

EXCERPT

Business Valuation Update

YEARBOOK

2024



Timely news, analysis, and resources for defensible valuations.

Business Valuation Update **Yearbook 2024**



111 SW Columbia Street, Suite 750, Portland, OR 97201
(503) 479-8200 • www.bvresources.com



Copyright © 2024 by Business Valuation Resources, LLC (BVR). All rights reserved.
Printed in the United States of America.

No part of this publication may be reprinted, reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning or otherwise, except as permitted under Sections 107 or 108 of the 1976 United States Copyright Act, without either the prior written permission of the Publisher or authorization through payment of the appropriate per copy fee to the Publisher. Requests for permission should be addressed to the Permissions Department, Business Valuation Resources, LLC, 111 SW Columbia Street, Suite 750, Portland, OR 97201; (503) 479-8200; fax (503) 291-7955; permissions@bvresources.com.

Information contained in this book has been obtained by Business Valuation Resources from sources believed to be reliable. However, neither Business Valuation Resources nor its authors guarantee the accuracy or completeness of any information published herein and neither Business Valuation Resources nor its authors shall be responsible for any errors, omissions, or damages arising out of use of this information. This work is published with the understanding that Business Valuation Resources and its authors are supplying information but are not attempting to render business valuation or other professional services. If such services are required, the assistance of an appropriate professional should be sought.

Executive Editor: Andrew Dzamba

Managing Editor: Monique Nijhout-Rowe

Senior Copy Editor: David Solomon

Chair and CEO: David Foster

President: Lucretia Lyons

Chief Revenue Officer: Lisa McInturff

Print ISBN: 978-1-62150-268-5

PDF ISBN: 978-1-62150-269-2

Print ISSN: 2380-9361

PDF ISSN: 2689-9701

Table of Contents

INTRODUCTION	9
SECTION I. BUSINESS VALUATION APPROACHES, METHODS, AND ENTITY-SPECIFIC ISSUES	15
HOW TO USE THE LATEST DLOM STUDY FOR THE JOHNSON/PARK EMPIRICAL METHOD....	17
NEW RESEARCH STRENGTHENS SUPPORT FOR THE THREE-STAGE DCF.....	20
THE VALUATION OF SPECIAL SHARE CLASSES IN THE UNITED KINGDOM	23
NEW 'COURT CASES METHOD' FOR DLOM POINTS UP A CONUNDRUM	28
A MODEL FOR FORECASTING A MULTIPLE-LOCATION, GROWING BUSINESS	30
SIMPLE IDEA TO HELP BUSINESS SELLERS GET ALL THEY DESERVE.....	39
NICE DLOM METHOD FOR FLPS GETS PEER REVIEWED	41
ADJUSTING THE P&L FOR A CANNABIS DISPENSARY VALUATION	43
A LOOK BACK: INCLUDING ESG IN VALUATION MODELS	50
KICK-STARTING A CPT REVENUE ANALYSIS FOR A PHYSICIAN PRACTICE	52
By Mark O. Dietrich, CPA/ABV	
ALERDING GIVES SOME INSIGHTS INTO AI AND BV	69
IT'S ABOUT TIME: WEBB ON FRACTIONAL INTERESTS IN REAL ESTATE	73
VALUERS RUN THE RISK OF MISMATCHING INFLATION ASSUMPTIONS	75
DAMODARAN CONTINUES HIS EXPLOSIVE REMARKS ABOUT ESG	77
A GOOD EXAMPLE OF A POWERFUL VISUAL FOR A VALUATION REPORT.....	79
HOW TO ADDRESS MARKET EFFICIENCY FOR APPRAISAL HEARINGS	81
THE 2023 CANNABIS RESET: A REDUX OF 2019?	85
By Ron Seigneur and Ryan Cram, Seigneur Gustafson LLP (Lakewood, Colo.)	
DETERMINING WORKING CAPITAL ADJUSTMENTS USING A BARDAHL ANALYSIS.....	92
DO FAIRNESS OPINIONS ADEQUATELY ADDRESS FAIRNESS TO SHAREHOLDERS?.....	95
By Gilbert E. Matthews, CFA, Sutter Securities, Inc. (San Francisco, Calif., USA)	
HEAT MAPS FOR VALUING VENTURE-BACKED VS. CLOSELY HELD FIRMS	101

VALUERS SUGGEST ENHANCEMENTS TO AI-POWERED PDF-TO-EXCEL TOOL.....	105
NEW RESEARCH FINDS THAT INDUSTRIES HAVE DIFFERENT GROWTH RATES.....	108
CPT® CODES DRIVE COMPENSATION, BUSINESS VALUATION, AND REGULATORY COMPLIANCE IN HEALTHCARE	110
By Mark O. Dietrich, CPA	
BRIGHT FUTURE FOR AUTOMATED VALUATION MODELS—BUT TAKE CAUTION	119
DIFFERENCES IN COMMERCIAL INSURER PAY RATES DOMINATE HEALTHCARE VALUATION (UNLESS YOU’RE RELYING ON SURVEYS)	123
By Mark O. Dietrich, CPA	
SECTION II. COST OF CAPITAL.....	133
FEEDBACK WANTED ON NEW MODEL FOR SMALL FIRM RISK	135
PRIVATE COST OF EQUITY UP, PER 2023 PEPPERDINE REPORT.....	137
PRACTICAL CONSIDERATIONS IN NORMALIZING THE RISK-FREE RATE.....	139
By Ronald D. DiMattia, Corporate Value Partners Inc. (Cleveland, Ohio, USA)	
HITCHNER UPDATES THE RISK/RETURN SPECTRUM FOR COST OF CAPITAL	143
SECTION III. BUSINESS VALUATION CONFERENCE COVERAGE	145
RECAP OF THE BIGGEST BV EVENT OF 2022—THE AICPA FVS CONFERENCE	147
COE ESTIMATES FROM LEADING DATA SETS ARE ALL ‘VERY CLOSE’	153
TAKEAWAYS FROM THE RECORD-BREAKING ASA NEW YORK FAIR VALUE CONFERENCE ...	155
FAIR VALUE, STATUTORY APPRAISALS, CRYPTO, ESG, PE DEALS, AND MORE AT THE NYSSCPA BV CONFERENCE.....	159
TAKEAWAYS FROM ASA’S ESOP VIRTUAL CONFERENCE	167
CANADA VS. U.S. VALUATIONS: CBV INSTITUTE CONFERENCE REVEALS SOME NUANCES .	171
10 SHORT TAKES FROM NACVA’S JULY SUPER CONFERENCE	175
KEY POINTS FROM THE VSCPA FORENSIC AND VALUATION CONFERENCE.....	178
WHAT TO KNOW FROM THE 2023 ASA INTERNATIONAL CONFERENCE	184

SECTION IV. LEGAL, REGULATORY, STANDARDS	189
BVLAW REVIEW: THE TOP VALUATION CASES OF 2022.	191
THE WALSH V. PRESTON ESOP CASE—IS IT A VICTORY OR AN ESCAPE?	200
<i>By R. James Alerding, CPA/ABV, Alerding Consulting LLC (Noblesville, Indiana, USA)</i>	
WHAT WOULD A HYPOTHETICAL WILLING SELLER DO? A COMPLICATED CASE—A CONFOUNDING DECISION IN IDAHO	202
<i>By Peter J. Butler, Valtrend (Eagle, Idaho, USA)</i>	
ONE OF MY FAVORITE COURT CASES REVEALS WHAT MAKES A GUIDELINE COMPANY —IT’S A CLASSIC	215
<i>By Gary Trugman, CPA/ABV, FASA, MVS, Trugman Valuation (Parkland, Fla., USA)</i>	
CMS CONFIRMS THAT IT’S OUT OF THE FMV BUSINESS	219
BVLAW: A LOOK BEHIND THE CURTAIN.	221
<i>By R. James “Jim” Alerding, CPA/ABV, and Monique Nijhout-Rowe</i>	
VALUATION IMPLICATIONS OF THE CHANGING ESOP LITIGATION LANDSCAPE	226
VALUATION MATTERS HIGHLIGHTED IN THE ESTATE OF CECIL	229
<i>By Rajesh Khairajani and Kinjal Shah, KNAV (Toronto, Ontario, Canada)</i>	
THE CEIV IS GONE BUT THE MPF WILL ENDURE—HERE’S AN EXAMPLE.	232
A BEHIND-THE-SCENES LOOK AT THE CECIL CASE MAY SURPRISE YOU	235
TIME TO ENGAGE OVER UPCOMING ESOP VALUATION RULES	237
SECTION V. BUSINESS VALUATION PROFESSION AND PRACTICE MANAGEMENT	239
BV YEAR IN REVIEW 2022: ONGOING CHALLENGES	241
AN INSIDE LOOK AT THE STOUT ACQUISITION OF VANTAGE POINT.	245
BVR SURVEY REVEALS CAREER OBSTACLES OF YOUNG BV PRACTITIONERS.	248
MORE INSIGHTS FROM YOUNG BVERS ABOUT THE PROFESSION.	250
CONSIDERATIONS WHEN ADDING LITIGATION SERVICES TO A VALUATION PRACTICE.	254
VALUATION EXPERT GETS CAUGHT UP IN A PLAGIARISM NIGHTMARE.	256
HOW ONE BV PRACTICE HELPS TRAIN ITS YOUNG PROFESSIONALS.	258
BVR TO IDENTIFY TOP-PERFORMING BV FIRMS AND PRACTICES	261
NEW VALUATION CREDENTIAL SET TO LAUNCH FOR HEALTHCARE COMPENSATION EXPERTS	263

VALUERS ARE NOW SPENDING MORE TIME 'ON EVERYTHING'	265
BV FIRM BILLING RATES SHOT UP IN 2022	268
ASA LOOKS 'BEYOND' VALUATION TO HOW TO BUILD AN APPRAISAL CAREER	270
SPECIALIZATION IS THE KEY TO APPRAISAL CAREER SUCCESS	274
MERCER UPDATES HIS STATE-OF-THE-BV-PROFESSION ANALYSIS	277
NEXT-GEN BV PRACTITIONERS REVEAL WAYS TO KEEP THEM ON BOARD	280
STUDENT BUSINESS VALUATION CHALLENGE MAY BE RESURRECTED	283
SECTION VI. REVIEWS OF DATA SOURCES AND NEW BOOKS	285
TOM WEST'S LEGACY TO APPRAISERS: THE <i>BUSINESS REFERENCE GUIDE</i>	287
NEW DAMAGES GUIDE EXAMINES CRYPTO LANDSCAPE.....	289
NEW COUNTRY RISK DATA UPDATE REMINDS VALUERS OF FACTORS TO CONSIDER.....	293
INDUSTRY UPDATES FOR FIRMS MOST IMPACTED BY THE LABOR SHORTAGE.....	295
DAMAGES GUIDE EDITORS OFFER INSIGHTS AND ADVICE TO VALUERS	301
NEW BOOK OFFERS TEMPLATE FOR ASSESSING ESG IMPACT ON FIRM VALUE	304
UPDATE ON CURRENT INPUTS FOR VALUATIONS AMID HIGH INFLATION.....	308
SECTION VII. U.S. AND GLOBAL BVU NEWS AND TRENDS ROUNDUP	311
JANUARY 2023 U.S. AND GLOBAL NEWS AND TRENDS.....	313
FEBRUARY 2023 U.S. AND GLOBAL NEWS AND TRENDS.....	321
MARCH 2023 U.S. AND GLOBAL NEWS AND TRENDS	328
APRIL 2023 U.S. AND GLOBAL NEWS AND TRENDS.....	334
MAY 2023 U.S. AND GLOBAL NEWS AND TRENDS	340
JUNE 2023 U.S. AND GLOBAL NEWS AND TRENDS	348
JULY 2023 U.S. AND GLOBAL NEWS AND TRENDS	358
AUGUST 2023 U.S. AND GLOBAL NEWS AND TRENDS	364
SEPTEMBER 2023 U.S. AND GLOBAL NEWS AND TRENDS	369
OCTOBER 2023 U.S. AND GLOBAL NEWS AND TRENDS.....	375

NOVEMBER 2023 U.S. AND GLOBAL NEWS AND TRENDS 382

DECEMBER 2023 U.S. AND GLOBAL NEWS AND TRENDS 390

SECTION VIII. DATA 397

MONTHLY COST OF CAPITAL DATA 399

Introduction

The business valuation profession continued to thrive in 2023 amid ongoing challenges, such as how to reflect uncertainty, inflation, and market volatility in valuations. There was also a lot of noise surrounding trendy acronyms such as ESG and AI, phenomena that are really nothing new. But another issue loomed large in the profession: attracting and retaining new young talent.

Practical guidance to help with these matters—as well as important developments in valuation practice—were covered through over 70 articles and hundreds of news items in *Business Valuation Update (BVU)*. Here are some highlights.

Busy, busy. In our travels, many valuation practitioners told us they were busier than ever during 2023, which seemed to be contrary to some industry observers. For example, IBISWorld projected the business valuation industry to just “creep upward at a CAGR of 0.3%” from 2023 to 2028. We think the IBISWorld report contains some questionable material, so we agree with the more bullish forecast of Chris Mercer (Mercer Capital), who did a “state of the profession” update as a keynote presentation at the July NACVA conference.

Mercer observed that demand for valuation services will come primarily from three factors: (1) regulatory (increased oversight by the SEC and IRS); (2) demographics (retiring business owners will transition out of their firms); and (3) what he refers to as “integrated advisory services,” meaning other services related to valuation (such as services to boards of directors, transaction support, quality of earnings, buy-sell agreements, and more). We covered his presentation, in which he also addressed the current number of credentialed professionals, the aging of the profession, how the valuation professional organizations (VPOs) are adapting, and more.¹

New blood. In several articles in 2022, we noted that the business valuation profession is not widely recognized as a career path and that most individuals get into it by happenstance. During 2023, all three valuation professional organizations (VPOs) addressed this looming crisis. For example, an AICPA podcast talked about the “perfect storm” in the profession, meaning the exit of the older

Editor's note: All footnoted articles in this introduction are included in this yearbook.

1 “Mercer Updates His State-of-the-BV-Profession Analysis,” *Business Valuation Update*, Vol. 29, No. 9, September 2023.

generation (the “silver tsunami”) and post-pandemic labor trends.² All the VPOs stepped up their efforts to attract young people, particularly at the college level. For example, the ASA started a PR program to increase awareness and offers free membership to students, urging existing members to visit their alma maters to promote the profession.³

Recruiting is one thing, but retaining new professionals is another. Fortunately, a dialogue has begun between the profession and its younger members to understand their needs and wants. For example, BVR and the BV recruiting firm Borrowman Baker did a survey of ASA members under 40 years of age about the obstacles they see as hindering their career development, the main one being not having the chance to develop their own clients.⁴ NACVA presented a Young Valuation Analysts Panel session at its July conference that also gave some very useful insights.⁵

Soft skills are also needed, and the ASA responded by hosting a first-of-its-kind conference designed for valuation professionals who need to develop their careers.⁶ The AICPA is developing an “emerging professionals project” in its forensic and valuation services practice area that will address the development of soft skills, as well as a “champions” program to mentor young practitioners through their early years.

All of these efforts are on the right track, and we look forward to following their progress.

Latest thinking. *BVU* regularly covers new ideas and thinking that challenge conventional wisdom or seek to advance the practice of valuation. A few highlights during 2023 include:

- New research on growth that supports the use of a three-stage DCF;⁷
- A new model for assessing small firm risk;⁸
- Repurposing a time-tested technique to address market efficiency for statutory appraisal matters;⁹
- How fairness opinions can be unfair to public shareholders;¹⁰ and
- Emerging research challenges the practice of using the same growth rate for all industries.¹¹

2 “Borrowman Gives BV Recruiting Insights on AICPA Podcast,” *BVWire*, Issue #249-3, June 21, 2023.

3 “What to Know From the 2023 ASA International Conference,” *Business Valuation Update*, Vol. 29, No. 12, December 2023.

4 “BVR Survey Reveals Career Obstacles of Young BV Practitioners,” *Business Valuation Update*, Vol. 29, No. 1, January 2023.

5 “Next-Gen BV Practitioners Reveal Ways to Keep Them on Board,” *Business Valuation Update*, Vol. 29, No. 9, September 2023.

6 “ASA Looks ‘Beyond’ Valuation to How to Build an Appraisal Career,” *Business Valuation Update*, Vol. 29, No. 8, August 2023.

7 “New Research Strengthens Support for the Three-Stage DCF,” *Business Valuation Update*, Vol. 29, No. 2, February 2023.

8 “Feedback Wanted on New Model for Small Firm Risk,” *Business Valuation Update*, Vol. 29, No. 4, April 2023.

9 “How to Address Market Efficiency for Appraisal Hearings,” *Business Valuation Update*, Vol. 29, No. 9, September 2023.

10 Gilbert E. Matthews, MBA, CFA, “Do Fairness Opinions Adequately Address Fairness to Shareholders?” *Business Valuation Update*, Vol. 29, No. 10, October 2023.

11 “New Research Finds That Industries Have Different Growth Rates,” *Business Valuation Update*, Vol. 29, No. 11, November 2023.

Also of note was the peer-reviewing of the nonmarketable investment company evaluation (NICE) method, developed by Will Frazier (Weaver), for estimating a discount for lack of marketability (DLOM).¹²

Ubiquitous acronyms. You can't turn around today without encountering the topics of environmental, social, and governance (ESG) and artificial intelligence (AI), which essentially are nothing new. Similar phenomena have come along before, such as environmental concerns that triggered Earth Day in 1970 and how the birth of the personal computer and internet in the 1980s would change life itself. Back then, valuation analysts were factoring in the impacts from these new trends.¹³

These types of developments will continue to affect businesses, but all the noise lately can easily be distracting. When this happens, it is best simply to go back to basics. We agree with Professor Aswath Damodaran (New York University Stern School of Business), who uses what he calls the "IT" proposition. That is, for "it" to have an effect on value, it must have an impact on the fundamental inputs to valuation: cash flow, margins, cost of equity/debt, growth, and risk. He uses this proposition to assess everything from intangibles to inflation to ESG (of which he is a severe critic).¹⁴

Speaking of ESG, the thinking is evolving about how to incorporate its elements into business valuations, such as a framework for assessing ESG impacts.¹⁵ Also, studies are emerging that examine the possible connection between ESG ratings (which have their own criticisms) and investor returns.¹⁶

On the AI front, a *BVU* article on AI and business valuation advises analysts to ask members of their subject company's management as many questions as possible about the impact of AI on their business both currently and in the future. When cash-flow impacts cannot be determined, the analyst is left to assess the impact on the denominator of the valuation equation. The needle on the company-specific risk factor may need to be moved depending on the analyst's findings.¹⁷

From the perspective of the BV firm, AI-powered automation tools and models will play a more important role going forward, despite any resistance to this technology. The profession should not stick its head in the sand but rather adapt to them—but at a cautionary pace.¹⁸

Conferences. One of the hallmarks of *BVU* is the on-the-ground coverage of business valuation conferences, both large and small. Key takeaways are presented, and expanded coverage is given to important sessions or topics. In 2023, here are some of the events we covered:

- AICPA & CIMA Forensic and Valuation Services (FVS) Conference 2022;

12 "NICE DLOM Method for FLPs Gets Peer Reviewed," *Business Valuation Update*, Vol. 29, No. 3, March 2023.

13 "A Look Back: Including ESG in Valuation Models," *Business Valuation Update*, Vol. 29, No. 4, April 2023.

14 "Damodaran Continues His Explosive Remarks About ESG," *Business Valuation Update*, Vol. 29, No. 6, June 2023.

15 "New Book Offers Template for Assessing ESG Impact on Firm Value," *Business Valuation Update*, Vol. 29, No. 10, October 2023.

16 "Firms With Better ESG Ratings Yield Higher Returns, per Kroll Study," *BVWire*, Issue #252-2, Sept. 20, 2023.

17 "Alerding Gives Some Insights Into AI and BV," *Business Valuation Update*, Vol. 29, No. 5, May 2023.

18 "Bright Future for Automated Valuation Models—But Take Caution," *Business Valuation Update*, Vol. 29, No. 12, December 2023.

- ASA Spring 2023 Fair Value Conference;
- New York State Society of CPAs Business Valuation and Litigation Services Conference;
- Global Town Hall: State of the Global Markets and Their Effect on Business Valuation;
- ASA's 2023 ESOP Virtual Conference;
- 2023 Beyond Valuation—Professional Development and Growth Conference (ASA);
- CBV Connect 2023 (CBV Institute, Canada);
- NACVA Business Valuation & Financial Litigation Super Conference (July);
- Virginia State Society of CPAs Forensic and Valuation Conference;
- 2023 American Society of Appraisers International Conference; and
- ASA's 2023 Litigation in Valuation Conference.

The year 2024 will bring more exciting events to cover—one we're eyeing is an ASA conference on AI and valuation, which is scheduled for the spring.

Potpourri. *BVU* covers any topic or matter that is interesting and helpful from a practical standpoint. For example:

- What went on behind the scenes of a BV firm merger;¹⁹
- Discount rate estimates from Kroll, BVR, and Pepperdine are all alike;²⁰
- How to avoid the plagiarism trap for valuation reports;²¹
- Emerging thinking on crypto-related damages;²²
- How to do a margin analysis of a cannabis dispensary;²³
- Government regulator cedes to the valuation profession on healthcare FMV;²⁴
- Fingertip guide to valuing venture-backed versus closely held firms;²⁵ and

19 "An Inside Look at the Stout Acquisition of Vantage Point," *Business Valuation Update*, Vol. 29, No. 1, January 2023.

20 "COE Estimates From Leading Data Sets Are All 'Very Close,'" *Business Valuation Update*, Vol. 29, No. 2, February 2023.

21 "Valuation Expert Gets Caught Up in a Plagiarism Nightmare," *Business Valuation Update*, Vol. 29, No. 3, March 2023.

22 "New Damages Guide Examines Crypto Landscape," *Business Valuation Update*, Vol. 29, No. 4, April 2023.

23 "Adjusting the P&L for a Cannabis Dispensary Valuation," *Business Valuation Update*, Vol. 29, No. 4, April 2023.

24 "CMS Confirms That It's Out of the FMV Business," *Business Valuation Update*, Vol. 29, No. 7, July 2023.

25 "Heat Maps for Valuing Venture-Backed vs. Closely Held Firms," *Business Valuation Update*, Vol. 29, No. 10, October 2023.

- A good tool for checking the reasonableness of your cost of capital estimate.²⁶

These are just some of the topics and developments in the BV profession we covered in 2023, and *BVU* back issues will have much more (all 2023 issues are included in this yearbook). We would like to thank our readers and contributors, and we look forward to an exciting 2024! ♦

²⁶ "Hitchner Updates the Risk/Return Spectrum for Cost of Capital," *Business Valuation Update*, Vol. 29, No. 11, November 2023.



Get the most current and comprehensive valuation data & research available with BVR's suite of 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. Rely on BVR for the most trusted business valuation intelligence. BVR's data, publications, and analysis have won in the boardroom and the courtroom for over two decades.



Deal & Market Data

Get the most detailed data on the market, used by business appraisers, business brokers, investment bankers, and more.

- Private & Public Transaction Data
- Cost of Capital Data
- Discounts & Premiums
- Economic & Industry Research



News & Research

Access the most timely content you need to stay current with developments in the valuation profession.

- Professional News
- Case Law
- Valuation Research
- Books, guides & reports
- Blogs
- Ezines



Training & CPE

Earn CPE credits from anywhere with BVR's training programs featuring top thought leaders.

- Webinars
- Workshops
- eLearning
- Self-study
- Live Events

Learn more about all of our offerings at:
bvresources.com

Contact us at:
503-479-8200
info@bvresources.com