

Bright Star Company Valuations 2011



Valuation of Public vs. Private Companies

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Presentation outline

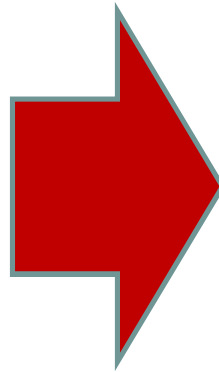
- **Overview of valuation concepts**
- **Life cycle and methodologies**
- **Valuation of Private companies and SMEs**
- **War stories!!**
- **Questions**



Balanced judgment and considerations

Questions

- Why?
- What?
- Who? To whom?
- How?
- When?
- Which?
- How much?
- Does it make sense?

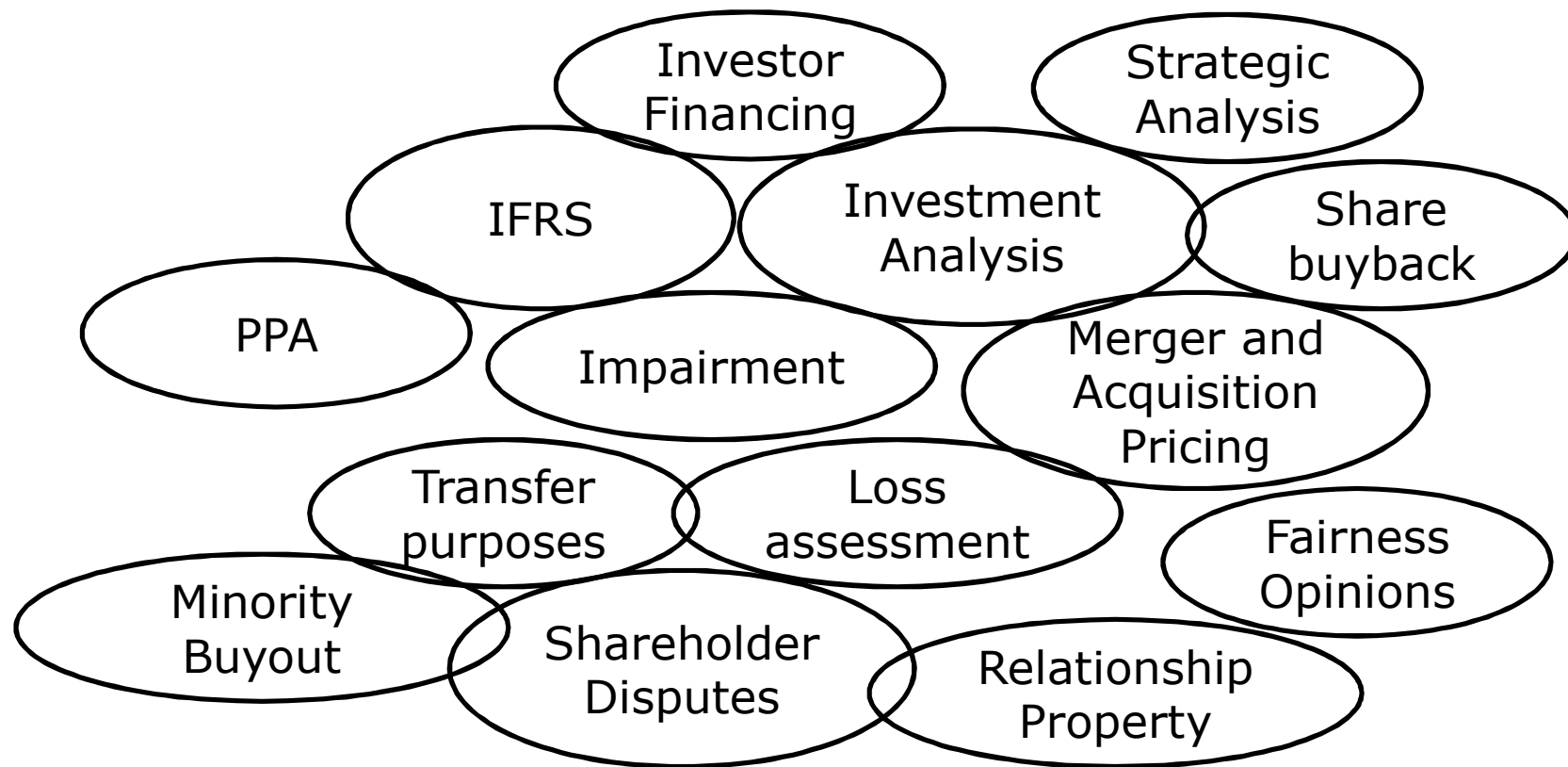


Elements

- Purpose
- Understanding of business, environment
- Value drivers and points of value (customers, people, products, customers, cash, costs)
- Status of business
- Methods
- Structuring
- Justification and rationale



Why value – Some reasons!!



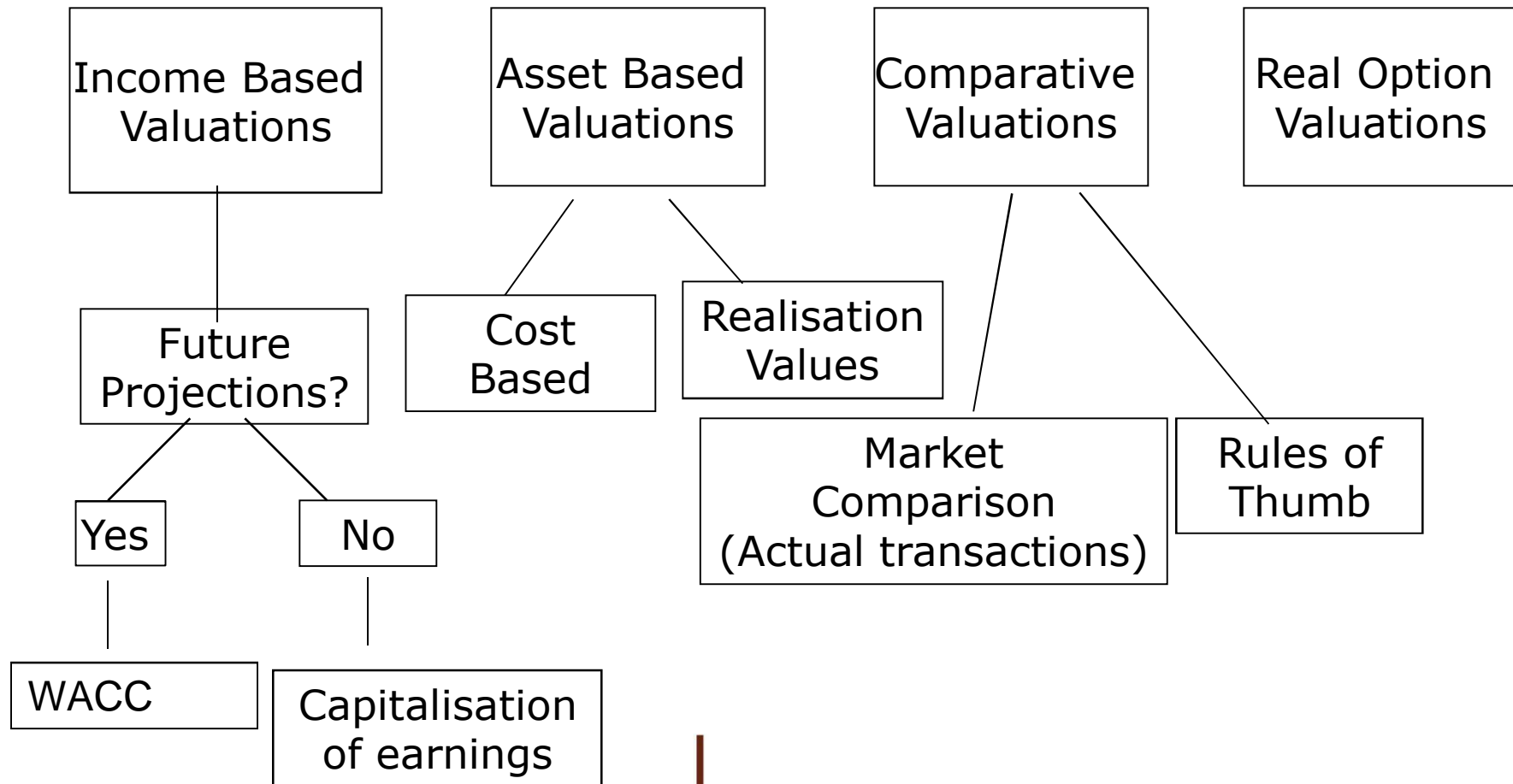


Standards of Value

- **Fair value**
- **Fair market value**
- **Market value**
- **Fair and reasonable**
- **Special purchaser/Investor**
- **Value to holder and value in exchange**



Business Valuation Methods





Technology Lifecycle and Valuation Techniques

<i>Lifecycle Stage</i>	Idea	Proof of Concept and Protected Concept	Commercialisation	Customer / Cash Flow growth
<i>Status</i>	Concept	Asset		Established Business
<i>Key Risks</i>		Funding and Investors	Market acceptance/ Distribution	Execution and business expansion
<i>Valuation Technique</i>	Venture Capital, Real Options			Business and Economic Valuation
<i>Valuation Outcome</i>	Exit value of Investment/Opportunity		Cost of Asset and Return foregone	Value of Business/Asset in place



Structure of Business and Business Model

- “ **Ownership structure, Owner operated or not?**
- “ **Uniqueness of business model, competitiveness and sustainability**
- “ **What is the source of value? And how sustainable is this? Over what period?**
- “ **Contracts and relationships**
- “ **Market structure**
- “ **Transferability and level of goodwill (personal and institutional)**
- “ **Benchmark transactions**



Differences!!

- “ **Emotional Involvement**
- “ **Non diversifiable risks (Total risks)**
- “ **Personal stakes**
- “ **Reliable information related to business (reliability)**
- “ **Shareholder advances and funding**
- “ **Debt levels and requirements**
- “ **Related party transactions**
- “ **Price vs. value perspectives**



Data Considerations (1)

- **Background and history of entity**
- **Capital structure and dividends**
- **Operational overview**
- **Industry overview**
- **SWOT**
- **Competitive influences**
- **Management and ownership structure**
- **Industry influences**
- **Historic & forecast performance**
- **Financial position**



Data Considerations (2)

- **Industry Information**
- **Pricing data**
 - **Betas**
 - **Gearing**
 - **Multipliers – EBIT, EBITDA, PE (including multiples expressed to enterprise value)**
 - **Historic share price (& volumes)**
 - **Comparable transactions**



Confused?





New Zealand Software Group

- **NZ Software Group with protected IP completed reverse takeover of publicly listed Australian Company (A\$ 18m) and received shares in exchange**
- **Companies were at different stages of development / commercialisation and operation**
- **Intangible assets included:**
 - ***Technology***
 - ***Customer Base***



Valuation Process

- **Developed evaluation criteria**
- **Identified assets**
- **Identified valuation approaches for each asset**
 - **economic value and cost basis**
- **Undertook sensitivity analysis (discount rate, customer attrition)**
- **Used relative value matrix to allocate price**



Outputs and Results

	Identifiable Intangible Asset	Assessed Value A\$	Percentage	Allocated Purchase Value A\$
XX Limited (NZ)	Relationships	14,000,000	70.6%	7,514,060
XY Pty Limited	Relationships	4,000,000	20.6%	2,193,886
XS Ltd (XS Ltd)	Software	2,000,000	8.8%	932,402
Total		20,000,000	100%	10,640,348



Issues

- **Low customer attrition**
- **Initially treated as indefinite life assets**
- **After impairment reviews, external auditors required reclassification**



New Zealand Company developed a technology with commercial appeal and was keen to raise capital

- **Licence negotiations were in process**
- **Interest shown by major international players in licensing**
- **Products capable of being used in several segments and applications**
- **Applications in different stages of development and consequent risks**
- **Based on an ePV approach which reflected earnings and risks**

Matrix of Key Business and Risk Elements

	Products			
	C1	C2	C5	C7
Elements				
Proof of Concept	Established	Established	Established	Established
Prototype Completion	Yes	In various stages of development. Assessed to be between 50% and 90% completed.	Technology production advanced. Prototype development expected to be a minor advancement of established technology used in other products. This is not considered to pose a major risk.	Needs to be developed.
Commercial Contract Execution	Completed. Contract signed and to be progressed. Substantial press publicity and campaigns planned which is expected to benefit product sales.	Strong interest from other significant manufacturers.	No contract.	Not yet progressed. Expected to be done as a sequel.
Achievement, execution and timing risks	Substantial confidence in achieving projections. There could however be some issues in relation to the time periods in which the projections are achieved.	As contracts have not been executed at date, this product is exposed to risks which are at a higher level than applicable to C1.	Subject to achievement, execution and timing risks.	Subject to achievement, execution and timing risks.
Discount Rate	35%	40%	45%	55%



Shareholder dispute

- “ Four shareholder company with shareholders being fully involved in business.**
- “ One of the shareholders wanted to exit and alleged shareholder oppression. We agreed on a standard of value – fair value**
- “ Spent considerable time explaining the process and parameters and facilitating a common view of maintainable earnings particularly as a perceived key shareholder would be exiting.**
- “ Developed several scenarios and parameters and developed our view which was explained to all.**



Questions and Ideas!!

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