



Matrimonial Finance Business Valuation

Fiona Hotston Moore

Making you more than just a number

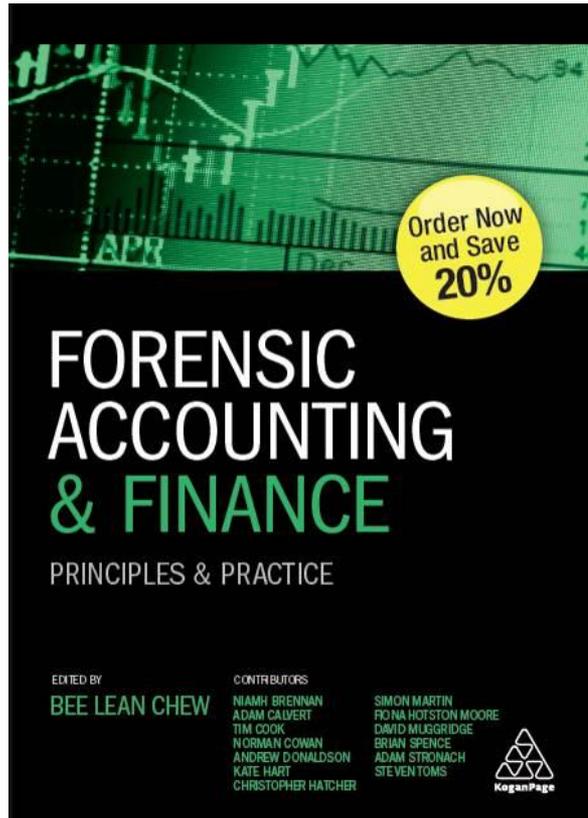
Fiona Hotston Moore

- Forensic, Tax and Business Advisory Partner at Ensors Chartered Accountants.
- Accredited Expert Witness (The Academy of Experts and the Network of Independent Forensic Accountants).
- Member of Resolution and ICAEW Panel for President's Appointments Scheme.
- Chartered Accountant, Senior Statutory Auditor and Chartered Tax Adviser.
- Accredited Counter Fraud Specialist.
- Experience in a variety of tax, criminal and civil court cases.
- Board member at UOS (University of Suffolk).

Contact details:

- LinkedIn:  Fiona Hotston Moore
- Twitter:  @hotstonmoore @ForensicsAcct
- Email:  fiona.hotstonmoore@ensors.co.uk
- Blog:  <http://www.huffingtonpost.co.uk/fiona-hotston-moore/>
- Website:  www.ensors.co.uk





Contributor to introductory chapter:
“The Forensic Accountant in practice.”



Forensic accountants – what do we do?

- Broad spectrum of cases, including:
 - Shareholder and family disputes.
 - Fraud investigations.
 - Professional negligence claims.
 - Tax disputes including film schemes, EBTs etc.
 - Valuations – including lots of matrimonial work!

Forensic accounting in matrimonial cases

- SJE, PE, Party Adviser, Shadow Expert.
- Form E review.
- Business valuation.
- Maintainable income calculations.
- Tax on splitting, selling or transferring assets.
- “Hidden assets” or shift of business value.
- Liquidity estimates for release of cash.

At what stage can a forensic accountant assist?

Business valuation – questions posed

- What is the value of a private business when contrasted to it's income stream?

- What is the appropriate deduction if:
 1. a spouse is ordered to pay periodic payments; or
 2. the business is a one man band?

Business valuation – art or science

- It is really a blend of both.
- The science comes from knowledge of the M&A market.
- The art is how to apply industry data to a standalone valuation – no two businesses are the same!
- Valuations are subjective – a business is worth what somebody will pay for it.

Business valuation – general principles

- In general, valuations are based upon the following principles:
 - A hypothetical sale is imagined;
 - The transaction involves a willing buyer and a willing seller.

- Therefore no deduction is made for the possibility of a distressed sale or a transaction where the management are not supportive of the hypothetical deal.

Business valuation - methods

The most popular valuation methods are:

- Future maintainable earnings (FME).
- Net assets.
- Transaction based.
- Discounted cash flow.
- Dividend yield.

The first two methods are used in the majority of cases we act on (private and family businesses).

Business valuation – FME method

- The most popular method for trading SME businesses.
- The first stage is to calculate the level of profit which the business could generate in a 'normal' trading year.
- EBITDA is the most common metric used to assess profit, as it shows the underlying cash generation of the business.

Business valuation – FME method

- The calculated EBITDA is adjusted for any exceptional transactions or those which are not on market terms.

- Examples of potential adjustments:
 - Non market terms
An owner manager who remunerates themselves with dividends rather than salary. Dividends are not accounted for in the profit and loss account so must be adjusted to show the true profitability.

 - Exceptional
Excessive renovations of owned properties which will not generate any extra income.

Business valuation – FME method

- A regular level of cash generation has now been calculated – this is multiplied by a capitalisation factor.
- This is the number of years which a potential purchaser could be prepared to wait until their investment is returned.
- The business as a whole is assessed to identify a suitable capitalisation factor.
- Industry and size will be key considerations here. A ‘one man band’ will typically attract a lower factor due to the succession risks.

Business valuation – FME method

- Where we source our information:
 - publicised transactions.
 - industry indexes of completed deals.
 - the deals which we are involved in!
- No two deals are the same. Important to remember that much publicised information relates to much larger companies. In general larger companies are more saleable = bigger multiples!
- On deals we usually see multiples in the range of 3-6.

Business valuation – FME method

- We can now calculate the Enterprise value of the business:

$$\text{Normalised EBITDA} \times \text{Capitalisation factor} = \text{Enterprise value}$$

- This will be reviewed against the balance sheet to arrive at the ultimate value of the Company – the **Equity value**.

Enterprise value	X
Add: excess cash	X
Less: debt	(X)
Equity value (actual price)	Y

Business valuation – net asset method

- Another common method.
- Used more in situations where the business has a high asset base which delivers a relatively low yield.
- The balance sheet of the business will be reviewed and updated for the market value of each asset.
- Specialist valuations of properties are likely to be important in these circumstances.

Business valuation – some exceptions

- Some industries have specialist valuation methods which are not covered by the main methods.
- For example, professional practices are commonly valued on a multiple of their turnover.

Other areas of complexity

- Group and complex structures including trusts.
- Complex share rights.
- Volatile trading.
- H and W businesses.
- Contingent liabilities eg: tax schemes.
- Fees tend to be sensitive.

Business valuations – Consent Orders

- How does attaching a Consent Order affect the value of a business?
- As mentioned – businesses are valued on the hypothetical basis of a willing buyer and a willing seller.
- Therefore we must assume that the seller would be willing to transfer the trade and assets into a new legal entity to achieve the sale. The liability is, in effect, treated as a separate liability outside the business.

NOTE: possible tax impact.

- We have seen it once and we were instructed to value the business separate from the liability.

Recent trends in transactions

- Multiples appear to be holding consistent with pre-Brexit.
- However number of transactions have fallen by 22%.

Business valuation – the formula!

CASE STUDIES

Divorce case

- A couple owned business interests in various companies specialising in the installation of equipment.
- The couple were going through divorce proceedings and FHM was appointed SJE to assist with valuing common business interests.
- Wife owned only minority shareholding in one company, whereas husband owned shareholding in other companies.
- The performance of the company where wife had an interest declined sharply as the relationship began to digress however, husband's companies gained momentum.
- FHM provided the Court with sufficient evidence on the lost value of the company the wife owned interest in.
- Wife had also unknowingly drawn on her directors' loan account rather than receiving dividends, and owed the company around £100k.

Divorce settlement

Other recent cases:

- Independent view of tax liabilities in film schemes.
- Numerous calculations of CGT on properties and assessments of undeclared tax liabilities on rental profits.
- Valuation of businesses from horse racing industry, dentists, shop fittings, estate agency, printing, farming, specialist lighting and more ...

Any questions?

Contact details:

- LinkedIn: Fiona Hotston Moore
- Twitter: @hotstonmoore @ForensicsAcct
- Email: fiona.hotstonmoore@ensors.co.uk
- Blog: <http://www.huffingtonpost.co.uk/fiona-hotston-moore/>
- Website: www.ensors.co.uk