

JIM RIDER/staff photographer

Orville Lefko's business is putting values on businesses.

Good economy seen

By Tim Richard
staff writer

A ninth straight year of non-inflationary economic growth is in store for Americans, according to three University of Michigan forecasters with proven crystal balls.

Michigan's share will be spurred by two more years of growth in business and professional services — including data processing, legal, engineering and architectural services rather than low-paid "McJobs."

"A number of factors" account for the apparent breaking of the old three-year boom/bust cycle, said Saul D. Hymans, director of the Research Seminar in Quantitative Economics, at a two-day meeting in the U-M Business School last week.

First, no international shocks like the OPEC oil cartel's 1973 price explosions have occurred since 1983, Hymans told a news conference.

Second, the Federal Reserve Board hasn't made any mistakes in tightening the money supply as it did in the 1920s and after World War II. (Other speakers gave Fed Chairman Alan Greenspan spectacular grades for fine-tuning the economy after the October 1987 stock market tumble.)

Third, "the private economy can miscalculate — too much production, inventory pileup. That's something we're less vulnerable to now."

"There is better inventory control. The auto industry hasn't quite learned it yet, but the rest of the economy has."

Economists have blamed several recessions of the past generation on the "buy now" psychology. Overbuying fueled more price increases, overstocking of inventories and the inevitable "bust."

SEVERAL FORECASTERS said that psychology seems to have been broken.

"Complaints about high prices are at their lowest point since the early 1960s," said Richard T. Curtin, director of U-M's survey of consumers at the Survey Research Center. "The 1970s rationale — 'buy now because prices will go up in the future' — never came back."

He said the index of consumer confidence since 1983 has remained steadily near the 93.9 average compared to below 70 in the last recession year.

"They see economic growth as slowing, but they don't see bad times," Curtin said.

Hymans forecast "upbeat" national economic

growth rates of 2.7 and 3 percent for 1990 and '91. He saw auto sales dipping a bit to 9.7 and 9.9 million, a mid-1990 growth in exports as the value of the dollar weakens and more than 1.5 million housing starts a year.

MICHIGAN will see a decline of 0.8 percent in the number of manufacturing jobs in the next two years, but it will be offset by growth rates of 2 percent and 2.9 percent in those two years, said Hymans' two associates.

The state unemployment will drop from the current 8 percent to 7.5 percent the next two years, said researchers Joan P. Cray and George P. Fulton.

"Over the past four years, the service industry has accounted for approximately one out of every two jobs created in the state. And by 1991, according to our current forecast, it will have more jobs than the entire manufacturing sector," Cray said.

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Auto sales could stay fairly high

At first blush, it looks as if the auto market will weaken in the next two years. It's better than it looks, said Saul Hymans, director of the University of Michigan's Research Seminar in Quantitative Economics.

A lot of the pent-up demand from the recession of the early 1980s was satisfied in the early years of the recovery, when sales consistently topped 10 million cars a year, he said. Hymans predicted 9.7 million units in 1990 and 9.9 million in '91 — not records, but still healthy numbers.

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Financial statements often don't indicate actual value

By Doug Funke
staff writer

When it comes to putting a value on a business, balance sheets and income statements don't tell the whole story, says Orville Lefko of Troy.

And if truth be told, "Most business owners don't have a good idea of what their business is worth."

Lefko, a certified financial analyst, a certified public accountant and a licensed real estate broker, is founder and director of the Lefko Group, which specializes in business valuations of privately owned companies.

"Book value as shown on financial statements is virtually never the value of the business," he said.

"It tells what is the excess of assets valued at historical costs over liabilities of a company. It doesn't give a clue to what real earning power is."

So Lefko takes a long, hard look at cash flow. Then he considers intangibles like risk, growth potential and expected financial return to arrive at a multiplier applied to cash flow to determine the value of a business.

LEFKO VALUES businesses for settlements in divorce proceedings, employee stock ownership plans, buying and selling of business interests, and estate planning.

He also deals with lost profits and lost value situations.

Those could arise from lease problems, negligence and competition. "Anytime someone is deprived of a business opportunity they should have had," Lefko said.

His work in some specific cases resulted in:

- A financial settlement for a woman who supported her husband through medical school, then was asked for a divorce.

- A settlement for a neighborhood drugstore condemned to make way for the GM Poletown plant. The owners received compensation for potentially lost business due to location as well as brick and mortar.

- A financial settlement for fish distributors for lost profits after the closing of Lake Erie to commercial fishing due to contamination.

"WE'RE INDEPENDENT and that's very important," Lefko said. "We're not hired guns. We're not advocates for either side. We're advocates for the right answer, that being the most reasonable answer."

Most of his business is referrals from lawyers, Lefko said. An attorney opposing a client in one case

may later hire him for another due to his expertise, Lefko said.

"I don't care if he's the plaintiff or a defendant," Lefko said. "They know they will get an answer that stands up in court. Once we come up with an opinion, we're strong for our opinion."

Lefko's valuation of a business situation was accepted by the court in all of the half-dozen cases in which he's been involved with Dennis Dettmer, a Detroit lawyer, Dettmer said.

"HE'S ESTABLISHED a reputation; he's credible, honest, straightforward and he's an expert," Dettmer said. "He and I have had some disputes about valuations, but he explained why and I've accepted his explanations."

Here's how experts come up with value

By Doug Funke
staff writer

Valuating businesses is an art, not a science.

That's the verdict from Richard Wendin, president of Sigurd R. Wendin & Associates of Birmingham; Gary Leeman, a certified public accountant with the firm of BDO Seidman; and Orville Lefko, managing director of the Lefko Group of Troy.

"Ultimately, it's informed, experienced judgment. There's no formula," Wendin said.

His firm specializes in valuating securities rather than physical assets of privately owned companies, the 50-year-old Wendin said.

"It's important to remember you don't value a company in a vacuum," he said. "We gather financial statements usually for the last five years, interview management, visit the plant facility, review industry conditions."

"We try to identify publicly traded companies in the same industry or line of work, look for price/earnings ratio that the public market accords, then you try to fit your company into that price/earnings range," Wendin said.

"THERE IS no one absolute number that is right," he said. "We tell clients two competent appraisers looking at the same facts can be 15-20 percent different."

Leeman, 44, is a national director

"He's a good person and it's conveyed," Dettmer said.

Lefko enjoys a solid reputation in the legal community, said Leslie Kutinsky, a Madison Heights lawyer.

"I find him very thorough, honest and professional," Kutinsky said. "His opinion is respected."

LEFKO, 67, went into the evaluation business for himself in 1968 after working as a sales forecaster for General Electric and an auditor associated with Coopers & Lybrand.

He also served as general manager of Americoffee Corp., an office coffee supplier, while getting his feet wet in the evaluation business.

"I liked the first (valuation) job I did for NBD, a little tool and die shop for an estate," Lefko said.

for litigation support services and a local coordinator for business valuation services at Seidman.

"It really is an art form," he said of the valuation process.

"What you're trying to come up with is a realistic figure for a willing buyer and a willing seller, neither being forced to buy and sell, and both having knowledge of the facts at hand," he said.

Leeman doesn't view himself as a hired gun even though he works for specific clients, he said.

"WE ALWAYS look at it from a reasonable standpoint," he said. "Sometimes, I even ask myself, 'Would I be willing to pay this price?' If not, maybe I haven't come up with the right number."

Leeman said he doesn't cook figures to make clients happy and that some of his valuations have been met with surprise.

"I will not change a final conclusion based on judgment unless additional facts are presented," he said.

Lefko finds that most owners undervalue their companies, he said.

Things like good will — the reputation of a business — how important specific people are to operations, and potential for growth all impact value even though they might not be readily apparent or easily measured, he said.

"You have to use economics and good common sense," Lefko said. "It's an art. It's not a science."

It's the

Suburban 100 Sale

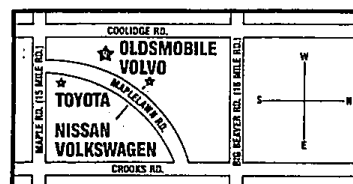
For the 3rd year in a row Suburban Motors will offer extended sale hours and special pricing to all post Thanksgiving car buyers.

Hours will be Friday 9-7 and Saturday 10-5. Over 100 cars and trucks must be sold.

Every customer will receive a 20" Zenith Color TV at no extra charge with purchase.

Suburban

Suburban has it all at the Troy Motor Mall



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Nissan-Volkswagen 649-2300
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