

Shareholder Exit Valuation

From *Parting Shares* by James Nelson

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One page for anyone leaving a private company, buying out a co-owner or caught in a dispute. Gather the documents, ask any valuer the questions before instructing them, and raise the last set of points with your solicitor. Chapter references are to the book.

1 Documents a valuer needs

Most of these come from the accountant's file and the company's records (Ch 8).

- ☐ Full statutory accounts, last three years (not the filleted Companies House version)
- ☐ Current management accounts, as up to date as possible
- ☐ Corporation tax computations, three years
- ☐ Articles of association, as currently filed
- ☐ Shareholders' agreement and any side letters
- ☐ Share register, share classes and any options
- ☐ Board minutes and correspondence about the exit
- ☐ Each shareholder's role, hours, pay and dividends
- ☐ Director's loan account balances
- ☐ Main customers, key contracts and key staff
- ☐ Lease of the premises, or the title if the property is owned
- ☐ Any past valuation, offer or approach, however informal
- ☐ The valuer's questionnaire, answered properly

2 Questions to ask a valuer

Before instructing anyone, jointly or for one side (Ch 3, 4 and 8).

- ☐ What is your experience with companies of this size and sector?
- ☐ Have you valued shareholdings for exits and disputes, or acted as expert under articles?
- ☐ Do you have any connection with the company, any shareholder or their advisers?
- ☐ Will you show both the pro-rata and the discounted value?
- ☐ Where does your multiple come from?
- ☐ How will you treat the leaver's own role in the profits?
- ☐ Which valuation date will you use, and why?
- ☐ What is the fixed fee, what does it include, and what is extra?
- ☐ How long from receipt of the documents to the report?
- ☐ Will the report list everything you were given?
- ☐ Do you give oral evidence, and if not, what happens if it goes to court?
- ☐ How will freehold property and tax be dealt with?

3 Points to raise with your solicitor

The questions that decide which price applies and how it gets paid (Ch 2, 3, 5, 6 and 7).

- ☐ What do our articles and shareholders' agreement say about transfers and price?
- ☐ Is the leaver a good leaver or a bad leaver, and who decides?
- ☐ Does the wording say fair value or market value, and does a discount apply?
- ☐ Could the company be a quasi-partnership?
- ☐ Who is the expert, and is their decision binding?
- ☐ Which valuation date applies?
- ☐ Can the company buy the shares back, and are there enough distributable reserves?
- ☐ If payment is staged, how is it secured?
- ☐ Do we need HMRC clearance for capital treatment?
- ☐ What tax will the leaver pay, and do we need a tax adviser?