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ALL ABOUT VALUATION: PART 1

WHAT YOU SHOULD ASK A VALUATOR BEFORE YOU ENGAGE THEM

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You're a business owner or operator and, for one of many potential reasons (tax, litigation, a potential sale, etc.) you've decided you need a business valuation. Identifying the need is one thing, but identifying the right fit is another. Before you engage a valuator, there are a few key questions that you should ask to make sure they are the right person for the job.

What valuation experience do you have working with my industry?

If your business operates in a major industry segment, then you should expect your valuator to have relevant industry experience. Clearly, oil and gas experience is important in Alberta, but other key sectors include real estate, distribution, retail, professional services, agriculture, trades, and manufacturing.

Look for a broad range of full-time experience. Say you've got an ostrich farm, it is not important that the valuator has experience in valuing ostrich farms, not many valuators have. Instead, ask the valuator about their broad industry experience and knowledge. Ask the valuator about industry issues in order to test their general knowledge and ability to apply their experience to your particular situation.

As well, ask your valuator about all the services they provide. Often, there are sales people, consultants, or real estate agents who dabble in valuations but have no specific training, and they don't make a full-time living being a professional, accredited business valuator. Does your valuator have the appropriate professional designation, a Chartered Business Valuator (CBV) as accredited with the Canadian Institute of Chartered Business Valuators? If you want a defensible valuation you can trust, ensure your valuator has the right experience and qualifications.

What are the various level of services provided?

Usually, valuation services are billed on an hourly basis, but the valuator should also exhibit some flexibility in pricing to reflect the size of the business being valued and the financial circumstances of the shareholders. Valuators should be willing to outline their charge-out rates and the rates of others in their firm who may work on a project.

It is a cost-competitive environment, so getting a low quote may be satisfying but the lowest up-front quote doesn't mean the final invoice will be less when hourly rates are applied. Most valuators are not going to give you a firm price up front. As valuators, we are heavily dependent on the quality of the information provided by the business being valued. There are always new things discovered during a valuation, and a valuator should be making decisions based on getting an appropriate and fair valuation in the most efficient way, not skipping important analysis or making uninformed assumptions just because the budget won't allow it.

That said, if a client can provide the most recent year-end financial statements, a valuator should not be averse to providing a quote for services (a fee range), assuming clean accounting records and a timely provision of all accounting information requested by the valuator.

When can you complete the report?

Before a valuation can begin, valuators require a list of basic financial information which they will request from you, so being prepared is key to avoid unnecessary delays. We set a proposed date at the beginning of the valuation based on when the list of required information is provided to us. In general, it usually takes about a month to prepare a formal business valuation report, but expect that timeline to vary depending in-part on how quickly you can supply the required financial information.

If you've found an accredited CBV with relevant industry experience and the timeline works, then it's likely time to engage. The biggest thing you need to look out for is whether your CBV is asking you the right questions, something I'll cover in part two of this blog.