

VALUATION INSIGHT

**Understanding
Business Valuation
Process in Indonesia**

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Business valuation is essential to determine the economic value of a business or a company for a variety of reasons including sale and purchase transactions, establishing partner ownership, loan collateral, taxation or financial reporting purposes.

In Indonesia, valuation services are regulated by Ministry of Finance Regulation (PMK) No. 228/PMK.01/2019 as the second amendment to PMK No. 101/PMK.01/2014 regarding Public Valuers. For listed companies, business valuation for transaction purposes are regulated under Financial Services Authority Regulation (POJK) No.35/POJK.04/2020 regarding with Business Valuation and Presentation of Valuation Reports in the Capital Market and the valuation expert also should be registered under Indonesia Financial Service Authority (OJK) based on POJK No.68/POJK.04/2017 regarding Valuers Conducting Activities in the Capital Market. The valuation experts also should comply with the Indonesia Values Code of Ethics (KEPI) and Indonesian Valuation Standard (SPI).

Based on these regulations, the valuation on of a business is much more than just doing the calculations. Here are some key steps to do valuation for business:

1. Hire a Professional

Whether you run a small business or large one, you should consider hiring a registered valuation firm to let the professional deal with business valuation procedures that can be quite complicated.

Since every company is unique and operates in unique circumstances, you should engage experienced individuals with the right license to conduct the valuation. Ultimately, these experts can provide professional services for your company to provide business valuation based on your requirements and applicable regulations.

2. Planning and Determine the Scope of Work

An effective business valuation requires a lot of planning and attention to detail. A valuer must communicate the scope of work to its client that includes: identity of the valuer, identity of the clients, identity of other intended users, valuation object, valuation currency, purpose of the valuation, basis of valuation, valuation date, the nature and extent of the valuer's work and any limitation, the nature and sources of information upon which the valuer relies, significant assumptions and/or special assumptions, the type of report being prepared, restriction on use, distribution and publication of the report, and confirmation that the valuation will be prepared in compliance with the Valuation Standards applied.

3. Data Collection and Analysis

Business valuation is an economic analysis exercise. To perform a comprehensive and meaningful business valuation, a business valuer must understand the characteristics, background, and financial status of the closely held or privately held business being valued.

This typically involves examining historical financial statements, such as balance sheets and income statements, identifying trends, and comparing the company's financial performance with industry averages and macroeconomy.

Site visit and discussion with management are also conducted to support the results of the review and analysis.

4. Valuation analysis

The professional standards for business valuations require that experts consider all three main valuation approaches, which are: the asset approach, the market approach and the income approach in every valuation assignment.

Typically, the experts rely on one or two of the valuation approaches and their underlying methodologies to arrive at a value conclusion, depending on the nature of its.

In this step of the valuation process, the expert's goal is to determine how much a closely held or privately owned business, or percentage of ownership in a business, is worth.

5. Report Production

The valuation report must recovery the scope of work performed that complies with the Engagement Letter, valuation approach(es) and reasons for use, valuation method(s) used, conclusion, and principal reasons for any conclusions reached.



At BDO in Indonesia, valuation services are performed by Kantor Jasa Penilai Publik (KJPP) Wawat Jatmika & Rekan (KJPP-WJR) which is a public valuation firm registered under the Indonesia Ministry of Finance with license No. 2.15.0133. KJPP-WJR's public values have also been registered with the Financial Services Authority (OJK) to cater for engagements that are required to be in compliance with OJK's requirements.

If you need to discuss this matter or would like to explore other topics related to valuation, kindly reach out to our experts.



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