

# BUSINESS VALUATION RELATED SERVICES

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## VALUATION CREDENTIALS

There are 4 recognized major business valuation credentials in the U.S. – the ABV, ASA, CVA and CBA. Currently, there are 18 CVAs, 4 ABVs and 1 CBA in Alaska. Mike Hanrahan is the only Certified Business Appraiser in the State of Alaska and, as of 12/31/15, one of about 33 **Master Certified Business Appraisers** in the United States. He also previously held the Certified Valuation Analyst (CVA) and Accredited in Business Appraisal Review (ABAR) certifications, currently holds the Certified in Financial Forensic (CFF) designation, has an MBA, a graduate Certificate in Finance and a Master of Science in Finance (magna cum laude) degree. His CV and other information are available at [www.nationalbizval.com/alaska.htm](http://www.nationalbizval.com/alaska.htm).

## BUSINESS VALUATION OVERVIEW

There are five organizations in the United States, plus the Internal Revenue Service, which promulgate business valuation standards. These standards are similar to each other and recognize three general approaches to business valuation: the asset approach, the income approach and the market approach. In each of these approaches, there are several methods that can be employed.

**Asset Approach** - One of the alternatives to purchasing a business is to start one. One of the methods under this approach, The Adjusted Net Asset method, ascribes value to the business based on the fair market value of all the assets, both tangible and intangible, that make up the business.

**Market Approach** - The market approach is viewed by some authors as the most theoretically pure approach to determining value. Its roots come from the economic theory of substitution: “One will not pay more for an item than the amount at which they can obtain an equally desirable substitute.” It ascribes value to the subject business based on an analysis of specific market transactions or general market data. Methods under this approach typically employ the use of multiples of a metric, such as net income, EBIT, EBITDA, net operating income, net sales or free cash flow.

**Income Approach** - This approach bases value on the anticipated future economic benefits accruing to the owner of the business. The first step in applying methods under the income approach is to estimate future sustainable economic income. These revenues, expenses and resulting earnings are the base to which various income valuation methods are applied.

The extent to which each approach and different methods are employed depends on the type of engagement, the level of work requested and the available data.

The estimated fees stated for each of these services described below **exclude** data, research, resource and related costs, which could be more than \$2,000 for an engagement. The fees also **exclude** any outside meeting, email, telephone or other communication time or time related to preparation for or testimony at any conference, hearing, trial, or deposition. Additionally, if the valuation is for litigation purposes, the fees could be higher because of difficulties in obtaining timely information.

## A. FULL VALUATION – DETAILED REPORT

This type of valuation is normally required for estate, gift, dissenting shareholder actions, litigation and other situations where a comprehensive valuation with a complete discussion of the methods and data is required. It

entails a detailed inquiry as to historical business operations, current operations, competition, staffing, prior transactions and other facets of the business. Procedures include research of the economic and market factors affecting the business, analysis of 10–20 years of historical operating and balance sheet data, review of a detailed questionnaire completed by the owners/managers, review of existing contracts and agreements having an impact on value, researching market data for guideline transactions, a company analysis and applying valuation methodologies from the three approaches, if possible.

This service generally requires about 50 business days to complete and fees are generally average \$20,000 (plus costs). Larger and more complicated businesses or business interests would be more. The report is generally about 30-40 pages, plus approximately 30 pages of appendices and exhibits. The retainer, which is returned after all bills have been paid, is usually \$5,000; more if there is a shortened time frame.

#### **B. FULL VALUATION – SUMMARY REPORT**

This type of valuation is the same as above, except that the extent of the discussion in the report and the number of exhibits is limited. It requires the same analysis and procedures, but less effort in report writing.

This service generally requires about 45 business days to complete fees are estimated to be \$18,000 (plus costs). Larger and more complicated businesses or business interests would be more. The report is generally about 20-30 pages, plus appendices and exhibits. The retainer is usually \$5,000; more if there is a shortened time frame.

#### **C. LIMITED VALUATION (Restricted Value Opinion) – SUMMARY REPORT**

This type of valuation is used when the valuation analysis, procedures, scope, or available data or are restricted by the client, particular circumstances or for other reasons. Such restrictions could result from time, cost or data constraints. This also includes situations where we agree in advance to limit the valuation approaches and methods, or the extent of the methods and procedures employed.

In such an engagement, all of the analysis and investigation necessary to a cogent full appraisal may not have been done and the report will state the limitations imposed, as well as the fact that if a full appraisal/valuation had been performed, the opinion of value might be different and that difference might be material.

Because of the restrictions, this service is not recommended for litigation purposes.

This service generally requires about 40 business days to complete fees are estimated to be \$16,000 (plus costs). Larger and more complicated businesses or business interests would be more. The report length depends on the circumstances of the limitations and would generally be between 5-10 pages, plus appendices and exhibits. The retainer is usually \$5,000; more if there is a shortened time frame.

If a Full Valuation is later required, the information gathered and effort expended on the Limited Valuation can all be used, assuming the valuation date, premise of value and standard of value have not changed and the restrictions are removed.

#### **D. CALCULATION (No Value Opinion)**

This service consists of assisting you in obtaining and analyzing information necessary to enable you to estimate a reasonable price for the company or business interest. Although it employs the same methods used to value a business, the actual procedures, analysis and data gathering are substantially limited in scope, do not entail those required under business appraisal standards, are not sufficient to constitute a business appraisal/valuation and are

not adequate to warrant an expression of either an estimate or opinion of value. **There is no opinion of value rendered.**

The fee for this service is about 50% of that for a full valuation, usually between \$8,000 and \$10,000 (plus costs), and generally takes 30 business days to complete. The retainer is usually \$5,000. In litigation cases, because there is no opinion of value being proffered with this level of service, **there can be no court testimony.**

If a Full Valuation is later required, the information gathered and effort expended on the Calculation can all be used, assuming there were no information restrictions and the valuation date, premise of value and standard of value have not changed.

#### **E. ENHANCED REBUTTAL REPORT (No Value Opinion)**

This service is primarily for litigation related cases where a valuation report has been produced by the opposing party and you would like it reviewed and, if possible, challenged. With this approach, because an alternative opinion of value is not being offered, it is often necessary to conduct independent research regarding available market and other valuation data and be able to present the court with alternative valuation methods if they choose to disregard the opposition's report or valuation opinion.

Although information gathering can begin immediately, the bulk of the effort cannot be expended until the other side produces a report. As such, the time and extent of the analysis are constrained by court deadlines. Rebuttal report service fees are estimated to cost \$10,000 - \$15,000 (plus costs). Larger or more complicated businesses or business interests would be more. The report length depends on the circumstances. The retainer is usually \$5,000; more if there is a shortened time frame.

#### **F. APPRAISAL REPORT REVIEW/REBUTTLE (No Value Opinion)**

This is a formal review (and rebuttal) of an appraisal or valuation report in accordance with USPAP and IBA Appraisal Report Review Standards, including comparison with existing business appraisal standards. It is useful for determining if the appraisal report is relevant, credible, and transparent and whether the business appraisal methods used were generally accepted and were appropriately and correctly applied.

This service is different from the Rebuttal Report in that it is more formal, does not entail the independent research and does not present alternative calculations. This service is estimated to take 10 business days and usually cost between \$8,000 and \$14,000 (plus costs), depending on the detail of the review and additional required investigation. The retainer is usually \$5,000.

#### **G. MEDIATION VALUATION (No Value Opinion)**

This service is limited to situations where the parties use a mediator, want to be a part of the valuation process and are willing to negotiate on calculating the value of the business. This service consist of gathering initial data on the business, performing basic analysis and market data research, and then meeting with the parties and the mediator to assist the parties in determining a value for the business for their purposes. The one day (usually) mediation meeting last for 3-8 hours and the parties will have mutually derived a valuation number or range for the business at the conclusion.

The fee for this service is generally between \$6,000 and \$8,000 (plus costs), more if there are unusual circumstances or complications, and generally takes 10 business days after all information is received to complete. Because the parties are deriving their own value for the business, there is no opinion of value and no report is issued. The retainer is usually \$5,000.

## **H. HOURLY CONSULTING**

This service entails professional consulting on an hourly, as needed basis, to help you gather information, review reports and make decisions. These services include, but are not limited to:

- assisting your staff in understanding business appraisal methods
- reviewing the calculations or appraisals of others
- consulting on available market data sources
- suggesting wording for buy/sell agreements
- obtaining data for analysis
- incorporating uncertainty into valuation and project financial models

The costs are the current hourly rate, plus costs, and the retainer is usually \$2,500.

## **LISTING FEE**

In some dispute cases, I am named as an expert or hired but either no or minimal services are actually requested although the full retainer amount is paid. Because of this, in all litigation cases, the minimum charge is a non-refundable “listing fee” of \$2,000, which will be withheld from the retainer. In cases where I am not hired but listed as an expert in litigation, the listing fee is \$2,000.