

8 Ways Private Equity Fund Managers Can Streamline the Year-End Valuation Process

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Private equity fund CFOs bear the weight of numerous responsibilities, encompassing the management of the firm's financial initiatives, ensuring tax compliance and delivering precise financial accounting and investor reporting. Given these competing demands, here's a list of helpful tips to manage year-end valuations, financial reporting processes and procedures.

1. Coordinate the year-end audit with portfolio companies

Recognizing the challenges inherent in receiving financial information from various investee companies, given their varying fiscal year timelines, it's prudent to plan ahead and coordinate the timing of when the CFOs of the investee companies expect to deliver necessary financials, projections and investee company reports. This will help ensure the fund meets its own audit and valuation deadlines on time without glitches.

2. Provide quarterly performance updates to key vendors

Year end is an extremely busy time for everyone involved in the preparation of financial statements. Don't wait until the end of the year to update your valuation firms, audit firms and administrators on important developments, such as new rounds of funding, achievement of milestones, etc. This will ensure sufficient time for valuation methodologies to be sorted out in advance.

3. Update valuation policy as needed

It can be difficult to keep up with the constant barrage of Accounting Standards Updates (ASUs), Accounting Standards Codification (ASCs) and other pronouncements. Since Generally Accepted Accounting Principles (GAAP) and valuation best practices are constantly evolving, it makes sense to periodically review your valuation policy with trusted advisors and make sure it reflects all relevant guidance. While funds should periodically review the relevance of their policy, they must also ensure that valuations comply with the actual guidelines outlined in the policy.

4. Back-testing

Funds should retrospectively back-test the assumptions implied by actual transactions for equity and debt positions held within portfolio companies to compare and benchmark against accuracy of valuations.

5. Timely resolution of audit issues

Funds should identify potential land mines encountered during prior year's audit process and proactively seek advice and collaborate with their auditors and valuation experts to resolve anticipated issues and ensure timely completion of audit procedures.

6. Monitor SEC enforcement actions

It will be prudent for funds to track and monitor opinions and actions issued by the regulators and implement within the funds' best practices the SEC recommendations on financial reporting.

7. Sensitivity analyses

Sensitivity analyses model the effect of varying inputs to a financial model. It is imperative to run sensitivity analyses surrounding key valuation inputs and assumptions – especially those that involve professional judgment – because your auditors will certainly be doing so as part of their testing procedures. Proactively analyzing the impact of changing variables not only allows the valuator to assess whether their assumptions are reasonable, it also helps in terms of preparedness and the ability to defend the valuation in advance of auditor scrutiny.

8. Seek expert advice

Knowing when to seek expert advice is critical for CFOs of private funds, especially when it comes to significant assumptions. Hiring an experienced professional can help ensure that the valuation and financial reporting risks related to these assumptions, including but not limited to complexity and subjectivity, availability and reliability of data and the degree of uncertainty, have been appropriately addressed.

Conclusion

By focusing on these key areas, private equity fund CFOs can ensure specificity and transparency in their financial reporting processes thereby achieving compliance with relevant standards and regulations. Additionally, prioritizing the above-listed considerations, will help ensure that private equity funds have a robust valuation process that can facilitate them to achieve long-term success.

Contact Us

Our valuation subject matter experts stand ready to help you with the items noted above and any others you may have. We are happy to perform a cost-effective gap analysis of your valuation processes and procedures.

If you have any questions about this article or wish to set up a 30-minute conversation with our valuation experts in the Private Entity space, please contact any of the specialists named below:

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