

The Beta-Factor

A guide to determining the beta factors
in business valuation



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1. Introduction

This document provides an overview of the most important steps for determining beta factors for business valuations.

The beta factor

Beta factors are the most important risk measure in valuation and have a strong influence on the result.

The beta factors are used in the:

- ✓ Business valuation
- ✓ Impairment tests
- ✓ Profitability calculation

The beta factors can be calculated in a variety of ways.
The influencing factors must be determined by the valuer.

This document presents the most important influencing factors
and provides the reader
with background information and best practice information.

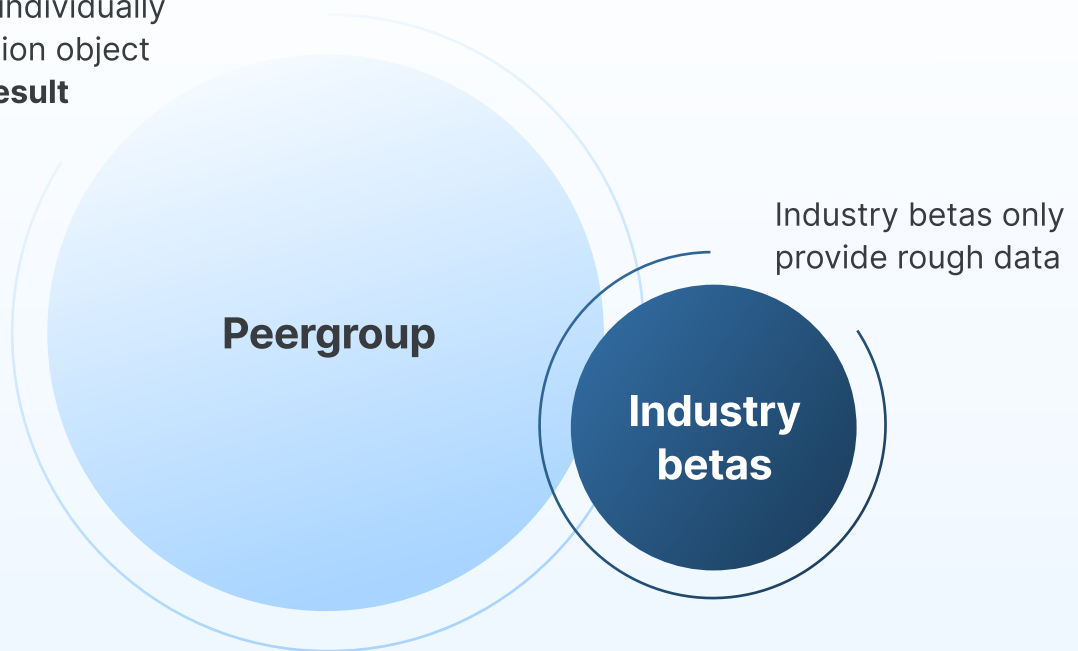


2. Peergroup

Why work with a peer group?

Precise and Standard-Compliant Work

A peer group that is individually tailored to the valuation object provides a **precise result**



Valuation standards

Many valuation standards, such as IDW S 1 and IAS 36, provide for the beta factors to be determined on the basis of a specific peer group. So if you want to work in accordance with the standard, you should research a peer group.

How do I select a suitable peer group?

The risk structure of the companies in the peer group should largely match that of the valuation object.

Business activity of the valuation object

Ideally, companies with the same business activities are used for the peer group.

If you cannot find any companies with a matching business activity, you can search for companies with a similar risk structure in various ways:

Horizontal

The search is for companies with the same business activities but based in other countries.

Vertical

Companies are sought upstream or downstream in the value chain, i.e. suppliers and customers.

Cross-industry

Companies with comparable business models in other sectors are being sought.

Finance KPI ratios

In addition to qualitative criteria such as sector affiliation or regional proximity, the selected peer companies should also be comparable in terms of financial dynamics. Parameters here include

- ✓ Sales growth
- ✓ EBITDA margin
- ✓ Return on assets

3. Settings for the Raw Beta Factor

Valuation dates

For business valuations, the beta factors should ideally be determined as at the exact valuation dates. Month-end values are generally sufficient for IFRS or similar valuations.

Period and frequency of yield determination

There are various combinations of period and frequency of return determination.

Share index for calculating the beta factors

The selection of the equity index for calculating the beta factors can be based on the investor's regional investment focus.

Special conditions

Total Beta

The total beta of a company is an extended version of the beta coefficient in which, in addition to the systematic risk of the company, the company-specific (unsystematic) risk is also taken into account.

It is intended to help with the evaluation of SMEs, but is viewed very critically among experts.

Adjusted Beta

An adjustment of the beta is intended to provide a better indication of future risks. One method frequently used for this is the so-called Blume method.

Blume, M. E. (1971): On the Assessment of Risk.



4. Quality criteria

What is the quality of the specific beta factors?

Statistical filters

The most common statistical parameters are the:

- ✓ Coefficient of Determination
- ✓ t-test of the beta factors

Liquidity of the stock markets

Often used as indicators of liquidity:

- ✓ Bid-ask spread
- ✓ Daily trading volume
- ✓ Number of trading days

5. Gearing and unlevered beta

Calculated beta factors are always distorted by the financing risk of the peer group companies.

Unlevered beta

The unlevered beta can be determined by adjusting the levered beta using the gearing.

Gearing

The gearing of the valuation object and peer group should be calculated uniformly to enable comparability of the data. The topics leasing and pensions play an important role.

Special settings

Tax Shield

Interest on debt is tax-deductible. Where the cost of debt or cash flows are considered, assess whether these interest payments are secure in the future and justify a risk reduction.

Debt Beta

Debt is rarely fail-safe. Particularly with higher gearing, lenders take over parts of the overall business risk. This effect is taken into account in the debt beta.

Why smartZebra?

The database for business valuations: a large selection of companies, simple to use and specialised in valuation.

Built for business valuation

Developed specifically for business valuations, with every setting this guide describes: valuation date, return period, index, adjusted and unlevered beta.

AI-powered peer group search

A large database of public and private companies with a smart search to find comparable companies for your peer group.

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