Financial Statement Reporting (General)

- WACC
  - Lack of support for SCRP
- Market Approach
  - Reliance on means and medians without justification
  - No support for multiple adjustments
    - Need to address growth, profitability, and risk
- Income Approach
  - No support for terminal multiple – 5.0% is the norm, but why?
  - Need to incorporate NOLs. Regularly see them omitted.
- Reconciliation of value indications from income and market approaches
  - Reliance on significantly divergent value indications
- Need to stay on top of valuation related accounting pronouncements and current valuation literature
  - Frequently see valuations that do not incorporate or contradict current guidance

Financial Statement Reporting (ASC 805)

- WACC, IRR, WARA, discount rates
  - Using SCRP to gap into a WACC that ties to IRR
  - Using goodwill discount rate to gap into WARA that ties to IRR
  - Little discussion or support for asset discount rates
- Customer Relationships
  - Lack of support for attrition - too much reliance on “provided by management”
- Technology
  - Significant R&D expense but no IPR&D identified
  - Future technology within months after the date of value but no IPR&D identified or valued
- Asset Lives
  - Poor or no support – “Based on your experience” is not auditable
- Poor reconciliation of asset models to consolidated company forecasts
  - Profit, Cash Flow, Expenses

Early-Stage Companies

- Valuations
  - Reliance on one approach when multiple approaches are possible
  - Need for better qualitative support on what happened to business between valuation dates
  - Documentation on how third party transaction/s were or were not considered
  - Ranges of value are too large
- Allocations
  - Breakpoint errors are still too frequent
- Discounts and Premiums
  - Use of multiple approaches (option models, studies, etc…) and a conclusion that is not supported by any of the approaches. Need to clearly justify the selected discount or premium.
- Report
  - Quality is poor. Key qualitative elements missing.
  - Mismatch of information in report and exhibits. Reports frequently contain data from prior date of value and not updated before sent to client.