

## *Required On-Site Visits when Performing a Business Valuation*

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### The Question as presented:

Is an on-site visit of a business absolutely required in *all* business valuations, including a marital dissolution valuation? Do you perform the on-site visit at the company's headquarters? What if there are various warehouses throughout the United States or even out of the country? Is it necessary to visit them as well? Can we rely on third parties for the on-site visit? Can we exclude the on-site visit and include this omission as a limiting factor in our report?

I have always performed an on-site visit, but have a potential client whose company is located in another state with three warehouses that are also located in various states. Please advise.

### The Answer

A site visit is considered an extremely important part of the valuation process regardless of the purpose or intended use. While our standards clearly require that we state whether a site visit was performed, I have found no written or other evidence that suggests we ***absolutely must*** conduct a site visit. However, failure to perform a site visit, absent previous familiarity with the establishment, might effect credibility and subject you to harsh cross-examination. The court appreciates thoroughness. Both the site visit and the interviewing process are evidence of thoroughness in completing the valuation.

If, in your opinion, the actual contents and/or operations of the warehouses throughout the United States or even out of the country are material and relevant factors to the valuation conclusions, then confirmation of the contents and processes performed within the warehouses is mandatory.

In accordance with various guidelines, we are permitted to rely upon the work of others provided the work is credible and that we can reasonably rely upon the work actually performed by others. When you rely upon the work of others, it is important to state that this limiting condition exists. (i.e. you did not personally inspect the warehouses or operations, but have relied upon the work of Mr. ABC, Partner of XYZ Company, that specializes in DEF.)



An extremely important part of the typical site visit is the interview of management. The interview of management need not be conducted in person. What we must do is assess the company's performance beyond the numbers. This is typically accomplished by finding the correct employees, management personnel, or officer's that can actually guide us through the process of determining the strengths, weaknesses, opportunities, and threats inherent within the entity. It is these same people that we rely on to confirm or deny the legitimacy of various expenses and allocations set forth on the financial statements.

### Practice Tip

We must recognize that a portion of the site visit is simply confirmation of existence, actual location, nature of assets, perhaps quality of assets, and our need to gain an understanding of the processes employed and the manner in which the entity actually operates.

If either time or resources preclude an appraiser from personally making the inspection of an unfamiliar establishment, consider some of the following options:

- Has an audit been conducted? If so, I would interview the auditor in charge of the inventory of the warehouses and processes. I would request that the client and auditor agree to provide me with their workpapers and that I be permitted to interview the audit staff, if necessary.
- Request that your client secure the services of either a reputable appraiser or a reputable local audit firm in the area of each of the facilities. With technology being what it is today, you could establish a list of "things" that you want confirmed by video. (You could also use a digital camera, but I prefer a video if there are operations that should be observed.) You want to see the inventory, you want to see the processes employed, and you want to get a feel for the general location and know if there are nearby competitors. (You can also use the internet to confirm or deny the competition that may exist in the general area.)
- You might also consider searching the various credentialing websites (CVA, ABV, and ASA) for appraisers that are in the client's region(s). Depending upon the contents of the warehouses, the ASA may be an excellent resource for you as their members are not limited to business valuation. There are appraisers specializing in just about everything imaginable, including machinery and equipment, rare art, precious stones and artifacts. If you do not find a person that you personally know, check with people whose judgment you trust for recommendations. You might then provide a list of names to the client of individuals that you believe possess the necessary credentials and skill to accomplish the assignment.

- While less persuasive than the other alternatives discussed, it is also conceivable that you could rely upon the owners to produce a video or digital pictures of the warehouse and contents. If this is in connection with a marital dissolution or any other adversarial proceedings, I would make sure that all parties to the litigation confirm the accuracy of the production.

### Work Cited

Please call for references.