

## ALL ABOUT VALUATION: PART 2

### WHAT THE VALUATOR SHOULD BE ASKING YOU

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In my previous post, I highlighted some of the key questions you should ask a valuator before you engage them, but that's only half the equation. Below are some of the questions that you should expect your valuator to ask of you, and sure signs that they know what to look for when beginning the valuation process.

#### **Why do you need a valuation?**

Tax, litigation, divorce, the potential sale of your business? The purpose of the valuation dictates the extent of work that might be necessary, but your valuator should give you options (different levels of detail at different prices). There are different types of valuation reports, depending on your needs.

A valuation report is a formal document that consists of many written pages, which describe the business being valued, the scope of information and major assumptions relied upon, an analysis of the company and the industry, an analysis of key success factors, an analysis of special and unique issues, an outline of the valuation methodology, the determination of cash flows and tangible asset values, the reasoning behind valuation calculations, and a summary of the conclusions. There are usually many numeric schedules that accompany such a report. A well written valuation report should be detailed, yet clearly laid out such that a business person would understand how value was derived.

Understanding the purpose of the valuation is the key for allowing me to give you the appropriate level of service at the most effective cost point.

#### **“Taking shortcuts can limit the effectiveness of the valuation report and can lead to credibility issues...”**

For example, a valuation report needed for litigation matters or divorce matters can quickly lead to an expectation of detailed analysis. Taking shortcuts can limit the effectiveness of the valuation report and can lead to credibility issues once that valuation report is being dissected by a sharp and persistent lawyer. It may be important, and necessary, to up the level of detail in a situation where strife and lack of trust is a major issue. A qualified valuator, like myself, should ask the right questions in order to fully understand your situation and make an educated recommendation on the appropriate level of analysis required. For litigation purposes, I usually recommend a more detailed “Estimate” or “Comprehensive” valuation report, especially given my years of experience in dealing with all sorts of difficult litigious situation.

On the other hand, a valuation needed for tax purposes or for internal shareholder transactions is usually a less risky proposition, especially if tax practitioners have price adjustment clauses in a tax reorganization. Valuation reporting standards allow a CBV to prepare a less detailed "Calculation" valuation report. The "Calculation" report will result in a lower fee for the report, but such a cursory report is inappropriate for most litigation situations.

In some cases, a formal, written valuation report may not be required at all. For example, in a purchase or sale of a business, industry knowledge and challenges may be readily acknowledged and accepted by both the buyer and seller. Therefore, time spent on drafting a detailed industry and/or economic analysis, maybe totally unnecessary.

Instead, my clients have found it far more useful for me to focus on analyzing specific issues of concern and identifying opportunities that make or break a transaction. An informal consultation can be much more effective in a situation where creative thinking and timely responses are needed.

## **Can you provide the year-end financial statements for the past fiscal year?**

In my practice, I can't provide a proper fee quote without reviewing financial statements, it is as simple as that. Financial statements outline the tangible assets and liabilities of the business, summarize historical cash flows, and provide an overview of the financing of the business – all in one brief and consistent format. The advantage of financial statements is that they are readily available.

A review of the financials allows me to ask smart questions, to identify the cost to complete the valuation, and to understand the important issues that will have to be addressed in the valuation report. Financial statements allow me to assess the materiality of expenses and identify unusual financial trends.

Knowing the purpose of the valuation, combined with the size and breadth of the business, I can assess the important valuation issues and decisions to be made instead of spending time chasing down unimportant or immaterial discrepancies that add little to the usefulness of the valuation report itself.

## **How do you earn your revenue? What do you sell?**

I love the variety that business valuation consulting provides, and I'm always eager to know what makes your specific business tick. If I fail to ask basic operational questions up-front, then how can I determine the key issues and give you an appropriate fee quote and timeline? Inquiries about the revenue streams and core service points of the business allow me to be more cost effective and to access and use my experience with similar businesses in order to identify opportunities for you.

## What is your timeline?

Is there an urgency to complete the valuation? Usually it is difficult to complete a full valuation report in less than a month, especially given that it often takes a couple of weeks for the business to gather the necessary information that will be required to even begin the valuation. I need to align what's possible with your expectations before any work gets started.

The right questions are sometimes the ones that seem obvious, which is all the more reason to ensure both you and your potential valuator are asking them. Look for an accredited CBV, with years of full-time experience, that can answer your questions, knows your industry, and seeks to understand your business before you engage.

**Welsh Valuation** goes far beyond just asking the right questions.

Connect with us to find out how:

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