

# SANLI PASTORE & HILL



Business Valuations  
Fairness Opinions  
Solvency Opinions  
Expert Testimony  
Strategic Value Enhancement Consulting (SVEC)

## VALOREM PRINCIPIA

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### SP&H Celebrating 20th Year Anniversary!

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#### The road to SP&H's 20th year...

*In celebration of SP&H's 20th year, we will be sharing the musings of employees past and present on the formation of SP&H and our journey over the past 20 years.*



#### 20 years, *Deja*

By: Nevin Sanli, President  
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"You'll never make it; Are you out of your mind; challenging the establishment...Look at yourselves: wet behind the ears, blind to risk and poor"...that's what many people told us.

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[SP&H Founders Page](#)

Nevertheless, Tom Pastore, Clinton Hill and I plowed ahead; ignoring the naysayers and focusing on only one thing: how can we build a better widget? We figured that if we did, people would find us.

Also, we were willing to work VERY hard to reach our goals. Looking back, in the first 3 years or so, we worked late nights, Saturdays and Sundays and even Holidays. We knew that we would not have the luxury of going back in time to make up wasted minutes; especially in light of our meager financial reserves.

This was August of 1992 when we started in that living room of my one bedroom apartment in the Palms neighborhood of West Los Angeles. We had three fold-out desks and chairs bought cheap from Staples and 3 computers and 2 printers (1 laser and 1 color) all bought on credit. We shipped out all my furniture except for my bed.

From the get go, we knew that to perform better business valuations for litigation, we needed better technology and research. We invested heavily (almost all our money) in state of the art on-line databases, internet access and software. At that time, our competitors were using hard copies of Standard & Poor's and Value Line and sending analysts to libraries to check out books. From day one, we adopted technology-driven best practices and solutions. Our reports and trial exhibits immediately made a splash.

We wanted to build a firm with employees, procedures and systems and we wanted to be known for quality, excellence and results and to become the leading boutique firm in California. And, we thought that if we did right by our clients, we should end up making a good living.

Well, 20 years later, SP&H is at the cusp of the next phase of its growth. This year, we opened a 4th office in Istanbul and are looking to unveil a fifth location. We are also developing strategic partnerships with other firms to further grow the services and resources available to SP&H clients.

Nothing came easy: from gaining new clients, to collecting payments, to hiring and retaining people, to figuring out how to manage growth, to paying our bills. We had a lot of growing pains. In the first 5-10 years, employee turnover was

SP&H Facebook Page

horrendous. It seemed like we could not keep anyone. And yet, we continued to gain new clients and get repeat business from all our existing clients. I think what saved us was the three partners unwavering and fanatical commitment to make this work or die doing it. And to make it work, our salvation was the quality of the opinions, client *uber* satisfaction, and the results. We got great results in trials and whenever our clients were in trouble. Quickly, we developed a strong reputation in the legal community. Often, people said "if you need a solid team to stand by you and help you survive the hurricane, you need SP&H." Since then we have bolstered that reputation by providing our clients with high quality work and sticking to our core values of honesty, integrity and excellence. Thank you to our clients and business associates, as well as my partners and the SP&H team for making the past 20 years so successful for us!

**Friend of the Firm, Ron D'Vari, PhD, CFA  
CEO and Co-Founder of  
NewOak Capital Advisors LLC**

## **Valuing "Hard-to-Value" Assets**

By: The NewOak Advisory Team

The credit crisis has left many financial asset markets thin and illiquid and highlighted the need for an acceptable valuation approach for assets where marked-to-market or intrinsic valuation is required but no visible market exists. The common survey-technique of pricing securities that are not exchange traded without a real analysis of validity of the pricing "quotes" have come under serious question.

The recent direction of domestic and international accounting and regulatory standards for the financial services industry has been to rely as much as possible on robust market or independent valuation of these assets. Without deep and liquid markets, disciplined and transparent alternative means are needed for asset valuation. The methodologies need to follow well developed and documented approaches that incorporate key characteristics of the asset, granular underlying details including legal structure and reasonably supported macro and asset specific forecasts. The objective is to model as closely as possible the amount an informed investor would pay to acquire the asset (marked-to-model) or assign an intrinsic value in held-to-maturity portfolios.

This problem is particularly acute in less frequently traded assets such as loan pools (mortgage, consumer, corporate, asset-based types), securitized assets, derivatives or illiquid single obligors. Some examples include mortgage-backed securities, asset-backed securities, collateralized debt obligations, distressed corporate/public/project finance, and other complex structured instruments, which are frequently referred to as hard-to-value assets (HTVAs). Many of these structured or private instruments were originally designed to be bought and held, not to be used for short-term or day-to-day trading. A lack of publicly-available data should not prohibit the development of a sound, economic based framework to estimate the appropriate cash flows and discounts for these highly illiquid structured products.

There are several methods of valuing HTVAs. Some are highly complex and others are basic and easy to understand. As in all valuation matters, selection of the appropriate methodology is driven to some degree by the actual purpose for the end results, end-users and their ability to understand the methodology. Methodology is also limited to available information and related assumptions.

Valuation of complex assets and liabilities is not a new problem for the global financial industry, with or without active market prices for reference. Valuation of HTVAs requires the application of sound and disciplined framework combined with professional judgment to arrive at an appropriate proxy to market value. Investors need to have confidence that asset valuations are transparent, credible and unbiased.

To conduct complex asset valuations, financial institutions generally have relied on internally generated models and a range of outside pricing services, but there are no established guidelines for how to do the valuations and no particular credentials required of those performing the work. Although company auditors include such valuations in their reviews, they, too, could benefit from clearer standards.

Any valuation exercise is a multi-step process, where each step supports the analysis generated on the subsequent steps. The first step of the process is outlining the underlying rationale for and key assumptions of the asset valuation. The second is defining the business, legal and economic attributes of the asset. The third step is choosing a valuation methodology and where the specific

quantification and financial analysis is performed to generate a financial result. The final step is the qualification of the valuation. This step addresses the important issue of how the valuation analysis solves a business problem or generates a recommendation to a specific business question.

The purpose of the valuation defines the legal or regulatory context, jurisdictional court of resolution, acceptable methodologies and rules of thumb that have developed in that particular field. There are countless reasons why an asset must be valued, but six common ones are: *Transaction Strategy* (buying, selling, or transferring the asset in a licensing arrangement or acquisition); *Financial Reporting* (valuing assets for reporting on public financial statements); *Litigation* (valuation to compute damage awards); *Bankruptcy* (valuation is required by the Bankruptcy Court to properly dispose of the assets); *Financing/Securitization* and *Tax* (asset valuation for tax planning and compliance).

An understanding of the foundational questions of *WHO* (who is the end-user of the valuation?), *WHAT* (what are we valuing?), *WHEN* (when in the asset life-cycle are we valuing?) and *WHY* (why is the valuation required?) combined with an understanding of the legal, business, and financial attributes of the asset help ensure the proper selection and computation of the valuation methodology. For HTVAs, valuation techniques leverage generally accepted discounted cash flows and mark-to-market methods, derivatives option models, real options techniques, probability-weighted and dynamic cash flow models, custom simulation models, reference/inference-based comparables approaches, and zero-arbitrage calculation techniques.

Experience in a variety of asset classes allows valuation analysts to quickly assess market specifics, identify important and potentially unique valuation characteristics of the asset, assess the impact of market dynamics on market value, and use defensible, industry standard methods to derive a fair valuation. Valuation analysts need to have the ability to combine economics, finance, statistics, econometrics and perform valuation methods that go beyond traditional approaches to valuation, especially in cases where historical data and other valuation benchmarks are either unavailable or considered inadequate. As a general rule, the reliability of a valuation method decreases as the number of adjustments and assumptions increases, therefore the best method in some cases are the simplest and most straightforward

considering key relevant facts and circumstances.

For most valuation applications there is no hierarchy of methods, and all methods are in principle applicable equally. In addition, most practitioners would concur that all valuation methods, if applied properly, should converge near a similar valuation estimate. As a consequence, most practitioners suggest employing multiple valuation methods for a given asset to demonstrate robustness and completeness of the analysis. In practice this is often difficult as data for multiple methods is often unavailable or the economic characterization of the asset precludes use of any given method.

The development of sound and robust valuation methodologies in good times and their disciplined and consistent application by appropriately trained valuation analysts should help strengthen their capacity to assess and challenge market prices and produce reasonable valuations during periods of stress. All valuation methods have their strengths and shortcomings, but, like many other facets of valuation, estimating an appropriate discount for particular use for illiquid securities requires judgment. As a result, regardless of the methodology, an expert will be needed that understands the importance of assumptions that are made, the need to develop a reasonable and rational conclusion, and ultimately has the ability to explain complex concepts in a way that the ultimate end user can understand and even replicate the calculations.

A full-service independent valuation group or firm needs to have the following characteristics: a) maintain a comprehensive set of data covering large number of asset classes both in terms of fundamental performance as well as pricing where available, b) well formulated and documented methodology to evaluate the current and future prospects of assets covered, c) properly designed technological framework to manage large amount of data and execute computationally complex analysis, d) experienced experts to provide reasonable input and assess the result.

By design, the HTV valuation capabilities at NewOak are *data-enabled, technologically powered, and expert driven*. The complex asset and advisory team at NewOak works with clients to help understand, evaluate, restructure, secure, and dispose of assets requiring specialized valuation expertise, including operating businesses, complicated financial instruments, single-

asset or pools of residential/commercial real estate, consumer, asset-based, corporate, public finance, and project finance loans. NewOak's investment in both experts and infrastructure has enabled it to be entrusted by some of largest financial institutions both domestically and internationally to analyze and evaluate over \$2 trillion of complex assets in variety of sensitive situations.

### **NewOak Capital Advisors**

NewOak is an integrated financial advisory and technology services company, providing a range of services to Global Financial Institutions, Institutional Investors, Law Firms and Regulatory bodies. NewOak is organized to serve as an ally to institutions in addressing the challenges of the global credit markets. Using an integrated analytics platform, NewOak's services include Credit Modeling, Distressed and Illiquid Asset Advisory, Asset Valuation and Risk Analysis, Mortgage Credit and Compliance Services and Enterprise Risk Services. The NewOak team consists of more than 60 professionals with an average of more than 15 years of experience across multiple asset classes and credit cycles.

Our experts incorporate the interaction of residential/commercial, consumer, and corporate credits via capital markets, financial institutions, corporate spending/capital needs, and consumer behavior. NewOak is not encumbered by legacy or rear-view analysis. We have a reality-based, forward looking fundamental approach to credit analysis. NewOak is able to apply consistent analysis across large and complex portfolios and create valuable security and portfolio level risk profiles as well as valuation reports across scenarios that are easy to visualize and explain.



The NewOak advisory team looks forward to working closely with significant client partners in this very exciting and

rewarding journey. Please feel free to contact Ron D'Vari at [rdvari@newoakcapital.com](mailto:rdvari@newoakcapital.com) or call (212) 209-0855.

Please visit our website ([www.newoak.com](http://www.newoak.com)) for further information.

### **About Ron D'Vari**

As CEO and Co-founder of NewOak Capital, Ron's focus is on overall firm management and he directly oversees the fiduciary asset management, principal investments and firm's strategic mergers and acquisition. Ron is actively devising and implementing creative solutions to many of the credit and liquidity dilemmas across the globe for NewOak's institutional clients in advisory, asset management or capital markets roles.

Ron was formerly with BlackRock where he was Head of Structured Finance Business and senior member of several key committees: Alternative, New Business, and Fixed Income Business Committees. In the last two years Mr. D'Vari focused on some of the largest advisory, de-risking and restructuring global assignments in the industry. He also helped set up Penny MAC, a mortgage company and was lead portfolio manager for BlackRock's Mortgage Investors, a distressed securities fund. Prior to BlackRock, D'Vari was a member of the Bond Policy Committee responsible for MBS/ABS/CMBS sectors of the portfolios and overall fixed income research; D'Vari holds MBA, PhD and MS degrees from UCLA and has held adjunct faculty positions at UCLA, Boston University, and Brandeis.

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Management Facebook  
Page](#)

## **Astrum Investment Management**

### *Astrum Investment Update.....*

Just a reminder, the Astrum Investment Conference Calls are on the last Tuesday of every month @ 7:00pm (PST) and the next call will be July 31st. Of course, we will send a reminder and hope that you will join us on the calls to learn more about Astrum and the deals we are working on.

[www.astruminvest.com](http://www.astruminvest.com)





John Hartman, Managing Director

*For information on investing in Astrum....*

*For information on investing in Astrum please contact John Hartman, Managing Director at 310/571-3400 ext. 228 or via email at [jhartman@astruminvest.com](mailto:jhartman@astruminvest.com) to arrange a meeting.*



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## Nevin Sanli's Rock Band - Random Act



## Saturday Night Classic Rock Mixer<sup>SM</sup>

A huge thank you to everyone that came out on Saturday June 16th to support the first Saturday Night Classic Rock Mixer at Il Moro Restaurant. The mixer featured a sensational food buffet, drinks and of course, live rock n' roll performed by Random Act. There was a huge turnout of friends, business associates and family!! A portion of the proceeds from meals purchased will benefit the not-for-profit school New West Charter.

Join Our Mailing List!



The next Saturday Night Classic Rock Mixer will be held Saturday, September 22<sup>nd</sup> in Santa Monica. If you would like to be added to the invite list, please contact [ashleyb@sphvalue.com](mailto:ashleyb@sphvalue.com).

### Quote of the Day

"Be a yardstick of quality. Some people aren't used to an environment where excellence is expected."

*Steve Jobs*

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