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See for yourself
Site visits are a critical part of the valuation process

Why do you need to see a business to value it? Financial statements, tax returns and marketing materials tell only part of the story. And a written questionnaire doesn't adequately bridge the gap, especially in an adversarial situation. To get a comprehensive understanding of how a business runs, the expert usually needs to see it — and talk to management — firsthand. Here's why site visits are critical when valuing a business, particularly in divorces and shareholder disputes.

Revealing new information

In some situations, a site visit may help uncover hidden assets or fraud that might have gone undetected if the expert had just relied on information shared by the controlling shareholder from afar. Consider valuation expert "Pat," who's been hired to value a manufacturing company that's buying out an unhappy minority shareholder — who's also unhappy with the buyout offer.

The controlling shareholders initially refused to allow Pat to conduct a site visit. So, the attorney ("Chris") was forced to file a court order to allow Pat access to the company's facility. While waiting in the company's lobby, Pat gathers information from newspaper articles posted on the walls, which she subsequently reports to Chris. These facts include the grand opening of an affiliated company in a nearby town.

During the site visit, Pat notes that the employees seem nervous and avoid making eye contact. Further investigation reveals unrecorded loans to the affiliated company and a shift of several large customers' income from the old to the new plant. What's more, the old plant is paying exorbitant management fees to the new affiliate. These discoveries increased the company's value by nearly three-quarters of a million dollars — and they would have gone undetected if not for Pat's diligence during the court-ordered site visit.

Thinking beyond fraud

Is a site visit still needed if there's no risk that a controlling shareholder is skewing the financial results? Site visits provide insight into business operations, even when a valuation isn't prepared for litigation purposes. They may shed light on information that's not obvious by reviewing the financial statements.

For example, a valuation professional might notice nonoperating, idle, damaged or obsolete equipment or inventory while touring a facility, as well as inventory and fixed assets without physical asset controls. A production line or warehouse may appear disorganized or unsafe. Employees may even seem disgruntled or overly stressed, suggesting that the company is growing too quickly, human resource issues abound or labor union problems could be impending.

Meeting with employees

If a valuation expert hasn't previously toured your company's facilities, expect him or her to request a site visit soon after being hired. Before showing up, most experts perform a preliminary review of the company's financial statements and other relevant documents to ensure efficiency and customize interview questions. They also may send a written questionnaire in advance to help management prepare.

Depending on the size of the company and the engagement's confidentiality requirements, the valuation expert will want to talk to several individuals. A side benefit of these face-to-face interviews is that the valuation expert will establish a positive working relationship with employees, which facilitates the valuation process.

Interviews typically cover a broad range of subjects, including but not limited to:

- Operations history,
- Management quality and compensation,
- Hiring practices,
- Technology,
- Marketing and sales programs,
- Methods of distribution,
- Condition of fixed assets,
- Historical financial performance,
- Accounting methods, and
- Internal controls.

Valuations are driven by *future* cash flow projections. So, expect questions about the company's future strategic plans during management interviews. Some business owners may be leery about providing this information, because they don't want it to be leaked to competitors.

Concluding with a catchall

Many valuation professionals end their interviews with a broad question, such as, "In your opinion, is there anything else about the business we haven't discussed that could potentially affect its value?" Such a question minimizes the danger that management will withhold information or a valuation expert will overlook a key fact.

Do you have a **Question?** or want to speak to

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