



VALUATION IN THE VOLATILE WORLD

Clyth MacLeod, Clyth MacLeod Limited, Auckland, New Zealand

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Business buyers are buying the future income stream or profits of a business.

Historic results are no guarantee of future performance. Financial statements will show past profits and trends but cannot tell you what will happen next year.

Averaging figures for the last 3 or 4 years can be dangerously misleading, particularly if the business is experiencing a decline in the present downturn. The most recent results are the best indicator of the future, but the appraiser has to make a subjective judgment as to what the future really holds.

The current recession may well be deeper and longer than many anticipate. But the economy will rebound eventually and many businesses will emerge leaner, meaner and stronger from the experience. After every bust, there is a boom.

The challenge for the appraiser is to guesstimate the future performance of the company, how much the downturn will impact results, and how much prices will be supported by the increased supply of buyers as unemployment rises.

Business valuation is never a precise science. All valuations are opinions and the only true test of value is an arms-length sale in the market place after a thorough marketing program.