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ALL ABOUT VALUATION: PART 3

HOW MUCH WILL MY VALUATION COST?

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That is one tough, and fair, question. But like many things in this world, it depends.

Pricing out a valuation is like buying a car. Do you need the Cadillac, the heavy duty pick-up truck, the economical hatchback, or would a bicycle do? It's impossible to know what the car will cost until you know what is needed and why you need it.

After 30 years of providing valuations in over a thousand valuation assignments, my goal is to continue to provide the greatest value to you. That means using all of my resources (staff, industry experts, research material) effectively and giving you exactly what you need, as opposed to giving you the cheapest fee quote up front for a level of service that may be deficient.

1. The Quote for Valuation Services

There is a wide range of fees and options. These fees and options depend on four key criteria (the "four key criteria"):

- The purpose of the valuation;
- The financial snapshot of the business (assets, liabilities, and income);
- The operational snapshot of the business (employees, customers, competitors)
- The industry that your business competes in

(a) Purpose

The purpose of the valuation is key, as it measures intent and risk.

- A valuation for tax purposes (say for a corporate tax reorganization) is generally low risk, without need for a comprehensive analysis. A basic valuation report may be all that is required.
- Moving up the scale of risk and intent, a valuation may be needed for a transfer of ownership from one generation to the next. Parties may be dealing with some serious business issues that require hard thinking and serious analysis to ensure each party is being treated fairly. A valuator, after consultation with the business owner, may choose to undertake a report or analysis that will focus specifically on 1-2 key issues most relevant to the vendor and potential buyer. The value of research material such as industry and transaction data becomes more important as risk increases.

- Finally, when it comes to risk, any valuation or financial analysis that involves litigation, such as a shareholder dispute or divorce, can be significantly risky and costly. Errors in judgement or omission can cost you major dollars in both damages and lawyer fees. A cursory report could be a waste of money in a litigation, and in fact, can cost you far more in damages, lost opportunity, and lack of credibility. It may not be the message every litigant wants to hear, but a poorly analyzed (and cheap) report will cost you far more than a thoughtful and well-researched valuation analysis.

"We believe in communication, from day one, because communicating key points to lawyers and clients gets files settled."

All that being said, I and everybody at Welsh Valuation follows one underlying principle, and that is to get to the heart of issues quickly. That's how we maximize value for you. We believe in communication, from day one, because communicating key points to lawyers and clients gets files settled. We have over a thousand assignments proving that. We believe in identifying the big dollar issues and focusing our efforts on these key points. Paper shuffling costs the client, both in money, aggravation, and time. We refuse to operate that way.

(b) Financial assets and liabilities

A review of the financial assets and liabilities of the business, and the income or cash flow derived by that business, is the necessary first step when calculating the value of a business.

Before I quote for work, I always ask for the last set of annual financial statements in order to size up, in my mind, what assets and liabilities have been invested in the business to date, what returns are being generated, what is the financing to support on-going operations, what are the trends going forward, and how a potential buyer would look at value. These financial statements also inform me of how up-to-date the financial information is and whether I will need to rely upon the client's internal records for additional financial data.

(c) Understanding the basic business operations

The three questions that I always ask are, "Who are your key employees?", "who are your customers?" and "who is your competition?" Your key employees, customers, and competitors tell me quickly about the risk and opportunities of your business, and it informs me as to how knowledgeable and familiar my client would be regarding the business operations. It should be remembered that a likely buyer for any business is most often found amongst its own employees, its clients, or its competition. Therefore, my valuation has to immediately identify and address these three key questions.

I am here to give you options and to tell you (accurately) what it would cost to do the valuation. Without financial statements and without asking my three basic questions, it leaves me, as it would any valuator, to guess at what is behind door number two. I'm here to give you an effective valuation, without surprises.

(d) Industry

Value is always based on future expectations, not on a formula based on the past results. One only needs to look at the stock market to understand that stock values vary tremendously over short periods of time because of changing expectation. Private markets are no different, so it is vital for you to feel confident that I will spend the time to truly understand what makes your business tick and what are the risks associated with the industry that your business competes in.

There are thousands of different businesses and industries. In sizing up a valuator's ability to help you with your particular needs, my suggestion is to look for broad business experience over a long period of time, and in my case, that means over a thousand valuation reports and consultations involving oil and gas, real estate, manufacturing, large and small retail, services, distribution, finance, to name a few. It also means testimonial experience in litigation, and the credibility and expertise that has been proven in Court. I apply my broad industry experience gained with similar clients to your situation, and to do that effectively and quickly.

2. Additional Helpful Hints to Manage Costs Effectively

(a) Qualifications

Hire qualified people, it is as simple as that. Qualifications mean a CBV (Chartered Business Valuator), and in addition, I would encourage you to hire a valuator with another business-related qualification such as a CPA (CA, CGA, CMA), MBA, or CFA.

There are lots of “valuators”, but unfortunately, there are no effective oversight preventing anyone from calling themselves a valuator. In my opinion, a real estate agent or business broker or tax accountant is not equipped to properly value your business unless they have a CBV designation. Having expertise means extensive training and professional development, theoretical knowledge, practical experience as a full-time valuator, access to a library of research material on private market valuation issues, and broad business knowledge to think in unique ways. Your accountant shouldn’t dabble in valuations, no more than I would dabble in income taxes. Finally, business brokers and real estate agents are out to build a book of listings to squeeze out commissions, which is a very different business model than how a CBV charges for their services.

(b) Valuation in Stages

A valuation is a process. Once you’ve started, it does not mean that we must carry every valuation to the end product, being a fully written and detailed report (which includes a number of written pages and numeric schedules).

I often get calls from clients needing something less. Sometimes clients are looking for verbal advice, or to get affirmation about a valuation issue. CBVs have flexibility to consult on an informal basis, as advisors. Many clients prefer to employ our services over a specific block of time, and once that time is given, they will then decide how they would like to use us further. Sometimes, all that may be required could be a advisory meeting or a review of select documents.

As the client, you are ultimately in charge of the level of work you wish us to undertake. However, in response, we will not put out a product that is deficient and fails to serve your purpose and needs.

(c) Price

As we noted earlier, there isn’t a single price for a valuation. When I quote a fee, I think of my time as a cost to the client. I have no difficulties outlining my charge-out rates and the rates of others in my firm who may assist on your project. There are always new things discovered during a valuation, and I make decisions to utilize resources based on getting an appropriate and fair valuation in the most efficient way. We will not skip important analysis or make uninformed assumptions just because the budget won’t allow it.

Within your control is the gathering of financial information. Inaccurate or incomplete accounting information slows the valuation and results in greater costs and paper shuffling. I hate paper shuffling, so you can expect a call from me if the information being gathered is not accurate, timely, and complete. The ability to contain costs depends on timely communication, and that means discussions between me, you, and your accountant.

For a single business entity of a moderate size, say revenues of $1 to $10 million and few capital assets, a typical cost of a basic valuation calculation report (10 to 15 pages of writing plus schedules) start in the range of $7 to $10 thousand, assuming clean and accurate accounting records, and that the report is not being used for litigation purposes. More than half of my projects are in that price range. However, for a quote you can rely on, we need to assess the three key criteria noted earlier in this blog.

3. Summary – Providing Value

Our business, Welsh Valuation, and my personal reputation, has been built on 30 years of excellent referrals. Valuation services are costed out on an hourly basis, similar to accountants and lawyers. What delights me is that most of our business comes from accountants and lawyers, and on a regular basis, my referrals go out of their way to tell me that they use Welsh Valuation because of the personal service, and because our rates are very reasonable. In the end, that is how you provide real value.