

Covid-19 continues to impact business values

Businesses will need to incorporate the impact of the Covid-19 pandemic into their financial forecasting in 2021. Best described as a black swan event, a rare occurrence with severe economic consequences, companies will need to leverage their learnings into the new year.



Johann de Lange, MD and founder of Worth.Business.

While many have managed to adapt and survive through the short-term impact experienced in 2020, a more sustainable approach is needed to overcome challenges and embrace opportunities that a new way of business will bring.

“Local companies entered the new year in the grip of the second wave of Covid infections and further lockdown restrictions. This will have far-reaching implications for economic recovery. Unlike economic downturns linked to a recession or a dip in the market, businesses were unable to predict the pandemic, and they weren’t prepared for the long-term impact,” says Johann de Lange, MD and founder of Worth.Business.

The uncertainty in the market has increased the need for businesses to conduct valuations on a more regular basis. “The value of a business is ultimately determined by cash flow, risk-based required returns and long-term prospects. All of these are still volatile because of the pandemic and will likely change the business environment going forward. More restrictions, a downturn in trade, changes in interest rates but also new opportunities will contribute to shifting company values, for the foreseeable future,” says de Lange.

Understanding business values is critical for shareholders and stakeholders at this time, says de Lange, who warns that the impact of the current second wave, and even potentially a third, needs to be considered. “Lower values may enable management buy-outs, B-BBEE transactions and the implementation of employee share schemes, which were not previously feasible, but may also lead to accounting impairments. Higher values mean that companies can raise new capital, or shareholders can sell their stakes at a more favourable price,” says de Lange.

When valuing companies in the time of Covid, financial professionals need to consider the impact of the pandemic and a changing business environment on the valuation assumptions. “There’s no one size fits all approach to economic recovery and financial assessments. Facts and circumstances specific to each business must be considered on a stand-alone basis. An online valuation tool can help companies conduct valuations in response to these kinds of changes in a more feasible manner,” says de Lange.

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