

IBA GUIDE TO SAMPLE BUSINESS APPRAISAL REPORTS



What It's Worth

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Volume One

1. **Acme Properties, LP**—Appraisal of minority interest in a limited partnership for estate tax return. Illustrates 100% discount for lack of control - limited partners cannot access asset values.

Articles

David Bishop, MCBA, FIBA, BVAL, ASA and Frank Evans, CBA, ASA, CPA/ABV, FIBA. "Adjusting Value through Premiums and Discounts," *Business Appraisal Practice*, Summer 2001. We begin the collection of articles with a discussion of discounts for lack of control and lack of marketability, and a review of other discounts such as blockage and trapped-in gains. Exhibits illustrate the application of a discount for lack of control.

Henry Wise, CBA, MAI "Appraisal of Fractional Interests," *Business Appraisal Practice*, Fall 2003. Proposes application of tenancy in common transactions to fractional interests in limited partnerships. "The owner of a fractional interest generally has no (or only a limited) ability to liquidate the underlying asset in order to get total control of his pro rata share, and faces a disorganized and limited marketplace should he or she attempt to sell the fractional interest to a third party." Where "the only effective evidence of a discount is the testimony of a competent appraiser," the ability to demonstrate a reasoned process is crucial.

2. **Bonebreaker Chiropractic**—Appraisal for divorce where the appraiser analyzes the goodwill by surveying the client base to document the attribution of goodwill to the individual professional vs. the entity.

Articles

Thomas Elam, CPA, CBA. "Paradigms in Divorce Valuation Reports," *Business Appraisal Practice*, Fall 2003. Addresses the friction between court decisions and the reality of divorce values; the pressures on the appraiser to manipulate the standard of value; the disclosures necessary to protect the appraiser; and circumstances which may require the appraiser to decline the engagement.

Jacquelyn DeRosa, ASA and Robert Reilly, CFA, ASA, CPA, CBA. "Estimating the Value of Purchased Goodwill for Financial Accounting Purposes," *Business Appraisal Practice*, Spring 2006. A discussion of the components of goodwill; accountants' interpretations v. economists' interpretation, and purchase price allocations.

3. **Deep Valley Produce**—Appraisal of member's interest in limited liability company with significant restraint on alienation. Members set the price to be paid for their product, resulting in little capitalized cash flow.

Articles

David McLaughlin, CBA, CFA. "Business Purposes for LLCs and FLPs," *Business Appraisal Practice*, Winter 2003. This brief article reviews options for legitimate business purposes for FLPs and LLCs with the IRS guidelines in mind.

David McLaughlin, CBA, CFA. "A Robust Approach for Justifying the Discount for Lack of Marketability in Business Appraisal Reports," *Business Appraisal Practice*, Winter 2006-2007. The author notes "it is apparent that many business appraisers are short-shrifting their section on the DLOM.... Accordingly, their analyses are neither defensible nor replicable." The article provides a sample report section related to marketability discounts.

4. **Finfish Growers**—Appraisal for divorce of a unique business - challenging the appraiser with a lack of comparable companies due to the unusual product niche. Declining forecast from diminishing demand is also discussed.

Articles

Grover Rutter, CPA, CVA, BVAL. "Business Valuation in Divorce: Does 'Fair Market Value' Include Future Potential," *Business Appraisal Practice*, Spring 2003. "Concerning the question of *future potential*: Will a buyer pay for the business as it is at the time of purchase, *and* also for what it might become sometime later?" This article addresses that issue - doesn't the seller *always* say that better times are coming?

Alan Zipp, CBA, CPA/ABV, Esquire. "Business Valuation in Divorce: Fair Value or Fair Market Value. What is the Appraiser to Do?" *Business Appraisal Practice* Fall 2004. "Business valuation in divorce is not uniform," as this article states, is an understatement - asserts that liquidity issues are irrelevant to divorce matters, where there is no plan to sell, and the discount results in an unfair division of the asset.

5. **Hepatopath Associates**—Appraisal for sale, requested by controlling shareholder. The company is expecting rapid growth, so a multiple period income model was used. Detailed research supports the growth rate.

Articles

Rand Curtiss, MCBA, FIBA, ASA, ASA. "Financial Forecasting—Some Advanced Points," *Business Appraisal Practice*, Fall 2004. Presents a checklist to verify forecasts, and when to question the data.

Robert Cimasi, MCBA, FIBA, ASA, FCBI, CM&A, CMP. "The Application of Financial Benchmarking and Ratio Analysis to Health Valuation," *Business Appraisal Practice*, Winter 2004-2005. Reviews three categories of benchmarking analysis, as well as sources of benchmarking data.

Stephen Bravo, AM, CPA/ABV, CBA. "Adjusting Pricing Multiples for Expected Growth," *Business Appraisal Practice*, Spring 2000. "Expected earnings growth is one of the driving factors in the value of any company; it is one of the main factors investors consider when making pricing decisions. Examines adjustment of pricing multiples for growth and examines models for perpetual growth analysis.

6. **Mellow Foreign Motors**—Summary report of appraisal of auto dealership for government buyout. Poor book keeping and tax strategy decisions impede the appraiser's work.

Articles

Robert Reilly, CFA, ASA, CPA, CBA and Robert Schweihs, ASA. "Valuation Professional Guidance from IRS Publications," *Business Appraisal Practice*, Spring 2003. A discussion of the most common IRS pronouncements and the relative precedent value (or lack thereof) regarding federal tax valuations.

Paul Hyde, EA, MCBA, ASA, BVAL. "Valuing a Business with Real Estate Components," *Business Appraisal Practice*, Spring 2005. Even though the real estate has already been dealt with in this appraisal, we include an article on valuing a business when real estate can be a significant asset as a worthy addition to the skills needed for this type of business.

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Volume Two

7. Northeast Pools and Spas—Limited scope assignment for the appraisal of a pool and hot tub retailer for purchase by long-time employee, whose bank requested the appraisal. The report presents a range of values for the business, including a value derived from the use of small business transaction data.

Articles

Rand Curtiss, FIBA, MCBA, ASA, ASA. "The Justification of Purchase Test: An Essential Appraisal Tool," *Business Appraisal Practice*, Fall 1999. The ultimate sanity test: was it reasonable to sell the business for this price? Four fundamental questions to address whether a reasonable buyer would pay the derived value.

Raymond Miles, MCBA, FIBA, ASA. "How to Use the IBA Transaction Database," *Business Appraisal Practice*, Summer 2006. The best evidence of the market is—the market. This article provides detail eleven essential processes in the use of this data.

8. Rock Solid Stone—Countertop and flooring business appraised for sale when owner had significant under-reported income. Illustrates typical adjustments in respect of the tax avoidance choices made by many small business owners.

Articles

Rand Curtiss, FIBA, MCBA, ASA, ASA. "Small Business Valuation Theory," *Business Appraisal Practice*, Fall 2007. "Most of our academic and professional training is based on large public company ('corporate') financial theory On the other hand, most of our work involves small private businesses in dramatically different situations." This article explores the divergences.

Rand Curtiss, FIBA, MCBA, ASA, ASA. "Some Thoughts on Normalizing Financial Statements," *Business Appraisal Practice*, Fall 2006. Reviews the ordinary and the extraordinary adjustments, their purposes and impact.

9. **SouthCoast Distributors**—Operating company distributing HVAC products appraised for internal planning. Application of multiple period model and detailed write up of company specific risk.

Articles

Robert Reilly, CFA, ASA, CPA, CBA. "Business Appraiser Considerations to Measure the Company-Specific Risk Premium," *Business Appraisal Practice* Spring 2007. Analysis of investment risk is integral to the selection of the investment-specific discount rate or capitalization rate. Discusses the vital relationship between risk and expected return.

Peter Butler, CFA, ASA and Keith Pinkerton, CFA, ASA. "Quantifying Company-Specific Risk—Regardless of Your Faith in Beta," *Business Appraisal Practice* Winter 2007-2008. Introduces a model for empirical, market-derived evidence of company-specific risk premia.

10. **West Podunk Gas & Grub**—Economic damages report for gas station/convenience store which sustained losses when credit card processor did not deposit transactions into business account. Marginal book keeping and little information about convenience store sales in the area force the appraiser to use information from other appraisers and make the best of bad information.

Articles

Leonard Sliwoski, CPA, CMA, CBA, ASA, PhD and William J. Violet, CPA, CMA, CIA, JD. "Due Diligence Considerations: Business Valuation and Commercial Damage Assessment Engagements," *Business Appraisal Practice*, Spring 2003. Reviews both the similarities and the divergences in business appraisal and commercial damage engagements and the purpose of due diligence in both assignments.

Michele Miles, Esquire. "Teaching the Attorney About Business Appraisal," *Business Appraisal Practice*, Fall 2001. The areas of confusion which can impede the understanding of the attorney, whose financial training may be limited, from understanding the business appraisal process and work product.

11. **Fleet Feet Podiatry**—Limited scope appraisal and short form report of podiatry clinic prepared when the appraiser was jointly retained in marital dissolution. A brief report backed up by a more extensive work papers file, suitable for a knowledgeable reader.

Articles

Paul Hyde, EA, MCBI, BVAL, ASA, MAI. "Litigation and the Limited Report," *Business Appraisal Practice*, Fall 2006. A real-life case study of what happens when a limited report is used for court.

12. **Slipstick Engineering**—Litigation appraisal in shareholder oppression case. Shareholder agreement terms required the appraiser ignore the potential for future profits or goodwill. Remaining interests declined to provide much information to this appraiser. Interesting explanation of the discount analysis applied to the minority interest in the underlying assets, and the projection for future performance of the entity.

Articles

Leonard Sliwoski, MCBA, ASA, CPA, PhD, FIBA. "Appraising Minority Equity Interests Under the Fair Market Value Standard: Income Approach Procedures and Complications," *Business Appraisal Practice*, Winter 1999. Explores the two valuation options and discusses the applicability and merits of the application of discounts. Also discusses normalization adjustments required for control values.

David Bishop, MCBA, FIBA, BVAL, ASA and Frank Evans, CBA, ASA, CPA/ABV, FIBA. "Reconciling value Estimates and Determining Value Conclusions," *Business Appraisal Practice*, Fall 2001. Simple averaging is not the answer, and this article discusses challenging the underlying assumptions, methods, information and calculations of each process.