



2016

Excerpt from

*Business Valuation Update*  
**YEARBOOK**

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# Business Valuation Update Yearbook 2016

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**What It's Worth**

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## **What It's Worth**

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## Introduction

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*Business Valuation Update* celebrated its 20th anniversary, and we continue to strive to present new approaches as well as keep appraisers up-to-date with news and analysis, changes in regulations and professional standards, leading conferences, publications of interest, and practice-building ideas. Here are a few highlights of what you'll see in this yearbook.

*Section 1. Business Valuation Approaches, Methods, and Entity-Specific Issues.* If the business valuation profession is to advance, it must be open to new ideas, techniques, and methodologies. Valuation concepts have undergone significant changes in thinking over the years (see "Valuation Concepts Have Undergone Massive Changes in Thinking"), and change will continue. Conventional thinking is being challenged in a number of areas, including the size premium (see "Data About the Size Premium Challenge Conventional Wisdom" and also "Fine-Tuned Data Help Tailor the Size Premium to a Subject Company"), the double dip (see "The Double-Dip Concept Is Often a Misconception"), and personal goodwill (see "Personal Goodwill and Noncompete Agreements: Folklore vs. Common Sense").

The Department of Labor (DOL) eliminated the "appraiser-as-fiduciary" rule from its newly reissued proposal of a broader fiduciary rule. However, there is still a need for peer review of ESOP valuation reports (see "Recent Developments Bolster Case for Peer Reviews of ESOP Valuations"). Exit planning is an exciting new area for valuation (see "Think Like a Potential Investor to Do an Exit Plan Valuation"). A related topic, buy-sell agreements, is covered in a three-part article. Issues and pitfalls of several models are highlighted, including the Gordon growth model, Black-Scholes, and Monte Carlo simulation.

Other articles deal with determining reasonable compensation, fairness opinions, exit planning, buy-sell agreements, employee stock options, rules of thumb, intellectual property valuations, and global issues.

*Section 2. Industry-Specific Valuation.* The valuation of law firms took the spotlight over the past year (see "Checklist of Special Information to Request for the Valuation of a Law Firm" and also "When a Law Firm Gets Caught Up in Divorce: An Attorney and an Appraiser Compare Notes"). Construction firms were the topic of an article that was on BVR's "most popular" list (see "The Cost Approach May Be the Best for Construction Firms—Here's Why").

The fair market value of physician compensation played an important part in a number of court cases in the healthcare industry. The government has been suing hospitals—challenging the fair market value of certain transactions, including the acquisition of medical practices. However, valuation experts point to many flaws in the government’s arguments and methodology, including the use of faulty survey data (see “Key Issues in Debate Over the Cost Approach for Healthcare Intangibles”).

*Section 3. From the Courtroom.* The courts continued to provide a steady stream of cases involving various business valuation issues (see “Top 10 Noteworthy BV Cases” and “Takeaways From Six Recent Business Valuation Cases”). Litigation is a growing area for many valuation practices, and several articles reveal tips for expert witnesses (see “Insiders Reveal How to Get Into the Expert Witness Game—and Stay There” and also “BVU Profiles: Survival Tips for BV Experts Put on the Witness Stand”).

An interesting court case illustrates an unpleasant experience that no valuation expert wants to face in the courtroom (see “Court Case Points Up Pitfalls to Avoid When Using Transactional Databases.”) Another article examines the “market-out exception” in appraisal statutes.

*Section 4. BV Profession and Practice Management.* In light of BVU’s 20th anniversary, several articles present a retrospective as well as insights into the profession from leading practitioners and thought leaders, including Shannon Pratt, the founding editor of BVU (see “BVU’s Editorial Board Reflects on the Valuation Profession” and also “Three Generations of Valuation Experts Share Their Views”).

An interesting interview was conducted with Pablo Fernandez (University of Navarra—IESE Business School, Spain). He is a widely published author, and he conducts a survey of market risk premiums and risk-free rates used in countries around the world. His paper, “CAPM: An Absurd Model,” created a stir in the business valuation community. Fernandez was interviewed by Michael Crain (Financial Valuation Group), a valuation practitioner who has done academic research, most recently on the size premium (see “BVU Profiles: More Common Sense—Less Theory and Models—Needed in Business Valuation”).

Attendance at the valuation conferences was up in 2015 from the prior year. BVU attended many of these events and provided recaps and some detailed coverage.

NACVA held its annual conference in New Orleans (see “Tax Affecting, Web Damages, Practice Building Highlight Annual NACVA Conference”) and the ASA’s annual event was in Las Vegas (see “Highlights From the 2015 ASA Advanced BV Conference”).

Business valuation professionals from all corners of the globe gathered in Atlanta for an event sponsored by the International Association of Consultants, Valuators and Analysts (IACVA). One of the fascinating sessions showcased practitioners from different countries who gave an overview of BV practice and the profession in their land (see “Snapshots of the Business Valuation Profession Around the World”). The New York State Society of CPAs (NYSSCPA) annual business valuation

conference covered some of the profession's hottest topics (see "S Corp Valuation, DLOM Rulings Highlight NYSSCPA BV Conference").

There has been the perception that the various valuation standards conflict with each other. One article reveals that they all are essentially addressing the same issues and do not conflict (see "Different BV Standards Have More in Common Than You Might Think").

The Appraisal Foundation issued the 2016-17 version of USPAP and held its third annual Business Valuation Roundtable. This event brought together business valuation leaders to discuss a number of topics and trends in the profession, especially regarding how to bring greater consistency to financial reporting, valuation standards, qualifications, and oversight (see "Recap of The Appraisal Foundation's Business Valuation Roundtable III").

*Section 5. Reviews of Data Sources and New Books.* Duff & Phelps released a vibrant new product, the *Valuation Handbook – Industry Cost of Capital*, as a companion to its *Valuation Handbook – Guide to Cost of Capital*. It's the second book in a series that replaces the discontinued material from Morningstar/Ibbotson (see "Book Review: *The 2014 Valuation Handbook – Industry Cost of Capital*"). A third book was also released, the *International Valuation Handbook – Guide to Cost of Capital*, which provides the same type of country-level cost of capital analyses previously published by Morningstar/Ibbotson. D&P also updated its Risk Premium Calculator, an online tool used to calculate the cost of equity capital (see "An In-Depth Review of the Duff & Phelps Risk Premium Calculator").

A new book that created quite a stir was released: *Taxes and Value: The Ongoing Research and Analysis Relating to the S Corporation Valuation Puzzle*, by Nancy J. Fannon (Meyers, Harrison & Pia LLC) and Keith Sellers (University of Denver). The new book reveals an abundance of research showing that shareholder-level taxes do indeed affect a firm's value. Until now, the IRS and the Tax Court have refuted this position, largely because data have never been presented to support it. This work should provide valuation professionals with the evidence they need to support their valuation conclusions. It also provides a suggestion for a new, more direct approach to pass-through entity valuation (see "New Book Is Major Advance in Thinking About S Corp Taxes and Value" and also "Book Review: Intriguing Premise: Adjust Cost of Capital for a Supportable PTE Valuation").

This book contains many more articles of interest than those mentioned here. BVR wishes to thank all of the valuation experts and thought leaders who contributed to the articles contained in this yearbook. *Business Valuation Update* looks forward to keeping its readers posted on developments during the coming year!

Sincerely,



Andrew Dzamba

Executive Editor

*Business Valuation Update*

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## About Business Valuation Resources

Every informed stakeholder in business valuation, performance benchmarking, or risk assessment turns to Business Valuation Resources (BVR) for authoritative deal and market data, news and research, training, and expert opinion. Trust BVR for unimpeachable business valuation intelligence. BVR's data, publications, and analysis have won in the boardroom and the courtroom for over two decades.

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- Pratt's Stats
- Public Stats
- BIZCOMPS
- Economic Outlook Update
- Factset Mergerstat/BVR Control Premium Study
- The FMV Restricted Stock Study
- Valuation Advisors Discount for Lack of Marketability Study
- ktMINE Royalty Rate Data & License Agreements
- First Research Industry, State & Province Profiles
- Butler Pinkerton Calculator – Total Cost of Equity and Public Company Specific Risk Calculator
- Mergerstat Review & Mergerstat Review Monthly
- Valuation Handbook Risk Premium Toolkit
- Valuation Handbook – Guide to Cost of Capital
- International Valuation Handbook – Guide to Cost of Capital
- Valuation Handbook – Industry Cost of Capital
- BizMiner Industry Financial Reports
- PitchBook Guideline Public Company Comps Tool

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