

Wiley Corporate F&A



DETERMINATION OF VALUE

Guidance on Developing and
Supporting Credible Opinions

FRANCISCO ROSILLO

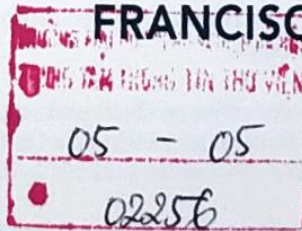


WILEY

Determination of Value

Guidance on Developing and Supporting Credible Opinions

FRANCISCO ROSILLO



WILEY

Cover design: John Wiley & Sons, Inc.
Cover image: © John Kounadeas/iStockphoto

Copyright © 2013 by John Wiley & Sons, Inc. All rights reserved.

Published by John Wiley & Sons, Inc., Hoboken, New Jersey.
Published simultaneously in Canada.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning, or otherwise, except as permitted under Section 107 or 108 of the 1976 United States Copyright Act, without either the prior written permission of the Publisher, or authorization through payment of the appropriate per-copy fee to the Copyright Clearance Center, Inc., 222 Rosewood Drive, Danvers, MA 01923, (978) 750-8400, fax (978) 646-8600, or on the Web at www.copyright.com. Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030, (201) 748-6011, fax (201) 748-6008, or online at <http://www.wiley.com/go/permissions>.

Limit of Liability/Disclaimer of Warranty: While the publisher and author have used their best efforts in preparing this book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by sales representatives or written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. Neither the publisher nor author shall be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential, or other damages.

For general information on our other products and services or for technical support, please contact our Customer Care Department within the United States at (800) 762-2974, outside the United States at (317) 572-3993 or fax (317) 572-4002.

Wiley publishes in a variety of print and electronic formats and by print-on-demand. Some material included with standard print versions of this book may not be included in e-books or in print-on-demand. If this book refers to media such as a CD or DVD that is not included in the version you purchased, you may download this material at <http://booksupport.wiley.com>. For more information about Wiley products, visit www.wiley.com.

Library of Congress Cataloging-in-Publication Data

Rosillo, Francisco, 1951–

Determination of value : appraisal guidance on developing and supporting a credible opinion / Francisco Rosillo.

pages cm. — (Wiley corporate F&A series)

Includes index.

ISBN 978-1-118-28789-7 (cloth); ISBN 978-1-118-33149-1 (ePub);

ISBN 978-1-118-33374-7 (ePDF); ISBN 978-1-118-33486-7 (eMobi)

1. Valuation. 2. Corporations—Valuation. I. Title.

HG4028.V3R5825 2013

658.15--dc23

Printed in the United States of America

2013004414

10 9 8 7 6 5 4 3 2 1

Contents

Preface xi

Acknowledgments xiii

Chapter 1: The Problem 1

In Search of a Truth 1
The Assurance Expert 4
Credibility Is Not Synonymous with Truth 7
Where Do We Go from Here? 8

Chapter 2: The Solution 9

Toward a Definition of Credibility 9
The Attributes That Make You Credible 10
Operational Credibility Attributes 11
Personal Credibility Attributes 19
General Observations about "Credibility" 21
Credibility Is Not Synonymous with Truth 23
Don't Confuse Opining with Decision Making 25
Beware of Black Box Opinions 26
Conclusion 26

Chapter 3: The Credibility Pyramid and the Importance of a Well-Defined Analytical Process 29

The Importance of Process 29
The Valuation Process 31
The Credibility Pyramid 34
Three Problem-Solving Phases 36
Conclusion 41

Chapter 4: Pyramids, Not Castles	43
Why Is Credibility Important?	44
Reasonable Assurance	47
Generally Accepted Practices	50
Generally Accepted Practices Lead to Uniformity and Professional Consensus	54
Analytical Gaps	55
Informed Judgment	56
Conclusion	59
Chapter 5: Climbing the Credibility Pyramid	61
The Importance of Revenue Ruling 59–60	61
Identification of Key Pre-Engagement Parameters	63
Planning to Acquire Knowledge about the Subject	65
General Planning Considerations	69
The Importance of the Standard of Value as You Climb the Pyramid	79
Self-Assessment Tools	83
Stepped Reading	87
Conclusion	88
Chapter 6: How to Develop and Report Your Opinion	91
Practice Presenting Your Written Findings Orally	91
Valuation Adjustments	102
Description of a Benchmarking Methodology Used by Valuation Analysts	106
Benchmarking: Relative Weights and Qualitative Analysis	111
Make Sure There Are No Analytical Gaps in the Development and Derivation of Growth Rates	115
Incorporating Prospective Information That Is Presented into Your Opined Results	119
Reporting Your Opined Results	126
Conclusion	129
Chapter 7: Reasonableness Tests	131
Determining Reasonableness	132
Example 1: Derived Estimate of Value	136
Example 2: Guideline Company Method	139
Example 3: Use of Market Multiples	144
Example 4: Federal Tax Compliance	145
Conclusion	146

Chapter 8: Enhancing the Integrity of Your Opinion	149
Understanding the Credibility Threshold	150
Understanding the Scope Undertaken	152
Understanding Analytical Responsibilities and the Impact of Matter/Cause/Effect Analysis	154
Conduct Your Analysis within the Parameters of the Economic Reality Relevant to the Facts and Circumstances	156
Maintain a High Level of Professional Skepticism and Engagement Awareness	157
Review Your Analytical Process for Relevance and Typical Common Errors	160
Be Ready to Respond to Ethical Challenges	162
Enhancing the Integrity of Your Opinion When at Trial or in Hearings	163
Enhancing the Integrity of Your Opinion When at Deposition	166
Conclusion	166
Chapter 9: Reviewing the Work of Others	169
Review Engagement Procedures to Consider	170
Preparing a Document Request for a Review Engagement	172
The Role to Be Assumed: Reviewing Expert or Reviewing Consultant	173
Limiting Conditions and Assumptions	174
Determining an Appropriate Scope for Your Review	175
Minimum Scope Considerations in a Review Engagement	177
Conclusion of a Business Appraisal Review Engagement	177
Business Appraisal Review Opinion	178
Reviewer's Independence	182
Common Errors and Analytical Gaps Found in Valuation Reports	183
Conclusion	188
Chapter 10: The Journey Continues	189
Definition of <i>Credibility</i>	189
Attributes Attached to a Credible Opinion	190
Separating Decision Making from Opining	192
A Note on Generally Accepted Principles and Practices	193
A Definition of the Concept of Informed Judgment	193
Suggestions for Assessing Your Own Methodology— the Importance of Reasonableness Tests	194

Suggestions for Enhancing the Integrity of Your Opinion	194
Conclusion	195

Appendix 197

About the Author 209

Index 211