

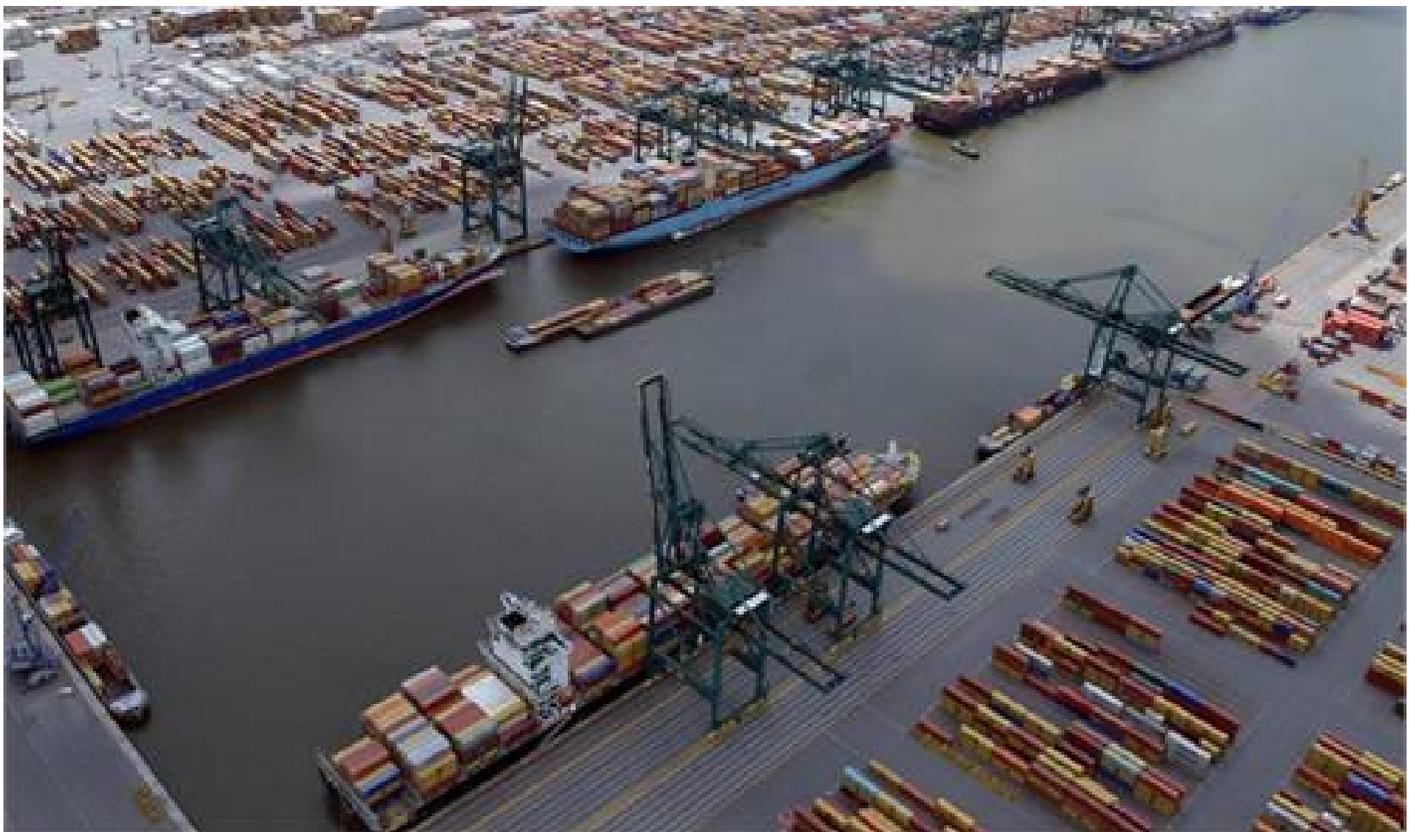


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Business in Iran:

## **Overcoming the Differences in Valuation**



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Following the lifting of the most stringent trade and economic sanctions the world has ever witnessed last January, Iran has become a major target in business dealings for multinational corporations across the world. Iran represents 1.5% of the world's GDP, making it the 18th largest economy in the world. More recently, Iran has finally been reconnected to the global banking system – after which means international businesses are welcome to do business in, and with, the country.

By: Raul Heraud

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corporations across the world. Iran represents 1.5% of the world's GDP, making it the 18th largest economy in the world. More recently, Iran has finally been reconnected to the global banking system – after which means international businesses are welcome to do business in, and with, the country. Company valuation then gets into the frame – but not many know exactly what it takes to do it precisely in current market conditions.

Despite the fact company valuation in Iran differs largely amongst other countries, these differences could possibly create major business potential if done correctly. Solidiance, an Asia-focused management consulting firm, observes this matter from a variety of standpoints that let foreign companies do business in the Islamic Republic of Iran.

## **Company valuation in a newly opened Iran**

Iran's business landscape has considerably changed over the years with the easing of sanctions, and although entering the Iranian market is not a straight-forward process, foreign companies must consider partnering with a local player who has managed and has seen things evolve to stay in business, has an established network and distribution system, and knows how to navigate through Iran's complicated political and business dynamics to fully seize market opportunities. For most, this partnership will take the form of an equity buy-in or joint venture, which zooms in on the topic of valuation.

The competitive landscape of Iran will surely change fast in virtually every industry as new businesses formed by local-foreign partnerships will soon come into play. Laws and regulations will also have to adjust in order to cope with the changing business landscape. The composition of demand will also change, as new customers enter the market (formed by the newly created partnerships) and their needs evolving – particularly in the B2B segment.

In other words, every aspect of the elements needed to accurately predict revenue growth, operational costs, and other inputs necessary to perform a valuation, are being reshuffled at the same time.

When compared to other countries, Iran's financial accounting systems differ in process and sophistication. Audited financial statements become less relevant when their need is only internal, and applying recommendations by auditors, such as reclassifying balance sheet items or creating reserves or provisions, become secondary to keeping operating cash flows and ratios at a healthy level.

Cost of debt in Iran can sometimes be high when compared to other countries, making it less attractive as a tax shield and resulting in low leverage for local companies. Many of them choose to capitalize with investor funds rather than turn to banks for financing. This results in less optimal capital structures but more robust balance sheets in terms of shareholder equity. Foreigners not familiar with the country might also find it surprising to find "gold coins in safe" listed as an asset – something that is not too uncommon in Iran.

## The safe way out (to get in for valuation)

While doing business in Iran can be risky and exciting at the same time, the much-anticipated value of Iranian companies is there to stay. Players looking to enter Iran must seek help from advisors who understand the market well-enough to help them derive as much accurate predictions as possible, understand the potential scenarios of the market's evolution and the implications of each, and navigate through the creative local accounting and business practices.

Eventually, appropriate understanding of the market and valuation of potential targets will ensure the establishment of ideal partnerships to capitalize on the exciting and unprecedented opportunity that Iran offers to the world.

### Credits :

The author, Raul Heraud, is the Manager at Solidiance – a corporate strategy consulting firm that works with Fortune 500 companies and Asian conglomerates in emerging Asian markets, including the Middle East. Raul would like to thank Nadhira Ananta for her support in the development of this article.

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