



How to Handle Subsequent Events

A business valuation represents a company's value at a specific point in time. But things can change quickly. How should a valuation accommodate events that take place subsequent to the valuation date but before the valuation has served its purpose?

Generally, subsequent events are not considered. There are two exceptions: 1) When they should have been considered in the first place, or 2) when they support the stated value. If something unforeseen happens to substantially change the value of the business after the valuation date, a new or amended valuation report is probably called for.

There are two broad categories of subsequent events:

Events that definitely affect value: These events should only be considered if they were foreseeable or should have been known as of the valuation date. For example, if the company has introduced a new product that will significantly affect sales or profits, this definitely impacts value. This was foreseeable, and the valuation should reflect this event.

Events that support stated value: If a subsequent event simply provides evidence of value that existed at the valuation date, this event may also be considered. For example, if a projection is used in the valuation process and a few months have elapsed, the actual financial results may be considered in support of the projection.

Conversely, if a business is valued as of a specific date (January 15) and the manufacturing plant burns down two weeks later (January 31) — prior to the valuation reporting being issued — the fire is irrelevant to the value of the company on January 15. The event was unforeseen, and the valuation was correct as of the stated date. There may be other reasons why the event subsequent to the valuation date may be considered, but not in determining a value at a specific point in time.

If you have questions about subsequent events and their impact, please contact our office. We'll be happy to help you clarify whether the events should be considered.

