

Valuation

Shares or Business

What is Valuation?

Valuation is the process of determining the value, in monetary terms, of a business entity. While a business operates under the control and management its equity holders and the management team, there comes a time when it is necessary to determine its value. This value may then form a basis for a sale or merger transaction. Valuation is arrived at formally using an objective process. International Valuation Standards (IVS) are published by the International Valuation Standards Council (IVSC) - [The Independent Global Standard Setter For Valuation // IVSC](#). They guide the professional valuer in using the objective process and performing the valuation engagement from start to finish.

Is Price the Value?

It is yes and no. Sometimes the market may price wrongly because of the knowledge limitations of buyers and sellers. Wealthy buyers may pay more than the right value or sellers may receive less than the right value. If the market is big enough, has knowledgeable buyers and sellers, and has a structure or a system for buying and selling, there are good chances for the value to equal the price. Usually, stock and commodity markets are regulated highly. The price in a regulated market can often be the right value. Even where shares are publicly traded, the valuation for succession purposes, for example, may not be based on the share price on a particular date.

Why is Valuation?

There are many situations that necessitates the determination of the value of a business. There is then a need to get to a professional valuer to estimate the value. It is important for financial reporting, dividing shareholdings, selling the whole or part of the business, creating succession plans, or getting finance. What is Value?

Should value consider what is inherent in the business? Following are examples:

- Financial Health and Profitability:
- Growth Strategies:
- Operational Efficiency:
- Customer Relationships:
- Human Capital:
- Intellectual Property and Branding:
- Risk Management:

Alternatively, should the value be considered referring to the market? For example, a similar business may have been sold for a certain price near the valuation date. Should we use it with changes made considering the differences between the sold business and the business being valued?

Alternatively, should the valuer consider the cost of building a similar business?

Ideally, all these methods, called intrinsic value, relative market value, and replacement value, in that order, should be equal. Often, the professional valuer considers the right method based on the information available, internally and externally. Besides he or she corroborates the value using another method, to get an authentic value. Value is always determined keeping the measurement date in mind.

Professional Valuer

The professional valuer should comply with published global standards. He or she should not only be an expert but also be ethical, abiding by the engagement processes recommended by the International Valuation Council.

RSM Botswana is a Corporate Member of the International Valuation Council and is privileged to learn from the workshops and webinars of the Council. RSM Botswana also contributes to the collective thinking on valuation as advocated by the Council. Locally, RSM Botswana uses latest technologies and updated up to date global databases. This allows us to objectively value business entities and shares and produce robust values.