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# Subpar Valuations Have No Place In The Veterinary Industry

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***We, as valuators, are starting to see more and more valuations from some firms that have one or both of these two <u>severe deficiencies</u> that a user should be aware of:***

- *They could best be described as sales documents instead of valuations.*
- *The valuation methods they use are not supported by valuation theory, and therefore are flawed.*

*This document briefly addresses what one should be cautious of when using a valuation.*

### What is Independence in Terms of a Valuation?

If the valuator claims to be independent, the valuator should not have any bias and should produce the same report whether prepared for the seller or buyer. Just because a valuator claims their document is independent does not necessarily mean it is. Suggesting a valuation is independent when it is not is an extremely unethical behaviour that we are, unfortunately, seeing more of. It appears that some firms are capitalizing because valuation users are taking them at their word without verifying. A user of a valuation report should review the valuation company's reputation with others within the industry to confirm.

### What are Some Signs that Independence Should be Questioned?

A simple answer is: When the valuator stands to gain. In this industry this most often occurs when the valuator is also the broker.

- The valuator may use an inflated and unethical valuation to get the listing.
- The valuator generally receives a percentage of the sales price.

We also do valuations with the practices we broker through BD Valuation Inc. Brokerage. We attempt to mitigate any independence issues by relying on our desire to keep a good reputation for integrity in the industry and by encouraging any users to have our valuation reviewed by a professional of their choice. We then work with that professional to answer any questions they have. We are not convinced that all valuators are adhering to the same standards, and some are even refusing to cooperate with a review prior to offer.

*Side note: An inflated value should not mean a higher sales price. The valuator should appraise the practice fairly and attain a premium above that value where the market dictates, which appears to be in many urban areas of Ontario. A good broker should be able to get the highest price possible, while also doing so ethically.*

### Should I be Able to Have a Valuation Reviewed?

Absolutely. If you are expected to rely on a valuation you should be able to have it reviewed, and the valuator should not only encourage you to have it reviewed, but should be happy to answer any questions the reviewer might have. If someone suggests you shouldn't have their valuation reviewed before you put in an offer I would suggest that is a valuation to be skeptical of.

### What Forms a Good Valuation?

While the math can be less than intuitive, the idea is not.  An investor (potential buyer) will be interested, and should base value only on:

- The future cash flow they can expect to receive.
- The risk of that cash flow.

It is no different than any other investment; it is risk vs. return.  There are a couple of methods that would be considered acceptable by the Canadian Institute of Chartered Business Valuators as the “primary method” to accomplish this.

### Should Revenue be Used to Determine Value?

In our opinion, absolutely not.  We see revenue forming partial basis of some valuations though.  If revenue was perfectly correlated with expected future cash flow then it would be ideal to use only revenue to determine value, and we would need little other information to conduct a valuation. However, since cost structures and pricing are not perfectly congruent between practices there is a large range of cash flows with any given level of revenue.  Since revenue is not perfectly correlated to cash flow it seems intuitive that it shouldn’t be used to determine any portion of value.  As a valuator I would be skeptical of any valuation that uses revenue, even partially, within their primary method.

### If a Purchase is Feasible Doesn’t That Mean it’s the Right Value?

Not necessarily.  A price might be more feasible by extending the payback period or using the wages you should be paying yourself.  A proper valuation would allow a fair return on investment after you’ve paid yourself a fair wage for the efforts you will inject.  If it does not, it’s not a good valuation.  Unfortunately we’ve been seeing some valuations that blatantly did not meet this obvious criteria.

### What is the Difference Between a Share Purchase and an Asset Purchase?

There are many differences, the discussion of which is beyond the scope of this article.  A valuation will assume one or the other (neither being right or wrong), but there are differences in value between the two.  A user of a valuation need only be aware of this and seek aid to determine the value implications between the two.

### What Experience of Education Should I be Looking For?

In the profession, anyone can claim to have experience, know the profession, and have lots of education… and most do claim this.  However, digging further might reveal differences from the claims.  Some questions you might ask:

- What university degree does the valuator have in the field of Business?
- What accounting designations, if any, does the person performing the valuation hold?
- What formal valuation education does the valuator have?

But don’t stop here.  Review the education to confirm it appears to be thorough.  Remember that anyone can call themselves a valuator.  Experience in the industry helps, but there are innumerable people that can rightfully make a claim about understanding the profession.  Education is a clear separating factor.