



Estimates and Judgments

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- Mark obtained his Chartered Accountant designation in 1998 and Chartered Business Valuator designation in 2002.
- He has presented expert evidence testimony relating to business valuation and loss quantification on multiple occasions in the Court of Queen's Bench of Alberta and the British Columbia Supreme Court.
- Mark has been closely involved with the Canadian Institute of Chartered Business Valuators (CICBV) and the International Institute of Business Valuers (IIBV) as both a course developer and a course leader, and frequently lectures internationally on behalf of the IIBV.
- In his spare time Mark enjoys horseback riding and spending time with his two children.

The Takeaway

- **At the end of this session**
 - Characteristics of well supported judgments and estimates
 - It all begins with the story

The Story

- **Bad** – We bought this company because it seemed like a good idea at the time
- **Better** – We bought this company to acquire its portfolio of brands
- **Even Better** – We bought this company to acquire its portfolio of brands and Bob (the guy who knows lots of stuff)

The Story

- **Best** – We bought this company to:
 - Acquire its portfolio of brands (which helps diversify product reliance risk and is more attractive to lenders)
 - Acquire talented irreplaceable workforce (that results in competitive efficiencies and lower costs)
 - Realize unique synergistic revenue growth by cross marketing to each others customer base

Common Judgments

- Useful lives and depreciation of assets
- Functional currency
- Convertible notes (liability or equity)
- **Impairment**
- **Business combinations**

Supporting Judgments and Estimates?

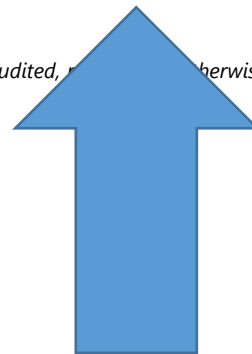
- **D**ocument
- **D**emonstrate understanding
- **D**etail the process
- **D**escribe why it is common to the industry
- **D**iscuss the alternatives considered
 - *The higher the complexity, the more need there is for clear documentation*

Common Estimates

- Impairment testing (inputs used in the determination of FVLCTD and VIU)
 - **R**evenues
 - **C**osts
 - **T**axes
 - **W**orking capital
 - **C**apital expenditure
 - **M**arket participant assumptions

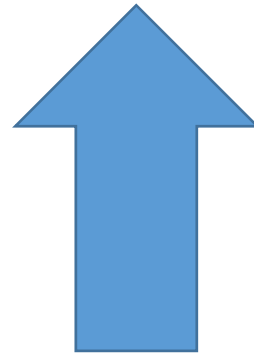
Common Estimates

- I just paid a valuator \$20,000 for a PPA / Impairment report ... *“It’s all good. What more could you possibly want”*
- *Read the fine print* “we have not audited, nor otherwise verified the accuracy or completeness of any of the numbers contained in this report, provided by management”



Common Estimates

- *“we have not audited, reviewed or otherwise verified the accuracy or completeness of any of the numbers contained in this report, provided by management”*



How do you support Estimates?

- **Document** them
- **Demonstrate** that they are
 - ***Supportable (mechanics – the how and why)****
 - Internally consistent
 - Common to the industry (Consistent with market participants)
 - Reference to budgets / forecasts etc
 - Tie to facts (Support future volumes and prices)
 - Free of bias /Include sensitivities

The End

- It begins and ends with the story.