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## **BUSINESS VALUATION:**

Independent valuations of privately-held business interests are increasingly needed in a wide variety of situations including:

- ◆ Estate Tax Return Filing
- ◆ Stockholders' Buy/Sell Agreement
- ◆ Estate Planning
- ◆ Charitable Contributions
- ◆ Stock Redemptions
- ◆ Marital Dissolution
- ◆ S Corp Election
- ◆ Purchase or Sale of a Business
- ◆ Securing Third Party Financing

In many cases the Internal Revenue Service, Department of Labor or Small Business Administration is requiring professional appraisals in matters concerning the value of shares in closely held companies. The courts are also demanding the use of professional appraisers to assure that business interests are being analyzed carefully and accurately.

The principals of Larson Appraisal Services have been providing valuation services since 1993 for businesses ranging in size from small personal service companies to large corporations with more than \$100 million in sales. Some of the types of businesses analyzed have included:

- ◆ Manufacturers
- ◆ Wholesalers
- ◆ Retailers
- ◆ Restaurants
- ◆ Printing and Newspaper Operators
- ◆ Service Companies
- ◆ Property Managers
- ◆ Contractors
- ◆ Professional Practices (Medical, Dental, Legal, CPA, and Engineering Firms)
- ◆ Farm and Ranch Operators
- ◆ Real Property Holding Companies
- ◆ Technology Companies
- ◆ Radio Stations
- ◆ Lodging Companies
- ◆ Auto Dealerships

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## OUR SERVICES:

We offer services that are comprehensive in nature and provide a wide array of choice for the client, depending upon need and budget. At one end of the service spectrum, a short-term consulting engagement may lead to an oral report in the form of a one-on-one discussion with the client. If warranted by a government agency, a (Full) Appraisal can be performed leading to the issuance of a (Comprehensive) Appraisal Report that would likely range from 40 – 50 pages in length.

### **(Full) Appraisal**

The objective of a (Full) Appraisal is to express an unambiguous opinion as to the value of a business, business ownership interests, or security, which is supported by all procedures that the appraiser deems to be relevant to the valuation. It considers all relevant information available to the appraiser and requires the highest level of due diligence on the part of the appraiser. A (Comprehensive) Report, which conforms to the Uniform Standards of Appraisal Standards (USPAP) as well as the standards and ethics of the American Society of Appraisers (ASA), is typically issued upon completion of a (Full) Appraisal. This type of service is generally used in estate, gifting and family law matters.

### **Short-Form Report**

The due diligence associated with the Short-Form Report is comparable to a (Full) Appraisal, but in lieu of the preparation of a (Comprehensive) Report, a short summary of findings leading to the opinion of value is prepared for the client. This type of report would likely range from 10 – 12 pages in length and its usage can significantly reduce the total appraisal cost.

### **Calculations**

The objective of Calculations is to provide an approximate indication of value based upon performance of *limited* procedures agreed upon by the appraiser and the client. Calculations are not normally considered an opinion of value by the appraiser and require only a very modest level of due diligence compared to the Full Appraisal and are generally used when an approximation of value is deemed sufficient by all parties involved in the matter. The Calculations report would likely range from 8 – 10 pages in length.

### **Financial Performance Review (FPR)**

The purpose of a FPR is to assist senior management in identifying areas of financial performance within the firm that are weak and in need of improvement. This review includes an assessment of the past five years of financial data and results in the calculation of a wide variety of financial ratios on annual performance. The Company financial ratios are then compared to the appropriate industry peer group, thus providing senior management with both absolute trend analysis as well as relative-to-industry analysis.

### **Industry Assessment**

The purpose of an industry assessment is to assist senior management in identifying trends in the industry that might represent growth opportunities. Numerous research sources are queried with the resulting information distilled into a multi-page report that is issued to senior management.

### **Consulting**

Consulting on related business matters is also available at our standard posted hourly rates.

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## FREQUENTLY ASKED QUESTIONS

### **What does a business appraisal cost?**

Because each situation is unique, it is impossible to quote a standard price for a "typical" appraisal. We develop an estimated cost for each client once we collect necessary information and complete an initial review. The (Full) Appraisal is generally the most expensive alternative followed in order by the Short-Form Report and Calculations.

### **What information is needed?**

When undertaking a (Full) Appraisal, the informational requirements are extensive because the appraiser must become familiar with all aspects of the Subject Business. Examples of some informational items would include: five or more years of financial operating results, identification of key suppliers, customers and competitors, owner compensation information, rental agreements on leased business property, marketing and promotional information on the business, industry information from trade journals or other sources, vitas on senior management and details of any pending legal actions, to name a few. Informational requirements are somewhat reduced for Calculations.

### **How can the cost of a business appraisal be kept to a minimum?**

The best way to hold down appraisal costs is to provide the appraiser with all requested information as quickly and completely as possible. When information and documents "trickle in" over weeks and months, efforts sometimes become duplicated and expenses increase.

### **How long does it take to complete a business appraisal?**

Generally, a (Full) Appraisal requires approximately 4 – 6 weeks to complete AFTER ALL documents and information has been received. During this period, the appraiser interviews senior management, visits the business headquarters, analyzes the economy and industry and performs a review of financial performance. This time frame is shortened if the client requires a Short-Form Report or Calculations.

**James A. Larson, Ph.D., ASA, CFA** has been performing business appraisals of closely-held business interests since 1993. These appraisals have included firms ranging in size from \$100,000 in annual revenue to over \$100,000,000. His other relevant experience includes ten years of university level teaching as an Associate Professor at Embry-Riddle University (ERAU) in Prescott, Arizona. His teaching responsibilities at ERAU included courses in management, finance and economics. Prior to his teaching career, Dr. Larson spent seventeen years working in the public securities market in the areas of equity and fixed-income securities research, trading and portfolio management. He achieved Vice President status at United Bank of Arizona and Anchor National Life Insurance, both headquartered in Phoenix, Arizona. He is currently serving as a Professor of Economics, Finance and Strategic Management in the MBA program for the University of Phoenix. He also teaches undergraduate economics courses at Chandler Gilbert Community College.

Dr. Larson holds a Ph.D. degree in Business Administration with a specialization in finance from the Union Institute, Cincinnati, Ohio. He has held the Chartered Financial Analyst (CFA) designation since 1977 and received Accredited Senior Appraiser (ASA) status with the American Society of Appraisers in February 2000. He received his MBA and BA degree in Mathematics from the University of South Dakota.

Dr. Larson is the author of the 1993 book *Treasury Auction Results as Interest Rate Predictors* published by Garland Publishing of New York. He is author of the article entitled "Stock Price Reactions of Small Firms to the Loss of the CEO" published in the July 1999 edition of the *Journal of Small Business Management*. He is co-author of three articles on key-person discount, all of which were published in the *Business Valuation Review (BVR)*, the official journal of the Business Valuation Committee of the American Society of Appraisers. His current vita can be located at <http://www.LarsonAppraisal.com>