

## Top 10 Things Attorneys Should Know About Business Valuation

By Jeff Walsh

1. Define the project. Provide the appraiser with the specific ownership interest and level of value for the interest being appraised. A business interest can be affected by voting rights, preferences in distributions or liquidation, and participation in management. The size of the ownership interest can also impact value, especially when comparing controlling interests to minority interests.
2. Understand the standard of value. There are several different types of value and they can vary significantly. Know which standard of value applies for your engagement, given the circumstances under which it is being used. "Fair Market Value" is used for estate and gift tax purposes. "Fair Value" is often appropriate in litigation matters. There are other standards of value such as "Investment Value" and "Intrinsic Value" that may also be appropriate to use.
3. Specify the purpose of the appraisal. For example, appraisals used for mergers & acquisition purposes may result in a different value than appraisals used for divorce or gift and estate purposes.
4. Involve the appraiser early on. It's usually helpful to seek the advice of the appraiser to see if key valuation elements of a buy-sell, family limited partnership or corporate reorganization could be modified to provide a more meaningful agreement to your client. To a business appraiser (and many courts), valuation terms such as "Fair Value" and "Fair Market Value" have very different meanings. A valuation specialist can alert you to differences in the valuation terms incorporated in your document before it's presented to the client.
5. Establish a reasonable time frame. Business valuations are custom-made for each business and require a lot of information that takes time to accumulate and analyze. Typically, a valuation engagement takes several weeks to complete after all the required information has been received.
6. Know the primary valuation approaches. Business valuation is an art, as well as a science, and appraisers will utilize different approaches that suit the particular needs of an assignment. The three general approaches are the Market Approach, the Earnings Approach and the Cost Approach. There are different methods within each approach that the appraiser will consider when valuing an ownership interest.
7. Be aware of possible litigation support issues. The business appraiser cannot serve as an advocate for your client. However, appraisers can have differing opinions resulting in values that may be higher or lower than others. Obtain an understanding of how the appraiser would approach a valuation of your client's business to make sure it's consistent with your goals and objectives.
8. Insist on an appraisal firm with experience and credentials. Each business appraisal is unique and experience counts. Most business valuation firms are generalists rather than industry specialists, but a broad experience of analyzing operating characteristics and industry constraints provides ammunition to understand your client's special situation. Credentials don't

guarantee performance, but they do indicate a level of professionalism for having achieved and maintained them.

9. Consider the appraisal as a first line of defense. A well-reasoned and documented appraisal report serves as an indication of the seriousness and professionalism with which you address your client's needs. Appraisals are more persuasive to outside parties when they have been prepared contemporaneously with an event, rather than years later.
10. Expect the best. In most cases, the fee for appraisal services is nominal compared to the dollars at risk, and the marginal cost of getting the best is negligible. The best appraisers not only have the experience and credentials, they also recognize the balance between art and science that enables them to interpret the qualitative nuances of a company and translate them into a quantifiable result.