



Pitfalls of the Business Valuation Review



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Pitfalls of the Business Valuation Review

State of Play

- The “review” can come from multiple sources and varies materially between type of valuation and reason for the review
 - What different types of reviews have you experienced?
 - How do you see the reviews varying based on the reason for the review?
 - What challenges are you seeing in the review process?



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Consistency, What Consistency?

- Reviews vary depending on several factors
 - How do you see reviews varying across firms at the Global 6 level?
 - How different are the reviews from a Global 6 versus regional vs local firms?
 - What role does appraisal firm reputation play in the review?



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Specialty Reviews/Non-specialist Reviewers?

- Portfolio and Complex security reviews are a different animal
 - Portfolio Reviews
 - What challenges are you seeing with review teams?
 - What role are you seeing the audit team (vs the valuation team) play and is this a good thing or a bad thing? Why?
 - How defined do the audit plans seem or do they seem to make it up as they go along?
 - What additional challenges in the reviews are you seeing with large/diverse portfolios?



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Specialty Reviews/Non-specialist Reviewers?

- Portfolio and Complex security reviews are a different animal
 - Complex Security Reviews
 - Are you getting accesses to the right people soon enough in the process? If not, why not?
 - Model construct or assumption development; which is getting the most scrutiny and why do you think that is?
 - What challenges do you see in getting the inputs needed?
 - Different firms/different approaches - is this the rule or the exception and how has that impacted your reviews?



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Purchase Price Allocations

- Attendees' experiences with project types (size; industries; public vs. private and application of PCC guidelines) and level of scrutiny by audit/valuation review teams?
- **Specific “hot button” issues**
 - Proportion of purchase price premium to intangible assets vs. goodwill
 - Earnouts/contingent consideration
 - Market participant considerations
 - Acquisitions of technology companies and methodologies for valuing technology and customer relationships
 - Specific assets/liabilities – deferred revenue; inventory; fixed assets; real estate and above/below market leases
 - Other
- **Avoiding pitfalls ... suggested best practices**
 - Recent project involving a multi-billion dollar PPA – what worked well



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Impairment - Long-Lived Assets (ASC 360)

- The one valuation area where we have seen *the most divergence* in practice among the Big Four and even within the same Big Four firm
- Attendees' experiences with project types and level of scrutiny by audit/valuation review teams?
- **Areas of divergence**
 - Asset Group definition and specific assets to include in carrying value calculation
 - Adjustments to projections vs. overall enterprise/goodwill-related Income Approach
 - ✓ “Lifing” of cash flows
 - ✓ Pre-tax vs. post-tax considerations
 - ✓ Salvage value
 - Measurement of impairment (allocation from initial step vs. direct valuation of legacy assets)



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Impairment - Goodwill (ASC 350)

- Attendees' experiences with project types (size; industries; public vs. private and application of PCC guidelines) and level of scrutiny by audit/valuation review teams?
- **Specific "hot button" issues**
 - Consistency of framework/methodologies from year-to-year; documentation regarding major assumptions and "story behind the numbers"
 - Audit team's challenges related to "auditing projections"
 - Sum of reporting unit values vs. overall company market capitalization (and implied control premium)
 - Step Two considerations (may eventually no longer be applicable with last week's FASB proposal to eliminate Step Two)
 - Other



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409A and Equity Grants

- Attendees' experiences with project types and level of scrutiny by audit/valuation teams? Experiences with IRS-specific reviews?
- Differences in review questions/scrutiny – Big Four vs. other firms
- **Specific “hot button” issues**
 - Consistency of framework/methodologies from year-to year; documentation regarding major changes in assumptions and “story behind the numbers”
 - DLOM considerations and firm/reviewer-specific “maximums”
 - Considerations for pre-IPO companies
 - Other



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Questions