

Open Communication Among Specialist Appraisers- Maintaining Focus on the Forest and the Trees

By Kirk C. Waibel, ASA

In 2012 the professional services industry seems to have continued its trend towards further specialization. Valuation services are no exception to this trend. The constant stream of legal, regulatory and technological change makes it challenging for valuation professionals to focus their practice in more than one area. While such singular focus can create unmatched expertise in areas of professional concentration it can also invite a lack of understanding of how the valuation of one type of asset may impact the valuation of others. The need for open communication among valuation professionals from different disciplines has never been greater. Whether a valuation is being performed for an asset-based financing effort, impairment study, bankruptcy, or restructuring event it is essential that specialist appraisers communicate frequently with their specialist colleagues during a project in order to ensure that final valuation results are properly considered.

The message is not complicated: communicate early and often with other valuation professionals (and of course the client) involved in a project that involves multiple specialties. Although easily stated the message is not always adhered to in practice.

Asset-Based Financing Scenario

Uncertainty often exists in the context of an asset-based financing valuation involving both real property and machinery & equipment. Who will value assets such as air compressors, bridge cranes, back-up generators, and HVAC units?

Admittedly, this question may not be easily answered. It is not my intention to either suggest that appraisers join in protracted discussions aimed at determining what legally constitutes "real" versus "personal" property or that they engage in a detailed investigation of asset title. My suggestion is much simpler, namely, that you have a discussion with your client and other involved professionals early in the project so that the aforementioned issue can be discussed and a working consensus can be reached as to which assets will be valued by each appraisal discipline. Any assumptions or conditions specifically relating to the issue should be added to your appraisal report.

When a client realizes in the latter stages of a project that there has been double counting or exclusion of assets as a result of a lack of communication amongst appraisers they are not happy and in my opinion their discontent is justified. When this situation presents itself the involved appraisers are typically compelled by the unhappy

client to have the “who will include this or that asset” conversation. Project difficulties that flow from not having the conversation early on can potentially overshadow quality work done on the project.

If on the other hand you have discussed the issue at the project’s outset and specifically identified any assumptions or conditions related to the discussion in your appraisal report you have taken a significant step in addressing the issue and alleviating potential problems associated with it.

Valuation Projects Involving Business Enterprise Value and/or Valuation of Many Different Asset Types

A second area where a lack of communication can land a tangible asset appraiser in an uncomfortable situation is when the appraiser is valuing an asset for an unfamiliar purpose. In this case it is advantageous and arguably necessary under USPAP to advance your understanding of what it is that your specialist valuation colleagues do every day. It is not necessary to acquire encyclopedic knowledge of methodology related to assets outside your specialty but if you are going to hold yourself out as competent to perform appraisals in unfamiliar territory USPAP compels you to acquire information necessary to produce credible valuation results.

While there is no substitute for formal valuation education such as classes offered by the ASA, early communication and collaboration with your valuation colleagues from other disciplines will go a long way towards providing you with information necessary produce a credible valuation result when you are operating in unfamiliar waters.

In the course of performing work as a machinery & equipment audit review specialist I have often seen tangible asset appraisal work that has failed to consider the work performed by other valuation colleagues in the context of multidisciplinary appraisal. A tangible asset report issued in this context which states something roughly equivalent to, “these values have been derived without consideration of the overall business enterprise value” does not, in my opinion, satisfy the diligence/competency requirements of USPAP and is not likely to survive an auditor’s scrutiny.

Tangible asset valuations performed for bankruptcy, business combinations and impairment related valuation purposes require among other things consideration of; overall business enterprise value (“BEV”), the types of assets that are or should be on the company balance sheet and what valuation methodology has been used to value a particular type of asset. These factors may not impact tangible asset values but they often do and it is preferable to consider them early on. The hours required to “fix” a tangible asset valuation that has been issued without consideration of these factors can greatly outweigh the effort required to perform a credible valuation using knowledge

acquired at the project's outset.

The good news is that help is generally near. Valuation colleagues who specialize in the valuation of financial and intangible assets are often willing to share knowledge that will enable the tangible asset appraiser to produce a result that is both credible and sufficient to survive audit scrutiny. I believe this is due to both the intangible asset valuation professional's altruistic desire to promote cooperation amongst professionals and a selfish desire to ensure that none of their work will have to be revisited or questioned because of a lack of understanding on the part of tangible asset appraisers.

I trust that it is primarily the former factor that motivates my intangible asset valuation colleagues to share their knowledge but I am also content if it is the latter because either way communication has taken place, knowledge has been shared and a credible valuation result has been produced for the client.

The message here is a simple one. Communicate early and often with both your client and specialist valuation colleagues. You will save time, avoid headaches, produce a credible valuation result for your client and in the end you may learn something new that will benefit your practice next time around.

About the Author



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