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Notes of the Working Group on Business Valuation of the Expert Committee on Business Administration of the Chamber of the Tax Advising, Auditing and Accounting Professions regarding the preparation of simplified estimates on value

adopted at the meeting on 24 January 2017

1. Distinction from the Professional Guidelines KFS/BW 1

- (1) On March 26, 2014, the Expert Committee on Business Administration and Organization of the Institute for Business Economics, Tax Law and Organization of the Chamber of the Tax Advising, Auditing and Accounting Professions adopted the Professional Guidelines on Business Valuation KFS/BW 1.
- (2) These professional guidelines set out the principles for the valuation of businesses by public accountants (Wirtschaftstreuhänder) on the basis of various points of view developed both in theory and in practice as well as in court decisions. Accordingly, the enterprise value is determined based exclusively on financial objectives by discounting the future cash flows generated by the business going-concern and from the sale of any non-operating assets. To determine the future cash flows, an integrated business plan must be available which will be subjected to extensive analyses and a plausibility assessment. Furthermore, comprehensive methodological valuation procedures must be considered.
- (3) In advisory practice, estimates on value that do not have to meet the extensive requirements of the professional guidelines are frequently demanded.
- (4) For company valuations which are based on legal requirements, such as company-, business-, tax- or inheritance-law, the professional guidelines KFS/BW 1 must be taken into account and, therefore, simplified estimates on value are not appropriate for these circumstances.
- (5) Regarding the engagement and preparation of a simplified estimate on value, the following recommendations must be considered.

2. Principles for the preparation of a simplified estimate on value

- (6) The central task when preparing a simplified estimate on value is the adequate application of valuation methods (income- and/or market-approach) taking into account simplifications and assumptions made.
- (7) These simplifications and assumptions made in the simplified estimate on value as well as the client's specifications must be disclosed in the valuation report.

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3. Documentation and reporting

- (8) **The engagement and the valuation report of a simplified estimate on value must explicitly state that the valuation does not meet all the requirements of the Professional Guidelines on Business Valuation KFS/BW 1 and therefore the result does not have to correspond to that of a valuation according to KFS/BW 1.**
- (9) The key limitations and deviations (in particular with regard to the depth of the analysis, assumptions and methods) compared with a valuation according to the Professional Guidelines KFS/BW 1 as well as engagement-related requirements must be disclosed in the valuation report.
- (10) Minimum content of the valuation report on simplified estimate on value:
- a) Engagement and execution of the engagement
 - b) Reason and purpose for the estimate on value
 - c) Valuation date
 - d) Valuation method(s) applied and the used approach
 - e) Date of preparation
 - f) Brief description of the valuation object
 - g) Assumptions including explanatory statements
 - h) Value calculation
 - i) Valuation result
- (11) If additional essential descriptions are omitted from the report, it must be ensured that the working papers contain sufficient information and documents.