

# **Business Valuation** **Guide** Matrimonial Valuations

## Background

We consistently receive enquiries about matrimonial valuations from business owners, non-business owning spouses, and lawyers – sometimes even concerned family members!

We have prepared a tailored guide below to help you through your tough time and ensure you:

- + Follow the right process to get the 'right' result
- + Engage a valuer once, and have the report accepted
- + Both parties, and both lawyers, understand the end report
- + Limit the risk of further valuation work on your business (and therefore cost), including court appearances

## Our Process

### Initial Enquiry

Most enquiries come to our office via phone or email. We understand some lawyers request their clients to present three valuers for the other party to select and appoint one of the three.

Depending on who this initial enquiry stems from, and at what stage of your proceedings you are in, depend on our 'advice'.

If you are part of the divorce:

- + We will enquire as to the industry of the valuation and provide a summary of our experience
- + We will explain the general process from engagement letter to releasing the report
- + We will ask you if you have both appointed lawyers
- + We will advise on the correct process to appoint us to avoid issues down the track

### Letter of Instruction

To proceed with a matrimonial valuation, we require a letter of instruction from your lawyer. This letter should include the following details specific to your situation and will allow us to prepare our formal terms of engagement:

- + Spouses names and lawyers representing them
- + Business/Entity name requiring valuation (including any related entities that have business interests)
- + How we are to be appointed, e.g. jointly by both parties
- + Any set mediation/court dates
- + Any factors the lawyers expressly want us to consider

At this stage, we request a copy of the latest financial statements of the business to scope the valuation and provide our letter of engagement inclusive of our fee estimate.

### Scoping

An engagement letter for our services will be issued outlining our estimated fees and services. With matrimonial valuation engagements, our preference is to be jointly appointed by both parties as a single expert witness. Being appointed a single expert witness means that both parties agree to accept our report, rather than each appointing separate expert valuers. This saves both parties time and money.

The engagement letter sets out our process in further detail, the information we will require to complete the engagement, the fee for our service and estimated time frames. With a jointly appointed, single expert witness appointment, we require both parties sign the engagement letter.

## Information Required for Valuation

1. Previous 3 years' financial accounts (including Balance Sheet and Profit & Loss Statement, together with Notes to the Accounts and Depreciation Schedules)
2. Current year to date management accounts if applicable (from your accounting software is sufficient)
3. Completed Information Memorandum (a document we provide to you, to gain an understanding of your business, including ownership, history, etc.)
4. Risk & Value Driver Assessment Worksheet (RAVDA). This survey (provided on engagement) helps us assess the qualitative aspects of your business.
5. Payroll Summary Report – detailing all payments to employees including wages, superannuation and any other benefits provided. This is particularly important for the relevant equity holders and related parties. (3 financial years and year to date).

Depending on the industry of your business we may request further information.

Once we have received the information from you and completed our initial assessment, we will make contact to arrange a suitable time for our Business Valuation Interview.

## Drafting of Report

Once we receive your information, we prepare our workpapers and collate any queries or note items requiring further clarity during our interview. This takes around a week from receipt of all information.

## Interview

The purpose of the formal valuation interview is to gain a greater insight into the business and its operations whilst addressing any outstanding queries. The business owner is required to be present at this meeting, however we also invite both lawyers and the other spouse to attend. The lawyers/spouse are present in a 'listen only' manner. An exception to this is on conclusion of the formal interview, where the lawyer may ask queries if they have any questions on the interview conducted.

## Clarifying Information

From our interview, if there is any outstanding information, we will request this in writing. This may be detailed print outs of specific income/expense accounts, key customer contracts etc. These information requests are generally only required where it may have a material impact on the valuation. Once we receive this information, we can prepare the report.

## Issuing Report

Expert witness reports will be issued as final. If you, or your lawyer have any queries, these need to be sent to us in writing (e.g. via email) and will be responded to in writing. These queries, like all communication in a matrimonial valuation need to include the other party, e.g. via copying them into the email.

Sometimes, depending on the complexity of the valuation or the issues within the valuation, we will hold another conference call with both parties following release. This can be useful if both parties have similar queries, or do not understand the matters within the report. An example of this is a financial planning firm we valued earlier this year. Given the impacts of changes to the industry, the valuation was complex, and we needed to ensure it was used in the correct manner. A half hour call with both parties clarified this, and we were confident the report was used appropriately.

## Frequently Asked Questions

### How long will the process take?

From receipt of the information required, the valuation process will take 4 – 6 weeks. This can depend on business owner and lawyer availability, so we aim to book this appointment in once information is received.

From the meeting, reports are issued within 2 weeks unless there is a hold up receiving information.

On occasion, we have prepared reports with tight timeframes for mediation dates, etc. Any tight timeframes need to be discussed before formal engagement is executed to ensure availability.

### What does it cost?

The cost of a valuation fluctuates with the complexity of business. A small café trading from one entity is going to cost less than a professional services entity with related entities.

To provide you with an estimate of costs we need to view the most recent set of financial statements for each entity.

Our fee is always quoted upfront in the engagement letter and invoiced on acceptance.

### Do You Audit the information?

In completing the valuation, we rely on the information and records provided to us as being full and complete disclosure to enable us to form our objective opinion on valuation. Our valuation processes do not constitute an audit or verification that the information is correct. If you feel an audit is important to your matrimonial process, you will need to engage a Forensic Accountant.

### How do we appoint you?

With matrimonial matters, there is a specific process to ensure your report will be accepted by the legal process. This is generally:

- + Enquiry made and valuers details obtained
- + Lawyer writes a letter of instruction to value your business or entity for matrimonial purposes, with financial statements (last year completed). This letter is counter signed by the other party's legal representative
- + FinConnect Advisory Group sends back an engagement letter for both parties to execute
- + Once signed engagement letter is received:
  - o We issue the invoice
  - o We issue the Information Memorandum and RAVDA documents referred to above
- + Information for the valuation comes into our office and we begin our drafting process
- + We schedule the Conference Call (enquire as to who needs to participate, etc.)
- + We complete any outstanding queries
- + We finalise and issue the formal valuation report

### How do you communicate with us?

For matrimonial valuations, given the parties involved, we prefer to communicate via email. This provides a paper trail and by CC'ing in all relevant parties we ensure transparency and independence in our process. We believe this creates a 'level playing field' among the parties and allows equal involvement.

### Are you Qualified in this Area?

Yes, we have the appropriate qualifications and industry experience in valuation matters to be suitably qualified to undertake this task.

### Is XXXX type of Business different?

We can value businesses of varying industries. We are aware of 'rules of thumb' for certain industries, however usually our valuations are completed on a 'future maintainable earnings' methodology which means we are valuing your business on its return on investment – what you get out of the business, not necessarily what you would sell your business for.

### How will you value my business?

We usually value businesses on the 'Future Maintainable Earnings Methodology', that is, we review financial performance and determine a likely ongoing future profit. We also review qualitative and quantitative information for the business and calculate a 'Business Capitalisation Rate'. It is essentially the Future Maintainable Earnings multiplied by the Business Capitalisation Rate that gives us the Business Value. There are exceptions to this, and we will use the methodology (or a combination) we deem necessary for your business.

### I think they are hiding something – What will you do about it?

As previously stated we are not a forensic accounting firm. We rely on the information provided to us by the directors to determine our valuation and assessment of the business.

### Can the value of the business be zero?

The value of a business cannot be zero in a matrimonial matter because family law court rules deems there is a value in use for the owner. This value in use is essentially what you get from the business.

## Definitions

**Capitalisation Rate (or Business Capitalisation Rate):** The multiple of profit to be used. This is influenced by qualitative and quantitative aspects of a business including – how long it takes to get its money from customers, whether contracts are in place with key customers and staff, the industry it operates within etc.

**Capitalisation of Future Maintainable Earnings:** The formula between the Capitalisation Rate and the Future Maintainable Earnings.

**Enterprise Value:** The value of the business including a normal level of working capital (the items required to operate the business) but does not consider surplus assets or net debt. In a future maintainable earnings valuation this is Future Maintainable Earnings multiplied by the Business Capitalisation Rate.

**Equity Value:** The value of a business once surplus assets and any net debt of the business entity have been considered.

**Future Maintainable Earnings:** The future economic benefit derived from the profit of the business, or more simply, the ongoing profit the business is expected to derive.

**Jointly appointed:** Both parties have agreed to appoint the single expert witness and agreed to accept the report given by the expert witness.

**Material:** Accountants use the term 'material' to mean something that will have a significant impact. It could be a material asset, a material income or expense line, etc. You could expect that an item was material if it was 1-2% of turnover, or profit.

**Single Expert Witness:** Is an expert in the relevant field who provides independent and objective written opinion to the court.

**Value in Use:** The value of the business when it is in operation, e.g. what you derive from the business.

**Weighting:** In forming our view of the future maintainable earnings, we may apply various weightings to multiple financial years. The weighting is subject to our professional judgement. If the business' most recent year of trading is most reflective of its ongoing performance, it can be a 100% weighting on this year. If the business is cyclical, we endeavor to include the business cycle. This helps us derive the best estimate of ongoing profit.

## Who are we?

FinConnect Advisory Group is a venture of Accru Hobart, specialising in Business Valuation and Succession advice.

Together, we have more than 50 years' experience in the valuation industry.

## Our Team

Please contact one of our valuation team to discuss your next steps.

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