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Fair Value company valuation

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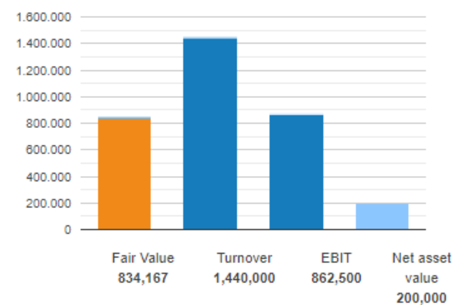
1 Management Summary

Company valuations are necessary in different phases of a company. Most of the time, these are crucial situations in which there are great opportunities but also great risks.

The valuation of a company can differ widely between the seller and the buyer because the interests are not the same.

With the Fair Value company valuation, we offer a valuation method that represents a fair basis for both sides.



The Fair Value business Valuation is a calculation of the economic value of a company that is based on objective and well-founded criteria and appropriately takes into account the interests of all parties involved.

The Fair Value business Valuation is based on three pillars:

1. Sales
2. EBIT
3. Asset value

It takes into account principles such as: transparency, independence and diversification. Such an assessment is important in various business situations, such as when selling or buying a company or when calculating company values for investment decisions.

The Fair Value business valuation was developed by **KMU Ratgeber AG** for the valuation of SME (Small and Medium-sized Enterprises) and looks at the current situation. It assumes that the environment remains stable. If this is not the case, we recommend a company valuation using the DCF method, taking into account the future prospects, which take into account the company's future income, expenses and risks, as the company's value depends heavily on its future cash flows.

2 Fair value company valuation

2.1 Fair Value basics

A fair business valuation is a process in which the value of a company is determined objectively and fairly. This is an important step in various business situations, such as buying or selling companies, mergers and acquisitions, determining company value for tax purposes, determining stock option plans, or evaluating investment opportunities. A fair business valuation is crucial to ensure that all parties involved are treated fairly and that the true value of the business is properly reflected.

The fair value company valuation is based on objective and well-founded criteria that appropriately take into account the interests of all parties involved.

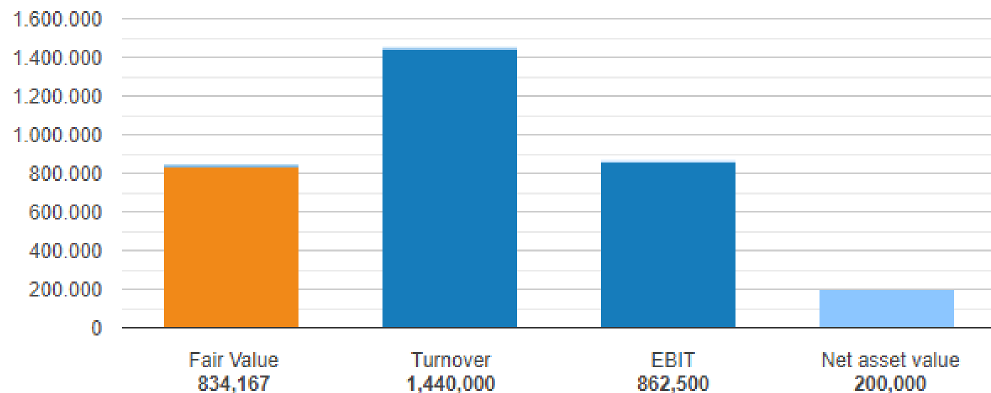
The Fair Value business Valuation is based on three pillars:

1. The **Sales-multiple** is based on adjusted sales before exceptional items. Special items are sales that are not operational or extraordinary.
2. The **EBIT-multiple** (EBIT=earnings before interest and taxes). It is based on net earnings before interest and taxes.
3. The **Asset value** is calculated from the balance sheet total minus borrowed capital, taking into account the hidden reserves/risks.

The sales and EBIT multipliers used depend on the industry and are provided by the business intelligence solution biscau.com.

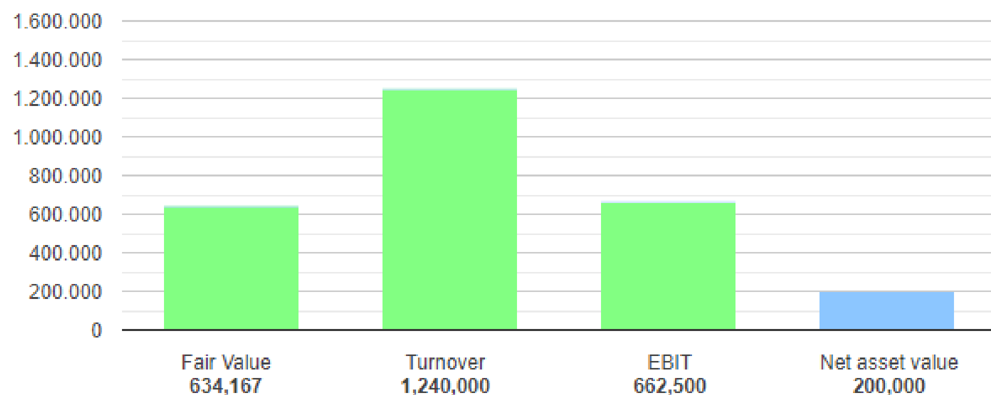
Fair Value airmna.com			
Multiples		**Multiple**	**Wert**
sales	2'000'000	0.72	1'440'000
EBIT	150'000	5.75	862'500
Asset value			
asset value	200'000	1.00	200'000
Fair Value Unternehmenswert			**834'167**

2.2 Fair Value Visualization



Fair Value	Fair Value = (Multiplier EBIT + Multiplier Turnover + Net asset value / 3) *Formula: 862,500 + 1,440,000 + 200,000 / 3 = **834,167***
Turnover	The turnover multiplier is based on adjusted sales before exceptional items. Exceptional items are sales that are not operational or exceptional. *Formula: 2,000,000 * 0.72 = **1,440,000***
EBIT	Multiplier EBIT (EBIT=earnings before interest and taxes). It is based on net earnings before interest and taxes. *Formula: 150,000 * 5.75 = **862,500***
Net asset value	The net asset value is calculated from the balance sheet total minus borrowed capital, taking into account hidden reserves/risks.

Goodwill / Badwill



Goodwill	Goodwill is known as a positive difference to the asset value.
Badwill	Badwill is known as a negative difference to the asset value.

It takes into account principles such as: transparency, independence and diversification. Such an assessment is important in various business situations, such as when selling or buying a company or when calculating company values for investment decisions.

The Fair Value business valuation was developed by **KMU Ratgeber AG** for the valuation of SME (Small and Medium-sized Enterprises) and looks at the current situation. It assumes that the environment remains stable. If this is not the case, we recommend a company valuation using the DCF method, taking into account the future prospects, which take into account the company's future income, expenses and risks, as the company's value depends heavily on its future cash flows.

6 values for fair value company valuation

Basic criteria	Key figures
1. country	1. Sales volume
2. Industry	2. EBIT
	3. Total assets
	4. Equity capital

Link: **Fair Value company valuation**

(Create a login for Fair Value Company Valuation and you can rate and advertise companies for free)

It is important to note that a fair business valuation is usually not based on a single method, but requires a combination of multiple methods and careful analysis.

The choice of the appropriate method or methods depends on the specific circumstances and it is often advisable to seek the services of financial experts or business valuation specialists to ensure that the valuation is fair and appropriate. A fair business valuation should be transparent and disclose all relevant information and assumptions to ensure that the valuation is acceptable to all parties involved.

2.3 Fair Value sales

The annual turnover includes the turnover from goods, services, licenses, etc., which the company or area offered has generated in the past calendar year or 12 months, excluding VAT.

Corrections made to sales can be made and must be justified in detail.

Overall, sales multiples can be a useful method for valuing companies, especially when used in conjunction with other valuation methods and careful industry analysis.

2.4 Fair Value EBIT

EBIT = company earnings before interest and taxes. Is an international benchmark to make company results comparable.

Taxes and interest costs are added to the annual profit and the result is the EBIT. The time span for EBIT is one year or 12 months.

In the case of legal entities (stock corporations, GmbH, etc.), the wage costs of the working owners are included. In the case of natural persons (sole proprietorship, general partnership, etc.), the wage costs of the working owner are usually not included and must therefore be corrected as follows.

Fair Value EBIT	**Financial statements Legal entity**	**Annual financial statement**	**Correction natural person**
EBIT annual accounts			
Sales	1'125'000	1'125'000	1'125'000
Costs	-650'000	-650'000	-650'000
Wage costs	-250'000	-150'000	-150'000
expenses	-75'000	-75'000	-75'000
Correction entrepreneurs wages			**-100'000**
EBIT annual accounts	**150'000**	250'000	
Adjusted EBIT natural person			**150'000**

2.5 Fair Value Shareholders equity

Equity is the difference between the assets (total assets) and the liabilities (total debt capital) on the balance sheet (e.g. of companies). Equity is available to the company for an unlimited period and there are no repayment obligations.

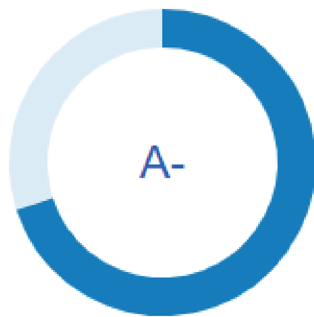
The balance sheet must be checked beforehand in accordance with recognized valuation principles (Swiss GAAP FER, IFRS or US GAAP). We include existing hidden reserves in equity, such as assets valued too low or liabilities valued too high in the balance sheet.

		Values of the annual accounts	Hidden reserves	Total
Assets				
	Liquid fonds	50'000		50'000
	Accounts receivable	100'000	5'000	105'000
	Warehause	50'000	25'000	75'000
	Capital assets	125'000	25'000	150'000
Liabilities				-
	Short-term borrowed cap	-75'000		-75'000
	Long-term liabilities	-50'000		-50'000
	Accruals	-100'000	45'000	-55'000
Shareholders equity		**100'000**		
Hidden reserves			**100'000**	
Net Asset value including hidden reserves				**200'000**

However, it is important to note that the intrinsic value method also has its disadvantages and limitations. It does not take into account intangible value, such as brand value, intellectual property or customer relationships. Additionally, it does not take into account the company's earnings potential, which in many cases can be an important component of its true value.

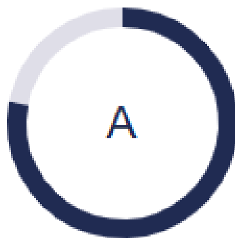
In practice, the intrinsic value valuation is often used in combination with other valuation methods to obtain a more comprehensive picture of the company's value. It is particularly useful when a business consists primarily of physical assets or when there is uncertainty about future earnings prospects.

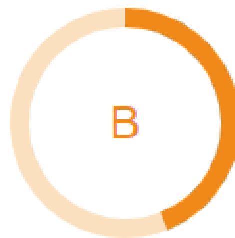
2.6 Rating and reference numbers



Healthy company with possible risks; favorable future security

Reference numbers





The company rating and the evaluation of the key figures are based on the rules of www.biscau.com. The calculated rating values can deviate from the rating of the financial institutions.

Both quantitative and structural factors are considered for the rating. The quantitative factors include the industry indicators of liquidity, financing and earnings. The structural factors take into account the company's economic data.

2.7 Rating scale AAA until C

The rating assesses a company's health and future security. The biscau calculation is based on the generally recognized factors and principles of Basel III.

Risk classes	**biscau**	**S&P**	**Moody's**
Very healthy company; highest quality of future proofing	AAA	AAA	Aaa
healthy companies; high quality of the future	AA+ AA AA-	AA+ AA AA-	Aa1 Aa2 Aa3
healthy companies with potential risks; cheap secure future properties	A+ A A-	A+ A A-	A1 A2 A3
Companies with potential risks; medium quality of future proofing	BBB+ BBB BBB-	BBB+ BBB BBB-	Baa1 Baa2 Baa2
Companies with existing risks; sufficient structures assurance of future	BB+ BB BB-	BB+ BB BB-	Ba1 Ba2 Ba3
Companies with medium risks; insufficient structures assurance of future	B+ B B-	B+ B B-	B1 B2 B3
Companies with medium to large risks; endangered future proofing	CCC+ CCC CCC-	CCC	Caa
Companies with large risks; very little future proofing	CC+ CC CC-	CC	Ca
Companies with very large risks; least secure future	C+ C C-	C	C

3 Extendet exams

3.1 Due Diligence - Buyer

A due diligence is a check that is usually initiated by the buyer when purchasing companies or company holdings.

It serves to bring the future buyer as fully as possible to the knowledge of the seller, to obtain a confirmation for the previous information and information, to capture and evaluate as many opportunities and risks as possible, to obtain information for the improvement of the business.

Depending on the size and complexity of the company, due diligence can take on a large scope. For this purpose, the buyer selects the appropriate specialists who will examine the company to be acquired for him.

These experts, such as trustees, tax consultants, auditors and lawyers, sometimes also technical, industry and financial experts, are responsible for their assessments, so it can be assumed that all auditors exercise great caution and due diligence can therefore of course be very extensive.

The results of a due diligence are recorded in the due diligence report and influence the negotiations, in particular the guarantee catalog and the purchase price determination. A neutral third party can help with a plausible weighting of risks in the event of a dispute.

Credit institutions often want to see the due diligence report, its statements influence the financing.

Due diligence is a delicate matter for a seller because at the time of the review, employees are usually not yet aware of the intention to sell.

Nowadays, it is also common to set up virtual data rooms with all relevant documents and contract copies. A prospective buyer receives access rights against a protected password, which allow him to view the documents. Such a digital data room can be set up with the software **www.biscau.com** .

The provision of a virtual data room also has the not to be underestimated advantage that several prospective buyers can check at the same time without having to appear in the company or even knowing about each other.

3.2 Correction values

For SMEs, the annual financial statement is the basis of a company valuation. The annual accounts are checked in accordance with internationally recognized standards such as IFRS or Swiss GAAP FER and corrected if necessary.

- Possible corrections are:
- assets or liabilities not required for operations
- assets or liabilities rated too low or too high
- expenses not required for operations
- Non-operating income
- Excessively booked expenses such as entrepreneurial wages, finance or rent costs ...

If you want to create an assessment in the future, the budget figures are used. You get a good overview if you compare the financial indicators with the industry average. In addition, synergy potentials can be included in the evaluation by presenting the value chains and quantifying the individual positions.

3.3 Correction values for company valuation

These correction factors can be applied in various situations to adjust the determined company value and adapt it more precisely to the specific circumstances. Here are some common correction factors that can be taken into account when valuing a company:

1. **Control Premium**: This factor takes into account the value of a company if the buyer takes control of the company. The control premium reflects the additional value a buyer is willing to pay to take control of the company.
2. **Minority interest discount**: If the subject of valuation is a minority interest, a discount may be applied to take into account the lower influence and control of the minority shareholders.
3. **Liquidity discount**: This factor takes into account the time required to sell assets and convert them into cash. Companies with assets that are poorly liquid may receive a liquidity discount on their total value.
4. **Market risk premium**: In volatile economic environments, it may be necessary to add or subtract a market risk premium to account for the impact of market fluctuations on company value.
5. **Synergy Premium**: In merger and acquisition situations, a synergy premium may be added to account for the additional value created by combining two companies.

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6. **Industry-specific factors**: Depending on the industry and type of company, industry-specific factors such as seasonal fluctuations, market niches and technological trends can be included in the assessment.
7. **Tax implications**: Tax aspects can influence the value of the company. This may include the use of tax depreciation or other tax relief.

The application of correction factors in company valuation requires careful analysis and precise knowledge of the specific circumstances of the company being valued. These factors are intended to help adjust the determined value more closely to actual circumstances and ensure that the valuation is as fair and accurate as possible. In many cases, the valuation is carried out by financial experts or business valuation specialists to ensure that all relevant factors are taken into account.