

Value of Company and Choice of Valuation Method for Forwarding Company

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Abstract The value of company is a very broad concept. Its determination depends on many factors and valuer must take into account both internal and external factors which are affecting the company. In some cases, it is very difficult to decide which of the methods should be used so that the entire valuation is not unnecessarily overpriced for the contracting entity. Valuation also takes into account the resulting objective value. In the case where the choice of method is not determined by the legal act itself, consultation and agreement with the expert is necessary in order to clarify the state of the company and determine the reason for doing the valuation itself. Therefore, the main goal of this paper is to choose an appropriate valuation method for a forwarding company.

Keywords value of company, valuation methods, property of company, profit of company

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1. Introduction

The value of company may be determined for a different legal act that affect its outcome. A stand-alone view of a company is made by owners who may want to know the value of the business, for example, for the purpose of selling the company, non-monetary deposit, liquidation of company, or for determining the value of shares in public limited companies. Another view of company have investors, in terms of their investments and its return in the future. Another view can have accountant who works with accounting data and calculates the account value of the company.

It is therefore possible to argue that the value of the company can be differently defined. In the sense of the Commercial Code of Slovak republic, it is defined as “*a set of tangible as well as personal and intangible components of company. To the company belong: things, rights and other property values which belong to the owner of company and serve to operate the company, or because of their nature they serve this purpose.*”[3] For practice, the general value of the company or parts of a company is defined by the laws of Slovak republic in decree no. 492/2004 collection of laws on the determination of the general value of property. The property for the purposes of the decree is being understood as the assets of a company as a whole, part of the company, component of the company's assets or other assets as a assets of company.

Several methodological procedures based on different principles can be applied in practice to determine the market

value of a company. In this paper, we will focus on the value of a company, which is determined by the experts of the relevant expert departments and their work is guided by the legislation related to the expert activity. [2]

2. Analysis of Current State and Methodology

2.1. General Asset Valuation Methods

A general value in the sense of Decree 492/2004 shall be understood in §2 par. (g) the resulting objective value of an asset, which is the expert estimate of the most likely value of the rated asset on the valuation date at a given location and the time it would have to achieve on the market under the terms of the free market, with caution and with the assumption that the price is not affected by an undue incentive; usually including value added tax. [2]

The value of a business is influenced by a large set of factors that experts should take into account in the process of objectification and integrate them into their calculations. These are internal as well as external factors. Also, the value of a company depends on the purpose for which the value of the company is determined by the expert.

Experts – legal entities (in this paper, an expert is considered to be a legal entity, i.e. an expert organization, or an expert department) use in the experts practice various valuation methods. These valuation methods are defined in decree

492/2004 collection of laws on the determination of the general value of the property. Based on the decree, valuation methods are related to four main principles. [1]

Asset principle – the value of a company is calculated from the value of the individual components of the company's assets from which the value of the obligation is deducted. This principle is mainly used for property and liquidation method.

Revenue principle – in the case of revenue principle, the value of company is determined on the basis of the deductible resources that the company will create in the future. In the decree related to the valuation methods, the revenue principle is used in the business method.

Combined principle – principle combines asset and revenue principles. In the decree, a combined method is based on this principle.

Market principle – its basis is to derive the value of a company from the value of a similar company on the market. In our legislation on this principle works comparative method. In practice this method is minimally used.

The most used methods in the expert's practice are property and business methods. [1]

The advantages of the **property method** is that the owner of the company besides the value of the company itself also obtains information about the value of specific components of assets and liabilities individually. This is very desirable, for example, if it is necessary for account purposes to determine the fair value of the individual components of the assets and liabilities of the acquired or merged company. Furthermore, this method is used when the business owner does not have a clear business intention, or if the business plan does not relate to the historical development of the company, or if the company is showing a loss. The disadvantages of this method is that the method is time consuming, labor and financial difficulty. It is necessary to perform an asset inventory on the valuation date, to analyze in detail the individual components of assets and liabilities together with all the specifics. At the same time, it is necessary to create a team of experts from relevant expert departments who are authorized to determine the value of individual specific components (for example, road vehicles, machinery, trademarks, construction, specific software, etc.), which is ultimately costly for the owner of the business. The property method does not take into account the revenue potential of the company. For example, it is not appropriate if an owner of a company provides services, or rents other property.

The **business method** is the most commonly used method for determining the value of a company. It is especially used when the owner of the company needs to know the value of the company which he is about to sell. The advantage of this method is that it takes into account the revenue potential of the company and is less demanding on labor compared to the property method. By this method, an entrepreneur acquires information about the value of the company as a whole, but does not recognize the value of the individual components of assets and liabilities, so it is not possible to use this method if the steps of the legal require all components of assets and

liabilities to be recognized in the expert's report. In the business method, the expert uses the financial plan of the company, which is submitted by the company. The expert must examine the reality of the financial plan by elaboration of financial and economic analysis. The method is also appropriate for determining the value of a company when an investor invests into a company, because it takes into account the company's revenue potential – future earnings.

The decision taken by the expert in the field of choosing the right method for valuation of company's property, depends on the overall structure of the company, the revenue potential of company, submitted documents and on the purpose for which the valuation is being made. The choice of the appropriate method is also influenced by the sector in which the company carries out its activity and its object of activity. Different structure of assets and liabilities has a company that only provides services and different structure has a manufacturing company. In the following sections of the paper, we will deal with a problem of determination of a value of a forwarding company which operates with freight road transport.

3. Results

3.1. Definition of Forwarding and Transport Service Provider

According to Moravčík (2008) *“Forwarding in today's modern economy has long been not just transport procurement. Forwarding is referred to as one of the stages of outsourcing (so called third level outsourcing), with individual levels differing from one another to the extent and complexity of the provided services. At the same time, the forwarder becomes more and more logistic and is a fully-fledged and often very important element of the logistics chain, and its services can sometimes create the entire basic logistics piece of distribution logistics”*.

The basic legal document in the forwarding service is the conclusion of the forwarding contract. This contract is concluded by the forwarder and the customer who orders shipment of goods. The forwarding contract expresses the obligation of the forwarder to obtain the transfer from a certain place in a specific another place. The customer – payer commits to pay the forwarder the payment. The definition shows the relationship between the parties involved in the commercial-shipping relationship. The forwarder carries out the transport in his own name, which means that he, in his own name deals with the carrier. He also, on his own behalf concludes a transport contract with the carrier. The forwarding contract therefore governs exclusively the business relationship between the forwarder and the ordering party – the customer. The carrier does not take a part in the forwarding contract. In the case of procurement of transport via the forwarder, this relationship is governed by a contract of carriage, where the relationship is between the forwarder and the carrier. The customer, who ordered the transport does not take a part in this contract. [6]

According to Gnap (2018) *“the priority task of forwarding and transport companies is to transport goods at the right*

time, at the right place, in the required quality and at the appropriate price, according to the customer's requirements. At a time when production cooperation has progressed as far as today and business chains operate around the world, it is not usually a simple task. The customer order cycle is shortened and e-commerce is increasingly rising, which means that new roles are beginning to emerge for the transport and forwarding companies. These are also the reasons that lead to an ever closer linking of forwarding and logistics."

3.2. Features of Forwarding Company in Relation with Valuation Methods

Forwarding is related to the provision of specific services. Most companies, however have several subjects of activity, so choosing the right method is always a consideration of the expert in the field of company valuation and also a company whose property is being valued.

As an example we can list randomly selected company. This company was established in May of 2015. The company's main activities focus on freight forwarding and operation of road freight transport. Company also has the following activities, for example: purchase of goods for sale to the final customer, lease of movables and mediation of activities in the field of trade, services and production, implementation of extraction services, tow services, provision of services for the management of a foreign motor vehicle, courier services, storage, packing, administrative activities, advertising and marketing services, rental real estate associated with the provision of non-essential services related to renting, implementation of extra-curricular educational activities, forwarding, diagnostics and repair of road motor vehicles, profession of freight operator for road transport. [4]

Table 1. Assets statement

Year	2017	2016
Assets	980 736	677 476
Non-current assets	638 688	543 378
Long-term tangible property	638 688	543 378
Current assets	334 300	130 811
Inventory	2 408	4 431
Short-term receivables	331 009	117 862
Financial assets	883	8 518
Costs of future periods	7 748	3 287

Source: [5]

For the purpose of the effective performance of its activities, a company must own non-current assets, moveable assets for the execution of the tow service, diagnostics and repair of road motor vehicles, and in particular the occupation of the operator of road freight transport. The tables listed below were made according to the annual financial statement of the fictional company. Accounting data, for the demonstration were gathered from the actual company that operates in the similar field of activities as the fictional company we

created for this paper. The data were gathered at the central register of the financial statements of the Slovak Republic. Within the tables 1-3, asset structure on the side of assets and liabilities structure on the side of liabilities for the year 2017 and previous fiscal year 2016, have been compiled. Values in the tables are in net worth. [5]

The financial statement (table 1) shows, that non-current assets are represented in a higher proportion than current assets. All non-current assets are self-movable items and sets of movable items, which in 2017 can be seen to increase in comparison with the previous period. This increase is necessary to ensure the securing of business operations of the company. No real estate property is reported, which means that the company operates from the rented space. Current assets are mainly represented by the short-term receivables. Financial assets are money in the treasury and bank accounts that are likely to be a bank overdraft due to the balance on the bank account as no credit is reported for the previous period as at 31 December 2017, but interest expense is recognized in the income statement.

Table 2. Liabilities statement

Year	2017	2016
Liabilities and equity	980736	677476
Equity	56 998	44 797
Liabilities	923 738	632 679
Long-term liabilities	573 865	491 211
Short-term liabilities	346 465	139 435
Short-term reserves	3 408	2 033

Source: [5]

As we can see in table 2, the company has high liabilities (in 2017, 923 738 €) in proportion to the total assets of the company (in 2017, 980 736 €). In net worth, the balance of assets and liabilities is almost balanced. Company has very high long-term liabilities from trade (in year 2017, 573 865 €). To a lesser extent, short-term liabilities (total amount in 2017: 346 465 €), which consist mainly of trade liabilities and liabilities towards company associates. The company shows positive equity (in the period which we reviewed, even in the past years, the company had a profit), the ratio of own and foreign capital is significantly on the side of foreign sources, which shows a high indebtedness.

When we look at the income and loss statement (table 3), it can be seen that the overall economic result is affected by the financial performance of the financial activity, where the loss is mainly due to the cost of interest which is a part of cost of financial activities (in 2017, in amount of 10560 € and in 2016 in amount of 8 613 €). The loss from financial activity is very high in proportion to the company's result of economic activity. Economic activity achieves positive results and has a growing tendency compared to the previous period. The company has high net turnover mainly due to the forwarding services it provides (in 2017, 1 144 182 € and in

2016, 605 580 €), which have increased significantly over the previous period.

Table 3. Income and loss statement

Year	2017	2016
Net turnover	1 144 182	605 580
Revenue from economic activity	1 164 946	608 218
Cost of economic activity	1 133 114	585 460
Profit / loss from economic activity	31 832	22 758
Revenue from financial activity	7	5
Cost of financial activity	16 348	11 239
Profit / loss from financial activity	-16 341	-11 234
Income tax, payable	3 290	2 880
Profit / loss for the period after tax	12 201	8 644

Source: [5]

According to another data in the income and loss statement the profit or loss from economic activity is particularly influenced by services (in 2017, 545 026 € and in 2016, 216 059€), depreciation of fixed assets (in 2017, 207 471 € and in 2016 88 239 €) and material and energy consumption and other non-storable deliveries (in 2017, 302 002 € and in 2016, 216 649 €). A smaller portion consists of personal expenses, taxes and fees and other costs.

4. Recommendations and Conclusion

From the point of view of future development, we can see the assumption of the company's revenue potential, as the monitored company is in terms of the life cycle in the growth phase. From the expert point of view, it is possible to apply the asset as well as the revenue principle. The decision to use a particular method largely depends on the purpose, i.e. from the legal act for which the expert's act is to be performed. It is also important to note that the value of a company is set at a specific date, in this case it is the end of the year when the financial statements are made and is also used for tax purposes. During the year to another valuation date, the book values will be reported to others. In this case, as if

December 31, 2017, in view of the growth phase of a company, it would be appropriate to use the revenue principle and asset principle combined. If it is necessary to select only one method, it is advisable to lean toward the revenue principle. The asset principle is risky in terms of asset structure and proportion of liabilities. According to the financial statements, it cannot be ascertained in what physical condition the movable property is. The state of the receivables is not known, even though the company is not long on the market. Receivables can be also 2 years after the maturity, or the clients can be in bankruptcy or liquidation, which significantly affects the value of receivables in the negative direction. Everything depends on the specific role of the expert and for what purpose the expertise needs to be used.

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