



In addition, the transaction date is increasingly relevant in today's volatile marketplace. Old transactions may not be relevant if market conditions have changed. For instance, is a low point in the industry's cycle driving values down (or vice versa)?

### **Failure to look beyond selling price**

After an expert has identified relevant transaction data, he or she must delve into the details to understand the transactions' terms and the elements driving their value. In some cases, the selling price listed in a transaction database may not tell the full story.

For example, part of the purchase price might be buried in employment contracts or be contingent on future operations. The use of these alternative terms can make a deal more (or less) valuable than it appears on the surface, necessitating adjustments to arrive at a cash-equivalent value.

### **Failure to understand comparable data**

Another common mistake that may occur under the market approach is failing to adjust the financial statements of the subject company or the comparables companies to ensure accurate comparisons. For example, nonrecurring items and discontinued operations may need to be eliminated.

Or, for comparative purposes, a valuation professional may need to rectify differences in accounting methods — say, for reporting depreciation or inventory. Ideally, an expert makes these adjustments before selecting guideline companies and computing pricing multiples.

Inconsistent terminology may also lead to problems. Slight differences in the ways databases or experts define terms such as "cash flow" or "earnings" can trigger significant valuation differences. It's imperative to understand how each database defines variables as well as what's included or excluded in the selling price.

It's also important to consider timing. For instance, is a low point in the industry's cycle driving values down (or vice versa)?

### **Use with caution**

Many judges and attorneys prefer the market approach over the income approach for its perceived objectivity. But applying the market approach isn't as easy as it appears on the surface. It's important to hire an *experienced* business valuation expert to avoid potential pitfalls and arrive at a value that can withstand scrutiny.

Do you have a  
**Question?**  
or want to speak to  

---

**Michael B. Lehner**  
CPA/ABV, CFE, ASA



Michael B. Lehner, CPA/ABV, CFE, ASA  
732.412.3825  
mlehner@zbtcpa.com  
www.linkedin.com/in/michaellehnercpa  
@MLEhnerCPA  
BusinessValuationNJ  
www.zbtcpa.com