

VALUATIONS - Valuation of Shares

Introduction

Tax legislation may require that share transfers within a multinational group be conducted at arm's length, i.e. an inter-company share transfer should be made at the same price and terms as it would have been had the parties not been related to each other. This reference leaves room for interpretation and requires judgement and explanation when choosing valuation methods or making valuation assumptions. Making sure that the transfer price complies with local regulations can save costs and time. Independent valuation reports can help in providing backing and support where a share transfer is planned. Transfer Pricing Associates' proven valuation process offers reliable valuation reports with a fast turnaround at reasonable rates.

Types of Transactions

A share valuation in an intra-group share transfer transaction may be useful or legally required amongst others when the share transfer is subject to capital gains tax or when the transaction is subject to transfer tax or capital duties.

Valuation Methods

Tax legislation in most jurisdictions generally requires that share transfers be conducted at arm's length. This leaves room for interpretation and requires judgement and explanation when choosing valuation methods or making valuation assumptions. There are varying methods to value shares, including:

Stock market price: one of the preferred methods since the value is determined by the market. However, the market price should only be used if it is fairly representative of an active and broad market that is not influenced by unusual factors such as irregular trading or a thin market;

Income method: this method determines value by estimating future cash flows and discounting them to give a present value;

Market method: value is determined through the use of publicly traded companies listed on a given stock exchange or based on open market transactions, whether public or private.

In most valuation studies several methods are selected for the valuation study. The use of various methods should yield a range of values. Significant differences between the methods should be reconciled to understand why they arise. A midpoint value is selected based on an average or a weighted probability calculation.

Information Checklist

To determine the value and understand risks and opportunities we will require the following information amongst others:

Financial statements;

Financial forecast;

Information related to the business and the industry sector (such as analyst- and/or industry reports);

In the event of publicly traded shares, details of historic trade volumes and price fluctuations.

Our Deliverables

Transfer Pricing Associates valuation reports are in written format and accompanied by calculation schedules which provide details about methods used and assumptions made. Where local valuation regulations exist, the report will refer to and comply with them. Our valuation reports will generally include the following, subject to the specifications of the client:

A specification of the shares identified;

The financial statements and relevant non-financial information used, including the rationale underlying any normalization or control adjustments to financial information;

A discussion of the valuation methods considered and the reasoning behind the methods used;

Valuation adjustments considered and determined to be applicable, for example a discount for lack of marketability or liquidity or a discount for lack of control;

Our opinion as to the current value;

Illustrative and supporting appendices, including sufficient information to permit intended users to understand the data, reasoning, and analyses underlying the valuation conclusion of value.

Transfer Pricing Associates Valuations offers valuation services in the following 4 areas:

Tax – including valuation of shares, employee stock options and Intellectual Property;
Financial reporting – including Purchase Price Allocation and Annual Impairment Test;
Transactions – including buy and sell side assistance;
Litigation support – including damage quantification and financial and IP litigation support

Transfer Pricing Associates's dedicated Valuation team comprises valuation specialists with extensive experience in performing valuation studies. Due to our focussed services, we are able to distinguish ourselves through flexibility, quality and reasonable fees.

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