Business Valuation Update™
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Timely news, analysis, and resources for defensible valuations *Vol. 17, No. 11, November 2011*

What Does Your Report Roadmap Look Like?

If you don't know where you are going, any road will take you there.
—Lewis Carroll

I recently reviewed a valuation report for an experienced appraiser. The body of the report started off with an introduction that focused on the engagement (premise of value, standard of value, type of report, etc.) and included a three-line reveal about the company being valued (date incorporated, type of entity, and business description). The economic overview and industry outlook proceeded next.

That's right! I was presented with economic and industry data before I had any understanding about the business and how that data might relate to its operations. So while I knew the company was incorporated in State A, the ensuing economic analysis and industry outlook was drilling down to conditions in State B. Twelve pages later I read that the company did, in fact, do business in State B. In the interim, I was in a State of Confusion. And that is something you need to avoid with the user of your report.

When I asked my client why she followed this particular template, she said that years ago it was THE format suggested by one of her credentialing organizations. And she has been doing it that way ever since.

There are two points that I strive for in my report structure: 1) The report must have a logical flow that leads the user down the path I want to take them; and 2) That flow cannot be interrupted by rest stops of narrative fluff. (Narrative fluff is any report writing that explains the theory behind your valuation procedure rather than the procedure itself—e.g., discussing the theory of weighted average cost of capital before you: a. explain why WACC is appropriate in this valuation; and b. reference the analysis that develops the inputs to the formula.)

Let me suggest a roadmap that will accomplish these goals. We'll start with the "front end" of the report.

1. Cover Page. Without opening the report, the user should know the name of the company (and type of legal entity), what's being valued, as of what date, and the purpose of the valuation. After that, the user should see whom the report was prepared for and the date of the report. Bonus points for the appraiser's firm information, i.e., who prepared the report.

2. Transmittal Letter. There are some basics that need to be communicated—and you know what they are. This letter is not meant to be a standalone document that represents all the work you did, so don't overcomplicate it. For example, I think making reference to the fact that your report is subject to the Statement of General Assumptions and Limiting Conditions is sufficient . . . no need to then include the top three (or four) biggies, which I often see.

3. Executive Summary. I think this can be the coolest section of a report. I designed mine so the user has all the facts: the obvious stuff like the company description and the interest being valued, the premise and standard of value, the date of the valuation, and the purpose of the valuation and intended use of the report. But also information about: the methods considered and the ones used, key inputs like the discount rate, growth rate, and value multipliers, and the percentage discounts and premiums applied and the methods for determining them. And finally: the major valuation assumptions (or hypothetical conditions), the conclusion of value, and any subsequent event information.

Let's move on to the body of the report.

4. Introduction. This opening section should contain all the background information the user needs to understand the engagement: the subject company,

BUSINESS VALUATION UPDATE

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Business Valuation Update™ (ISSN 1088-4882) is published monthly by Business Valuation Resources, LLC, 1000 SW Broadway, Suite 1200, Portland, OR, 97205-3035. Periodicals Postage Paid at Portland, OR, and at additional mailing offices. Postmaster: Send address changes to *Business Valuation Update*™, Business Valuation Resources, LLC, 1000 SW Broadway, Suite 1200, Portland, OR, 97205-3035.

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the interest being valued, the valuation date and the reason for that date, the type of report, the scope of work performed, the premise and standard of value, and other standards-required disclosures. If you're doing a purchase price allocation, here's a good place to include a description of the underlying transaction.

5. Company Background. No ifs, ands, or buts—this section should explain "the who, what, where, when, why, and how of what the company is and does" to the user. Does yours?

6. Economic Overview and Industry Outlook. This is the first potential flow interrupter. In the body of the report, all you need is your analysis and summary of the economic overview and industry outlook *and their effect on the valuation*. Do not insert, verbatim, the reports you obtained from your subscription sources—they belong in an appendix.

I think the order of the next sections are obvious and don't need any particular elaboration . . . with the understanding that you limit your discussion to work performed, findings, conclusions, and opinions—no narrative fluff.

7. Financial Statement Analysis and Adjustment.

8. Valuation Methods Considered and Used.

9. Valuation Methods Considered and Not Used.

10. Reconciliation of Valuation Methods Used.

11. Discount and Premium Analysis and Application.

12. Conclusion of Value.

That covers the front end and body of the report. What goes in the back end? Here's my order.

13. Report Appendices.

Statement of General Assumptions and Limiting Conditions (SGALC).

Representation of Valuation Analyst/Appraiser's Certification.

Professional Qualifications of Valuation Analyst.

Summary of Information and Data Sources (SIDS).

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While any of these items can be potential flow interrupters if you put them in the body of the report, I see it occur most often with the SGALC and the SIDS. Think about those awful drug television commercials. What if the actor or narrator ticked off the drug's nasty side effects before you learned what problem the drug solves? Well, putting the SGALC in the your report introduction provides the same turnoff . . . all you've done is tell the user what you didn't do or aren't responsible for. As for the SIDS, it's essentially a bibliography, and I've never seen a book, manuscript, or article put it anywhere but at the end.

14. Report Exhibits.

Company's collateral marketing materials.

Economic Overview.

Industry Outlook.

Other supporting analyses.

Sometimes I find it difficult to convey in words what a company does, how it does it, or where its products are applied. If the company has collateral marketing materials that illustrate these points, an appendix is a great place to put them.

The economic overview and industry outlook are the original reports you obtained from your subscription source. If users concur with your analysis and summary in the body of the report, they didn't have to wade through a long narrative to get to it. If they disagree, they can drill down into the detail that's in the appendix.

Other supporting analyses are a catchall for anything else that buttresses what you did and why you did it, including valuation theory. One example of my supporting analysis is a narrative on the theory behind cost of capital and the data sources (Ibbotson, Duff & Phelps) that I used to derive my discount rate. Another example is the restricted stock and pre-IPO studies, including the theoretical underpinnings for their use in developing a discount for lack of marketability for private companies.

15. Valuation Schedules. Last. Why? So they are easy to locate! The user shouldn't have to thumb through a thick report to find them, sandwiched between your conclusion of value and wherever you have those schedules now.

I hope you agree that the above roadmap provides the user of your report with a more logical and cleaner flow for your valuation work product. And in this time of compressed/competitive pricing, this roadmap gives you an opportunity to be more efficient and effective without sacrificing quality.

***Rod Burkert**, CPA/ABV, CVA, is the founder of Burkert Valuation Advisors LLC and offers a report review service for sole practitioners and small firms. Rod is a past-chairman of NACVA's executive advisory board, a member of the editorial board of* The Value Examiner*, and an instructor in several NACVA training programs*.