Is it the whole business, or a minority or majority stake?
- ✓ Is the value for a willing buyer, or for a specific buyer who can add synergy?
- ✓ Who will rely on it, and will they test it?

Independence. A valuation to be relied on by a counterparty, a funder or a court is stronger when prepared independently of the party who benefits from the number.

The three *approaches*.

Valuers rarely rely on one method. They use two or three and explain why the results differ.

Income approach

Value rests on future cash flows, discounted for risk (DCF), or on a single level of maintainable earnings capitalised at a rate.

Market approach

Value rests on what comparable businesses or transactions were priced at, usually as a multiple of earnings or revenue.

Asset approach

Value rests on the fair value of the assets less liabilities. Common for property, holding and asset-heavy businesses.

WHEN EACH IS MOST USEFUL

METHOD	SUITS	WATCH FOR
Discounted cash flow	Growing businesses with a reliable forecast	Sensitive to the discount rate and terminal value
Capitalised earnings	Stable, mature businesses	Needs a defensible maintainable earnings figure
Earnings multiples	Businesses with comparable transactions	Few true comparables in the private market
Revenue multiples	Early or high-growth businesses	Ignores profitability and cost base
Net asset value	Property, holding and investment companies	Misses goodwill and earning power
Sum of the parts	Groups with different business lines	Allocation of shared costs

Reconcile the results. A good valuation explains the spread between methods, and weights them for the purpose. It does not average them blindly.

Normalising *earnings*.

Reported profit in an owner-managed business often includes items a buyer would not inherit. Normalising shows the earnings a new owner could expect.

ADJUSTMENT	DIRECTION	EXAMPLE
Owner remuneration	Up or down	Salary above or below a market-rate manager
Personal expenses	Add back	Private vehicles, travel and family costs paid by the company
One-off items	Add back or remove	Legal settlements, restructuring costs, once-off gains
Related-party pricing	Adjust to market	Rent or services charged to or by connected parties
Unusual provisions	Adjust	Over- or under-provided bad debts or stock
Non-trading income	Remove	Investment income, asset disposals, grants

RULES FOR CREDIBLE ADJUSTMENTS

- ✓ Every adjustment is documented and traceable to a record
- ✓ Adjustments are applied across all periods, not only the best year
- ✓ A buyer should be able to verify each one in diligence
- ✓ Large add-backs invite scrutiny, so be prepared to evidence them
- ✓ Do not add back costs that the business needs to keep incurring

Maintainable earnings

The level of earnings that can reasonably be expected to continue, after normalising and weighing recent years.

Working capital

A normal level of working capital is usually assumed to transfer with the business. Agree how it is measured early.

An illustrative *worked example*.

The figures below are invented to show the steps. They are not benchmarks and not a market view.

STEP	AMOUNT (ZAR)
Reported operating profit	8 000 000
Add back: personal costs paid by the company	600 000
Add back: once-off legal settlement	400 000
Adjust: owner salary to market-rate manager	(500 000)
Adjust: related-party rent to market	(300 000)
Maintainable earnings	8 200 000

FROM EARNINGS TO A RANGE

SCENARIO	MULTIPLE OF EARNINGS	ENTERPRISE VALUE
Lower	4.0 times	32 800 000
Central	5.0 times	41 000 000
Higher	6.0 times	49 200 000

FROM ENTERPRISE VALUE TO EQUITY VALUE

STEP	AMOUNT (ZAR)
Central enterprise value	41 000 000
Less: interest-bearing debt	(6 000 000)
Add: surplus cash	1 500 000
Equity value to shareholders	36 500 000

The multiples are for illustration only. A real range depends on evidence from the sector, the size, and the quality of the earnings.

What moves *value*.

Two businesses with the same profit can be worth very different amounts. The difference is usually risk, growth and transferability.

Owner dependence

If the business cannot run without the owner, a buyer prices that risk, or structures the price over time.

Customer concentration

Reliance on one or two customers raises risk, and lowers the multiple.

Quality of earnings

Recurring, contracted and cash-backed earnings are worth more than lumpy or uncertain ones.

Growth outlook

A credible, evidenced path to growth supports a higher value.

Records and governance

Clean books, registers and contracts reduce risk, and speed diligence.

Legal and regulatory

Licences, disputes, tax standing and compliance affect price and certainty.

VALUE LEVERS TO REVIEW TWELVE TO TWENTY-FOUR MONTHS BEFORE A SALE

- [ ] **Reduce owner dependence:** document processes and develop a second tier of management
- [ ] **Spread revenue:** reduce reliance on any single customer or supplier
- [ ] **Improve visibility:** move toward recurring or contracted income where the model allows
- [ ] **Tidy the numbers:** monthly accounts, reconciled and explained
- [ ] **Fix the structure:** clean entity records, ownership and asset holding

Premiums, discounts *and structure*.

After the base value is set, valuers consider whether adjustments apply to the interest being valued.

ADJUSTMENT	WHEN IT MAY APPLY
Control premium	A controlling stake is being valued, which carries the power to direct the business.
Minority discount	A non-controlling stake is valued, which cannot direct policy or dividends.
Marketability discount	The interest cannot easily be sold, as with a private company's shares.
Key-person adjustment	The value depends on one individual who may leave.
Synergy value	A specific buyer can add value that others cannot. It is usually shared, not paid in full.

PRICE IS NOT ONLY A NUMBER

Value and price differ. Price is what is agreed after negotiation and structure. Structure moves risk between buyer and seller, and can bridge a gap in expectations.

STRUCTURE	EFFECT
Deferred payment	Part of the price is paid over time, which reduces buyer risk.
Earn-out	Part of the price depends on future performance.
Vendor loan	The seller funds part of the price and takes the credit risk.
Retained stake	The seller keeps part of the business and shares in the upside.
Warranties and indemnities	Seller supports statements about the business, with limits.

Tax follows structure. The same headline price can produce different after-tax results. Take tax advice on structure before agreeing terms.

Information *a valuer needs*.

A valuation is only as good as the information behind it. Have these ready, and the work is faster and cheaper.

- [ ] Annual financial statements for the last three to five years
- [ ] Current year management accounts and budget
- [ ] Forecasts and the assumptions behind them
- [ ] Schedule of assets, with ages and values
- [ ] Debt schedule, with terms and security
- [ ] Debtor and creditor ageing
- [ ] Key customer and supplier contracts
- [ ] Shareholder agreement and share register
- [ ] Organisation chart and key staff terms
- [ ] Property leases or title deeds
- [ ] Litigation, tax and compliance matters
- [ ] Any recent offers or transactions in the shares

WHAT A VALUER WILL ASK YOU

- ✓ What is the purpose and who will rely on the valuation?
- ✓ What does the owner do, and who could replace them?
- ✓ What would a buyer be worried about?
- ✓ What is expected to change in the next three years?
- ✓ Which costs are one-off, and which are personal?

Be candid. A valuer who finds problems the owner did not mention loses trust in the rest of the information. A disclosed weakness is easier to price than a discovered one.

Common *mistakes*.

Most disputed valuations share a short list of errors.

01
Valuing for the wrong purpose
A figure for a family transfer is used to price a sale, or the reverse.

02
One method only
A single multiple is presented as the answer, with no cross-check.

03
Aggressive add-backs
Large adjustments that cannot be evidenced undermine the whole file.

04
Ignoring debt and cash
Enterprise value is confused with the amount shareholders receive.

05
Using old comparables
Multiples from another period, size or sector are applied without adjustment.

06
Forgetting owner dependence
The owner leaves and the earnings leave with them.

> *A defensible range with clear reasons beats a precise number nobody can explain.*

ABOUT BLACKLEAF

Begin with a *private conversation*.

BlackLeaf is a family-owned group offering corporate advisory, capital solutions, mergers and acquisitions, fiduciary services and family office support. Every mandate is led by a principal.

Capital Readiness Protocol

Finds and fixes structural defects before a financier or buyer does.

Capital & finance

Debt, equity and structured funding, placed with the right financiers.

Fiduciary & statutory

Compliance, trusts and company secretarial work, kept in order.

OUR COMMITMENTS

- Absolute discretion: mutual non-disclosure before any detail is shared
- One integrated team across advisory, capital and fiduciary work
- Led by a principal from first conversation to completion

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