A CEO COMMENTS:

“I’m more cynical, more cautious. If you tell me something is rated AAA, I’d say ‘whoopee’, that’s meaningless.

Fact: The less faith you have in the future, the more you need to turn to systems and methodologies that can provide certainty.

The future isn’t what it used to be aptly applies to business. The before and after shock of the economic downturn has affected entrepreneurs in a more profound way than downturns before.

What was a “it’s just part of the normal business cycle” sentiment that business owners and leaders have typically held may not reflect the true scope of the reality that exists today.

“History’s memory can be very short-term”, says Eleanor Joy, an associate Partner at PricewaterhouseCoopers in Vancouver. She is also a Chartered Business Valuator and the incoming Chair of the Canadian Institute of Chartered Business Valuators. “I don’t think anyone expected the recession to be as severe as it turned out to be. For a lot of younger entrepreneurs, it was the first time they saw something like that happen.”

“It’s created unpredictability”, says one CEO of a noted commercial real estate company.

For business leaders looking at their sunset years, that uncertainty also means seeing the value of their company erode.

Setting a value of a business is the practice of Chartered Business Valuators (CBVs) like Joy.

“A valuation is always a value at a point in time,” explains Joy. “In the stock market, if you buy 100 shares of a company and it’s trading at $50 a share at the moment and you went forward three months, in all likelihood, that trading price would have changed. But it’s highly unlikely anyone can tell you what the trading price is going to be three years from now.”

How does one put a price on any business asset without being able to forecast future cash flow effectively or having a past upon which to rely?

“Using historic sales information to value a company is not useful anymore because poor sales over the past couple of years would result in understating the true value.” says the President of a Canadian-based machinery manufacturer.

The question on many entrepreneurs’ minds is whether we can return to a state of certainty.

“I think people would be foolish if they thought the future could be certain, indefinitely,” says Joy. “But I’m seeing more confidence coming back in owners’ perspectives of the future than we have over the last couple of years.”

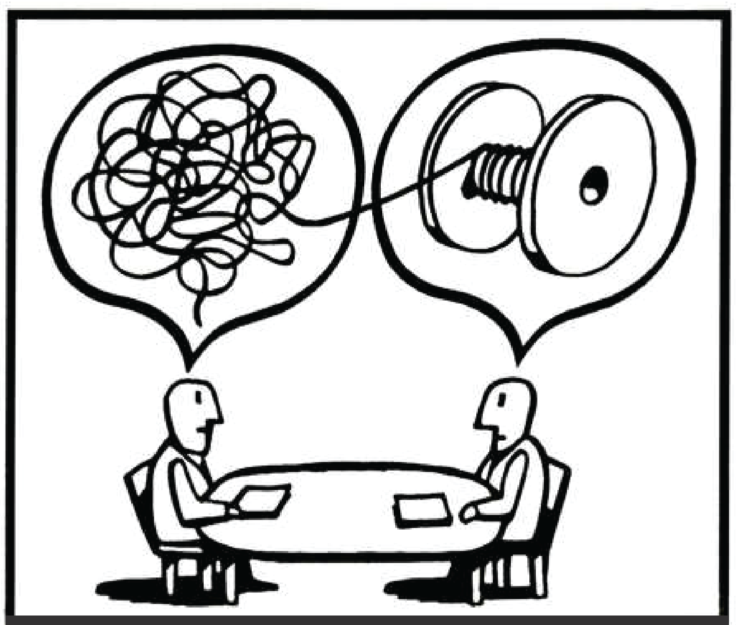
With a retiring generation of business owners, the value of their companies has never been more of a concern. That’s because the final payday may be less to celebrate.

“When the recession first hit and we were being asked to do valuations in December of 2008, there was chaos around interest rates and nobody wanted to predict what was going to happen to exchange rates. We just had to simply say, ‘What do I know about this business? What do I think is going to happen in the future?’ It’s using professional judgement to ascribe a value to that business.”

And it’s not just value, but also the shelf life of a valuation.

“Unless there’s been a significant change in your business, the value of the business shouldn’t really change over a 6-month period. But in and around December 2008, we shortened that to three months with a pretty heavy caveat.”

Now the tone is more hopeful. “My feeling is that we’re going back to six months now. This recession has been worse than some of the other ones we’ve seen in recent history,” Joy says. “But if a business is properly positioned, it should be able to recover from the recession more quickly than when it’s not.”



Over 66% of business leaders interviewed agree that instability is the new norm.

ABOUT:

CHARTERED BUSINESS VALUATORS™

Chartered Business Valuators are designated experts who quantify the worth of all, or part, of a business or its securities, using comprehensive analysis to determine the value of tangible and intangible assets, including brand and intellectual property for business, finance and litigation purposes.

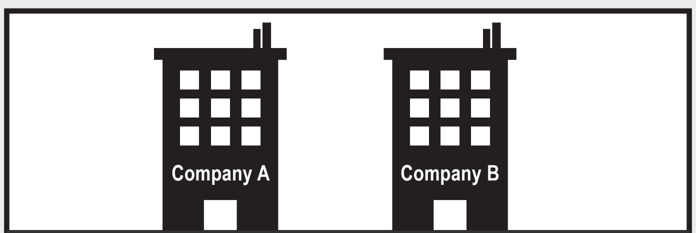
Visit cicbv.ca for more information.

What has changed during the economic downturn?

“Things that people once saw as having value no longer do. When money gets tight, they don’t give you anything for concepts. People don’t invest in concepts any more.” says the CEO of an energy resource company.

Buyers and investors are definitely looking for tangibility. On the surface two companies can appear to have the same value.

Both Company A and Company B are producing earnings before interest, taxes, depreciation and amortization (EBITDA) of $1 million a year. However Company A has no net hard assets in its business. Company B has $5 million in hard assets. There’s less risk associated with Company B because of the $5 million of hard net assets that a buyer is willing to pay for.



Two companies with the same EBITDA may in fact not be worth the same.

The analysis of value would use a higher multiple of earnings for Company B than Company A.

THE CANADIAN INSTITUTE OF CHARTERED BUSINESS VALUATORS (CICBV) commissioned a research study which surveyed 156 business executives and conducted 40 in-depth one-on-one interviews. This is the first of a 4-part series that focuses on entrepreneurs and the value of their businesses.

THURSDAY: Succession and the value of your company.