

Appraised Value Vs. Market Value

IN M&A: WHY UNDERSTANDING THE DIFFERENCE MATTERS

For anyone that is considering selling their business, you may already know that a substantial amount of financial information goes into the process. Two of these items are appraised value and fair market value. These are both fundamental numbers to understand in getting the most money for the business that you have created over many years.

In a perfect world, appraised value and market value are the same number. However, fluctuations in the market coupled with more subjective factors not found on paper often mean there is a difference between the two. Understanding these calculations will help you identify factors where your company can improve its valuation and achieve a better financial result for the owners upon the sale.

This article discusses appraised vs. fair market values and explains why they are both important to understand when selling a business.

What Is Appraised Value?

Appraised value is the amount an appraiser determines your business is worth after reviewing all the relevant business and financial details. They review cash flow, inventory and equipment on hand, and operations details like staff size and productivity, etc., all of which contribute to your business's appraised value.

Third-party appraisals may drastically differ from your expectations of your business's value. They are more grounded in mathematical principals and less in intangible items and future looking synergies. This is why having an experienced intermediary on your side, knowledgeable in valuation methodologies, is critical to ensure the price you decide to go to market at accurately represents the business's approximate fair market value.

What Is Fair Market Value?

Fair market value is the selling price your business could likely achieve in an open market. A couple of methods for determining fair market value include assessing recent sales prices of similar companies in your industry or price to earnings comparison if available. With any method, your business's financial health, the availability of comparable companies for sale, and the industry's long-term prospects are all essential factors that impact the fair market value of the business.

While financial numbers and formulas often determine an appraisal value, the fair market value is what a willing buyer is willing to pay a willing seller. For instance, if your business's appraised value is \$9 million and you can only find buyers at \$7 million, the fair market value is \$7 million. However, if several buyers offer the same price



range, the demand can cause the fair market value to rise in a competitive auction format to an amount in excess of the appraised value and maybe you land at \$12 million or more in this example.

Why Appraised Value vs. Fair Market Value Matters

Most businesses have a multitude of assets, both tangible and intangible, that contribute to their overall value. Tangible assets, such as inventory and equipment, can be appraised through conventional means, like valuing physical properties such as vehicles or real estate, relying on solid comparative analysis.

On the other hand, intangible assets like patents, trademarks, customer lists, contracts, key employees, branding and a company's reputation can be very complex to evaluate the value of. Given that, and considering that the value of intangible assets typically outweighs that of tangible assets, it is most prudent to engage the services of an experienced M&A firm for your business sale negotiations. We look at much more than hard financial data. Your company's reputation, the strength of its management, and the reliability of its customer base are all factors in what the business is truly worth.



Calculated Exit Partners focus is on increasing the mathematical levers that go into "appraised value", like gross profit margins and EBITDA, while at the same time looking for ways to un-earth, enhance and showcase the additional intangible "market value" drivers. Gains in either valuation area will increase overall value. Gains in both areas can create exponential value growth.

If you have questions about your business's value, contact Calculated Exit today for a free consultation. We offer confidential business appraisals for qualifying companies.



We offer a concierge end-to-end M&A process, run by CPA's who are business owners and entrepreneurs, focused on early involvement to maximize financial results.

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