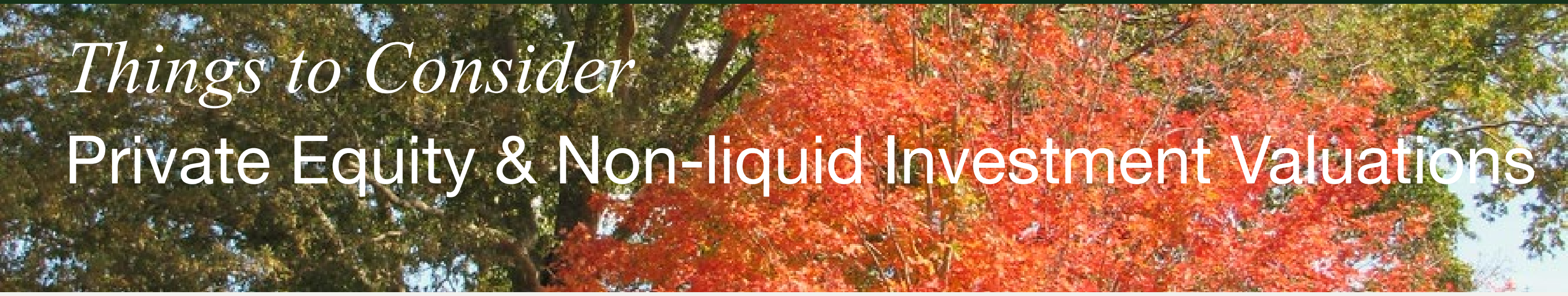
Tall Oaks Partners



Things to Consider
Private Equity & Non-liquid Investment Valuations

Private equity and non-liquid financial investments have become increasingly complex, presenting challenges to valuing these investments. At the same time, investment managers and companies are faced with increasing pressure for consistency, transparency, and adherence to reporting standards. An independent, third-party valuation can reduce actual and perceived conflicts of interest, as well as mitigate risks to meeting regulatory, accounting, and investor requirements.

At Tall Oaks Partners, we understand and appreciate the importance of having a quality and supportable valuation. Here are six things to consider when preparing valuation estimates for portfolio companies and other non-liquid investments:

- **Methodologies** – Consider each of the primary approaches to value, including the income approach, market approach, and cost approach. Most commonly, for a business that is a going-concern a combination of the income and market approach is applied.
- **Other Assets and Liabilities** – Review and discuss the subject company or investment's associated balance sheet to identify any assets and/or liabilities that may need to be separately accounted for in the valuation estimates (e.g., off-balance-sheet items, excess working capital, derivatives, JV interests).
- **Discounts** – Evaluate discounts that may apply, such as a discount for lack of marketability or a discount for lack of control. Any discounts applied should consider the terms associated with the business interest and be supported by market data and applicable quantitative analysis.
- **Capital Structure** – Analyze the subject company's capital structure and each class of equity to identify features that may require different methodologies and discounts to value. In some cases, a simulation or option-based methodology may be required to value a business interest.
- **Calibration**[1] – Calibrate indicated values and key assumptions from inception of the investment and using available transactions in the same company or instruments. Subsequent valuations may then begin with assumptions that are consistent and can be adjusted to reflect company developments, recent transaction economics, or other market factors.
- **Documentation** – Detail the approaches/methods and steps considered and selected in estimating the value of the company/assets. The valuation report should include documentation of supporting facts, key data and assumptions, and other considerations utilized in the analysis.

When valuing a portfolio company or non-liquid investment, it is critical that investment managers and companies not only understand the underlying business, but also the valuation requirements and guidelines that are applicable to the estimate. At Tall Oaks Partners, we bring together our technical valuation knowledge with an industry and client-tailored approach to deliver cost-efficient and on-time valuation services. Have a question? Contact us at info@talloakspartners.com to get time scheduled with one of our Managing Partners.

1. American Institute of CPAs "Accounting and Valuation Guide: Valuation of Portfolio Company Investments of Venture Capital and Private Equity Funds and Other Investment Companies".