



The Business Valuer Manual

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The Business Valuer

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1 Introduction

1.1 Welcome

Welcome to The Business Valuer!

This is a brand new piece of software designed with both Business Owners and Professional Advisors in mind to help them calculate the Guide Price Valuation of a Business. And The Business Valuer software version has been designed to make it extremely simple for a Business Owner to use.

In just a few short simple steps (and just a few minutes!) any Business Owner can produce a professional looking valuation report of their business!

In addition, The Business Valuer Software can be used by Finance Professionals to make the task of preparing business valuations much more simple, organised and easier!

The Business Valuer software works by simply taking the key financial information from a set of business accounts and uses one or all of the widely accepted business valuation methods to calculate a Guide price Valuation of a business. The software also has several in-built industry specific valuation methods as well, so if your business is in one of these industries then an additional valuation can be produced.

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1.2 Pricing

The Professional Edition and Business Owners Edition of the software are available for download from our website at www.thebusinessvaluer.co.uk. Please visit our website for the latest details and offers on prices. From time to time we do have offers requiring a voucher code.

Our software is provided to you on an annual licence basis. Renewal prices are typically 40 to 50% of the initial cost of the software.

We also offer upgrade discounts to those customers purchasing a Business Owner Edition wanting to upgrade to a Professional Edition.

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1.3 Benefits of using Business Valuer

Benefits of using The Business Valuer Software include:

- Produces a Guideprice Valuation of your business in minutes!
- Produces a professional looking Valuation Report!
- **SAVES** on professional valuation fees!
- Helps you to better plan!

- Helps you to make better business decisions!
- Provides a measurement for future growth and profitability
- Comprehensive in-built help for less experienced business owners!
- Simple and easy to use! Even for novices!
- **FREE** updates!

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1.4 Benefits derived from using Business Valuer

The **benefits** you will derive from knowing what your business is worth include:

- If you are thinking of selling the Guideprice Valuation produced can provide you with a starting point for commencing commercial negotiations with the buyer of your business
- If you are buying a business the valuation produced can provide you with the necessary confirmation of the valuation so that you can negotiate with confidence
- If you are seeking to raise finance or equity then the valuation produced can assist with negotiations with relevant fund raisers like banks or equity capital raisers
- If you are thinking of exiting the business, either because of retirement or future sale of the business the valuation produced can assist with the relevant and necessary planning
- If you are a minority shareholder within a business then the software can produce a minority valuation report using widely accepted valuation principles
- If you require a business valuation for tax purposes, then the software can produce the necessary valuation report and workings for submission to HMRC Shares and Assets Valuation Office
- If you are thinking of a way to reward, motivate and retain key employees then The Business Valuer software can be used over time (recommendation: at least annually) to produce periodic valuations for the purposes of share options and share incentive schemes
- If you are thinking of a way to improve future growth and future profitability then periodic use (recommendation: at least annually) of The Business Valuer Software will help you to control and track this and assist you with performance measurement.

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1.5 Disclaimer

The Business Valuer Software is intended to provide users with a Guide Price only of the potential valuation of a business. It acts as a starting point for many purposes, such as business sale negotiations, raising finance, etc. This Guide Price valuation is no substitute for a professional valuation carried out by an appropriately qualified person.

For example, users should be aware that there are many other factors that can influence the value of a company, such as the reliance on a few key customers, the systemisation of the business processes, or the current market climate to name a few. There are many more subjective factors that can influence a valuation. If you are in any doubt as to the accuracy of the Guide Price then please consult such an appropriately qualified professional person.

We do not warrant that this Software will meet the User's requirements or that its operation will be uninterrupted or error-free. No responsibility can be accepted for the reliance on the results produced by the this software in any circumstances.

No responsibility can be accepted for the reliance on the results produced by the software as a result of the neglect, misuse, or alteration/modification of the fundamental programming contained in the Software.

In no event will Seproft Ltd be liable to the User for loss (whether direct or indirect) of profits, business or anticipated savings or for any indirect or consequential loss or damage even if we have been advised of the possibility thereof and whether arising from negligence, breach of contract or howsoever caused.

As the business valuation model relies on the reliability of user input, Seproft Ltd can accept no claims for damages arising out of any conflict that may arise in the future.

No liability whether in contract, tort (including negligence) or howsoever caused in relation to the use of the Software is accepted. No liability to the User (no matter how caused) for any loss of profit; or indirect or consequential losses made by the User in relation to the use of the Software can be accepted.

You agree that you will not bring any claim whatsoever against the Seproft Ltd and/or its employees.

Nothing in this Agreement excludes liability in relation to personal injury or death.

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1.6 Recommendations

If you are a professional advisor then it is recommended that you, as the professional advisor, carry out suitable due diligence on the results that the Software produces. Obviously, the due diligence that you carry out must be based on your own technical skills and knowledge as a senior financial professional and the specific facts of the business' financial circumstances.

You are responsible for this assessment and Seproft Ltd cannot accept any responsibility for what you and your clients decide to do as a result of your assessment.

Further, it is highly recommended that all the results and reports produced by the Software are thoroughly checked and reviewed by you before reliance is placed on those results.

It should be noted that the Software provides for the input of basic financial data and the User should only be required to enter this basic data with the assistance of the help facility.

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2 Valuing a Business

2.1 Why value a Business?

There are a number of possible reasons for valuing a business including:

1. Buying or selling a business
2. Preparing the business for sale
3. Raising finance or equity
4. Retirement or exit planning
5. Tax planning
6. Inheritance planning and inheritance tax planning
7. To buy out partners or minority shareholders
8. Motivating management or key employees for greater success and growth
9. Creating share options for valuable employees
10. Preparing a finance restructuring plan
11. To assist with bank negotiations
12. Creating a Business Plan
13. Mere curiosity!!!

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2.2 Understanding Business Valuations

This section is aimed at business owners who need to understand better how businesses are valued in order to help them make better decisions on a variety of important business issues such as:

- How to make a business more profitable.
- How to make a business more valuable.
- How to make a business run without the day to day involvement of the Business Owner.
- Preparing or dressing up a business up for sale.
- Finance and debt gearing
- Raising equity or finance capital
- Designing and implementing an exit strategy

- Retirement planning
- Inheritance tax planning
- Motivating employees to create greater business wealth

Factors affecting the valuation of a Business

Factors affecting the actual valuation include:

1. For what purpose is the business actually being valued?

For examples, see above. Also, is the business a trading business or investment? Is the Business a going concern? Is the Business being wound up?

2. What underlying tangible assets does the business own?

Is there substantial tangible assets like freehold properties. A lot of businesses simply have no valuable tangible assets like this. Most businesses have intangible assets like goodwill.

Also, is the business a trading business or investment

3. What is the age of the business?

The older and more established the business is then the more credible is the value. For example, for business start-ups it will be a little difficult to convince buyers of the value.

4. What are the sustainable profits?

These are profits that have been stable over a period of years. At least 3 years we would suggest! A buyer is looking for and buying future profitability.

Other factors which may affect the commercial value of the business may include:

1. Day-to-day involvement of the Business Owners

One of the most important, if not the most important, factors that affect the value of a business is how the business works without the owners day to day involvement. A Business is much more valuable to a potential buyer if the owners of the business are not involved on a day to day business because the business basically runs itself and the potential purchaser does not have to put anyone in or personally get involved too deeply in the business.

2. The general economic climate and the state of the particular industry in which the company trades and the position of the business within it.

Obviously, these factors involve a certain amount of judgement.

3. Management stability

The stability and importance of key employees and management is very important. If the Business relies heavily on one particular employee, because for example that employee is responsible for the majority of sales and sales relationships then should that employee not be happy or be threatening to leave and take the customers with him then that would be disastrous to the value of a business.

4. Systemisation of the business

This is a really crucial issue. If there are no systems in place that a new owner can follow then a disaster is waiting to happen and indeed may make the business potentially unsaleable.

5. Relationships with customers and suppliers

It is often key business relationships that provide the most value to a business. If the business relies on

a few major customers then there is a higher risk attaching to the business than one where there is a good customer diversification spread.

6. Risk

The more risks from a purchaser's perspective then the lower the value of the business. To make business less risky and therefore more valuable then ensure that the business is fully systemised and that key business relationships with customers, suppliers and employees are protected in some legal format such as contracts.

7. Legal Comfort

The legal and commercial due diligence process is very important and the comfort given by the resulting warranties and indemnities can make a big difference to the price a willing buyer will pay. The better the warranties and indemnities then the higher the value and the lower the risk. No warranties then the lower the value and a much greater risk of a buyer losing all of his investment.

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2.3 Purpose of the valuation

The main objective of The Business Valuer software is to provide the User with a guide price of the commercial value ('fair value') of a business as a starting point for negotiations. A commercial value of any asset seeks to arrive at a fair value for both the Purchaser and the Seller.

However, it is very important to remember that at the end of the day any asset is only worth what somebody is willing to pay for it and as a result it is a matter of negotiation between a willing buyer and a willing seller that ultimately determines the market value.

Please note that the Guide Price Valuation produced by The Business Valuer software cannot be relied upon for taxation purposes unless further work is carried out to agree the value of the business with HMRC Share Valuation Division.

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2.4 Valuation Methods

The main valuation methods are:

1. Earnings based
2. Assets based
3. Intrinsic Value based
4. Industry Specific based

The first three methods are discussed in further detail in the next section.

The Intrinsic Value based method in this software uses the Discounted Cash Flow technique.

The Industry Specific based methods currently included in the software include:

1. Earnings Before Interest and Tax "**EBIT**"
2. Earnings Before Interest, Tax, Depreciation, Amortisation and Owners' remuneration. "**EBITDA**"
3. Gross Recurring Fees/Revenue. "**GRF**"
4. % Gross Margin

The software can produce a Guide Price Valuation for each of the above methods and for one of the given more common industry standard methods. The valuation that is produced uses user input and as such the resulting valuation can only ever be considered as a starting point for any negotiations

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2.5 Valuation Methods in detail

There are basically four methods of valuation:-

1. Earnings Basis

Most commercial valuations are based on the level of sustainable business profitability and an earnings multiple or rate of return.

The earnings basis method is an attempt to produce a Business Valuation of the "**sustainable**" profits of a business and is the recognised approach for valuing the majority of trading businesses on a going concern basis.

Although the starting point is often historical profits, these need to be adjusted for any exceptional items. For example, excessive directors' remuneration and pension costs, income and expenses relating to discontinued or new operations, and the profit or loss on the sale of fixed assets. You also need to be careful to add back non-recurring costs such as bad debts, exceptional stock write downs, legal and professional costs to name a few. Adjustments should also be made to reflect the impact of any proposed changes in the future. Also, you need to look for areas in the expenses that need to be restated. For example, excessive or inappropriate depreciation charges, lower costs by utilising better purchasing power or economies of scale and increased borrowing costs, redundancy payments, etc.

The level of **sustainable** business profitability is normally calculated after allowing for these adjustments and after deducting tax.

We arrive at a commercial valuation by multiplying the **sustainable** business profitability by an earnings multiple. The usual approach is to apply an appropriate price earnings ratio. This reflects the rate of return that a buyer would require on his or her investment.

Private companies normally have a PE ratio of between 3 and 10 (although there are exceptions). This means that at the lower end **sustainable** business profits are multiplied by 3 and at the maximum end **sustainable** business profits are multiplied by 10.

Publicly quoted companies normally have a PE ratio of between 9 and 25 (although there are exceptions). This means that at the lower end **sustainable** business profits are multiplied by 9 and at the maximum end **sustainable** business profits are multiplied by 25. The reason why these are higher factors is because the shares are more marketable (i.e. easy to buy and sell) and therefore more attractive to investors. Typically, the value of an unquoted business is half that of the comparable quoted business in the same industry.

Businesses with more stable **sustainable** profits generally have higher PE ratios. Also, businesses that are forecasting higher future profitability may mean that a higher PE ratio is more appropriate.

The value of any particular shareholding or percentage business interest will rarely represent a simple pro-rate proportion of the value of the business as a whole and as a result further adjustments will be required to

2. Net Assets Basis

This method of valuing a business takes the individual assets and liabilities and adjusts them for their current market value. For example, the goodwill of a company or business is often ignored and this method of valuation would seek to place a value on goodwill. It is worth noting the fact that businesses are worth so much more than just the sum of the parts.

Normally, this method of valuation does not take into account the future profits of the business. It

simply uses the net assets and liabilities on the company's balance sheet and adjusts each asset/liability to reflect the current market values of each asset/liability in the balance sheet. This method can also be adapted to include a valuation of the goodwill.

Goodwill is normally calculated as multiple of sustainable profits after tax. The most common multiple factor is 3 years (although there are exceptions).

This method of valuation is normally suitable for investment businesses and asset rich businesses. For example, a property letting business. However, this method is not normally suitable for the valuation of trading businesses as a going concern unless, for example, the business also has some significant and valuable non-trading assets.

You need to adjust the book values as stated in the accounts to reflect current market value. Therefore, if the value of properties have gone up then include the current valuation, if there is stock obsolescence then reduce stock to its recoverable amount, if there is a huge bad debt lurking in trade debtors then reduce debtors to their recoverable amount.

Intangible assets, such as **existing** goodwill or development costs, should not normally be included.

This method may also be suitable for valuing businesses that are no longer going concerns. This may include businesses that have ceased trading, are in liquidation or is in a 'forced sale' situation.

3. Intrinsic Value Basis

This basis uses the discounted cash flows basis of valuing a business. It looks at the cash flows that are generated by a business as opposed to the profit it makes. Projections are prepared for say 5 to 15 years into the future in order to work out what the potential cash inflows are after tax for the period in question. A discount interest rate factor which reflects risk, inflation and debt/equity interest rates is then applied to the projected cash inflows and these are then aggregated with the residual continuing value of the company to give an overall valuation of the business.

This method of valuation is a very technical way of valuing a business and wholly depends upon a variety of assumptions that are expected to apply for a long period of time.

This method of valuation is more appropriate for cash-generating businesses that have consistent **sustainable** profits and are strong and stable and which more often than not are mature.

4. Industry Specific Basis

For some industries, the buying and selling of businesses is very common and over time a number of industry specific yardsticks or rules of the thumb have developed.

Some industries have well established valuation methods, often based on a multiple of turnover. These include, for example, hotels, advertising agencies and professional services firms. For example, the EBITDA for a care home, the GRF for a professional service business.

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2.6 Minority Interests

The value of any particular shareholding or percentage share in an unincorporated/LLP business will more than likely never represent a simple pro-rata proportion of the value of the business as a whole and as a result further adjustments will be required to the individual's share of the value of the business depending on the size of the shareholding.

For example, the suggested minority interest percentages to be applied to the full pro-rata value of the

business may be considered appropriate:

% of business owned	Discount
> 75%	0% to 5%
> 50% and < 75%	5% to 15%
> 45% and < 50%	20% to 25%
> 25% and < 45%	30% to 45%
> 10% and < 25%	50% to 70%
> 5% and < 10%	75% to 85%
< 5%	85% to 90%

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2.7 Agreeing the Business Valuation for Tax Purposes

Warning !

Please note that the Guide Price Valuation produced by The Business Valuer software cannot be relied upon for taxation purposes unless further work is carried out to agree the value of the business with HMRC Share Valuation Division.

If it is important that the valuation is agreed for tax purposes, then it will be necessary to submit the valuation report to the share valuation division of HMRC in order to obtain their approval on the valuation for tax purposes.

However, care must be taken in the preparation of the report.

This is because the earnings basis is the dominant valuation method used in the majority of cases and is the one that you are most likely to adopt for a trading business that is a going concern. However, it is very important to recognise that other valuation methods may be more appropriate in certain circumstances or when valuing a specific business share. It may be the case that a combination or hybrid of two or more of the methods may result in a more fairer valuation or can assist with proving the chosen "valuation" further.

It is worth noting that whatever method is chosen the HMRC have the right to challenge the chosen valuation method and are at liberty of choosing an entirely different method so therefore it is in the interest of the business owner to know all the possible valuations and therefore to calculate them and be prepared in advance. If no consideration is given to this then a disaster is waiting to happen.

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2.8 Restrictions on the use of the Valuation Report

The Valuation Report produced by The Business Valuer software is prepared solely for the User's use in order to assist the User in determining a Guide Price Valuation of the business.

We recommend that the report is not shown to any third party without the User's express permission and that you accept no liability for any reliance placed upon it by such third parties.

The responsibility for the final valuation of the business rests solely with the owners of the business.

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2.9 Key Business Questions of Business Owners

Key Business Questions of Business Owners

What is my business worth?

Are you looking to sell your business?

Are you looking to buy a business?

Are you thinking of a retirement or exit strategy from your business?

Have you thought of inheritance and inheritance tax planning?

Have you ever wondered what your 15% share holding is worth?

Have you got a Business Plan?

Are you thinking of raising finance or equity?

How do you motivate key employees?

Well **nowwww** the answers to these key questions can be answered in a few minutes with the use of our Business Valuer Software.

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3 The Software

3.1 How does it work?

The Business Valuer software works by simply taking the key financial information from your business accounts and then applying one or more of the widely accepted business valuation methods to calculate a Guide Price Valuation of a business. The software also has several in-built industry specific valuation methods as well, so if your business is in one of these industries then an additional Guide Price Valuation can be produced.

The business accounts can be Statutory Accounts, Management Accounts, Forecasts, or a mixture of them all. And, for those people that are novices to business valuations, there is comprehensive in-built help to keep you on track.

Once the key financial information is entered the software then computes the various selected valuations and then summarises them in a printable and professional looking valuation report that you can show to your bank manager, proposed purchaser, use internally or indeed, show to anyone.

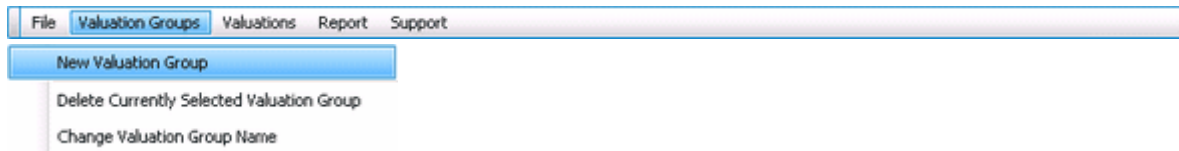
The objective of entering in all the information on all of the screens is to calculate the **sustainable** profits of the business in order to provide as reliable and fair a valuation as possible. Therefore, care and attention is required and the help file will assist you where you find it difficult or do not know where or how to enter the data.

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3.2 Getting Started

Step 1

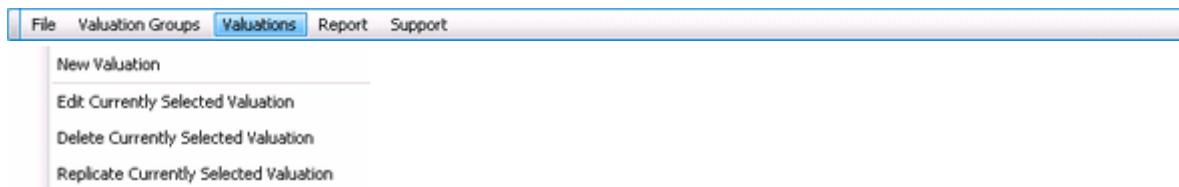
Firstly, you need to create a Valuation Group.



The Business Owner edition can only create one Valuation group and one valuation. The Professional Edition can create unlimited Valuation groups and unlimited Valuations.

Step 2

Secondly, you then need to create a Valuation.

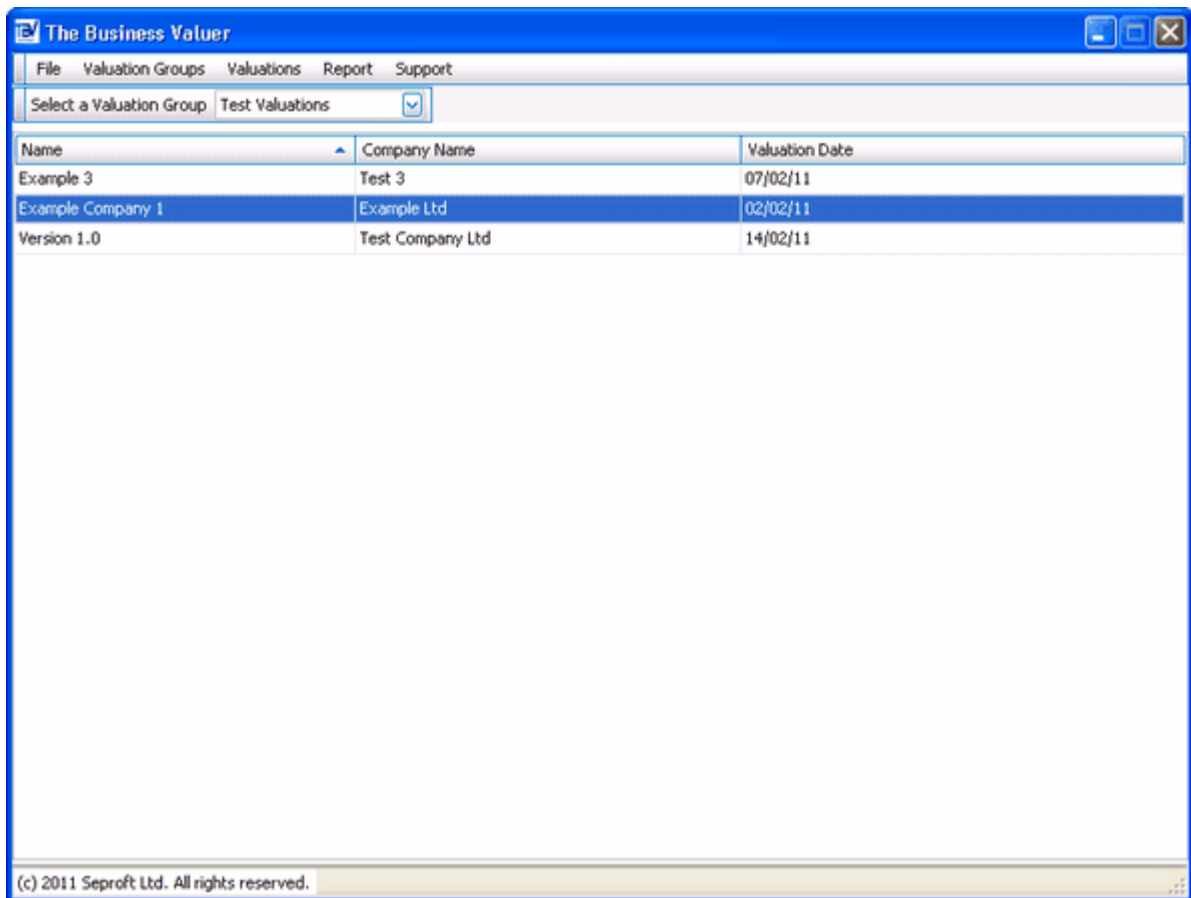


Step 3

Follow the [Data Input screens](#) and move from the first tab to the last tab and enter all the relevant information. Press F1 or click the help button for context sensitive help.

Click save when you have finished entering the business data and you will return to the screen below.

As you create valuations they are displayed in the Valuations grid. Simply double click a valuation to edit it.



Step 1

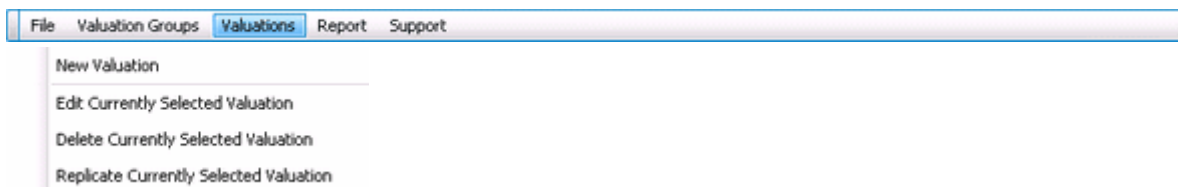
There are two ways to preview/print the Valuation Reports and Working Papers report:

1. From the Report item on the menu toolbar (see above)
2. From the [Valuation Tab](#).

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3.3 Replicating Valuations

If you want to see a variation of an existing valuation, then using the "Replicate currently selected Valuation" you can duplicate/copy an existing valuation.



3.4 Data Input Screens

3.4.1 Setup

In periods enter the latest available year end for which accounts are available. If the latest available accounts are old and forecast figures are available then enter the forecast figures for the latest year.

The weighting factor seeks to produce a weighted average of the sustainable profits made by a business. The default is 1, 2, 3, which means that a weighting factor of 3/6 is given to the latest year, 2/6 to the middle year and 1/6 to the third year. This helps you to weight the relative performance of the individual years results. Therefore, if you think the most recent year's result are more important than the third year's result then you can leave the weighting factors as default or adjust them for more weighting accordingly. If you do not wish to use weighting at all then simply set all the factors to 1.

Business status. Select Trading or Investment. The Valuation Report will indicate which valuation method is most appropriate depending on the industry sector.

Industry Type. Select from the list the most appropriate industry type. Some industries have their own specific industry valuation method and depending on which one is selected causes the Industry Specific method to be loaded in the Valuation Method section. This choice can be overridden.

The screenshot shows the 'Valuation Setup' screen with the following details:

- Valuation Details:**
 - Valuation Name: Version 1.0
 - Company Name: Test Company Ltd
 - Periods: 2007, 2008, 2009
 - Period Length: 12, 12, 12
 - Weighting Factor For Each Year: 1, 2, 3
 - Valuation Date: 14/02/2011 (with 'Use Today's Date' button)
 - Final Period Type: Actual
- Business Details:**
 - Year End: 31, January
 - Business Status: Trading
 - Business Type: Limited Company
 - Industry Sector: Telecommunications
 - Currency: £
- Valuation Methods:**
 - Earnings Basis (E.g. Profit Multiples)
 - Net Asset Basis
 - Discounted Cash Flow (DCF)
 - Industry Specific: GRF
 - Minority Interest

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3.4.2 Income

The weighted average is displayed in the end column and uses the weighting factors from the setup up tab to calculate this.

Sales and Cost of sales

Simply enter the data from the relevant management information, either statutory or management accounts or forecast amounts. **You only need to enter data in the white input boxes.**

Other Income

Enter in the Other Income section, the non-trading income that the business receives. It is normal to exclude other income from the valuation calculation, unless it is considered that the income is of a permanent nature. The normal non-trading income is interest received from bank deposits, investment returns like dividends received, rent received from property that the company owns and that is surplus to current requirements.

If the income is **NOT** considered to be of a permanent nature then check the exclude boxes to ensure that the valuation does not take account of this income. All valuation methods exclude Interest received and for the EBITDA and EBIT methods interest received **MUST** be excluded. If you want to include Interest Received for the other valuation methods then enter it in other income and do not tick the exclude check box.

The total of "Excluded" other income is displayed for the user's information. This is transferred to the Profits Preview tab for adjustment to calculate the [sustainable](#) profit.

	2007	2008	2009	Weighted Average
Sales				
Sales	£722,000	£800,000	£764,000	£769,000
Cost of Sales	£389,000	£470,000	£479,000	£461,000
Gross Profit	£333,000	£330,000	£285,000	£308,000
Gross Profit %	46.12 %	41.25 %	37.30 %	
Other Income				
Interest Received	£750	£9,000	£6,000	
Rent	£0	£0	£0	<input checked="" type="checkbox"/>
Other Income	£1,120	£0	£0	<input type="checkbox"/>
Other Income Total	£1,870	£9,000	£6,000	£6,312
Excluded Other Income				
Total of "Excluded" Other Income	£750	£9,000	£6,000	£6,125

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3.4.3 Overheads

The weighted average is displayed in the end column and uses the weighting factors from the setup up tab to calculate this. **You only need to enter data in the white input boxes.**

Total Overheads per Accounts

Simply enter the business overheads total from the relevant management information, either statutory or management accounts or forecast amounts. You can normally find the overhead total on the profit and loss account page at the back of statutory accounts. The overhead total will include administration expenses, establishment costs, depreciation and finance charges.

In order to calculate the [sustainable](#) profits we need to identify all exceptional and non-recurring expenses contained within the overheads so that we can adjust them on the profits review tab to arrive at the [sustainable](#) profits. For example the type of exceptional or non-recurring expenses you need to identify will include, excessive directors' remuneration and pension costs, income and expenses

relating to discontinued or new operations, and the profit or loss on the sale of fixed assets. You also need to be careful to add back non-recurring costs such as bad debts, exceptional stock write downs, legal and professional costs to name a few. Adjustments should also be made to reflect the impact of any proposed changes in the future.

Also, you need to look for areas in the expenses that need to be restated. For example, excessive or inappropriate depreciation charges, lower costs by utilising better purchasing power or economies of scale and increased borrowing costs, redundancy payments, etc. These can be adjusted on the Other Options tab.

Although having a full analysis of the costs is useful, you do not have to complete all the white boxes to analyse the overheads. The absolute minimum information that is required are the costs that need to be added back. To ensure that costs are added back simply put a tick in the check box. The **Balance of Unanalysed Overheads** row is initially the same as the **Total Overheads per Accounts** row and changes for each expense field that is filled in with amounts. Therefore, this is a calculated amount that simply informs you of the current amount of overheads that have not been analysed out. It is not essential at all that this is balanced out to zero.

Overheads						
	2007	2008	2009	Weighted Average	Valuation Add Back?	
Total Overheads Per Accounts	£241,000	£252,000	£253,000			
Analysed as:						
Depreciation	£2,500	£2,589	£3,652	£3,106		
Directors Remuneration	£6,000	£6,000	£6,000	£6,000		
Interest Payable	£3,000	£6,000	£5,000	£5,000	<input checked="" type="checkbox"/>	
Establishment Costs	£0	£0	£0	£0	<input type="checkbox"/>	
Administrative Expenses	£226,878	£227,910	£232,216	£229,891	<input type="checkbox"/>	
Bad debts	£2,122	£9,001	£5,632	£6,170	<input checked="" type="checkbox"/>	
Legal Fees	£500	£500	£500	£500	<input checked="" type="checkbox"/>	
Other Expenses	£0	£0	£0	£0	<input type="checkbox"/>	
Balance of Unanalysed Overheads	£0	£0	£0			For reconciliation purposes only
Totals						
Total of "Analysed" expenses	£241,000	£252,000	£253,000	£250,667		
Total of "Excluded" expenses	£14,122	£24,090	£20,784	£20,776		

Depreciation

Enter the depreciation amounts from the same page. The depreciation amount must include depreciation, amortisation, but not profits/losses on sale/disposal of assets if these are material and non-recurring nature. The latter need to be separately identified in "other expenses" as these are expenses of a non-recurring nature.

Directors Remuneration

Enter the amounts of remuneration paid to the Directors of the business that are included in the overheads total. This includes salary, bonus, pension payments and benefits in kind and employers national insurance on these payments. The reason why this is added back or excluded is that in most owner managed businesses the level of owner remuneration is not set at a realistic commercial level (arm's length). This may be because the owners are deliberately taking out excessive amounts of remuneration or even none at all or are taking the income in the form of dividends.

The realistic or market value level of remuneration for owners is considered on the "Shareholders" tab.

Interest Payable

Enter only the interest paid in respect of bank loans, bank overdrafts, HP loans, etc. Do **not** enter bank charges, as this is a normal recurring business expense.

For the EBITDA/EBIT method then the interest payable **MUST** be excluded.

Establishment Costs and Administrative Expenses

If you want to analyse out all the "Balance of Unanalysed overheads" for reconciliation purposes then do so here. This step is not essential.

Alternatively you can use these data fields for additional overheads to be excluded or adjusted for in the calculation of sustainable profits..

Other Expenses

Enter in the Other Expenses Income section, the non-recurring or exceptional expenses that the business has incurred during the relevant years. It is normal to exclude or "adjust" for these type of expenses from the valuation calculation. Be careful when examining the accounts for this kind of expense as they can be easily missed.

There are three expense boxes that are text editable to enable you to detail the specific nature of the expense, for example, bad debts.

For example, the types of expense that could be included here include bad debts, legal costs relating to settled claims, donations, consultancy fees, etc.

Excluded overheads

The total excluded overheads is displayed for the user's information.

Simply check the exclude checkbox to 'adjust' for the relevant expense in the calculation of the adjusted sustainable profits. The results are displayed on the Profits Preview tab.

Balance of Unanalysed Overheads

Initially, this field is the same as the Total Overheads per accounts and changes for each expense field that is filled in with amounts. Therefore, this is a calculated amount that simply informs you of the current amount of overheads that have not been analysed out. It is not essential that this is balanced out to zero.

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3.4.4 Profit and Loss

The weighted average is displayed in the end column and uses the weighting factors from the setup up tab to calculate this.

You only need to enter data in the white input boxes.

Profit and Loss

The Gross Profit, Other income and Overheads are previewed here for reconciliation purposes back to the statutory accounts.

Tax

Enter the amount of the tax charge. For companies, this can be found on the statutory profit and loss account page or in the statutory notes to the accounts. For unincorporated business and LLPs this can

be left blank or you can put an estimate in.

Dividends

Enter the dividends. For companies, this can sometime be found on the statutory profit and loss account page or in the statutory notes to the accounts under shareholders' funds. Leave it blank for unincorporated business and LLPs.

Tax %

Click the button next to the suggested value to enter the suggested value into the tax % box. Or enter a value that you feel is more appropriate. Note: The tax paid by a company is based on the taxable profits of the company and not the accounting profits. Taxable profits can differ widely from accounting profits due to the different tax treatment of, for example, fixed asset additions/capital allowances, or certain disallowable expenses.

Profit & Loss				
	2007	2008	2009	Weighted Average
Sales	£722,000	£800,000	£764,000	£769,000
Cost of Sales	£389,000	£470,000	£479,000	£461,000
Gross Profit	£333,000	£330,000	£285,000	£308,000
Other Income	£1,870	£9,000	£6,000	£6,312
Overheads	£241,000	£252,000	£253,000	£250,667
Net Profit Before Tax	£93,870	£87,000	£38,000	£63,645
Tax	£17,000	£20,000	£6,000	£12,500
Net Profit After Tax	£76,870	£67,000	£32,000	£51,145
Dividends	£0	£0	£0	
Retained profit for Period	£76,870	£67,000	£32,000	
Tax %	18.11 %	22.99 %	15.79 %	19.640 % Enter % to use
				<input type="button" value="Move Up"/>
				Tax % Suggested <input type="text" value="19.640 %"/>

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3.4.5 Assets

Tangible Assets

Simply enter the data from the latest actual management/statutory information. You need the balance sheet and notes to the balance sheet to be able to complete this data input.

You only need to enter data in the white input boxes.

First, simply enter the data in the "NBV at Year End" column. Then, if you know or believe that certain assets have increased or decreased in value then enter the actual known value in the valuation column. The value to use column will then adjust automatically to reflect the increase in the net assets of the business. The difference between the NBV value and the Valuation value will be automatically displayed in the adjustment column. The total of all the adjustments will be taken to the Capital/Reserves tab.

"Excluded" Assets

If you want to exclude certain assets, then simply enter the aggregate value of the "Excluded Assets" in the "Excluded Assets" box in the "Value to Use" column. For example, you may want to strip out certain tangible assets such as an "expensive" car that is included in motor vehicles.

Adjustments

The Adjustment total is transferred to the Capital/Reserves tab for reconciliation purposes and as a date capture completeness check

Current Assets

Simply enter the data from the latest actual management information. You need the balance sheet and notes to the balance sheet to be able to complete this data input. Simply enter the data in the "NBV at Year End" column only.

Be careful to enter in the amounts owed to the directors/owners of the business here, if any. If boxes do not exist here for any particular current asset on your balance sheet then simply combine some totals. For example, a VAT refund due can be included in the 'Other Debtors' total.

Setup	Income	Overheads	Profit & Loss	Assets	Liabilities	Capital / Reserves	DCF Options	Other Options	Shareholders	Profits Preview	Valuation
Fixed Assets											
				NBV at Year End	At Valuation	Value to Use					Adjustments
Goodwill				£0	£0	£0					£0
Investments, Patents and Intellectual Property				£0	£0	£0					£0
Leasehold Property				£0	£0	£0					£0
Freehold Property				£0	£0	£0					£0
Plant & Machinery				£0	£0	£0					£0
Fixtures & Fittings				£16,500	£0	£16,500					£0
Computers				£0	£0	£0					£0
Motor Vehicles				£0	£0	£0					£0
"Excluded" Assets						£0					£0
Total "Included" Fixed Assets at Valuation						£16,500					£0
Current Assets											
Stock				£9,000		£9,000					
Debtors				£0		£0					
Other Debtors and Prepayments				£243,000		£243,000					
Directors' Loan Accounts				£0		£0					
Bank and Cash				£10,000		£10,000					
Total				£262,000		£262,000					

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3.4.6 Liabilities

Creditors < 1 Years and > 1 Year

Simply enter the data from the latest actual management information. You need the balance sheet and notes to the balance sheet to be able to complete this data input.

You only need to enter data in the white input boxes.

Be careful to enter in the amounts owed by the directors/owners of the business here, if any. Be also careful to identify all the debts owed by the business to finance companies. Therefore, enter all HP, Bank Loans, Amounts owed to factors in the HP/Bank Loans boxes.

If boxes do not exist here for any particular current liability on your balance sheet then simply combine some totals. For example, a deferred income can be included in the 'Other creditors and accruals'

total.

Provisions for liabilities

Enter in the amount, if relevant. The most common provision is for deferred tax. This should be displayed on the face of the balance sheet, but if not then check the notes to the accounts.

Net Assets

This calculation is displayed for you to double check and reconcile to the balance sheet you are using to enter all the information.

Setup	Income	Overheads	Profit & Loss	Assets	Liabilities	Capital / Reserves	DCF Options	Other Options	Shareholders	Profits Preview	Valuation
Creditors < 1 Year											
Bank Overdraft					£0						
Trade Creditors					£38,000						
Corporation Tax					£12,000						
Tax and Social Security (PAYE & VAT)					£65,000						
Other Creditors and Accruals					£27,000						
HP/Bank Loans					£110,000						
Directors' Loan Accounts					£15,000						
Total					£267,000						
Creditors > 1 Year											
HP/Bank Loans					£0						
Deferred Tax					£0						
Preference Shares					£0						
Total					£0						
Net Assets											
Net Current Assets					-£5,000						
Total Assets Less Current Liabilities					£11,500						
Creditors > 1 Year					£0						
Provisions for Liabilities					£0						
Net Assets					£11,500						

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3.4.7 Capital and Reserves

Capital and Reserves

Simply enter the data from the latest actual management information. You need the balance sheet and notes to the balance sheet to be able to complete this data input.

You only need to enter data in the white input boxes.

If the profit and loss account is negative then enter a negative amount.

The adjustments figure is brought forward from the Assets tab.

The screen displays a warning message if the data you have entered does not balance. If after completing this page, the warning message does not disappear, then please go back and double check all your inputs.

Setup	Income	Overheads	Profit & Loss	Assets	Liabilities	Capital / Reserves	DCF Options	Other Options	Shareholders	Profits Preview	Valuation
Capital / Reserves											
Called Up Share Capital						£100					
Share Premium Account						£0					
Revaluation Reserve						£0					
Capital Reserves						£0					
Adjustments						£0					
Profit & Loss Account						£0					
Shareholders' Funds						£100	Warning: This shareholders' funds value does not correspond correctly with the net assets value calculated on the previous page.				

The correctly completed screen:

Setup	Income	Overheads	Profit & Loss	Assets	Liabilities	Capital / Reserves	DCF Options	Other Options	Shareholders	Profits Preview	Valuation
Capital / Reserves											
Called Up Share Capital						£100					
Share Premium Account						£0					
Revaluation Reserve						£0					
Capital Reserves						£0					
Adjustments						£0					
Profit & Loss Account						£11,400					
Shareholders' Funds						£11,500					

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3.4.8 DCF Options

This tab page initially displays the default Discounted Cash Flow options for the DCF valuation method. You can modify the default inputs to suit your own purposes. Any changes will be saved with the current valuation.

DCF Options			
Yearly Sales % Increase	<input type="text" value="5 %"/>		
Yearly Cost of Sales % Increase	<input type="text" value="5 %"/>		
Yearly Overhead % Increase	<input type="text" value="5 %"/>		
		Amount of Debt per Balance Sheet	
Interest Rate for Equity	<input type="text" value="25 %"/>	<input type="text" value="£11,500"/>	
Interest Rate for Bank Loans	<input type="text" value="8 %"/>	<input type="text" value="£110,000"/>	
Interest Rate for DLA Loans	<input type="text" value="6 %"/>	<input type="text" value="£15,000"/>	

DCF Options

Enter here the expected annualised percentage increase for sales, cost of sales and overheads over the DCF period. This is normally 5 to 15 years.

The software calculates the discount factor to use based on a combination of the respective interest rates for all the different forms of business debt. This is broken down into just three type of debt. Equity debt, Finance debt and Amounts owed to the owners/directors.

The interest rates for finance debts, such as bank loans, HP loans, etc are easy to determine. And the rate of return for Director's loan are equally easy to set a value for. However, the rate of return to set for equity debt is more difficult.

Quite often the equity interest rate depends on the individual investor's personal circumstances. For example, what is the opportunity cost of employing that capital in an alternative form of investment and what is the business risk? It is quite reasonable to expect that a potential purchaser can quite easily obtain a return of equity in the region of 20% and over in other investment vehicles. We feel 25% to 30% is an appropriate range in this circumstance.

Looking at it from another viewpoint, profit multiples of 10 times of profit after tax produces a 10% return on investment. A multiple of 6 gives a 16.66% return, and a multiple of 3 gives 33.33%! Thought of in these terms and giving due consideration to the normally high risk nature of investing in unquoted businesses one can see that the expected rate of return for equity debt should be set at a high level.

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3.4.9 Other Options

Valuation Options

This tab page initially displays the default inputs that apply to each of the valuation methods that are currently available in the software. You can modify the default inputs to suit your own purposes. Any changes will be saved with the current valuation.

Setup	Income	Overheads	Profit & Loss	Assets	Liabilities	Capital / Reserves	DCF Options	Other Options	Shareholders	Profits Preview	Valuation
Guide Price Valuation Factors											
Earnings Basis											
Profit Multiple		<input type="text" value="5"/>									
Net Assets Basis											
Goodwill Profit Multiples		<input type="text" value="3"/>									
EBITDA Basis											
EBITDA Multiple		<input type="text" value="5"/>									
Gross Margin Basis											
Gross Margin Factor (In months)		<input type="text" value="3"/>									
Gross Recurring Fees (or Revenue) Basis											
GRF Factor		<input type="text" value="1.10"/>									
Non-GRF Factor		<input type="text" value="0.50"/>									
Percentage Recurring		<input type="text" value="65 %"/>									
Percentage Non-Recurring		<input type="text" value="35 %"/>									
General Values											
Expected change in overheads due to Acquisition, if applicable		<input type="text" value="£0"/>		<input type="text" value="Increase"/>							
Employer NI % for Realistic Remuneration		<input type="text" value="12.80 %"/>									

Earnings Basis

Private companies normally have a PE ratio of between 3 and 10 (although there are exceptions). This means that at the lower end sustainable business profits are multiplied by 3 and at the maximum end sustainable business profits are multiplied by 10.

Publicly quoted companies normally have a PE ratio of between 9 and 25 (although there are exceptions). This means that at the lower end sustainable business profits are multiplied by 9 and at the maximum end sustainable business profits are multiplied by 25. The reason why these are higher factors is because the shares are more marketable (ie easy to buy and sell) and therefore more attractive to investors. Typically, the value of an unquoted business is half that of the comparable quoted business in the same industry.

Businesses with more stable sustainable profits generally have higher PE ratios. Also, businesses that are forecasting higher future profitability may mean that a higher PE ratio is more appropriate.

The default is set to 5 as research suggests that this is the most common multiple to apply to sustainable profits.

EBITDA/EBIT Basis

This is an industry specific method, and is a form of Earnings Basis method.

The default is set to 5 as research suggests that this is the most common multiple to apply to sustainable EBITDA/EBIT profits.

GRF Basis

This is an industry specific method. It is especially relevant for professional businesses, such as architects, solicitors, accountants, surveyors etc

The default GRF factor is set to 1.1 as research suggests that this is the most common multiple to apply to recurring Turnover or fees.

The default Non-GRF factor is set to 0.5. This method can also factor in and take into account fees of

a non-recurring nature. This is not as valuable as GRF income, but nevertheless is expected to and normally does occur during the course of an accounting period year on year.

Default % for GRF Income and default % for Non-GRF Income. Simply enter the approximate split of recurring fee income compared to non-recurring fee income. The GRF and non-GRF factors are then applied to the pro-rated turnover taken from the Income tab.

General Values

Use this box (with **decrease** selected) to enter any specific cost savings or economies of scale or synergies that might be realised by a potential purchaser. In contrast, if costs are expected to increase for example as a result of acquisition then enter the amount with "**increase**" selected. This might happen, for example, where it is the potential purchaser intention to increase staff levels after the date of acquisition.

Leave this blank if you are selling. If you are buying then consider this.

Default Employer's NI rate is set to 12.8%. Change this to a lower value if relevant, for example, if owner's realistic remuneration is less than the personal allowance.

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3.4.10 Shareholders

Enter here details of all the business owners and the shares in the business.

Include the actual remuneration (for reconciliation back to the latest accounts). It is very important to enter the realistic commercial remuneration of the owner. This should be set at an amount that would be fair and at arms length and what the business would pay to a non-shareholder employee in a similar role.

The amount should be entered for each owner directly involved in the business and should reflect the time involved, expertise and the market rate for a person with similar expertise. What we are trying to achieve here is the appropriate level of remuneration that would be paid to a "Manager" if one was put in place in the position/role of the current owner.

Additional shareholders/owners can be added by simply clicking the add shareholder button.

If you want the valuation report to include a valuation of each business owners shareholding then check the minority interest box for each individual shareholder/owner.

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3.4.12 Valuation

This tab screen displays the various options you now have to produce the valuation report that you want.



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4 Support

4.1 Suggestions, Improvements and Enhancement

We are always looking at ways to improve the software we develop. Therefore, if you have any specific ideas or suggestions for the improvement or enhancement of this software then please feel free to either:

Email your ideas/suggestions to: support@thebusinessvaluer.co.uk

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4.2 Software updates/patches

As with all software, enhancements may be required from time to time. This is to continually enhance the software through user feedback and market changes. These updates/patches will be distributed as part of the service as they become available.

Also, please check regularly at www.thebusinessvaluer.co.uk for the latest news and updates.

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4.3 Technical Support

Although we do not provide a continuous telephone help desk we will seek whenever it is reasonably practicable for us to do so to provide telephone assistance between the hours of 09:00 to 17:00 Monday to Friday excluding English Bank Holidays for diagnosis or correction of defects or errors in connection with the Software. In the event that help is not immediately available we will endeavour to respond to the enquiry within fourteen days.

NOTE: Please note that we do not provide support for the normal operation of the software. However, You can email any questions to: support@thebusinessvaluer.co.uk

NOTE: We will not provide support services which are required as a result of either a direct or indirect breach by the User of any of their obligations under the Annual Licence Agreement and in particular if the User operates a version of the software which is not at that time the current version or if the User interferes with or alters or modifies the software.

Please remember to visit our web site at www.seproft.co.uk or www.thebusinessvaluer.co.uk where the latest updates and patches are always available.

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4.4 License server availability

The service is available 24*7*365. We aim to have a 99% uptime coverage. We conduct continual periodic backups of the data to safeguard data integrity and the service offering.

The license incubuses both the web service and the storage of data on our servers give remote access to data as outlined above. Both the licence and database storage are encapsulated within the cost and can be renewed annually. Where the service will not be renewed we suggest that you take a backup of data locally as we will store active account information only.

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4.5 Registering the Software

Registering The Business Valuer software is completed automatically after purchase. If this does not happen for whatever reason then please email support@thebusinessvaluer.co.uk.

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