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# HYDE Valuations, Inc.

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

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## *Short NOT Sweet*

I am frequently asked to review another appraiser's work and to state whether or not I agree with their conclusion of value. Most of the time, this is not particularly difficult to do as the appraisal contains sufficient information to allow me to determine whether or not I agree with the analysis and the appraiser's conclusion. I recently was asked to review and determine if the value conclusion was reasonable for a service business with \$5 million in revenue, and earnings before taxes of \$300,000. This was probably one of the most difficult assignments I have ever had. The "business appraisal" consisted of a total of four pages – it had so little information in it that I really could not determine if the appraisal conclusion made any sense whatsoever. I was able to tell the attorney that requested the review that the appraiser violated virtually every standard and rule imaginable, however, I really could not determine what the value of the Company should be. There simply was insufficient data in the report to reach any valid conclusion. This experience has motivated me to better explain to a reader of an appraisal report why the various sections have been included in the report and how they relate to value.

According to the Uniform Standards of Professional Appraisal Practice (USPAP 2012-2013 Edition, Standards Rule 9-4), "an appraiser must, when necessary for credible assignment results, analyze the effect on value, if any, of:

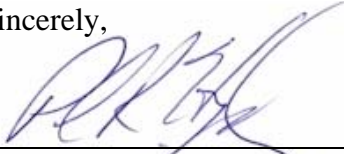
- (i) The nature and history of the business enterprise or intangible asset;
- (ii) Financial and economic conditions affecting the business enterprise or intangible asset, its industry, and the general economy;
- (iii) Past results, current operations, and future prospects of the business enterprise;
- (iv) Past sales of capital stock or other ownership interests in the business enterprise or intangible asset being appraised;
- (v) Sales of capital stock or other ownership interests in similar business enterprises;
- (vi) Prices, terms, and conditions affecting past sales of similar ownership interests in the asset being appraised or a similar asset; and
- (vii) Economic benefit of tangible and intangible assets.

The very short and totally incomplete report that I was asked to review did none of these things. Instead, it simply used one appraisal method and showed a calculation of value (even worse, it misapplied the one method it employed). A business appraisal should analyze and compare the historical performance of the Company compared to both itself and to other firms in a similar industry. It should also develop and explain a supportable income forecast tied to historical results and both the economic and industry outlooks. As part of the financial analysis, the appraiser should conclude and support said conclusion as to whether the Company has similar risk, higher risk, or less risk associated with its operations than does the industry standard. Also, an assessment as to whether the Company has similar financial risk, higher risk, or less risk than the industry average should be included. This risk assessment naturally leads into the application of the various applicable appraisal methods chosen to determine the value of the Company. Without this risk assessment, any determination of value using various appraisal methods is simply meaningless.

A properly prepared business appraisal of an operating business should walk the reader through the description of the Company, the economic, industry and financial analysis, the development of a well supported income forecast, describe and explain the three appraisal approaches and the applicable methods within each approach, the actual application of the applicable methods, the application of any needed discounts or premiums, and should explain and support the final conclusion of value. This simply cannot be done in a four page report. While it is true that verbal reports are permitted by USPAP, the guidelines for verbal reports are similar to written reports and, in my opinion, are much more difficult to properly present (and to follow) than is a written report.

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  
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Senior Appraiser – American Society of Agricultural  
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