

Valuation: What are the golden rules for accurately valuing a private business or partnership when contrasting with its income stream?

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Income Stream

- Future
- Historical
- Definitions of income

DCF

- Cash flows
- Timescales
- Discount rate and WACC
- Information availability

Multiple of earnings

- Earnings definitions
- Information:
 - audited v unaudited
 - actual v projected
- Maintainable earnings
- EBITDA vs Post-tax earnings
- Selection of multiple

Adjustments

- Exceptional / non-recurring items
- Remuneration levels
- Discontinued activities
- Bad debts
- Profit / loss on sale of fixed assets
- Other

Surplus assets

- Surplus property
- Non-business assets

Enterprise value (EV) to equity value

$$\text{Equity value} = \text{EV}^* - \text{debt} + \text{cash}$$

*EV either from

1. Unlevered free cash flows in a DCF model; or
2. Maintainable earnings x earnings multiple

Other valuation methods

- Market approach
 - Transactions
 - Quoted share prices
- Net assets basis
- Dividend yield (small minority holdings)
- Rule of thumb

Minority holdings

- Lack of control
- Lack of marketability
- Minority discounts
- Quasi-partnership

Questions





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