

Credibility in valuation reports

Chartered Business Valuators (CBV's) are regularly engaged to provide expert reports dealing with the value of businesses and business interests. It stands to reason that the most important attribute of a valuation report is its credibility. This is important whether the report is provided in the context of a single expert reporting primarily to the judge (e.g. Family court in British Columbia) or dual experts each advocating for clients with contrasting positions. The more credible the report is, the more persuasive it will be.

This brief article provides a few key questions to ask when assessing a report's credibility.

Level of detail

- Have all relevant factors been examined and considered for their impact on the conclusion?
- Has the report considered all available valuation approaches (cost, income and market)?
- Has the most suitable method been used to reach the conclusion?
- Has the most suitable method been justified?
- Does the report clearly connect the facts and assumptions to the conclusion?
- Does the report identify issues that limited the scope of the valuator's work?

Fact based

- Are the financial projections on which the conclusion relies tied to the business's proven (historical) results?
- Have the projections been adjusted for non-recurring or personal income and expense items?
- Are the discount or capitalisation rates used by the valuator tied to known risk free rates and rates applicable for the industries in which the business operates and to which it is exposed?
- Have correct and appropriate tax rates been used?

Assumptions

- Are the assumptions made clearly stated and reasonable in the circumstances?
- Are the assumptions underlying the discount or capitalisation rates used by the valuator reasonable?
- Is there a clear and logical justification for the discount or capitalisation rates used by the valuator?

Tested

- Have the conclusions been tested for reasonableness, particularly by reference to other valuation approaches?

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- Has the valuator demonstrated an objective mindset?
- Does the valuator's education and experience demonstrate expertise in the subject matter?
- Has the valuator considered all matters that could have a bearing on the conclusion?
- Has the valuator justified the use of other experts, if any, and are those other experts credible?
- Is the report in plain English and comprehensible to its expected readers?

Reference should also be made to the practice standards of the Canadian Institute of Chartered Business Valuators for more details on the contents of reports provided by CBV's: <https://cicbv.ca/practice-standards-2/>

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