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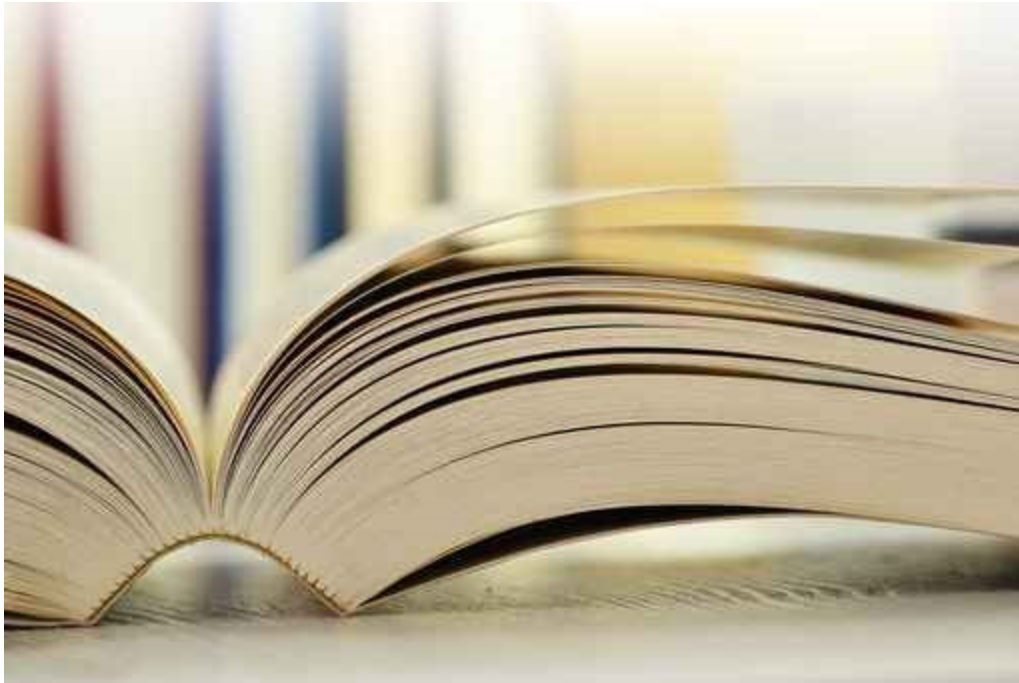


## **Analyzing Complex Appraisals for Business Professionals by Shannon P. Pratt and John Lifflander**

Posted date: **October 26, 2016** In: [QuickRead Featured](#), [QuickRead Top Story](#), [Valuation/Appraisal](#)

Appraisals from Real Estate, Machinery and Equipment to Business Valuation: Book Review by Michael D. Pakter

**The purpose of this book review is to introduce the reader to Shannon P. Pratt's newest book, co-authored with John Lifflander. For those improbable few business valuation professionals who do not know who Dr. Pratt is, he is the Chairman and CEO of Shannon Pratt Business Valuation, Inc. and Publisher Emeritus for Business Valuation Resources LLC.**



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[Analyzing Complex Appraisals for Business Professionals](#)

By Shannon P. Pratt and John Lifflander

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University, is a Chartered Financial Analyst and a Senior Member and Fellow of the American Society of Appraisers. John Lifflander is an Accredited Senior Appraiser with the American Society of Appraisers and is an author, instructor, and expert witness in complex valuation litigation engagements.

“Analyzing Complex Appraisals for Business Professionals” is a “step-by-step guide to understanding commerce, business, and industrial valuation” that “integrates valuation theory and appraisal processes” and “provides a comprehensive framework for applying sound financial reasoning” in the valuation of real estate, machinery and equipment, and in the valuation of a business.

The book divides itself clearly into two sections—virtually constituting two somewhat separate (but interrelated) books. Section 1 (Chapters 1-12), focuses on real estate and machinery and equipment appraisals, while Section 2 (Chapters 13-23), focuses on business valuations.

Section 1 introduces the reader to appraisal theory and terminology before discussing the three approaches to valuing real property. The section does a sound job of defining market value, price, cost, sales price, “highest and best use,” and other key terminology.

Section 1 includes specific guidance on analyzing an appraisal of single-family residences, land, wetlands, contaminated property, eminent domain land, commercial income-producing properties (such as apartment complexes, shopping centers, office buildings, and hotels) and industrial buildings. The section includes a useful and distinct feature—subsection containing highlighted text boxes labeled “Red Flag” that provides the reader with a practical point of caution. For example:

### **Red Flag**

If the size of the home is larger in the appraisal than in the assessor’s records, it is possible that the owner of the property built an addition without getting a building permit. Nonpermitted space diminishes the value of the addition, and it should not be given the same value as permitted space. In some cases, it might even require dismantling the addition if the construction is substandard and does not meet building codes.

Section 1 also deals with appraisals of industrial buildings and appraisals of machinery and equipment. The section concludes with chapters describing how government policies affect property values and the standards under which appraisers perform their work, especially focused on USPAP. The USPAP chapter lists 12 of the basic requirements that an appraiser should address for it to comply with the USPAP. But, the chapter does not delve into each of those requirements in any detail.

Section 2 of the book is dedicated to Business Valuations and again begins its education of the reader by defining value in the relevant context. Each of the concepts of fair market value, fair value, investment value, intrinsic value, acquisition value, book value, going-concern value, and liquidation value, are discussed with emphasis on the sources of the authority for the definition of each. Particular care is given to the applicability of the use of value in a court of law.

Section 2 continues to overview the approaches, methods, procedures, and terminology involved in appraising a business. The section provides guidance on the use of the business’ basic financial statements in the appraisal process. Clear definitions are provided regarding net working capital, owner’s compensation, discretionary earnings, EBITDA, EBIT, debt-free net income, debt-free cash flow, net income, etc.

Chapters on the Income Approach, the Market Approach and the Asset-based Approach include a discussion of the underlying concepts needed in an appraisal of a business such as income capitalization, discount rates (focused on the “build up model” and the “Capital Asset Pricing Model”), Weighted Average Cost of Capital (WACC), sources of market approach data, invested capital multiples, and steps in the adjusted net asset value method.

Surprisingly, these chapters do not include the previously discussed “Red Flag” boxes—which, I believe, would have been even more valuable in the context of a business appraisal as compared to a real estate appraisal.

The “Rule of Thumb” chapter does a good job of explaining when and/or how such rules can and cannot be applied. Other Section 2 chapters delve a little more into other topics of interest to business valuation practitioners—such as valuations for federal tax matters, valuations in the context of shareholder and partner disputes, marital dissolution valuations, and valuations of employee stock ownership plans.

The book concludes with a report on the fair market value of 100% equity interest on The Meat Processing Company as of December 31, 2012—an operating company with significant real estate assets. That chapter includes a contribution by Kimberly Linebarger, a senior financial analyst with Shannon Pratt Valuations.

I submit the book’s greatest positive is that each chapter is careful to cover all of the key topics needed by the chapter, i.e., the book “checks all the boxes.” The book’s greatest negative is that each of those key topics is only touched upon somewhat superficially and/or briefly and not delved into in any significant detail. Having said that, taken as a whole, however, this book is a good introduction to the world of appraisals (especially appraisals with a heavy emphasis on real estate). Many business valuation professionals likely will still need to delve into many concepts in additional detail—for which there are several other books available—by Dr. Pratt and by others.

*Michael D. Pakter, CPA, CFF, CGMA, CVA, MAFF, CFE, CA, has more than 35 years of experience in accounting, forensic accounting, financial analysis, financial forensics, business economics, fraud examinations and investigations, including more than 15 years of experience in economic damages and business valuations. His undergraduate academic education is in accounting, auditing, commerce and business economics. Courts and arbitral bodies have recognized him as an expert in accounting, financial analysis, financial forensics, economic damages, fraud investigations, business valuations, and business economics.*

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