

Valuation Process: An Overview

More often than not, clients know they need a business valuation, but they don't really know about the process itself. This guide briefly outlines the key steps involved in a typical business valuation assignment.

Make no mistake; we believe time is a valuable asset. After all, valuation is, at its core, based on the time value of money. Part of our role as trusted advisor is to minimize the use of our clients' greatest resource --- their time. Therefore, we do our best to minimize their involvement and time expended in the process. At the same time, the valuation process is, at times, a two-way street. Proper planning and resource allocation, along with selecting a seasoned firm such as MPI, will simplify the process.

The key steps involved in a typical business valuation are as follows:

1. **Scoping**
2. **Information gathering**
3. **Preliminary processing**
4. **Due diligence**
5. **Analytics**
6. **Delivery**
7. **Consulting & Wrap-Up**

Each of the steps is briefly discussed below:

Scoping – Typically, we hold a conference call with you as a prospective client so that we develop a thorough understanding of the valuation need. We may ask for some information such as an overview of company, nature of the transaction, purpose of the appraisal, high level review of financial information, etc. The purpose of our inquiries is to ensure that we provide a proper scope of work; importantly, once we commit to a scope of work, we honor our commitment and won't unexpectedly try to change it.

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Information Gathering – Once formally engaged, we ask for information which will allow us to begin the assignment. A typical information request list includes: (1) additional background on the company, (2) historical financial statements, and (3) budget/forecast or projected financials. Depending on the assignment, we may ask for additional information. We find that most clients have the requested information at their fingertips.

Preliminary Processing – During this period, we review and process the information we received from you. Our proprietary financial models are framed out. We review current industry trends, and initiate searches for capital market evidence such as market multiples, discount rate data, and other data that will be used in the appraisal. We also prepare a questionnaire for the purpose of due diligence.

Diligence – The diligence meeting with management represents a critical step in the process, as it allows us to develop the necessary background and perspective on the company and/or asset being valued. We customarily prepare and circulate a detailed questionnaire in advance of this meeting. The questionnaire typically contains inquiries pertaining to (1) company history, (2) current operations, (3) historical and prospective financials, and (4) strategy, problems, and opportunities. Due diligence meetings may be held in-person or via teleconference. Our goal is to walk away from the meeting with everything we need to develop an opinion of value.

Analytics – During this phase, we synthesize what we learned in due diligence, and conclude on the appropriate valuation path. We then analyze your business giving consideration to a multitude of company and market specific quantitative and qualitative factors. We consider your business versus relative capital market evidence which is available and contemporaneous with the valuation date. Finally, we use our technical expertise, experience, and judgement to generate an opinion of value.

Delivery – Delivery often comprises two phases. In the first phase, we will issue a work paper package that consists of the key exhibits generated in the course of our engagement and presents a high level overview of the methods and models developed when reaching our opinion. This is then followed by the issuance of a draft valuation report. The written report not only includes the exhibits, but also a wealth of information including background, financial reviews, industry and economic information, and detail on our processes, procedures and analytical selections. The report is always issued in draft form such that you may review it with an eye toward ensuring we appropriately captured the facts.

Consulting & Wrap-Up – We review our work with you and any of your advisors (e.g., CPAs, attorneys, etc.), as may be necessary given the purpose of the assignment. Once everyone is comfortable we issue a final, executed report.

The entire process generally takes four to five weeks. However, we always work with our clients where needed and can, in some cases, accelerate the process to as short as two weeks. Again, it is a two-way street and the more you know about the process, the easier it becomes to streamline.

We look forward to assisting you with your next business valuation need. Please contact us with any questions or for additional information.