Practical sheet for chapter 1 – Analysis of the position prior to assessment

Strategic Analysis	Financial Analysis	Business Plan And forecasts
Market/Competition Strategic Field of Activity	Use of balance sheets and annexes	Implementation of the strategy and financial assessment of the activity
Internal organisation and skills and expertise	Accounting reprocessing	Adaptation of financial parameters: • Organisation and structure • Competences and staff • Investments and financing • Exploitation and profitability • Cost management
Key Success Factor	Analytical data processing	Measure of cash-flows and initial assessment Of Economic worth

A meticulous analysis of the position will be drawn up and worked on within the framework of a summary including certain objectives:

- *Measure the challenges of the sector*
- *Assess the company's room to manoeuvre*
- *Identify the value of key skills and competences and their durability*
- *Appreciate the financial position and the level of investments/financing*
- *Envisage possibilities to optimise the business and its development*
- *Measure the economic and financial profitability of the company*
- *Establish cash-flows or free flows arising from implementation of the business plan*
- *Specify possible scenarios (high – medium – low assumptions)*

Questions:

- Why draw up an analysis on the position of the company before implementing assessment techniques?
- Why specify scenarios different to those in the business plan?
- What is the purpose of calculating cash-flows at this stage of the study?
- Why not make do with just one accounting study to start off with?
- What is the aim of employing cost accounting (if it exists)?
- How is financial analysis linked to the strategy?

References:

- Traité pratique de l'analyse financière à l'usage des banquiers – Barbier et Proutat – Ed. la Revue Banque
- Finance d'entreprise – Gérard Charreaux – Ed.Management
- L'Auditor – J.C.B. Bontje – Ed. Maxima
- Les meilleures pratiques de Management – Jean Brilman – Ed. Organisation
- Outil de traitement : Diagflash® – www.fas-conseil.com

Practical sheet for chapter 2 – Parameters for assessment and underlying theories

The formation of financial flows	The establishment of discount rates	Taking time into consideration	The notion of profitability and creating value
From the capacity to self-finance to the measuring of current cash-flows	The parallel between risk and profitability: The notion of risk premiums.	The notion of visibility depending on estimated prospects	Variables useful for measuring the creation of value
The use of a business plan and measuring future free cash-flows Main lines for optimisation The origins of variances	**Rj** – The CAPM **β**: risk ratio **Wacc** or weighted average cost of capital **Rj'** or the notion of risk cost qualified on the resale value or final value	The loss of value included in the present-value factor The choice of weighting and the notion of time proximity	The notion of profitability of invested capital Financial leverage or gearing Leverage effect EVA© = [Re - Wacc] X EA

Areas of difficulty discovered in identifying financial parameters:

- A satisfactory theory not always easy to put into practice:
  - Establishing risk ratios is sometimes difficult
  - The Rj are not always available and calculating them requires caution
- The Wacc will often be appreciated or favoured to the Rj if the latter is not available
- However, there are still some queries about using the Wacc regarding the capital cost holder if not good obtained
- The EVA© constitutes a particularly demanding criteria for SMEs and it is therefore interesting to calculate it in order to assess the future potential of the company

Questions:

- Why is the rate of discount a major challenge in the financial theory?
- Can the notion of risk be associated with the notion of anticipated income? Why?
- Do these notions assist us in assessing the value of a company? Why?
- What difference is there between the creation of value and the value of a company?

References:

- Principes de gestion financière des sociétés – Brealey & Myers – Ed. Mac graw hill
- Finance d'entreprise – Pierre Vernimmen – Dalloz
- Création de valeur et management de l'entreprise, Christian Hoarau, Robert Teller Ed. Vuibert, 2001.
- La stratégie de la valeur – Tom Copeland, Tim Koller, Jack MURRIN Ed. d'organisation 2002

Practical sheet for chapter 3 – Overview of methods for the assessment of a company

Methods employed		Estimated value by weighting of methods	
Asset method			
m1	Balance sheet valuation (bilancielle) or wind-up value meth	**ANR**	Real net assets/equity capital
m2	Cost formation method	**VAE**	Economic asset value
m3	Excess profit or Goodwill method	**VSP**	Valuation by Excess Profit
Flow method			
m4	Simplified flows method	**VFS**	VFS = CFtM / TxSbj
m5	Discounted Cash-flows method	**VDCF**	VDCF = Cftact[5p] + VRt/i'%
m6	Profitability value/capital value method	**VRDT**	VRDT = VRTpr+VRDpr
Multiples or comparables method			
m7	Price-earning multiples	**MVB**	MVB = PER X RN
m8	Operating profit multiples	**MEBIT**	MEBIT = ME X EBITpd
m9	Net profit multiples	**MRNC**	MRNC = MTP X RNC
Mixed methods			
m10	Standard method	**VCLQ**	VCLQ = ANR+[nXRN]
m11	Retail method	**VRT**	VRT = [ANR+VRD]/2
m12	Central method	**VCT**	VCT = [ANR+BC+x%*CA]/3
m13	Practitioners' method	**VPR**	VPR = [ANR+(RNC/Txact)]/2
m14	Nominal assessment model	**VMN**	VMN = ANR + [(RNC-Txact*ANR)/txact] + sRNC
m15	Tax methods		
m16	Measuring value by the creation of value/value added	**VEVA®**	VEVA® = ANR + GW'

Many assessment methods exist - we have brought together many of them in this presentation and classified them by « family ».

Each family refers to specific options underlying the method.

Questions:

- Which method should be used?
- Should all of them be used and then an average be established?
- In spite of an extensive number of envisaged methods, can we be certain of the value that is finally proposed?
- How is the value of a company presented?
- What are the advantages and limits of weighting?
- Can the VEVA method be considered an interesting alternative to the different methods that have been proposed? Why?
- How does the analysis of the position influence your assessment?

Bibliography:

- Evaluation d'entreprise – Jean-claude TOURNIER, Jean-Baptiste TOURNIER Ed. d'organisation – 2002
- Fusions acquisitions et évaluations d'entreprises – Patrick Della FAILLE - Ed.Larcier -2001
- L'évaluation des entreprises - Lachapelle, Ed. Economica, 2000
- L'évaluation des entreprises, Emmanuel Tchemeni, 2éme édition, Economica

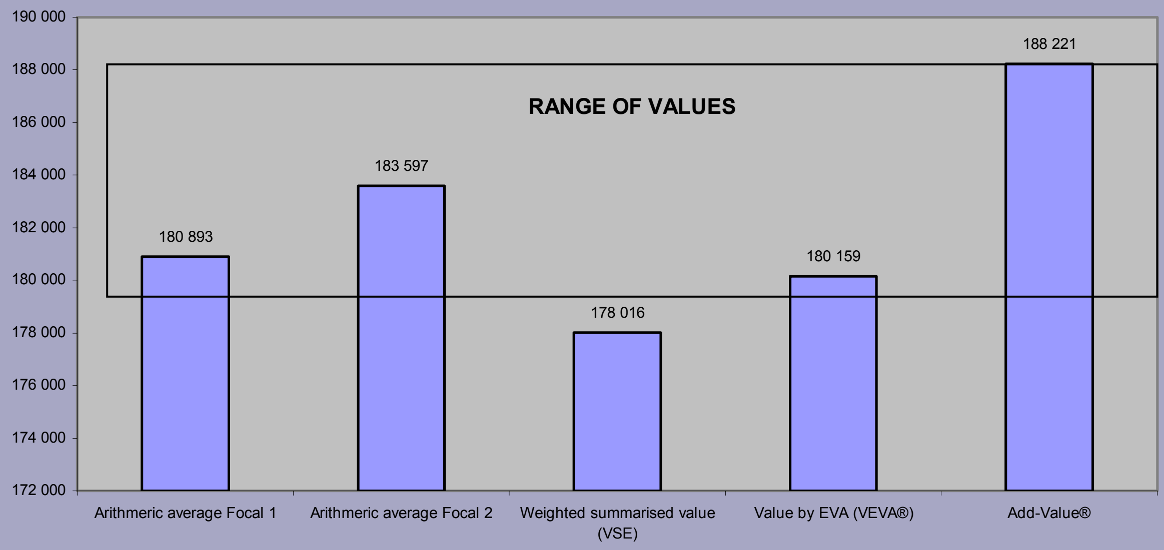
Practical sheet for chapter 4 – Profile of methods and value control

Among the existing assessment methods, the assessor is confronted with the necessity to make choices concerning parameters and to select the methods that appear to be best adapted to appreciating value.

Finally, frequently a range of values is proposed in order to control a price and to leave way for some adjustments during negotiations.

The results of extended work on all the methods can be presented as follows:

Summary of methods and range of values:



Questions:

- Which methods are used most frequently?
- Is the type of assumptions used in calculations of value likely to evolve in the short term? Why?
- Is there a difference in assessing a quoted company or a non-quoted company?
- How can the results of different methods be presented?
- How does one select the methods that are the most adapted to proposing a value?
- Does an average of the methods produce a useful result for establishing value?
- What is the purpose of proposing a range of values?

Practical sheet for chapter 5 – « Intangible » - a genuine stake for assessment

A growing dichotomy between book value and market value and the transformation of assets at the origin of value, constitute numerous parameters that lead us to question the elements that make up the value of a company.

What is really at stake in evaluation is therefore the assessment of the impact of intangible assets in measuring value. We class intangible assets in the following categories:

- Portfolio value (or client capital)
- The value of innovation capital
- Human capital
- The value of Management and the organisation of the company
- Strategic value

Portfolio value includes the value of business assets, the value of the brand and the value of client capital.

The value of innovation capital is becoming more and more important in company strategy, since in order to support a slow and uncertain demand, companies need to renew their offer.
This means regularly innovating to induce households to renew their appliances and to try to gain new market shares in an almost stagnant market.

The value of human capital includes competences and skills, experiences, culture and values (trust, adherence to a project, belonging to a group…); employee/management loyalty.
The success of a company depends above all on programmes based on 'experience, exchanging knowledge and the management of skills, the ability of the company and its employees to integrate, formalise, organise, represent and disseminate knowledge, skills and expertise.

The value of Management and the organisation of the company only creates an edge on competitors if the organisation is a competitive one. Implementation methods and processes that make the organisation efficient must therefore now be at the heart of the strategy, or even better, at the heart of daily life within the company. Competitiveness relies both on constantly renewed innovation and on the control of all management, marketing, research, quality programmes and processes within the company...

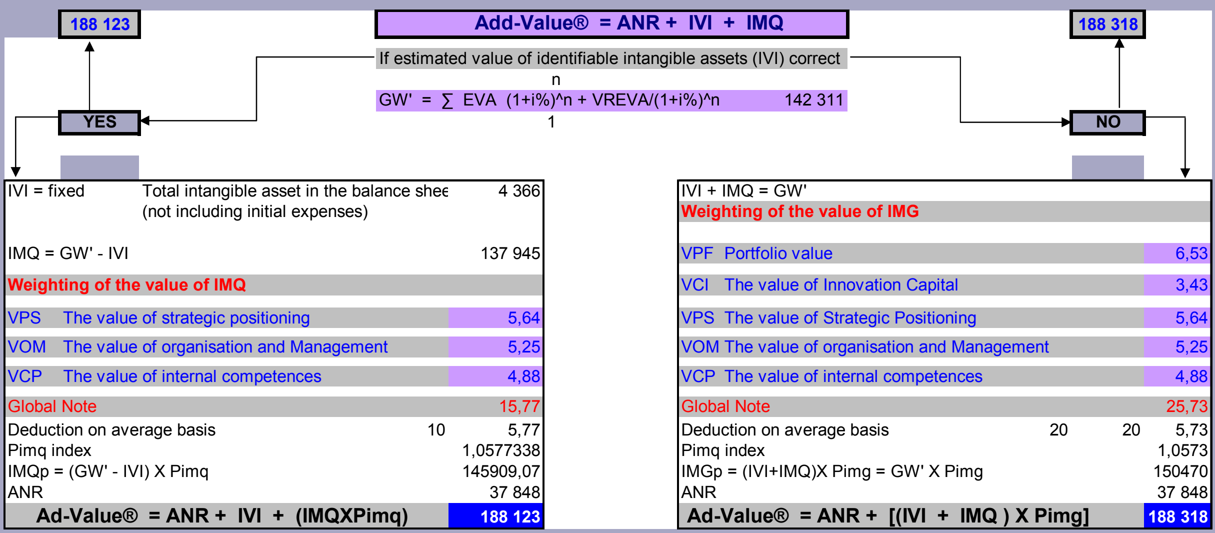
Strategic value is the reflection of value as perceived, for example, by an industrialist (not by a financier) who wishes to acquire the company with a view to continuity of the business in order to create value.

Bibliography:

- L’évaluation financière des actifs immatériels technologiques - Article de doctrine juillet 2002 - Pierre BREESE
- Les ressources immatérielles dans l’entreprise: les nouveaux leviers de l’avantage compétitif 11ème. Conférence RESER - *Grenoble, 25 et 26 d’Octobre 2001*
- La gestion de l'immatériel, MARTORY B. et PIERRAT C.Nathan, collection "Les livres de l'entreprise", Paris, 1996.

Practical sheet for chapter 6 – « Add-Value®» or the weighted method – A path to research that recognises intangible components as being at the origin of creating value

Summary presentation chart of the method



The « Add-Value® method offers the advantage of integrating the notion of creating value as a basis for calculation. Indeed, a weighted coefficient concerning an additional value or of an underrated value, depending on the rating of the company's intangible assets, is applied on the over value or value created over and above the actual net assets
These assets are split between the identifiable intangible assets (IVI) and qualitative intangible assets (IMQ) participating in the mix-work of the realisation of production and/or of value.

The assessment option retained in the method adjusts itself more comfortably to the objective of measuring the impact of intangible components on value – having recognised the fact that value cannot be explicitly established for each intangible asset.
Who would be able to answer questions like: How much is a Manager's knowledge and expertise worth? What is the value of acquired experience that is put into practice within the company?…

Questions:

- Does accounting take intangible value into consideration?
- Can intangible components be assessed?
- How does the method proposed enable the assessment of the contribution of intangible components to the value of the company to be resolved?
- What are the advantages and limits of the proposed weighting?
- Are the foundations of value, associated with the approach to auditing, sufficiently apposite to guarantee the result?

Lexique Français	English Lexicon
Fonds de commerce	Business assets
Fonds propres	Equity capital
Rapport de structure financière	Gearing
Inapplicabilité des méthodes	Inapplicability of methods
Indice de pondération	Weighting index
Innovation	Innovation
Investigations génériques et stratégiques	Generic and strategic investigations
Organigramme	Organisation chart
Liasse fiscale	Tax forms
Méthode des flux	Flow method
Méthode des multiples ou comparables	Multiple or comparable method
Méthode patrimoniale	Assets method
Méthode pondérative	Weighted method
Méthodes mixtes	Mixed methods
Modèle d'évaluation des actif financiers	Capital Asset Price Management
Moyenne pondérée	Weighted average
Non-valeurs,	Bas debts
Notation des actifs	Asset assessment
Période de visibilité	Period of visibility
Pondération	Weighting
Positionnement de l'entreprise	Company positionning
Price Earning Ratio	Price Earning Ratio
Prime de risque	Risk premium
Profil méthodologique	Methodological profile
Propriété intellectuelle	Intellectual property
Qualité du Management	Quality of Management
Ratios	Ratios
Rentabilité des capitaux engagés	Profitability of invested capital
Rentabilité d'un actif sans risque	Profitability of a no risk asset
Résultat normatif	Normative income
Savoir-faire	Skills and expertise
Score	Score
Sensibilité à l'information financière	Awareness of financial information
Situation de trésorerie	Cash -flow position
Soldes intermédiaires de gestion	Intermediary management balance
Solvabilité	solvency
Structure de coûts	Cost structure
Structure financière	Financial structure
Sur valeur	Goodwill
Surprofit	Excess profit
Tableau de financement	Statement of source and application of funds
Tableau pluri annuel des flux financiers	Table covering several years financial flow
Taux	Rate
Taux d'actualisation	Discount rate
Temps	Time
Transactions comparables	Comparable transactions
Valeur de marque	Brand value
Valeur de portefeuille	Portfolio value
Valeur des parts de marché	Market share value
Valeur du potentiel stratégique	Strategic potential value
Valeur intrinsèque	Intrinsic value
Valeur mathématique	Mathematical value
Valeur relative	Relative value
Valeur résiduelle	Residual value