



Business Valuation Reports: Which Type Do You Need?

Each valuation assignment is unique, and each engagement requires in-depth analysis and a thorough understanding of the business being valued. However, the findings can be reported in different ways, depending on the circumstances of the engagement.

Same Process, Different Reports

It's important to note that the business valuation process considers the same items, regardless of the type of report generated. Here's a look at the different types of reports and their uses:

Full, written report: A full, written report is the most formal and traditional type of report, and discusses the opinion of value in a comprehensive, detailed, narrative format. This traditional report contains significantly more information than other types of reports, including detailed sections describing national and regional economic conditions and the state of the industry in which the subject business operates. Full, written reports may be required in litigation engagements. This type of report also meets the guidelines established by the U.S. Department of Labor for written documentation of valuation of Employee Stock Ownership Plans.

Summary report: While the valuation procedures used are the same, a summary report is more informal and shorter than a full, traditional report. The summary report typically takes the form of a letter, with much of the narrative material summarized. Significantly shorter in length than the traditional report, summary reports are faster to generate, and therefore can reduce the cost of a valuation engagement.

Summary reports can be used in a variety of situations, including some divorce proceedings, mergers & acquisitions, succession planning, and to meet the requirements of buy-sell agreements. This form of report is not appropriate in most types of litigation — especially when the report would take the place of direct testimony, as in the U.S. Tax Court.

Oral report: Expert testimony is an oral report — a real opinion of value, but not written down. Oral reports are also used frequently in litigation support engagements, where the attorney is seeking an expert opinion.

Reports Not Always Necessary

Often a “report” of any type is unnecessary — sometimes a ballpark figure is what’s needed, especially early in the valuation process. Limited-scope calculations of value are quite common and are completely acceptable as long as the client and valuation expert are in agreement regarding the deliverable, and the inherent limitations of the limited-scope engagement are understood.

Before beginning a business valuation, business valuation experts will clarify the purpose of the engagement. After learning more about the valuation situation, the expert can guide the client regarding the appropriate type of report. Additionally, the valuator needs to meet the reporting requirements of the association to which he or she belongs.

If you have any questions about the different types of valuation reports and which would be appropriate for your situation, please contact our office.

Who, What & Where?

The type of report warranted depends on who is reading it, what is being evaluated, and where it will be used:

The expected reader: Is the report being generated for a court? A potential buyer? An estate plan? Each type of end-user may require a different level of reporting.

Size and complexity of the company being valued: Generally, the more complex the company, the more complex the report.

External guidelines: The IRS and U.S. Department of Labor have specific requirements, and state laws vary.