



Robert M. Haas Associates, Inc.

Acquisition Advisory and Business Valuation Services

About Business Appraisal

There are many misconceptions about business appraisal. It is not merely a matter of applying supposedly universally accepted industry or market “rules of thumb” (e.g., the infamous “one times revenue” or the equally absurd one-size-fits-all “five times EBITDA”) to the entity’s reported financial results. It is not as simple as inputting five years of historical or projected financial data into a computer and running some packaged software that calculates “the number” since too often the “GIGO” or “garbage in garbage out” syndrome applies. There is no such thing as the “back of the napkin” when it comes to sound, useful business appraisal.

Business appraisal work product must be scrupulously independent, thorough, well-documented, internally consistent, logical, credible, and understandable, and it must be client-specific.

The best work product should deliver far more to a client than merely a number. A good appraisal should provide takeaways relating to a business’s operations, personnel, financial, market, competitive, and other matters that pinpoint measures which will enhance the business and its value.

Standards of value can vary from fair market value to fair value to investment value, etc., and “value” accordingly can be materially different depending upon which standard is to govern in a given engagement.

Credible business appraisal begins with a thorough investigation of the business to be valued. Accordingly, RMHA makes copious inquiries into the business’s activities as conducted prior to the valuation date, and as contemplated to be conducted in the future; the business’s historical financial performance; its financial condition; the nature and adequacy of facilities and other tangible or intangible assets; management’s expectations for the business’s future financial performance and their rationale for same; the business’s current and contemplated market circumstances and competitive posture; the prevailing and contemplated market dynamics (e.g., technology developments that will transform the business’s environment; the impending emergence of off-shore markets, or lower cost competitors, etc.); the business’s management and organizational expertise and depth; the entity’s ownership and governance documentation; and any other information, or pending or contemplated developments, which management reasonably believes might have a material impact upon the business.

Depending upon the nature of the interest being appraised, the process encompasses a careful assessment of non-recurring or extraordinary, under-funded, excessive, or discretionary income statement items. Consideration is also given to the adequacy and value of both intangible and tangible assets, as well as liabilities, presented on the balance sheet as compared to the stated book values; any assets or liabilities that may not be presented on the balance sheet, and the treatment of any non-operating assets and liabilities.

Based upon a comprehensive understanding of the business, RMHA then applies various market, income, and asset methodologies in order to develop its conclusion as to value. The market approach estimates value based upon an analysis of transactions involving comparable enterprises either in whole or in part. The income approach estimates value based upon an analysis of an enterprise's reasonably estimated future stream of economic benefits, either using a single-period earnings base such as net cash flow, or a multiple period forecast. The asset or cost approach, for example, might estimate value based upon an analysis of the cost to replace the enterprise's assets and other resources.

Inasmuch as RMHA's appraisal reports are routinely submitted to such parties as the Internal Revenue Service, and given our fundamental commitment to developing highly defensible and well-documented conclusions about the values of the businesses that we appraise, our clientele are assured that RMHA can be relied upon to deliver superior appraisal work product.

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