Case Study: CL106 – Goodwill Hunting

We were asked to review the basis of a pre-marital assets valuation prepared on behalf of the respondent in respect of a diverse group.

We noted a number of issues with the primary valuation, principally, the pre-marital valuation was based on the linear growth in value of a business that was founded in the 1970's.

The alternative valuation contained issues:

(a) The business had recently been sold to a special purchaser, a group seeking entry into the market sectors in new territories, which generated an earnings multiple much higher than had been expected by the vendors;

(b) The business, as sold, was a significant group that covered multiple territories; and

(c) The pre-marital valuation used the enhanced multiples in their valuation of a smaller scale set of businesses that existed over 12 years earlier.

The two historic valuations then used price inflation to reflect passive economic growth to the current prices to generate estimated growth of the business, indicated that the contribution during marriage was negligible.

We mapped out the turnover of the group showing the significant growth after marriage.

We prepared a schedule of annual valuations for the group covering the period from founding that demonstrated the impact of:

(a) Group investments being brought into the group; and

(b) The scale of the business upon the multiples used in the market.

We identified that if the business had used the FTSE performance of General Retailer sector, in line with the leading case Jones v Jones (2011) 1FLR 1723, then the level of passive economic growth would not have been significant.

This enabled the Parties to identify the level of the proceeds of sale that needed to be set aside for potential distribution to the wife were approximately £30 million higher than the negligible amount in the calculations of the husband.