

INTERNATIONAL

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AROUND THE VALUATION WORLD®

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May Line-up

Brien K. Jones,
Wolfgang Kniest,
Andrew Neuman,
and
Pratik Shah:

GACVA News

Business Valuation News from Around the Globe

Ing. Barbora Rýdlová:

Expert Insights

Business Valuation in the Czech Republic

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EACVA's 15th Annual International Business Valuation Conference 2022



3 – 4 November 2022 in Vienna, Austria
Austria Trend Hotel Savoyen
Vienna****S

www.ValuationConference.de



EACVA's 2022 International CVA Training (in-person)

- **7 – 11 November 2022**
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in a testing center or via
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*The Definitive
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EXPERT INSIGHTS

Business Valuation in the Czech Republic

Ing. Barbora Rýdlová, PhD



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Business Valuation in the Czech Republic

Around the Valuation World International Webcast, 23/05/2022

Prague University of Economics and Business

Historical context of the Czech Valuation

Before 1989 – Before the Velvet Revolution

- Centrally planned economy
- No private business ownership
- No transactions
- No business valuers
- Court-appointed experts in real estate and tangible assets valuation
- Administrative valuation exclusively

Historical context of the Czech Valuation

1989-2000 Transition period

- Private ownership
- Market transactions
- Need for valuers
- Need for market oriented valuation
- Need for valuation of other assets – intangible assets, securities and businesses
- Lack of know-how, education, language barriers, legislative framework gaps

Actions taken

- Prague University of Economics and Business and Brno Technical University – building up valuation knowledge
- Strong inspiration in Germany and U.S.
- Teaching long-term CPD courses in business valuation, securities valuation and market valuation of tangible assets including real estate
- Valuers in new disciplines recruit mostly from pre-revolution administrative valuers with requalification

Historical context of the Czech Valuation

2000-2010 Professionalisation

- Deeper methodological insight, knowledge slowly leveling with developed foreign countries
- Graduate valuation education
- Big foreign valuation and consulting companies co-forming the market
- Poor quality of valuation reports of many valuers
- Need for valuations standards
- Misunity of chambers and associations
- Gaps in legislation

2010-2020

- Internationalization
- Voluntary acceptance of IVS but unenforceability
- No unity on local Czech standards
- Bad general reputation of expert witnesses
- Underfinanced field
- Disruptions of broader legislation reform – repeated replacement at the Ministry of Justice
- More frequent valuation purposes: IFRS, transfer pricing, damages

Today

New legislation

- 2021 effect of new expert witness Act – Ministry of Justice
- 2021 amendment to the Act on assets valuation – Ministry of Finance

Impact

- Strong implementation problems
- State administration not ready
- Uncertainty of stakeholders
- Valuers quitting
- Amendments likely

Who provides valuation in the Czech Republic?

Valuers

- Licensed (concession)
- Education and practice requirements
- Valuation reports
- Limited number of valuation purposes
- Market level of reward
- Surveillance of RVDA (Public Audit Oversight Board) or Czech National Bank

Court/Ministry appointed experts, expert offices and expert institutes

- Education and practice requirements
- Appointment
- Expert opinions
- Broader scope of valuation purposes
- State regulation of price for expert services for the state – low price, high risks – reluctance to work for the state sector vs. obligation to do so
- Regulation of content
- Surveillance of Ministry of Justice

Other subjects at the market

Local Chambers/Associations

- Fragmentation
- Incapable of deeper cooperation
- Not such a strong influence on the legislation process

International associations in the Czech Republic

- IVSC members
- Tegova member (ČKOM)
- ASA
- RICS
- Rather marginal influence
- Potential of cooperation with the academic institutions

Valuation Standards

- Just partial local valuation standards (for some types of assets)
- **Czech Bank Association** – Real Property Valuation Standards
- **Expert Standard** – valuation of tangible assets and vehicles
- **IVS** – Czech translation of IVS 2017, widely used by professionals and global companies in the CR
- **RICS Red book** in the real estate market
- German **IDW** standards
- Long-term efforts to promote IVS fail due to reluctance of the state administration to incorporate relation to IVS into the legal Framework and misunity of the professionals

Standards of value

- A mess ☺
- Legal Framework does not correspond with standards of values defined in IVS
- Section 2 of Act No. 151/1997 Coll., on the valuation of property (the “Property Valuation Act”)

„Usual price“

The usual price is the price that could be obtained when selling identical or similar asset or when rendering identical or similar services in usual commercial relations in the Czech Republic as of the day of valuation. At the same time, all circumstances influencing the price shall be taken into account. However, the **influence of extraordinary market circumstances, personal situation of the seller or buyer, and influence of any special preference shall be disregarded.** “Extraordinary market circumstances” shall mean, for instance, seller’s or buyer’s state of duress, consequences of natural or other disaster. “Personal situation” shall mean proprietary, family, and other personal relations between the seller and buyer, in particular. “Special preference” shall mean a particular value attributed to an asset or service arising from personal relationship thereto. The usual price expresses the value of the given piece of property and **is determined by way of comparison.**

Other standards of value used

- Market value
- Liquidation value
- Investment value
- Fair value (IFRS) – for companies with securities traded at financial market or voluntary opt for IFRS
- Objectivised value
- Equitable value
- Transfer pricing – OECD Transfer pricing guidelines adopted

Business valuation methods in the CR

- Primary: **DCF** entity/equity/APV
- **Capitalized Net Income** for small businesses
- Capitalized Net Income for a limited time period (5 years usually) for sole private entrepreneurs
- **Market approach** – used widely for real estate and tangible assets, for business valuation a limited usage
 - Private and Public guideline company methods
- Prague Stock Exchange – limited number of listed companies
- **Multiples from IDW Standards** in specific cases

Business valuation methods in the CR

- Cost approach – used mostly in insolvency or liquidation cases
- Discount rate
 - Cost of equity: CAPM model prevailing, inputs derived from US or European data and altered for the Czech conditions

Top 10 Czech explosive valuation topics

1. Valuation standards
2. Discount rate inputs
3. Linkage between standards of value and valuation purposes
4. Squeeze-out litigations from the 90th and 2000-2010
5. Illiquidity premiums to discount rate and microcap premiums
6. Optimisation of capital structure under market value
7. Use of financial plan of the company itself
8. Estimation of appropriate valuation multiples
9. Cost of capital relatively to long term return on investment in the TV
10. Estimation of the precise point in time when a company starts to be over-indebted

Thank for your attention

Prague University of Economics and Business



Thank you for joining us! You're invited to attend next month's
broadcast on **June 27, 2022**

Questions:

- E-mail: info@theCTI.com
- Call: NACVA Member Services at (800) 677-2009