

Unedited transcript of

## **Tips to Critique a Business Valuation**

from **Business Valuation for Attorneys**

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### **Speaker(s)**

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>>: So with that being said, you know, kind of summarizing where we've been today when it comes to understanding business valuation. Hopefully, Jesse and I have given you some good substance of a logical approach, a top - a bottom-up approach, and what kind of goes in there. And this is just a summary of the pyramid with all the factors we've kind of discussed today. In the last few minutes, I don't see some questions coming up. So we want to cover two areas. One is just some final thoughts on business appraisals. When you're dealing with small businesses - going back to kind of the first question that came up today - you know, hiring business valuation firms or people to do an appraisal. Clients who are cheap and want a quick and dirty calculation vs. the full rationale of the steps we had walked through today can have material implications of the final value. You know, when there's corners cut, steps miss - missed and it's literally in - garbage in - garbage out type analysis, there's really not much standing behind it. You know, if someone just gets three years of tax returns, they put into a program and spit out an appraisal, you know, without understanding all the quantitative and qualitative aspects, you can have a different result. So know how the appraisal is going to be used. Also going back is - Jesse talked about personal goodwill vs. business goodwill. And is the business really representing a job vs. an asset? It's something you're going to have to dissect. You know, maybe at the end of the day, you start out that you need an appraisal. But looking at the type of business that you have, the key dependency on the owner, it turns out there really is no value, and it's just a job at the end of the day. Looking at reasonable compensation is always going to be a critical aspect. And then also double

dipping, not only when it comes to counting income stream, but Jesse pointed out that if there's discounts involved, are you double counting discounts in the company specific risk factors and also in marketability? So those are our few conundrums. And finally, in the last few minutes here, we're just going to try and give some tips and identify some critiquing aspects. You know, going back to adding to your library, the USPAP Standard #3 provides an overview of steps that an expert might go through or have to follow when critiquing a report. And the NACVA also has review standards that you should be aware of. Just touching on a few final points here - situations where you're going to have conflicting opinions. You know, actual sales, as we pointed out - in your purpose may have targeted transactions that have - could have drastically different outcomes than hypothetical - divorce, shareholder disputes, gifting estate. You know, looking at past transactions may not be the same as a fair market value appraisal. Or if, you know, certain instances come up where - is there reliance because someone made an offer to purchase? Well, how much due diligence went into that offer to purchase the business? How far along and why did it break down? When you plan an engagement - again, identifying at the beginning factors that can eliminate controversy. If you're in a litigation matter - is there any agreement on standard of value? Is there any agreement on data value? Understanding personal goodwill vs. enterprise goodwill. When it comes to that standard of value again, what's the purpose? What is the documentation that might support it? Again, Jesse talked about looking at agreements, and did it talk about valuing an entire company or a shareholder's interest in that company? Is there documentation that can be supportive vs. opinionated - I guess in a way. Agreements - draft agreements vs. signed agreements, operating agreements, amendments to operating agreements, trying to understand are there signed agreements in place that can be authoritative and directive of how an appraisal would get done? We - I think we already spent a lot of time talking about the importance of data valuation and also when level of value. And the final aspect that I would bring into this is, you know, looking at comparing differences between appraisers on adjustments. So these are just some aspects quickly of how it - where you can critique and aspects of where there can be agreement to prevent disagreements down the road. With that, I don't see any more questions on the board. Jesse, do you have any concluding remarks you'd like to add at

this time? Jesse, you're muted, by the way.

>>: Well, I was just going to say, I think we've just about covered it all at this point.

>>: So first of all, I'd like to thank everyone for attending today's webinar, and I hope you enjoyed our presentation on Understanding Business Valuation. I hope you have a great rest of your day.

>>: Thanks, everybody.