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Introduction

At one of last year's conferences, virtually everyone raised their hands when the question was asked: "Are valuations more difficult now than ever before?" Of course, this is due to the ongoing uncertainty, market volatility, inflation, and lingering effects of the pandemic. Practical guidance to help meet these challenges—as well as important developments in the business valuation profession—were covered through over 70 articles and hundreds of news items in *Business Valuation Update (BVU)*. Here are some highlights.

New ideas, approaches. Challenges related to performing valuations in the current environment were discussed in several articles, including one in which Professor Aswath Damodaran (New York University) gives his view of how to take inflation into account in private-company valuations.¹ Others include accounting for inflation in income statement forecasts and coronavirus updates for various industries.²

BVU encourages new ideas and thinking that challenges conventional wisdom, such as:

- Why the typical way analysts estimate long-term growth is wrong;³
- A market data approach to startup valuations;⁴
- Using the asset approach for going-concern valuations;⁵ and
- New automated solution for estimating passive appreciation in divorce matters.⁶

1 "Damodaran on How Inflation Plays Out in Company Valuations," *Business Valuation Update*, Vol. 28, No. 8, August 2022.

2 William Harris, ASA, CFA, "Accounting for Inflation in the Income Statement Forecast," *Business Valuation Update*, Vol. 28, No. 10, October 2022 and "Coronavirus Updates for 24 U.S. Industries," *Business Valuation Update*, Vol. 28, No. 6, June 2022.

3 "Typical Way to Estimate Long-Term Growth Is 'Flat Wrong,' Says Grabowski," *Business Valuation Update*, Vol. 28, No. 2, February 2022.

4 "A 'Radical' Market Data Approach to Startup Valuations," *Business Valuation Update*, Vol. 28, No. 4, April 2022.

5 "Why Analysts Should Consider the Asset Approach for Going Concerns," *Business Valuation Update*, Vol. 28, No. 7, July 2022.

6 "New Toolkit for Passive Appreciation Takes Shape," *Business Valuation Update*, Vol. 28, No. 6, June 2022.

Also of note was the release of a revised and simplified version of the nonmarketable investment company evaluation (NICE) method for estimating a discount for lack of marketability (DLOM). The method's developer, Will Frazier (Weaver), offered a user's guide and Excel template.⁷

Cost of capital. Inadvertently, BVR created somewhat of a stir when it presented a free webinar with Damodaran that focused on inflation, but he made some severe criticisms about certain inputs practitioners typically use for the cost of capital. His views are nothing new, and other academics have questioned cost of capital models and inputs, but his remarks and some strong rebuttals made their way into several articles, conference sessions, and webinars.⁸ Damodaran likes to throw some dynamite, and he certainly succeeded this time!

The new Pepperdine report was released, which presents the results of annual surveys of expected rates of return in the private capital markets. Some appraisers feel this is the most appropriate way to estimate small private-company cost of capital as opposed to looking to the public markets. One appraiser who uses the survey method (and has never been challenged) gave his views and provided sample report language.⁹

Specific inputs to the cost of capital were in the news in 2022. The debate on the size effect continues, with some ongoing research by Clifford Ang on the lack of a size effect.¹⁰ Also, a Twitter poll showed that about half of respondents believe there is either no size effect or a negative one.¹¹ A working group at The Appraisal Foundation is developing guidance on company-specific risk premia (CSRP). Also, some new thinking on customer concentration risk was presented at an ASA conference by Roger Grabowski (Kroll), who is part of the CSRP working group.¹²

Conferences. For those of you who couldn't attend as many conferences as you would have liked, you can catch up on key takeaways because conference coverage is one of the hallmarks of *BVU*. We covered many interesting sessions at events both large and small, including: the annual conferences of the ASA and NACVA, several state CPA society conferences (New York, New Jersey, and Virginia), ASA specialty conferences on fair value and ESOP valuations, and the AAML/BVR National Divorce Conference. These events bring thought leaders together to share new ideas and have some interesting and lively discussions—the most notable of which are covered in *BVU*.

Legal and regulatory. *BVU* periodically provides a rundown of updates and guidance recently issued or pending related to business valuation, fair value, and related topics.¹³ We do not know

7 "New Version of the NICE DLOM Method Now Freely Available," *Business Valuation Update*, Vol. 28, No. 2, February 2022.

8 "Hitchner v. Damodaran on Inputs to the Cost of Capital," *Business Valuation Update*, Vol. 28, No. 9, September 2022,

9 "Appraiser Uses Direct Way to Estimate Private-Company Cost of Equity," *Business Valuation Update*, Vol. 28, No. 3, March 2022.

10 "Ang Offers SSBV Members More Evidence of the Lack of a Size Effect," *Business Valuation Update*, Vol. 28, No. 11, November 2022.

11 "BV News and Trends," *Business Valuation Update*, Vol. 28, No. 6, June 2022.

12 "Estimating the Extra Risk of Customer Concentration," *Business Valuation Update*, Vol. 28, No. 11, November 2022.

13 "Roundup of Recent and Planned Updates to Valuation Standards and Guidance," *Business Valuation Update*, Vol. 28, No. 9, September 2022.

of a central repository for this type of information, so we hope this was helpful, and we will update it as necessary. One of the big developments was the Financial Accounting Standards Board (FASB) removing from its active agenda its project that was considering whether annual goodwill impairment tests should be done away with for public companies in favor of a new model that would include amortization.

Also, an important work in the area of healthcare regulations was released that covers the new definitions of fair market value in the revised regulations for the federal physician self-referral law (Stark Law). *BVU* ran an excerpt from the work, *The Complete Guide to Fair Market Value Under the Stark Regulations*, by Timothy Smith.¹⁴

An interesting court case from Delaware was examined in separate articles in the June issue by Gil Mathews and Jim Alerding.¹⁵

BV profession and practice management. Tributes and remembrances poured in about the late Shannon Pratt, who contributed more to the development of the business valuation profession than any single individual.¹⁶ He was the founder of Business Valuation Resources, LLC (BVR) and was the founding editor of this newsletter.

A major issue for the profession—attracting and retaining staff—was explored in several articles, including one that observed that there needs to be more awareness of the BV profession.¹⁷ In a notable conference session, young practitioners gave their perspectives on the profession that confirmed that they got into the profession by chance.¹⁸ Also, BVR conducted a first-ever survey (with the ASA and BV recruiting firm Borrowman Baker) of BV practitioners under the age of 40 to gain some insights and perspectives to help the profession better attract and develop the younger generation of practitioners.¹⁹

Data sources and books. A highlight of 2022 was the release of two major books, considered authoritative works in the profession. February saw the release of the sixth edition of Gary Trugman's *Understanding Business Valuation*, with over 1,000 pages of updated material, including an expanded section on personal goodwill and more material on report writing that includes tips on how to write good rebuttal reports.

Then, in April, the sixth edition of Shannon Pratt's *Valuing a Business* was released. The book, first published in 1981, was published with underwriting sponsored by the American Society

14 Timothy R. Smith, CPA/ABV, "Stark Law FMV: Precluded Reliance on Market Data From Business-Related Parties," *Business Valuation Update*, Vol. 28, No. 9, September 2022.

15 Gilbert E. Matthews, MBA, CFA, "Cellular Telephone: An Interesting Decision for Valuation Practitioners," and R. James Alerding, CPA/ABV, "Delaware Chancery Case on Shareholder Dissent Likely to Raise Eyebrows," *Business Valuation Update*, Vol. 28, No. 6, June 2022.

16 "Colleagues Pay Tribute to Shannon Pratt," *Business Valuation Update*, Vol. 28, No. 1, January 2022.

17 David Foster, "Business Valuation Needs to Be a Recognized Career Path," *Business Valuation Update*, Vol. 28, No. 4, April 2022.

18 "Young BV Practitioners Speak Out About the Profession," *Business Valuation Update*, Vol. 28, No. 10, October 2022.

19 "Good News in New BVR Survey of Young ASA BV Experts," *Business Valuation Update*, Vol. 28, No. 12, December 2022.

of Appraisers Educational Foundation. After Pratt passed away, the ASA assembled a group of contributors to bring the book up-to-date and maintain Pratt's legacy for the valuation profession.

Reviews of both books appeared in the March 2022 issue of *BVU*.

These books complement each other in that the Pratt book gives you a good dose of valuation concepts and theory, while the Trugman book shows you how to apply the theory with practical examples from actual engagements and sample valuation reports, written in an easy-to-understand style.

These are just a few of the developments in the BV profession we covered in 2022, so we encourage you to flip back through the pages of *BVU* for much more. Plus, we would like to thank our readers and contributors, and we look forward to an exciting 2023!



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