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Business Valuations: Types of Engagements and Reports

Gilbert Valuations offers four types of business valuation engagements and accompanying written reports. What choice is made depends on your needs and budget. We would be glad to discuss these further with you.

Calculations

A Calculations engagement is the lightest touch and least expensive business valuation possible. A Calculations report will typically only include the value estimate plus several schedules. The value will typically be expressed as a range, plus or minus 5%. The scope of this report is not adequate for court testimony purposes.

Calculations reports are frequently requested as an initial indication of the business value and is commonly requested in litigation matters that have a high probability of settling out of court. In general, we typically perform only the minimum methods and procedures necessary to be able to determine a value range that we have confidence in.

A key downside of this type of engagement is that the report does not include any explanation of the methodologies and assumptions utilized is included. Additionally, the following statement must be included under the standards promulgated by the American Institute of Certified Public Accountants ("AICPA"):

A Calculations assignment may not include all the procedures required for a valuation engagement and had a valuation engagement been performed, the results may have been different.

We are frequently asked to perform a Calculations engagement and then asked to upgrade to a full valuation if the matter escalates. While this will ultimately cost more than just performing a Summary Report immediately, utilizing only a Calculations report will cost less if the matter settles.

Enhanced Calculations

An Enhanced Calculations engagement is a level of valuation services we offer that provides an interim step between a Calculations and Summary engagement (see below). Over the years, this has become our most common engagement.

During such an engagement, we perform the same procedures as a Summary or Detailed engagement (discussed below). However, to minimize costs, the 10 to 15-page report provided only includes the most critical observations and assumptions. Therefore, while the value stated is as accurate as possible, it can only be referred to as “Calculations” as discussed above.

The scope of this valuation and report is frequently used for litigation settlement discussions but is not recommended when court testimony is required. The report can be upgraded later to a conclusion of value and summary report for an additional fee to cover our time costs.

Summary

A Summary engagement is the next level of engagement and includes performing all procedures necessary to develop a conclusion of value. A Summary Report is typically 25 to 35 pages long, plus multiple schedules. The report is as brief as possible while still providing the reader with an explanation of all methodologies utilized and the most critical information and assumptions used to determine value.

The way I like to explain a Summary Report is that a client can sit down and fully read the report in about an hour and come away with a very solid understanding of how we determined the value conclusion.

Summary reports are most commonly requested when:

- There is a high probability of the matter proceeding to court;
- The recipient of the report has the desire to understand how the value was derived and what assumptions were utilized;
- The business is complex;
- There are numerous assumptions required or forensic procedures are necessary;
- Multiple individuals will be reading the report so it is not possible for us to verbally explain the methodologies and assumptions utilized; or
- There is a considerable value at stake.

Detailed

A Detailed engagement includes the most extensive report offered. While the underlying analysis and procedures performed are the same as for a Summary engagement, the report is highly detailed, typically 50 to 80 pages, plus schedules. As

an example: A detailed description of the company, industry, and the economy is included, whereas the Summary Report only includes a brief overview.

These reports are typically performed for the following purposes:

- ESOP valuations;
- Reports generated for matters litigated in Federal Court; or
- Very high-value companies.