Challenges with Private Company Valuations

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- As we have seen, private company valuations can depend to a significant extent on public company data to come up with the metrics we need to construct our valuation

Challenges with Private Company Valuations

- This however can be problematic
- Broadly speaking, we can expect a private company valuation to be lower than a similar public company for reasons we have already identified

Challenges with Private Company Valuations

- However, we need to be aware of company specific factors which may differ:
  - Stage in Life Cycle
  - Size
  - Overlap of shareholders and management
  - Quality and depth of management
  - Quality of financial and other information
  - Pressure from significant or short term investors
  - Tax issues

Challenges with Private Company Valuations

- Furthermore there are stock specific issues
  - Illiquidity of equity and stock
  - Concentration of control

Challenges with Private Company Valuations

- If at all possible you should seek to get access not only to the company's audited accounts but also the management accounts for at least the last 3 years
- Once you have had a chance to go through them and construct a preliminary model, then try to get an opportunity to interview the management team to better understand the business and the numbers

Challenges with Private Company Valuations

- The better you understand the business and its key drivers, the more focused you can make your valuation
- At the end of the day you will be relying on estimates and assumptions

Challenges with Private Company Valuations

- The next challenge is one of scale - as this fundamentally affects the valuation
- Small owner managed businesses are highly dependent on their founder, probably sole shareholder and main manager
- If the owner retires or stops working for other reasons, the business will struggle to survive
- The main focus of these business is to fund the lifestyle of their owners

Challenges with Private Company Valuations

- The next category are young start up companies which are seeking to grow fast
- This is a business building project with scale and high equity value the main goal
- This business will invest all spare cash while keeping costs to a minimum
- Ultimately the business will raise capital and or go public

Challenges with Private Company Valuations

- The third category of private businesses are the large companies which happen to be privately owned and controlled
- IKEA, Aldi and Lidl are good examples
- These are sophisticated profitable businesses with boards of directors, advisers, management teams and complex controls and processes
- These could be public companies but they choose not to be

Challenges with Private Company Valuations

- As you can see from my description, you cannot value these businesses in the same way

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