NUMERIA℠ Frequently Asked Questions

1. Why would a company want a valuation?

Companies use valuations to make strategic decisions and to satisfy legal or regulatory requirements. These might include acquiring or divesting a business, raising capital, evaluating strategic direction, launching a stock option plan or securing insurance policies (key man, etc.)

2. What is a market-based valuation?

It is a valuation that is independent and objective by default; that wins the confidence of the CFO and CEO; and that assures the board of directors and outside auditors that the valuation is for real. Unlike a traditional valuation, a market-based valuation generates multiple valuation opinions and then allows the independent analysts to debate in a forum where their independent information is shared   While their initial numbers may range widely, the analysts refine their valuations as they learn from their peers, resulting in a superior outcome.

3. **How does a market-based valuation work?**

Before a firm is valued, key information is gathered and disseminated to the analysts, who then query management in one or more conference calls before submitting their initial, written valuations to the market. Each analyst – who may be an investment banker, financial advisor, corporate development officer or appraiser – then compares his or her work to his peers'.

In the marketplace, the analysts defend their work against intense peer scrutiny, during which they learn new information about the firm and other factors that affect its value. They then can change their valuations based on what they learn, so that the final valuation reflects all information that is known by the market about the company. The marketplace is confidential, yet transparent to the client in real time. This assures privacy as well as a rigorous process by a multidisciplinary group of experts.

4. Are market-based valuations a new methodology?

No. They occur in a marketplace where experts use all of the conventional valuation methodologies, thereby producing multiple values. The result is a meta-value, that is, a rock solid outcome from the synthesis of many experts' work.

5. What methodologies are used by the analysts?

They use whatever methods they consider most appropriate for the situation. Most often they use the Big Three – discounted cash flow analysis, comparable company analysis, and cost approach – with variations of each, and occasionally more exotic methods like real options.

6. When have companies traditionally sought a valuation?

Public firms are valued constantly with each trade of their shares. In contrast, private firms are not valued nearly enough. Most private firms don't consider value when making pivotal decisions and only use valuation to validate decisions they've already made or to resolve disputes.. As a result, the majority of private firms don't know if they're creating value each year or not.

This is changing, though, and measuring value is becoming essential. Private equity is funding growth or ownership transfer of more private firms than ever before;, global competition, particularly from China and India, means everyone has to manage for value, not just for cash flow or profit;, and recent reforms, like Sarbanes-Oxley, are affecting private firms, too, so they must think and act more like public companies. Valuation simply matters more than ever before.

7. What can private companies learn from valuation?

For strategic decisions, they learn how to <u>create</u> value and <u>manage for</u> value. By having an objective and independent fair market valuation they can also have a feedback loop for leadership: that is, measure value; take action; measure change in value.

They are also surprised to learn how they are viewed both in quantitative and qualitative terms. The COO of this company explained that "We learned more about our company in 90 minutes with the market analysts than we have for the past 10 years."

8. Could market based valuations apply to public companies?

Most definitely. They face the same challenges as private firms when acquiring or divesting companies, so a market-based valuation is effective for them, too. They also have huge responsibilities to their public shareholders and regulators, so that acquisitions, divestitures, and alliances need to be priced fairly and openly.

9. What sets a market-based valuation apart from the other valuations?

Multiple analysts working in parallel on the same deal, delivering multiple valuation opinions that converge into one, final value through a transparent, real time marketplace where analysts' work is vetted and clients can observe the entire process. This market structure provides more independence, objectivity and robust company valuations than are otherwise available.

10. What can a company learn from a market-based valuation that they otherwise cannot?

The four biggest things they learn are:

- Their fair market value; most private firms don't have any idea (even if they think they do)
- The risk they take – in dollar terms – of relying on just one valuation resource when making a mission-critical decision. They see live, in living color, how many millions of dollars were at risk (see our white paper, "The ROI of Numeria").
- How they're perceived by the market, in both quantitative and qualitative terms (they're often surprised by both)
- How to create enterprise value (Numeria provides a feedback loop that allows them to benchmark their progress and adjust course as and when needed).

11. How does Numeria can ensure objectivity and independence in the valuation process?

Numeria only operates the valuation market place. It does not raise capital, broker deals, or provide advice to clients about their businesses., In addition, the analysts contract with Numeria, not the clients, so they focus on providing the truest valuation possible. Numeria analysts are compensated well, and in turn agree to abide by unambiguous rules of the marketplace. For example, they are prohibited from seeking or accepting additional work from Numeria clients.

12. **How are the analysts chosen?**

Numeria has a deep bench of analysts who are carefully vetted and contracted long before they are selected for a valuation. Their selection for an assignment is based on their experience with valuing firms of a comparable size, in the same industry, and for the same purpose (like an acquisition). They also are selected for their professional orientations, that is, investment banking, financial advisory, corporate development, or appraisals. For example, a high-growth tech firm raising $20 million in private equity would require analysts who have experience financing emerging technology firms, and might include venture capitalists, investment bankers and tech industry experts.

13. What determines the fee charged by Numeria for the valuation process?

The fee – which is fixed and agreed to up front – is driven by three factors:

- The size and complexity of the firm being valued and the number of analysts needed
- The ultimate purpose of the valuation (internal decision vs. fairness opinion)
- The client's budget

Need More?

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