

## FEATURE ARTICLE

# Incorporating Business Valuation into Your M&A Practice

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As business intermediaries, we use the word synergy quite often because no one understands this principle better than we do.

However, while preaching to our clients and buyers about the value synergy, we often

miss a chance to apply the same concept to our own practices.

In my firm, we have both certified business intermediaries and accredited business appraisers. Working on opposite sides of the same wall, the two divisions cooperate with each other while upholding the standards set by the Uniform Standards of Professional Appraisal Practice (USPAP) and the IBBA. The benefit of our dual practice is our ability to provide the most accurate valuations for our clients.

### Internal Benefits

Synergistically speaking, integrating the two fields of business valuation and business brokerage creates many internal benefits. First, as most business intermediaries know, commission checks can come far apart. Our business valuation practice provides us with a steadier second income stream that relieves the financial pressures between closings.

The more frequent business valuation engagements are also powerful marketing opportunities for our company. Every time a report leaves our office, attorneys, accountants and other advisers will likely see or hear about it. We hope that our quality work speaks for itself as we often gain valuable referrals for future valuation and M&A projects. Through word-of-mouth, our firm's network of professional advisers also grows quickly.

More importantly, business valuations allow potential M&A clients and our firm an opportunity to "interview" each other through a short-term engagement. Our appraisals allow us transparency into the company's financial health, helping us evaluate whether the business meets the high standards of quality we demand of our M&A clients. At the same time, the clients are able to converse with us in a non-intimidating situation and see our work stripped of all marketing language. The relationship established during the business valuation will determine if our firm and the client is suited to work together in a much longer sell-side engagement.

### Client Benefits

The most valuable benefit our synergistic practice brings to our firm is the service we deliver to our clients. By providing business valuation and M&A services, we meet our clients' primary needs, quality valuation reports and successful business sale transactions.

Our firm believes that the conclusions obtained in valuation reports, whether they are for appraisal or M&A clients, are only as good as their ability to emulate likely real world situations. Because buyers' determinants of value are based on both the objective financial statements and their own subjective observations, an accurate valuation report must consider both.

The science of business valuation lends credibility to our business brokerage practice. Appraisers have access to a wealth of information from databases comprised of recent done deals with similar criteria. The theories and principles that accredited business appraisers learn help provide the insight needed to thoroughly understand a company's value.

Likewise, our experiences in business brokerage bring a flood of street knowledge to the theoretical approach of business valuation. As active participants in the market, we understand firsthand what buyers look for when evaluating a company. Using our experiences, we help our appraisers understand factors not found on the financial statements, which allows them to arrive at a more accurate value.

Due to the subjective factors involved in a valuation, we think an appraiser should meet the client and tour the facilities in person. An appraiser who cannot make the commitment may follow all the principles but still only see half the picture. Out-of-town appraisers, while less expensive, may miss subjective factors that will influence a buyer's opinion of value.

Through the cooperation of business intermediaries and business appraisers, we hope that our reports reflect a real world situation by taking into consideration every factor a buyer would see. To establish our objectivity throughout the appraisal process, we fully disclose any possibilities of a future M&A relationship in the beginning of the report.

If your firm is also interested in establishing a business valuation practice, check out the Institute of Business Appraisers (IBA). The IBA is a great resource and it offers classes, certifications and workshops that can guide your company into establishing a quality appraisal division.

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