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New Pricing Service Delivers Collaborative Valuations

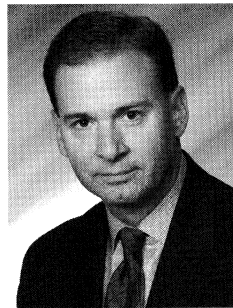
Since valuation is an inexact science, appraisers working as a group may produce more accurate and substantive prices

By Joan Harrison

In the summer of 2003, the SEC issued final rules concerning auditor independence under Sarbanes-Oxley, prohibiting accounting firms from providing certain types of services for their audit clients — one being valuations. As a result, public companies increasingly are turning to third-party specialists to perform that service.

Sensing the growing need for accurate, independent business valuations, Peter Leitner, managing partner and founder of corporate finance advisory firm Waterford Advisors, recently launched NUMERIA^(sm), an Internet-based service for providing real-time business valuations performed by a team of analysts. Clients log on to the secure site and observe and listen to the entire valuation process.

Through NUMERIA^(sm), each analyst working on the project presents his or her own valuation, backing it up with calculations and assumptions, then faces challenges to his or her assumptions and/or methodologies from fellow analysts. Clients witness price changes as the ana-



Peter Leitner
Chief Executive Officer
Numeria^(sm)

lysts adjust their initial figures based on feedback from peers.

The analysts come from the investment banking, corporate finance, and valuation fields, and many work at appraisal firms. And because the analysts are independent, they provide clients with total objectivity.

Leitner, who serves as CEO of NUMERIA^(sm), notes that this new valuation approach is based on research that indicates that “groups are much more

accurate than individuals when measuring uncertain values or predicting future results.”

Valuations of private companies have always presented special challenges to appraisers, since, for one reason, the information available on those types of firms usually is sketchier than the information available on public companies. Pricing of any type of business is an inexact science, but access to limited information plus other issues surrounding private entities set the stage for individual appraisers to produce a wide range of values for the same company.

The “magic” of NUMERIASM, Leitner states, is that each analyst produces an independent price and a revised price based on his or her colleagues’ critiques, then the panel of analysts presents a final, collaborative valuation. “A marketplace with disparate valuations for a private company can be reconciled through a service like ours. What the client ends up with is a string of values, and they can see how they got from beginning to end and can see how and why those values changed,” he adds.

In a recent demo presentation of the new service, a panel of five analysts provided a real-time valuation of a privately held software company with a few hundred employees and sales of about \$40 million, most of which comes from government work. Starting valuations ranged from \$17 million to \$65 million, with the mean being \$34.8 million and the variance being 39%.

“Considering that most companies hire a single analyst for a valuation, you can see just how much these opinions can vary, even when everyone starts with the same informa-

tion about the same company,” Leitner notes.

The analysts took about one-and-one-half hours to present their individual valuations, including their underlying calculations and assumptions, and to scrutinize the work of their peers. The group ended up with an average valuation of \$31 million, but the variance had dropped to 11%.

“It was a much more solid number. Even though the client lost \$4 million in value it gained a higher degree of accuracy, substance, and confidence in the ending valuation,” Leitner notes.

NUMERIASM provides multiple valuations for a fixed price, as opposed to a single valuation based on an hourly rate, and Leitner notes that the demo client “would have paid someone else probably the same fee that they paid us. But of course I think they’re getting a lot more for their money from us.”

Interested parties can contact Mr. Leitner at 609.951.2233 or pleitner@numeria.us. ■

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