MERCER CAPITAL

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Charting the Course of the *Build Back Better* Bill

By this Thanksgiving, Congress hopes to pass two of the largest bills in American history, the $1 trillion infrastructure bill (which was signed into law by President Biden on November 15th) along with a $1.75 trillion *Build Back Better* bill. While the infrastructure bill made it through Congress with minimal tax hikes, the passing of the larger reconciliation bill may still create sweeping changes to American tax policy, specific to high-net-worth individuals.

Over the past several months, numerous tax code changes have been proposed to fund the two bills, and concessions have whittled away some of the more drastic proposals that made headlines back in the Spring of 2021. In this article, we look to address what policies are still on the table, which are most likely to pass, and what the implications for their passing might be.

The Unfolding of Biden's Economic Agenda

On March 31, 2021, the Biden administration proposed *The American Jobs Plan* which outlined $1.7 trillion in infrastructure investment targeting a number of projects such as public drinking water, renewed electric grid, high-speed broadband, housing, educational facilities, veteran hospitals, and job training programs among various other projects.

The *Made in America Tax Plan* was proposed simultaneously with the *American Jobs Plan* as a source of funding. The plan enumerated on several proposed increases to individual and corporate tax rates as well as various other reforms. Some of which have found their way into current legislative efforts.

On April 28, 2021, President Biden proposed an additional spending plan, *The American Families Plan*, targeting "social infrastructural" works such as universal pre-school, universal two-year community college and postsecondary education (since dropped), childcare, paid leave (also has been dropped), nutrition, unemployment insurance, as well as various tax cuts to low-income workers. The Plan also outlined extensive tax reform directly targeting high income earners: setting capital gains and dividend taxes equal to taxes on wages and increasing tax rates on the top tax bracket from 37% to 39.6%. The sticker price of the *American Families Plan* was set at $1.8 trillion, with $1 trillion in direct government investment and the remainder in tax breaks.

On May 28, 2021, the Biden Administration further elaborated on his economic agenda in the unveiling of the 2022 fiscal budget plan to Congress alongside the Treasury Department "Green Book."

On August 10, 2021, the Senate approved the $1.2 trillion infrastructure bill with bipartisan support after months of debate. The bill includes many of the hard infrastructure objectives outlined in Biden's *American Jobs Plan.* On the same day, a 100-member Congressional Progressive Caucus declared that it would refuse to vote for the bill before the larger reconciliation bill was passed in the Senate, despite overwhelming popularity of the infrastructure bill in Congress and in polling. In prioritizing Biden's "soft infrastructure proposals" as specified in the reconciliation bill, Progressives effectively tied the fate of both the infrastructure and reconciliation bill in ongoing negotiations.

On August 24, 2021, the House Democrats approved a $3.5 trillion budget resolution which set in motion the reconciliation process by which Democrats could potentially sign the budget into law, requiring only a majority approval while circumventing an inevitable filibuster from Republicans in the Senate. The same measures were taken by the Republican Party with the passing of the *American Tax Cuts and Jobs Act* in 2017. Support from all 50 Democratic Senators and all but a handful of House Democrats would be needed to pass the legislation as objections from Republicans are widely expected. The budget resolution has since been negotiated down to a $1.9 trillion dollar package.

On September 12, 2021, the House and Ways Committee released a revised draft of the tax changes proposed as part of the budget reconciliation bill. Specific tax increases largely targeted trusts and estates and carried significant implications for gift and estate tax planning.

On September 27, 2021, under pressure from both moderates and progressives, Speaker of the House, Nancy Pelosi originally scheduled the House vote for the infrastructure bill for September 27th. But without the passing of the budget resolution bill, and therefore the support of Progressives, Nancy Pelosi postponed the House vote to extend negotiations. In doing so, ongoing government funding was jeopardized without a fiscal 2022 budget and government debt neared the self-imposed debt ceiling.

On September 30, 2021, the last day of the federal calendar, Congress narrowly avoided a government shut down by passing a temporary package funding the government through December 3, 2021 while the House suspended the debt ceiling through December 2022. The increase in the debt ceiling is widely expected to be rejected by Senate Republicans.

On October 21, 2021, *The New York Times* reported, Arizona Senator Krysten Sinema, would refuse to vote to support any increases in corporate or individual tax rates. The opposition came as a surprise to many and left the Democratic party scrambling to secure funding for the *Build Back Better* Bill from other avenues.

On October 28, 2021, President Biden unveiled a $1.75 trillion framework for the *Build Back Better* social spending bill, a draft of the legislation quickly followed. The announcement was released moments before Mr. Biden departed for Rome followed by Glasgow for the 2021 United Nations Climate Change Conference.

On November 8, 2021, the infrastructure bill passed in the House with bipartisan support. Passage of the $1 trillion bill came after months of debate among members of the Democratic party looking to pass the *Build Back Better* bill before sending the infrastructure bill to a vote.

On November 15, 2021, the $1 trillion infrastructure bill was signed into law by President Biden.

Proposals, Negotiations, Amendments, and More Proposals

Biden's historically ambitious proposals made earlier in the year have since been trimmed by months of negotiations with more conservative members of the Democratic party. Most notably Joe Manchin of West Virginia and Krysten Sinema of Arizona have criticized the size of the bill, the tax hikes required for funding the bill, and the speed and process by which the party hopes to pass such landmark legislation. In efforts to gain the support of these two senators, and thereby achieve the unanimous support needed for the reconciliation, Democratic leaders have floated numerous tax proposals in recent months to fund the bill.

While many of the tax change proposals outlined in the House and Ways Committee draft for the reconciliation bill were not included in the most recent framework published by the Biden Administration on October 29, 2021, many believe the policies outlined in mid-September may still be in play as negotiations continue amongst the conservative and progressive members of Congress. It is widely believed that the intent behind some of the initial funding proposals outlined by the Biden administration and later incorporated in the House and Ways Committee draft were beyond economics and were intended to combat "wealth inequality" and disparities in effective corporate tax rates.

As reported in an article from **CNBC**, none of the three major holdouts, Joe Manchin, Krysten Sinema, or Bernie Sanders, have committed to supporting the framework as it stands. As many of the initial social spending policies have been cut, including most recently the federal paid family and medical leave proposal, uncertainty remains surrounding the scope of the bill and the funding it will require.

Tax changes proposed in the House and Ways Committee draft were numerous, albeit less drastic than those considered earlier in the year. A comprehensive summary of the funding provisions can be found **here**. Key tax reforms specific to closely held businesses include the following:

- A reduction in the estate and gift tax exemption effectively reducing the exemption from $11.7 million to $6.0 million per individual.
- A change in the tax status of grantor trusts. Grantor trusts would be included in the grantor's taxable estate, and transactions between grantor and a grantor trust would be subject to income tax.
- Discounts for lack of control and marketability would be disallowed for gifts of entities holding non-business assets such as asset holding entities.
- An increase in the individual income tax for the top tax bracket from 37% to 39.6%, essentially reversing tax reductions established in the *2017 Tax Cuts and Jobs Act,* also passed via reconciliation process
- An increase in the maximum long term capital gains rate to 25% from the current rate of 20%. The effective date was set at September 13, 2021.
- Elimination of exemptions to the net investment income tax for active participants in the business, which applies a 3.8% tax to a taxpayer's net investment income when adjusted gross income exceeds a certain threshold. Currently, income earned from active participants in the business is exempt.
- Limitations on the qualified business income deduction (QBID). The deduction would be subject to a cap once qualified business income exceeds $2.5 million for married couples filing jointly, $2.0 million for single filers, $1.3 million for married taxpayers filing separately, and $50.0 thousand for trusts and estates.
- Reimplementation of the graduated corporate income tax rate structure. In 2017, the *Tax Cuts and Jobs Act* established a flat rate of 21%. The proposal would restore the graduated rate structure:
  - < $400 thousand : 18%
  - $400 thousand - $5 million : 21% (the current rate)
  - > $5 million : 26.5%

What Made It Into the Biden Framework for the *Build Back Better* Bill?

Because of recent opposition from conservative members of Congress, many of the proposed tax reforms recommended in the House and Ways Committee draft back in September were not included in Biden's *Build Back Better* framework issued October 28. Funding proposals for the *Build Back Better* bill issued in Biden's most recent draft included the following:

- A 15% minimum tax on corporations based on 15% of adjusted financial statement (book) income rather than recognized income. The tax increase was proposed as an alternative to propositions made earlier in the year to increase the corporate tax rate to 28%.

- A 1% surcharge on corporate stock buybacks.
- A separate 15% global minimum tax on corporate profits earned abroad along with a penalty rate for foreign corporations based in non-compliant countries. The proposal comes after the U.S. led negotiations earlier in the year among G20 leaders in adopting a minimum 15% corporate tax rate along with other restrictive reforms.
- New surtax on multi-millionaires and billionaires.
- Close Medicare self-employment tax loophole.
- Continue limitation on excess business losses.

The new surtax on multi-millionaires and billionaires is intended to replace numerous other proposals to tax high income individuals such as: a rate increase to the top tax bracket, taxing unrealized gains annually, a wealth tax, taxing unrealized capital gains at death, and ending the practice of stepped-up in basis. The surtax is set to add an additional 5% tax on income exceeding $10 million and an additional 3% tax on income exceeding $25 million. While perhaps not too different than levying additional income taxes, the surtax was agreed upon after Krysten Sinema refused to support increases to income tax rates on high earners.

While the most recent draft still targets high income individuals and corporations, most of the significant tax changes have been avoided for now. Avenues for gift and estate planning and taxes related to closely held businesses were largely spared in the recent proposal. For now, it appears that there will be no changes made to the step-up in basis, reduction in estate and gift taxes, the application of marketability and control discounts, income tax rates on the top tax bracket, capital gains tax rates, or changes in the qualified business income deductions.

Forward Looking Expectations

Much like the Infrastructure bill, which gained bipartisan support via not drastically changing the tax code, the *Build Back Better* bill may make it to the final yard line without incorporating the vast majority of major tax changes proposed earlier in the year or during the negotiations in recent months. The outline and proposals set forth represent the closest framework for consensus among the Democratic party, and tax proposals put forth have been forged by nearly a year of debate among party members. However, in no way is the recent draft set forth by President Biden final.

Much uncertainty still remains regarding the draft's support from the party's more progressive and conservative members. If the recent months have taught us anything, with a bill this large, funding measures are liable to shift upon further negotiations. Regardless, many expect the bill to be put to a vote within weeks.

Mercer Capital will continue to monitor any changes to the tax code and report on how they may affect our clients. In the meantime, to discuss a valuation need in confidence, please don't hesitate to contact us.

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A (Not So) Bold Prediction

The Rise of Non-Family Equity Capital in Family Businesses

Excerpted from Mercer Capital's *Family Business Director Blog*

The rise of the family office has been one of the most significant themes in family enterprise over the last decade. Looking forward, we believe that the number of family businesses raising non-family equity capital will grow dramatically in coming years.

We don't think we are going too far out on a limb with this prediction. In this article, we take a quick look at the growing supply of capital seeking minority investments in family businesses, the sources of growing demand from family businesses for such investment capital, and how directors can best position their family businesses to thrive.

Growing Supply

With an abundance of dry powder to invest, private equity firms are increasingly willing to acquire **non-controlling** stakes in family businesses. Governance and exit mechanisms vary, but more and more PE investors are willing to ride in the passenger's seat rather than the driver's seat.

Family offices also represent a growing source of capital for family businesses. Following the old investment adage of "invest in what you know," some enterprising families seek to diversify their portfolios by acquiring **minority stakes** in other family businesses.

Finally, in a **previous article,** we commented on Amazon's strategy in acquiring equity warrants for minority investments in suppliers. While we focused on the issue of customer concentration in that post, it is also an example of strategically motivated capital available to family businesses.

Growing Demand?

But will there be demand for the supply of non-family equity capital? For decades, many families have perceived a stigma to using non-family equity capital. What factors could cause that stigma to fade?

We sense an increasing willingness to consider using non-family equity capital in our discussions with clients. This inclination seems to be especially pronounced among shareholders in the third and subsequent generations. Among those members of the family, we find more of a tendency to evaluate risk and return from the family business in the context of other investment alternatives. In other words, many shareholders want to treat the family business as an important part of their personal portfolios but are not enthused about having all their investment eggs in the family business basket.

These family shareholders tend not to be enamored by either of the traditional family business capital management strategies: (1) constrain growth to that which is supportable by retained earnings, or (2) rely on periodic "bet the farm" debt levels to fund more aggressive growth plans. Using non-family equity capital opens a third path along which businesses can grow without starving family shareholders of current income or using uncomfortable levels of debt financing.

Finally, given the challenges of managing family dynamics, the need to prune the family tree of unaligned shareholders will probably never go away. Exchanging Uncle Joe for a non-family equity investor can ease family tensions without adding to the financing constraints facing the managers of the family business.

Questions for Family Business Directors to Consider

What questions should family business directors begin asking themselves about this trend? Let us suggest five:

1. **Where** is your family business going? What is your strategy for meeting the challenges and opportunities that are likely to arise in your industry? If long-term sustainability and family control is your goal, what should your family business look like in ten years?

2. **What** is the return profile of your family business? Investment returns come in two – and only two – forms: current income from dividends and capital appreciation. What mix of these return components are you providing to your family (or prospective) shareholders? How do those return components compare to other investment alternatives available to your shareholders?

3. **Who** should own your family business? Your current shareholder list is likely of function of time and chance more than intention. If you could start from scratch today, who would your family shareholders be, and why? Are some of your existing family shareholders a better fit for the return profile of your family business than others?

4. **How** will investors value your family business? What are the expected cash flows, risk factors, and growth prospects that are relevant to your existing shareholders? To a potential equity investor? Remember that your family business **has more than one value.**

5. **When** will your family business need outside capital? For many years, our colleague, Chris Mercer, has been asking, **"Is your business ready for sale?".** Opportunities often arise unexpectedly, and Chris' point to business owners is that there are significant benefits to being ready to sell even when you don't intend to do so. The same idea applies to family businesses that may need outside capital: the time to prepare for that day is now.

We don't make a lot of predictions on our ***Family Business Director blog***, but the growing use of non-family equity capital in family businesses is one that we are confident making.

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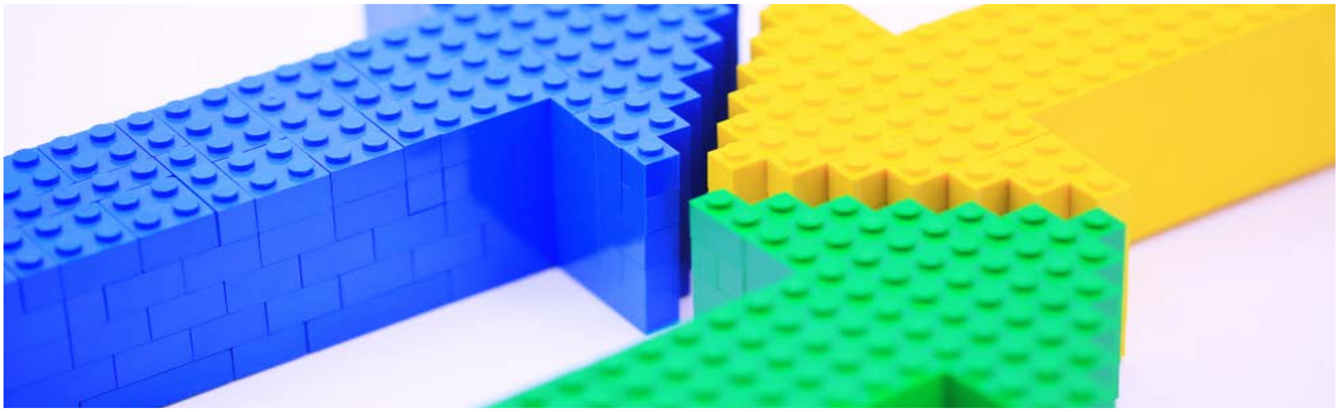

The Myth of the 25% - 45% "Typical" Range of Restricted Stock Discounts Must Die

Excerpted from Chris Mercer's Blog

The valuation lore with many valuation analysts who cite "the restricted stock studies" (and seldom much more) is that the "typical" range of restricted stock discounts is from about 25% to 45%, with an average of about 35%. This article addresses, and hopefully kills, this myth.

This is the fourth article in a series on restricted stock discounts and studies based primarily on Chapter 8 of our (Mercer and Harms) third edition of **Business Valuation: An Integrated Theory**.

In this article we tackle the myth that the "typical" range of restricted stock discounts is 25% to 45%, with an average of about 35%.

Did you ever wonder why so many valuation analysts conclude that the marketability discount in the valuation of illiquid minority interests, almost regardless of the characteristics of individual interests, is about 35%, plus or minus a bit?

First, we let's talk about the sources of this myth. By the early 1980s, there were a handful of studies that investigated the purchases of a number of publicly-traded closed-end investment funds that began to finance smallish public companies that did not have alternative sources of financing.

Because both the companies issuing restricted shares and the closed-end fund investors were publicly-traded, the price and certain details of transactions had to be provided in public disclosures of the companies and the funds. The Securities and Exchange Commission published the first study in 1971. The SEC Institutional Investor Study ("the SEC Study") covered 398 transactions that occurred between 1966 and 1969. The median and mean of the transactions were 24% and 26%, respectively. The range of restricted stock discounts in the SEC Study was very wide, from a premium of 15% to a high discount of 80%.

That study was bookended by a 1983 study of 28 transactions performed by Charles Stryker and William Pittock in their company newsletter. The median discount was 45%, and no average was provided. Again, the range of discounts was wide, from 7% to 91%. There were two studies in between these two (Gelman and Maher).

Throw in the 1991 Silber Study, the subject of the **first article** in this series, which had an average discount of 34% and a range from a premium of 13% to a high discount of 84%. We already know that the central message of that study has been ignored by valuation analysts for decades.

And look at the 1993 Maloney Study, which had median and mean observations of 34% and 35%, respectively.

The die that 25% to 45% was the "typical" range of discounts was set. Take a moment to examine a summary of these studies and a bit more from Exhibit 8.15 of the third edition of ***Business Valuation: An Integrated Theory.***

The studies I just mentioned are summarized in the first six rows of Exhibit 8.15. The medians and averages are highlighted to facilitate review. At the upper left of the highlighted area, we see the median and mean of the SEC Study of 24% and 26%, respectively. That is the basis for the 25% lower end of the mythical range of restricted stock discounts.

On the fourth row, we see the median of the Stryker/Pittock Study of 45%. That is the basis for the upper end of the mythical range of 45%.

All the other observations are in the range of 33% to 35%, which provides the basis for the so-called "typical" restricted stock discount of 35%.

				No. of	Reporting			Standard	Range	
	Restricted Stock Studies*	**Cites**	**Published**	**Trans.**	**Dates**	**Medians**	**Means**	**Deviations**	**Low**	**High**
1	SEC Institutional Investor Study**	**a**	**1971**	398	1966-1969	24%	26%	na	-15%	80%
2	Gelman Study**	**b**	**1972**	89	1968-1970	33%	33%	na	<15%	>40%
3	Maher Study**	**c**	**1976**	34	1969-1973	33%	35%	18%	3%	76%
4	Stryker/Pittock Study**	**d**	**1983**	28	1978-1982	45%	na	na	7%	91%
5	Silber Study**	**e**	**1991**	69	1981-1988	na	34%	24%	-13%	84%
6	Moroney Study**	**f**	**1993**	146	1968-1972	34%	35%	18%	-30%	90%
7	Hall/Polacek Study (FMV Opinions)**	**g**	**1994**	100+	1979-1992	na	23%	na	na	na
8	Trout Study**	**h**	**1997**	60	1968-1972	na	34%	na	na	na
9	Management Planning Study**	**i**	**1997**	49	1980-1995	29%	28%	14%	0%	58%
10	Johnson (BVR) Study	**j**	**1999**	72	1991-1995	na	20%	na	-10%	60%
11	Columbia Financial Advisors (pre-1997)	**k**	**2000**	23	1996-1997	14%	21%	na	1%	68%
12	Columbia Financial Advisors (post-1997)	**k**	**2000**	15	1997-1998	9%	13%	na	0%	30%
				1083+						

Exhibit 8.15

Overview of Historical Restricted Stock Studies (Excerpt)

Assuming there were no duplicate transactions in these six studies, which there almost certainly were, a good portion of the valuation profession has been relying on this information for nearly four decades. Note the following regarding the first six studies:

- There were, at most, 764 transactions.
- The earliest transactions occurred in 1966 an the latest transactions occurred in 1988. This means that valuation lore is based on transactions that occurred somewhere between about 32 and 54 years ago.
- The first of the six studies was published in 1971 and the last was published in 1993. These studies were published between 27 and 49 years ago.

One last observation from Exhibit 8.15: No study has been published since the Moroney Study in 1993, which has supported the mythical range of 25% to 45% as typical for restricted stock discounts.

If dissemination of this article and the related content in our new book ***Business Valuation: An Integrated Theory, 3rd Edition***, does not kill the myth of 25%/45%/35% in business appraisal, it will likely never die.

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Read the Rest of the Series

In this series we examine the use (or misuse) of restricted stock discounts directly to attempt to develop marketability discounts for illiquid minority interests of private companies.

 # 1 - The Silber Study of Restricted Stock Discounts – 1991

 # 2 - Restricted Stock Discounts: The Expected Holding Period Premium is the Cause

 # 3 - Quantifying Expected Holding Period Premiums from Restricted Stock Transactions

 # 4 - The Myth of the 25% – 45% "Typical" Range of Restricted Stock Discounts Must Die

 # 5 - Addressing Comments Regarding Restricted Stock Discounts

Should You Acquire a Public Company?

Sanderson Farm Case Study

Cargill is one of the largest family businesses in the world. Earlier this year, we analyzed the Family Capital list of the world's **750 largest family businesses**; Cargill checked in at number 15 on that list, with annual revenue reported to be in excess of $110 billion. Cargill made **headlines** earlier last week for its acquisition (together with another family business, **Continental Grain**) of Sanderson Farms, a publicly traded poultry business (ticker: SAFM).

It is not every day that family businesses acquire publicly traded companies, so the transaction is worth exploring a bit further. For family business directors contemplating M&A activity of their own, or thinking about whether now is the right time for the family to sell, the Sanderson Farms acquisition rather perfectly illustrates why family businesses have **more than one value.**

The Value of Sanderson Farms on a Standalone Basis

Since its shares are traded in the public markets, we know what Sanderson Farms was worth on a standalone basis. Prior to rumors of a potential transaction influencing trading, SAFM shares closed at $155.74 per share on June 18, 2021 (corresponding to 7.9x trailing EBITDA).

Business values always reflect consensus expectations regarding future cash flows, risk profile, and growth prospects.

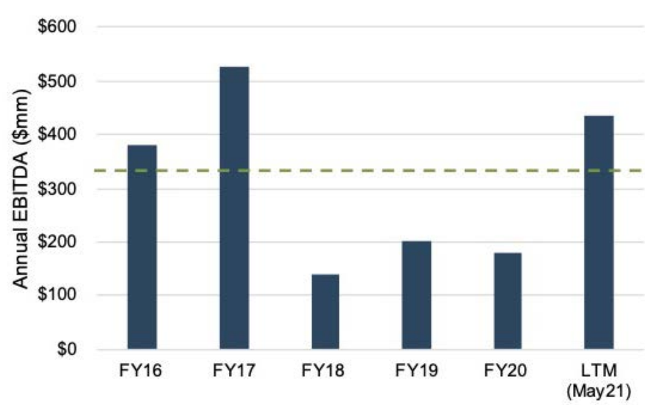
We will spare you the math, but the public market expectations for each of these factors is summarized in the figure 1.

Figure 1 : Public Market Expectations
Sanderson Farms Standalone

Share Price	$155.74
Multiple of Trailing EBITDA	7.9x

As is the case with many agribusiness companies, earnings for Sanderson Farms are cyclical, depending in large measure on various commodity markets. Figure 2 relates the estimate of "ongoing" EBITDA, noted in Figure 1, to recent earnings (the green dotted line).

Figure 2 : Historical Earnings and Ongoing Earning Power



So, what does the public market price of $155.74 "mean"? If investors paid that price, and the company continued to operate on a standalone basis while growing at 2.9%, those investors would earn an annualized return of 6.5% on their investment, which is consistent – on a risk-adjusted basis – with alternative investments available to them.

The Value of Sanderson Farms to Cargill/Continental

In contrast to public market investors, the Cargill/Continental consortium agreed to pay $203 per share for Sanderson Farms, or 10.4x trailing EBITDA. This represents a 30% premium to the public market price. Why where these buyers willing to pay more to for the company? As described in a **previous article**, Cargill and Continental are strategic buyers. In other words, they anticipate integrating Sanderson Farms into their existing poultry operations. By doing so, their expectations for the three factors determining value are different, in some respect, than the expectations of public market investors for the company on a standalone basis.

Figure 3 summarizes several different scenarios that correspond to the $203 per share transaction price.

Why might Cargill and Continental have different expectations than public market investors?

- **Cash Flow.** As strategic acquirers, the Cargill/Continental consortium might reasonably expect to be able to extract higher earnings from Sanderson Farms by combining with existing operations. Common cost savings in mergers come from consolidating facilities and eliminating redundant overhead costs. As shown in Figure 3, the purchase price implies approximately $50 million of annual cost savings. In recent years, total selling, general and administrative expenses for Sanderson Farms have been on the order of $200 million annually. Could the buyers anticipate eliminating 25% of the existing corporate overhead? Perhaps, but one shouldn't rule out other expense saving opportunities within cost of goods sold as the combined entity will likely enjoy greater negotiating leverage with suppliers than Sanderson Farms did on a standalone basis.

- **Risk.** Return follows risk. If the acquiring consortium enjoys a lower cost of capital than SAFM does, it may be willing to accept a lower prospective return on the acquisition. By way of perspective, published data on the returns for shares of companies stratified by size suggests that the returns for mid-cap firms like Sanderson Farms is on the order of 125bps higher than the return for large cap companies the size of Cargill.

Figure 3 : Cash Flow, Risk, and Growth Expectations

		Cargill / Continental Consortium			
	Public Markets	Cash Flow	Growth Prospects	Risk / Return	Combination
Share Price	$155.74	$203.00	$203.00	$203.00	$203.00
Multiple of Trailing EBITDA	7.9x	10.4x	10.4x	10.4x	10.4x
Cash Flow: Ongoing EBITDA ($mm)	$328	**$379**	$328	$328	**$347**
Risk: Weighted Average Cost of Capital	6.5%	6.5%	6.5%	**5.7%**	**6.3%**
Growth: Sustainable Growth in Earning Power	2.9%	2.9%	**3.8%**	2.9%	**3.2%**

- **Growth Prospects.** Moving one column to the right in Figure 3, we see that the higher acquisition price could also be explained by more aggressive growth expectations. It is likely that the newly combined entity will also enjoy enhanced negotiating leverage with customers as well as suppliers. Perhaps the greater market share of the combined entity will unlock opportunities for faster growth than would be available to Sanderson Farms on a standalone basis.

The acquiring consortium is more likely to anticipate incremental value from each of the three potential sources, as illustrated in the rightmost column of Figure 3.

It is important to note that transaction prices do not necessarily represent the maximum price that a strategic buyer could pay for the acquired company. In other words, it is possible that Sanderson Farms is really worth $220 per share to Cargill/Continental, but the seller was only able to extract $203 per share due to the relative negotiating leverage of the two parties. The value of the seller on a standalone basis (in this case, $156 per share) sets the floor for the transaction, while the (unobservable) value of SAFM to the acquiring consortium represents the ceiling. The ultimate transaction price of $203 is the point within that range at which the negotiating leverage of the two parties was balanced.

Takeaways for Family Business Directors

Most of our family business clients are not likely to acquire a public company. Even so, family business directors should bring the same discipline to bear when evaluating a potential transaction.

- When considering an acquisition opportunity, it is important to carefully analyze not just what the target company could be worth to you, but also what it is worth to the existing owners. Developing a bid for the target within that range should consider both the actions of other potential bidders for the target and how unique the target is.

- When contemplating a sale, the same considerations are appropriate. What is the family business worth to your family? What can you reasonably expect the family business to be worth to potential buyers? What strategies can you put in place today to help tip the negotiating leverage in your favor so you can extract more of the incremental value to the buyer?

These are tough deliberations and the consequences of your final decision may affect your family for decades to come. Don't make these decisions without a seasoned financial advisor in your corner. Give one of our professionals a call today to discuss your situation in confidence.

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Mercer Capital

Mercer Capital's ability to understand and determine the value of a company has been the cornerstone of the firm's services and its core expertise since its founding.

Mercer Capital is a national business valuation and financial advisory firm founded in 1982. We offer a broad range of valuation services, including corporate valuation, gift, estate, and income tax valuation, buy-sell agreement valuation, financial reporting valuation, ESOP and ERISA valuation services, and litigation and expert testimony consulting. In addition, Mercer Capital assists with transaction-related needs, including M&A advisory, fairness opinions, solvency opinions, and strategic alternatives assessment.

We have provided thousands of valuation opinions for corporations of all sizes across virtually every industry vertical. Our valuation opinions are well-reasoned and thoroughly documented, providing critical support for any potential engagement. Our work has been reviewed and accepted by the major agencies of the federal government charged with regulating business transactions, as well as the largest accounting and law firms in the nation on behalf of their clients.

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