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Business Valuation & Litigation Support Trends

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Prevent Technological Takeover – Part II

This article is the second of two articles regarding use of technology to operate more efficiently, without being overwhelmed.

Internet: Benefits & Challenges

The internet has exploded on the scene and the world is in the throes of the Information Age. Knowledge is right at your fingertips. The internet saves you trips to the library to conduct research and money on periodicals. Instead you search for and download articles from all over the world straight to your printer.

Establish strict guidelines regarding the acceptable usage of the Internet by employees and state that its intended use is for business only. Employees generally don't understand the cost of the internet, and don't realize what a drain it is to most networks.

Cellular Phones: Benefits & Challenges

This marvelous tool goes wherever you go. It allows you to make good use of travel time and take care of business as usual even when you're

Valuing a Troubled Company: Special Needs Call for Special Consideration

In today's economic environment, many companies have problems maintaining profitability. Nevertheless, they often need valuations for obtaining a loan, preparing for a buyout or other reasons. Valuing a company experiencing financial difficulties can, however, be tricky. If a valuator chooses the wrong method and assumptions, the value may be overstated. In addition, an owner of a troubled company often tries to increase the value by citing the circumstances that led to the problems and suggesting potential remedies. Even if some of these ideas are valid, they are merely hypothetical. Let's look at a few points to consider.

Choosing a Method

Generally, valuations are based on one or more of the following approaches: market, asset or earnings. Market-based approaches use comparable transactions to derive an entity's value. While in certain situations this can be a reliable method, it is not the best approach to value a troubled company — simply because a valuator is unlikely to find another company of the same type experiencing exactly the same kinds of financial difficulty.

The approaches more suited to valuing a

troubled company are either an asset-based approach and/or an earnings-based approach. Under an asset-based approach, the value of the company is based on the market values of the underlying assets less the liabilities. Under an earnings-based approach, valutors discount future returns, capitalize past earnings, or use a weighted average of these methods to reach a value. Such methods usually employ a discount or capitalization rate based on the rate of return that an investor wishes to receive in light of the risks involved. When the risk is higher, the discount rate and the amount the investor wants to earn both increase accordingly.

A Different Approach

A different approach is to develop and implement a turnaround plan, and then use projected future returns to estimate the value. But valutors must be cautious in evaluating the viability of the proposed turnaround plan and its probable effectiveness in returning the company to profitability. Among the questions a valuator must ask when projecting future cash flow are:

- At what rate will sales increase (if at all)?
- Will expenses follow sales?
- Are direct costs to produce one dollar of sales likely to increase or decrease?

The answers to these questions depend on how well the turnaround plan works.

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Valuing a Troubled Company

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Qualitative Criteria Can Influence Value

The valuator considers qualitative criteria to determine the amount of risk. Some of the more important qualitative criteria for evaluating a going concern emerging from financial difficulties are:

- What is the overall outlook for the company's industry over the next 10 years? Will the industry enter a growth period, remain stable or decline?
- How easily can potential competitors enter the market?
- How effective is the management? Does the welfare of the company depend too heavily on certain key personnel?
- What is the company's market share?
- Does the company rely on only a few key customers and suppliers?
- How does the company's financial risk compare to its healthier competitors?

As always in a valuation, many elements are involved in valuing a financially troubled company. This brief summary should help you understand some of the special considerations for this type of valuation. For more detailed information on these or other types of valuations, please contact us.

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Technological Takeover

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on the road. In addition, you can forward calls from your office to your cell phone, thereby ensuring you don't miss that important business call.

The "always available" nature of a cell phone wreaks havoc in some people's lives. Many find travel time a good time to work on projects that require some thought and creativity. Phone calls make their travel time less productive. Another challenge is the "multitasking" nature of the cell phone—it allows you to do more than one thing at a time, but not always well. In addition, if you carry a cell phone, you may not have any "unavailable" time. This is intrusive and creates premature fatigue, resulting in more mistakes and rework. Lastly, cell phones often violate your privacy. Pleasurable activities such as lunch with a friend or a brisk walk quickly lose their pleasure if you're required to be "on-call" at all times. The resulting feeling is that you have no control of your time, which increases your stress and lowers your effectiveness on and off the job. Set limits on your cell phone usage so that it works for you. It's acceptable to negotiate boundaries and deadlines with others.

Interpersonal challenges

Be careful to avoid the tendency to multitask at home. Some people don't feel productive when they're not doing four things at once. If this describes you, shift your focus. On weekends, slow down and reinvest in yourself.

In conclusion, high-tech telecommunication devices mean speed and availability. Their intention is to help us be more efficient, free our time, and make life easier. But these tools are also great users of time. Ensure that technology is not working against you—causing you to be less organized. Remember—working smart, makes working hard easier.

An Important Message

While every effort has been made to provide valuable, useful information in this publication, Schenck Business Solutions and any related suppliers or associated companies accept no responsibility or any form of liability from reliance upon or use of its contents. Any suggestions should be considered carefully within your own particular circumstances, as they are intended as general information only.

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