



**PAUL R. HYDE**  
EA, MCBA, ASA, MAI

# HYDE Valuations, Inc.

**We Value Both Real Estate and Businesses  
Including Machinery & Equipment**

**APPRAISERS:**  
PAUL R. HYDE  
BRIAN D. HYDE  
JOSEPH PHELON

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## *I Need an Appraisal*

I often get a phone call in which I hear: “I need an appraisal of ... what will it cost?”

I have always found other’s, as well as my own, perceptions of the pricing of professional services to be both interesting and complex. Part of the complexity stems from the fact that clients usually do not understand the scope of work that must be undertaken. It’s easy and pleasant when a client thinks they need a big, long and expensive job done, when a small and quick one will suffice. Business owners who request full business appraisals to value their companies for sale are thrilled when I recommend limited calculations to establish a justifiable asking price. I do this because full appraisals are a waste of the client’s time and money in this situation; what counts is getting the negotiations started properly.

It’s more difficult and sometimes not as pleasant when the client needs more than they first suspect, such as in tax and litigation matters where full appraisals are essential. In this case, they must be educated as to what level of work is necessary and what is involved in the process. The complexity of the job and the amount of time it will take generally dictates the cost of the assignment. For example, if the Company is large enough and the appraisal is done for IRS purposes, the Guideline Public Company appraisal method will be needed (the IRS loves this method!) – it is very time consuming and thus adds to the cost.

Physicians are the best class of professionals that I can think of who are skilled in “differential diagnosis”. It is the hallmark of their training. Starting with a general question like “Where does it hurt?” or “How are you feeling?,” they rapidly proceed through a logical series of questions and physical examinations (that are like computer program subroutines) leading them from the symptoms presented to a diagnosis and indicated course of treatment, or to identify what further tests and procedures are necessary to confirm the diagnosis.

Most appraisal engagements begin with an inquiry focused on the cost and time to complete them. (These questions encourage the appraiser to uncover the “symptoms”!) The appraiser must provide reliable and quick answers, but to do this, he or she must obtain enough information to define the scope of work, which drives the fee and schedule. The following example for a business appraisal illustrates some of the items that are necessary in order to determine the needed scope of the assignment:

- The entity and interest to be valued
- The standard of value (e.g. fair market value)
- The level of value (control/minority, marketable/non-marketable)
- The valuation date
- The use of the appraisal (e.g. for a gift tax return)
- The extent of economic, industry, company and financial analysis needed
- The applicable approaches and methods

None of these parameters, except the use of the appraisal and the entity (and perhaps the exact interest) to be valued, will be readily apparent to most prospective clients. The appraiser must diagnose them. At the same time, the appraiser should not jump to inappropriate conclusions. For example, we cannot ask “is your business comparable to public companies?” That’s a conclusion the appraiser can reach with a few well-considered questions.

## A Brief Example

Here is a model telephone call, with my thoughts italicized.

Appraiser: “How can I help you, Mrs. Smith?”

Mrs. Smith: “I want to give shares of my company to my children, but retain control. Attorney Jones told me to call you. How much will an appraisal cost and when can it be completed? I am anxious to make the gifts and file my tax return.”

*This is a current-date non-marketable minority interest gift tax appraisal at fair market value. The first five parameters are established. It is clear what is to be appraised. To determine how, I need to know about her business. So I ask questions that lead to the following data:*

I learn, with a few prompts to keep the discussion on track, that her company is a small manufacturer. For the past five years, sales have been \$3.5 to \$4 million, growing slowly, but steadily. The business has always been profitable, with stable margins and little debt. There are no plans for diversification or acquisition. The company owns the real estate occupied by the business, however it has no excess operating assets (such as idle equipment).

*Although I will probably learn a great deal of additional detail, some of which is not relevant, I can now make several important deductions. The Company is in one line of business, which will simplify my economic and industry research. Due to the Company’s small size, I reject comparisons with public companies. I know from other similar valuation assignments that some private comparables are available. The company is a going concern, so we reject the liquidation premise of value. A real estate appraisals will also be necessary as it has different risk factors than do business entities. I will likely use the Income Approach, probably capitalizing a typical year’s cash flow with an allowance for modest growth. I need to know more about risk factors (dependence on key people, customer concentration, etc.) but this can wait until I meet Mrs. Smith and tour her facilities.*

## Assessment

I know the scope of the engagement and can quickly quote a fee and schedule as part of my engagement letter. This has been accomplished in about a 10-minute conversation. I do not have all the supporting information, but will prepare a customized list of questions to get it at the management interview, which will be relatively brief and focused. I am ready to be retained and to begin work.

Valuations play a part in all strategic transactions, tax, and many litigation matters. For additional information or advice on a current situation, please do not hesitate to call. **We value real estate, businesses, and personal property including livestock and machinery & equipment.**

Sincerely,



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Paul R. Hyde, EA, MCBA, ASA, MAI  
Enrolled to Practice Before the IRS (Enrolled Agent)  
Master Certified Business Appraiser  
Accredited Senior Appraiser – Business Valuation  
Designated Member (MAI) - Appraisal Institute  
(Real Estate Appraiser)  
Senior Appraiser – American Society of Agricultural  
Appraisers (Machinery & Equipment and Livestock Appraiser)



504 Grove Avenue • P. O. Box 9 • Parma, Idaho 83660 • (208) 722-7272  
[www.hydevaluations.com](http://www.hydevaluations.com) Email: [prh@hydevaluations.com](mailto:prh@hydevaluations.com)