



A DEEPER LOOK

Financial Projections

By: **Russell T. Glazer**

Since business valuation is always a future-oriented exercise, projection of the subject company's income statement, balance sheet and cash flows is foundational to the analysis. Smaller companies typically do not have sophisticated financial staffs to prepare detailed projections, so it is left to the valuation analyst to interview key members of management regarding expectations for future operations. This needs to be combined with an understanding of the subject company's industry and the economic outlook prevailing at the valuation date. Also affecting the analysis is the potential impact imposed on the company by capacity constraints, competition, technology and other possible limitations on growth. Larger companies may have internal staffs that prepare such projections on a regular basis, taking into account those factors listed above, and these may be provided to the valuation analyst.

However, the valuator should not accept management's projections without scrutiny. When performing an independent valuation analysis, the valuator should ascertain whether the projections, whoever prepared them, are supported by the assumptions and are consistent with other information gathered during the process.

It should also be kept in mind that management may skew the projections, not just from a general tendency to be optimistic or pessimistic, but because of some external motivation due to the purpose for having a valuation in the first place. This may include a desire to steer the valuation analyst to a low valuation during a divorce, or a high valuation when seeking outside financing, among other motivations.



Russell T. Glazer

CPA/ABV, MCBA, ASA, ABAR, CVA, MBA
Partner

Contact:

516.364.3390 x 208

rglazer@gettrymarcus.com

To learn more about Gettry Marcus visit www.gettrymarcus.com

The information contained in this communication is provided for informational purposes only, and should not be construed as legal or accounting advice on any subject matter. It is not intended or written to be used, and it cannot be used, for a particular matter. These articles are prepared to present matters relating to business valuation, forensic accounting, litigation support and topics of general interest. They do not render an opinion by Gettry Marcus CPA, P.C. (Gettry Marcus), its partners, or employees on any technical matter; but rather are of an educational nature. Gettry Marcus disclaims all liability with respect to actions taken or not taken based on any or all of the contents of this communication.