Valuing a business

Loyal staff, company prestige, turnover, profit and management structures; all of these are factors to be considered when trying to value a business. Amy Baker finds a number of industry players with experience or opinions on the matter.

With takeovers and acquisitions an active part of the language travel industry, the question must raise itself at some point among many company owners, "How much is my business worth?" For those owner-operators who take the process one step further and actually embark on buying or selling a company, there are a number of hurdles to surmount, mainly finding a company to buy from or sell to and assessing a realistic value for the business.

There is a range of factors to take into account when valuing a business, as Brunella Belluomini from Language Data Bank agency in Italy points out. She bought her agency 16 years ago after an approach was made to her by former colleagues. She tells *Language Travel Magazine*, "Going about valuing an organisation of language and education consultancy can be a hard task for the simple reason that this kind of business is still considered [unusual] in Italy."

Belluomini lists the most valuable assets of an agency as: its industry knowledge; its accreditation/reputation in the international industry; its client list; the office location and finally, an agency's loyal staff. Pascal Carré, Owner of Languages & Travel agency in France and Belgium, makes a further point: the financial stability of a company is obviously integral to any decision. "The turnover and the net profit that is made is obviously important; and if it is [stable/ growing]," he says.

"There are many different elements that enter into account," Carré continues. He relates that an agency's worth might be bound up in "the type of products one sells, for example, if you work on an exclusive basis for your particular market or if you have a leader position [in the marketplace]. And possible contracts with other companies or really good partnerships with course providers [are also important]."

From a language school's point of view, Nick Tellwright from global chain, Study Group, makes a similar observation in terms of valuing another language school business. He says that historic trading performance, fairly stable profit history, the management structures and the reputation of the company must all be considered, along with the question of whether any property is owned by the company and if it's for sale.

"A school's reputation, especially within the agent community, is very, very important," he observes. He also mentions a school's reliable management structure, which is something touched upon by online valuation models used for a service-led industry (see box). In a service industry, key personnel (or loyal staff, as termed by Belluomini) can be crucial in maintaining a company's standing and success. Tellwright notes, "If an owner is going to sell a school, there must be a sustainable management structure in place." He suggests that an ideal situation would be having staff from the next tier of management on hand who are willing to step up and take on commercial responsibility.

Chris Musial, Director of Marketing for English Canada World Organisation, echoes Tellwright's points about historic trading performance being important. "Audited financial statements for the last three years are absolutely essential," he says. "And I would recommend an accountant and lawyer review [the deal] once a valuation has been reached."

According to an article in *Small Business Update*, published by the Institute of Chartered Accountants in England and Wales, small business owners "frequently make the mistake of placing too high a value on their business". However, "valuing a company is an art-form and not a science," comments Brian Hayden of Hayden Associates, a management consultancy in the UK. "The value of a company is what the buyer is prepared to pay," he says, noting that an urgent sale will inevitably affect the price.

He adds, "It is often intangible factors such as key business relationships which provide the most value to a business. In general, the more established a firm is, the more valuable it is likely to be. But, valuation comes down to how profitable a firm is and how much cash it generates."

Models for valuation

Agencies and schools that took part in this feature offered various models for valuation of another company. We list some here, along with some other tips found online. All sources underline that models are only one part of the process and a wide review of assets, both tangible and "hidden", should be considered. There is no single, all-purpose formula to use, but all the models are market-derived and provide a useful rule-of-thumb for interested parties:

• One option is to consider the last annual pre-tax profit made by the company, then add the manager's annual salary to this and multiply the overall figure by five, then add to this the capital that is in the company to reach a final valuation.

• A more general guideline is to use a multiple of between three and eight times pre-tax profit and then consider "intangibles" such as company reputation and goodwill, and possibly revise/negotiate a final valuation from this position. The agreed multiple will reflect how many years the purchasers are prepared to wait before making money on their investment – notwithstanding cost-savings they can bring to bear that will cut down on operating costs.

• A business can also be valued by entry cost, ie an estimate of the cost of creating a similar business – buying equipment, employing staff, developing products etc. This is used as a benchmark and a higher price takes into account reputation and age of company.

• In service-led industries, an agreed valuation should take into account whether key personnel will stay on and payment may be staged over the period of years the owner/ key personnel retain a role, for example. Any loss of accounts/contracts at the time of buy-out can reduce overall agreed price.

In the Czech Republic, Dusan Dvorak of United Studies agency says, "I have never considered selling our agency. However, as far as setting the price is concerned, one should take a number of parameters into account. Namely, number of students, location and prestige of the agency, years of operation but above all the agency´s profit. I think that the asking price for an agency can start somewhere at quadruple of yearly net profit. Nonetheless, the seller should consider turnover as well."

Dvorak acknowledges the intangible value of some of his company's intiatives. "I would also have to take into consideration what I see as the two most valuable assets of our company," he notes. "We created and operate a nationwide database of foreign language teachers and established a unique concept of study-whenever-you-want for general public courses. Arriving at a figure should thus also make provision for unmatched know-how some agencies may have."

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In terms of trying to find a vendor within the industry, many companies agree that an informal approach could be best. Carré says, "A direct approach with the manager sounds best to me," and he adds that in France, where he is based, there are useful websites that tell you quite a lot about companies – their turnover of the last three years, net profit/loss and any published articles or minutes. Dvorak adds that if he intended to sell his agency, "I would definitely use the Internet as the only means for spreading the information about my intentions. I would use some of the Internet listing services that connect business sellers with business buyers." Carré ventures that if he was interested in selling, "I would give my preference to a specialised commercial bank that is used to [such dealings]."

Of course, companies may be interested in expansion without acquiring another business outright, as Javiera Visedo, PR & Marketing Director at New Zealand Global in Chile points out. "Our agency has been developing alliances with other educational agencies in Chile and Latin America. This allows us to increase our coverage at minimum risk," he says.

Meanwhile, David Duque Terneus of Langex in Ecuador states that he is interested in buying shares in other smaller agencies in Central and South America. "We pass on to them our know-how and in this way both of us can [benefit]," he says. "The other option that we want [to consider] is to sell some of our shares to big companies that are interested in taking a share in the Latin American market."