

# MINNEAPOLIS ST. PAUL BUSINESS JOURNAL

## How can you put a monetary value on your firm? CPAs can help

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Certified public accountants (CPAs) like to say business valuations are more art than science, and they charge for it, too.

A solid professional valuation can cost between \$5,000 and \$15,000. That's no chump change.

No matter why you need that valuation — a divorce, a new partnership or you're simply ready to retire — take care with the numbers and the professionals you use. Here are our tips for getting the most bang for your valuation buck.

### Play in your own league

Small businesses (no more than \$20 million, and closer to \$1 million) have a certain way of determining their value, which involves an accountant and a head-spinning formula.

Bigger fish (\$20 million and up) generally work with a whole team of financial planner, tax advisors and investment bankers because the complexity of the business is great, said Chip Myers, founder of Franklin Partners Inc. in Minneapolis, who handles many large mergers and acquisitions.

"At my end of the pool, I can generally ballpark a number for the client after looking at the financial records, but I'm not really going to know the value of that business until I get the first bids back from marketplace," he said.

As such, this article is geared toward the \$20 million-and-under business owner.

### Bite the bullet: Get an audit or a review

Yes, it's expensive.

To hire a CPA to scrutinize your financial records for errors, often called, a "review," can easily cost between \$5,000 and \$10,000. To have a CPA conduct an official audit will cost upward of \$10,000, but the marketplace loves it, said Dan Mulvaney, an independent business broker in St. Paul who is affiliated with Sunbelt Business Advisors. "Particularly if you're selling, it eliminates all kinds of questions about the state of your books."

### Get a pro

Getting a valuation means hiring someone with a 50,000-foot view of your life's work. The appraiser has not loved and sweated over your business. He or she is calculating "transferable value" and doesn't care about what the business is worth under your ownership.

If the appraiser is worth his or her salt, he or she will research his or her business' finances, its place in the market and its management and governance. Most likely, he or she will use a complicated financial metric known as EBITDA (earnings before interest, taxes, depreciation, and amortization). The appraiser will also consider intangible assets such as customer loyalty, patents, trademarks, employment agreements, copyrights and current marketplace conditions.

### Get the right pro

There's no license to practice business valuation, but the job is typically handled by boutique accountants.

There's a whole alphabet soup of business-valuation credentials — ASA, ABV, CVA, and CBA, to name a few.

The editors of *Business Appraisal Practice* and *Inc.* magazines have given high ranks to the ASA (accredited senior appraiser) and CBA (certified business appraiser) designations. The American Society of Appraisers gives out the ASA designation, while the Institute of Business Appraisers certifies for CBAs. To earn these certifications, specialist have to submit appraisals for peer review, complete hours of coursework and exams, and have at least five years of experience.

Be sure to ask your prospective appraisers if he or she has done other valuations in your particular business niche.

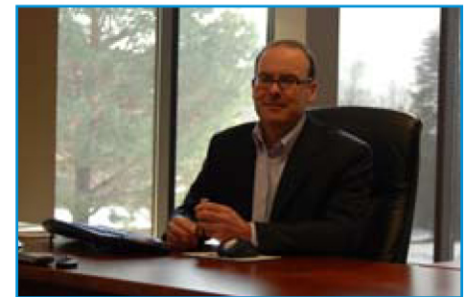
### Make sure it follows USPAP

Back in 1989, the Appraisal Foundation was created Title XI of the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA). That foundation, in turn, created the Uniform Standards of Professional Appraisal Practice (USPAP). When it comes to

valuations, this is the gold standard and your business appraiser should follow its guidelines, Mulvaney said.

Both the IRS and the U.S. Treasury used it to implement the Pension Protection Act of 2006. Also, there have been instances of expert reports being thrown out of federal court for not being "prepared in accordance with all USPAP standards."

Ask your appraiser about it and make sure he or she uses it.



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### Dan Mulvaney

Independent business broker affiliated with Sunbelt Business Advisors, on hiring a certified public accountant to review a company's financial records.

### Have your valuation corroborated

Back to that "valuations are an art, not a science" concept: It is true that two appraisers can have widely different outcomes, so it is important to run the report past your business broker, who is more attuned to what is happening in the marketplace.

"There have been times that I've gotten valuations that made bad marketplace assumptions," Mulvaney said. In those cases, a little back and forth between your broker and you accountant may be in order. In any case, you'll be able to rest easy knowing your numbers are as solid as they possibly can be.

**Alyssa Ford** is a freelance writer.