What's It Worth?
Business Valuations, Mergers, Acquisitions, and Consulting
NEWSLETTER ARTICLE ARCHIVE

Capital Endeavors, Inc.
P.O. Box 895, 232 Crogan Street, Lawrenceville, Georgia 30046
Web: www.capitalendeavors.com Email: davidstill@capitalendeavors.com
Phone: 770-962-8399 FAX: 770-962-8640

Intangible Asset Valuations: Spot These Common Errors Before Going into Court

When reviewing your expert's intangible asset valuation—or the opposing party's—it's critical to identify the most common errors that can cause a court to discredit or even disregard a report. The following checklist serves as a quick guide to avoid the most obvious deficiencies:

- ✓ *Is the standard of value followed?* Has the analyst carefully disclosed and defined the applicable standard of value? Has the standard of value been followed consistently throughout?

- ✓ *Are all three valuation methods considered?* These include the income, market, and asset approaches.

- ✓ *Is the internal analysis consistent?* For example:

    - Did the analyst match pricing multiples or capitalization rates to the wrong economic income measure?

    - Are current intangible asset operational data matched to different time periods, without appropriate adjustment?

    - Did the analyst "normalize" financial statements without also normalizing the corresponding data for selected comparable companies?

    - Was a "highest and best use" analysis performed?

    - Was an "actual use" analysis also performed?

    - Did the analyst make extraordinary, subjective, or speculative assumptions?

- ✓ *Is there sufficient support for selected variables?* Any analyst should document the data used, the procedures performed, and the valuation conclusions reached. There should also be sufficient tracing from the data in the quantitative analysis to the intangible asset in the owner/operator financial statement.

- ✓ *Do the numbers add up?* Mathematical errors are more common than anyone cares to admit; check all numerical calculations for accuracy, and make sure rounding conventions are consistent.

- ✓ *Does the analyst rely too heavily on 'rules of thumb'?* These serve only as a "sanity check," not as a basis from which to derive substantial intangible asset valuations.

- ✓ *Is there sufficient data and research*? The analyst should have conducted all relevant research, clearly threading the data into the quantitative analysis and valuation conclusions.

- ✓ *Is there adequate due diligence?* The analyst should have reviewed all relevant contracts and corporate documentation, including internal financial statements and external marketing statements. Sales, licenses, contingent liabilities, and litigation should have also been considered.

This article originally appeared in the Business Valuation Update™ (BVU) newsletter. For information, please visit: www.BVResources.com