



Spotlight: Valuation

Around the world, companies have the same ultimate objective: accurate, supportable, professional guidance in effective use of capital and enhancement of asset values. Contrary to popular belief, Valuation is not auditing, or carrying out the role of business brokers, auctioneers, equipment dealers or real estate brokers. It is providing expertise in all classifications of tangible and intangible assets.

Valuation or valuation-related advisory services are provided for business, financial, legal or tax purposes. As time flies, it is more than 100 years that firms with international activities have been calling upon professional firms for accurate, reliable valuations for solvency or fairness opinions, financial or tax reporting and compliance. A prime example is for acquisition, sale, merger and joint ventures. These days such services are available to a wide range of local and international firms, including:

- Public companies - (such as Fortune 500 and FTSE 100 companies), especially in the energy & resources, healthcare, manufacturing and technology sectors
- Privately held companies
- National and Local government organisations

The full range of valuations services available includes:

1. Bankruptcy related valuation services
2. Dispute resolution
3. Financial reporting
4. Financial valuation
5. Insurance valuation – see below for more detail
6. Intangible asset valuation
7. Equipment valuation
8. Real estate valuation
9. Tax related valuation services

We shall look more closely at one of these services which impacts the daily responsibilities or areas of interest for many of our readers - **Insurance Valuation Services**

Any company or individual who wants to ensure they do not buy more or less insurance coverage than is necessary, needs to provide their Broker and Insurer with data necessary for them to market and underwrite the property coverage efficiently. Professional firms, such as American Appraisal, provide all parties with the information they require, in the most cost-effective and timely manner possible.

In particular, Underwriters are interested in obtaining consistent valuations based on current accurate costs to reinstate, or replace the insured property. Increasingly, they also require related data regarding construction, occupancy, protection and exposure (COPE), for each asset to be covered under the insurance policy.

Seasoned professionals understand the concepts of maximum foreseeable loss and concentration of risk, enabling them to make recommendations regarding those assets which must be inspected, as well as those which can be valued through alternate methodologies. This approach is particularly advantageous when a client owns complex properties and/or their insurable assets are situated at numerous locations throughout the country, or around the globe.

Insurance Valuations can be limited to buildings, or expanded to include the general contents of the buildings, including all plant and machinery. In fact, clients regularly seek an opinion of insurable value for any tangible asset, as well as assisting in determining the level of business interruption cover. In this respect valuation specialists, working alongside specialist financial analysts as a team will be able to access resources to assist clients, regardless of the nature of the insurable property.

Services provided include the utilisation of a full scope-, component-based approach to determine insurable values, inspecting each property/asset including the identification and coding of the various construction components for each building, plus the preparation of a detailed physical inventory of all major equipment. Where necessary this range of services can be adjusted to include “rolling programmes,” limited scope appraisals, the audit of build costs for newly capitalised facilities and annual updates. In addition, valuers provide for the calculation of the Limit(s) and Period(s) of Indemnity for inclusion in Business Interruption Insurances.

In the current economic climate, experts have identified that the “spikes” in construction and plant costs seen in the run up to mid 2008 have now dissipated. In general terms, depending on location and industry, reinstatement costs have settled at the levels of 18 months ago. However, if Values at Risk have not been competently assessed since the early 2000s (or at any time prior to that), there will still be a need to revalue, because of a general continuing trend of increasing costs of between 2.5% and 7.5%, depending on the facilities involved.

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The services provided by professional valuation firms, in fact, far exceed actual “valuing.” Amongst the other valuable services are:

- a) **Transaction Consulting.** mergers or acquisitions, divestiture or financial restructuring take place all the time. Significant business transactions like these present challenges, risks and rewards. Firms need help to minimise and manage the various risk components. Objective analysis of property economics, market drivers is required for Financial Reporting, Merger and Acquisition Support, Privatisation and Corporate Finance.
- b) **Real Estate Advisory.** Increasingly, one’s real estate holdings compete with all other asset classifications for investment capital. There is a constant need to re-think conventional real estate strategies. Pension funds, REITS, institutional investors, private developers and corporations are continually on the look-out, studying all available scenarios, developing proactive strategies and maximising value in transactions. Items frequently under the microscope are: Dispute Resolution Services, Expropriation Services, Portfolio Analysis, Property Tax Services and Real Estate Valuation.
- c) **Fixed Asset Management.** Public and private sector clients can have different asset management and reporting challenges. However, both rely on accurate fixed asset information to control and manage their real and personal property assets. In the current climate of focussing on core values, many firms have downsized their fixed asset management capabilities, relying instead on outsourced consulting staff and sub-contractors and it is these outside experts who provide: Cost Segregation, Fixed Asset Inventory and Reconciliation Services, Insurance Valuation (as outlined above) and Fixed Asset Outsourcing Services.

Internationally active corporations require valuation services with a truly global reach and capability. There are precious few of them.