MERCER CAPITAL

BUSINESS VALUATION & FINANCIAL ADVISORY SERVICES

Value Matters™

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2022 Tax Update for Estate Planners and Family Businesses

Where Are We With Tax Policy?

Entering 2021, tax worries and changes in tax policy were at the forefront of discussion in the political, business, and estate arenas. Changes including removing the step-up in basis on capital gains at death, increasing the corporate tax rate, eliminating valuation discounts, neutering GRATS, increasing the capital gains rate on high incomes, and lowering the gift and estate tax exemption. All of which were all on the table as part of the Biden Administration's agenda upon taking office.

As 2021 ended and 2022 kicks off, tax policy largely remains unchanged from a year ago. President Joe Biden's *Build Back Better* ("BBB") Act went through numerous iterations over the year and was politicked down from a headline program cost of $3.5 trillion to $1.7 trillion before ultimately being kiboshed by Senator Joe Manchin (D-WV) publicly pulling his "Yea" from the bill in late December.

But where does that leave estate planners and family businesses? There are three things estate planners and business advisors need to keep top of mind regarding tax policy in 2022.

1. Major Tax Overhaul Less Likely

A short column from ***Bloomberg Tax*** highlighted the President's herculean task of resurrecting BBB heading into a contentious 2022 midterm election cycle, with multiple purple state Democrat Senators not named Joe or Kyrsten facing tougher reelection battles. The likelihood of major tax changes diminishes as the calendar approaches November 2022, and the **polling would suggest** Democrats may be less willing to pass sweeping changes in the face of a '**red wave**' in the midterm elections. Watch closely: if nothing transpires early in the legislative calendar, the likelihood of major tax changes will likely dissipate until at least January 2025.

According to a report from *The Hill,* Democratic aides say the BBB bill **won't be ready** for floor action any time soon and predict the wide-ranging legislation may have to be completely overhauled. Senate Majority Leader Chuck Schumer (D-NY) informed colleagues the Senate will begin focusing on voting rights legislation in the New Year, further signaling a shift from tax policy. After a year of tax consternation, it might be nice to ring in the new year with less tax anxiety immediately on the horizon.

2. Changes Still Lurking

Speaking during a radio interview, Senator Manchin offered a path to revive a skinnier version of the President Biden's BBB bill. Senator Manchin said the legislation should go through Senate committees in order to examine any **economic impacts** and focus on rolling back the 2017 Tax Cuts and Job Act ("TCJA") tax cuts.

What parts of TCJA is Senator Manchin referring to? Hard to say, but the largest changes in the TCJA included a decrease in individual income tax rates, a decrease in the federal corporate income tax rate from 35% to 21%, and the qualified business income deduction to pass-through entities. The law also increased the estate tax exemption for single and married couples (discussed below) to their current schedule.

Senator Manchin has also indicated he is willing to support some version of a **tax targeting billionaire wealth** via a wealth tax mechanism, a cause generally supported by the more progressive wing of the Democrat party. While this may not affect as many readers here, it does reflect the Senator's willingness to entertain more aggressive tax increases (while maintaining his issue with the spending programs outlined in BBB). While less vocal moderate Democrats are likely concerned with voting on any tax increase in 2022, this may be the President's only shot to pass broader tax policy changes if a 'red wave' does transpire in 2022.

3. Remember the Transfer Tax Law Sunset

For family businesses and estate planners, while the transfer exemptions remain at current levels, they are still set **drop by 50%** on January 1, 2026 (as well as current income tax rates). Per *The National Law Review*, the Treasury Department has confirmed the additional transfer tax exemption under current law is a use it or lose it benefit. If a taxpayer uses the "extra" exemption before it expires (by making lifetime gifts), it will not be "clawed back" to cause additional tax if the taxpayer dies after the exemption is reduced.

As **we've written on previously** the current estate and gift tax exclusion is an opportunity for privately held and family businesses to accelerate their gifting strategies. In 2022 the gift and estate tax exemption increased to $12.06 million ($24.12 million for a married couple), allowing families and estate planners to maximize lifetime gifts in a tax advantageous environment. As an added bonus, federal tax laws allow for an annual exclusion that avoids the estate/gift tax exemption entirely. This level was set at $15,000 per recipient for 2021 and will increase for inflation to $16,000 in 2022.

Conclusion

As we have written previously in *Family Business Director*, **don't let the tax tail wag the business dog**. Estate tax planning efforts should be opportunistic while remaining focused on the bigger goal, which is ensuring a successful transition of the ownership of the family business from one generation to the next in a way that promotes the long-term sustainability of the family and the business.

Keeping a semi-regular eye on Washington D.C. can be beneficial to estate attorneys and family businesses looking to avoid legislative pitfalls that can torpedo an estate plan. Just remember that predicting the future is perilous: the BBB act may be mortally wounded, but like any good political drama, you have to remember the evil twin brother who has been lurking out of frame. Contact a professional at Mercer Capital with your valuation needs in support of your estate planning.

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The Key Person Discount in Light of the Integrated Theory of Business Valuation

Excerpted from Chris Mercer's Blog

What is a key person discount? The definition in the ***ASA Business Valuation Standards Glossary*** is:

> *An amount or percentage deducted from the value of an ownership interest to reflect the reduction in value resulting from the actual or potential loss of a key person in a business enterprise.*

Appraisers sometimes reach a preliminary conclusion of value at the marketable minority / financial control level of value and then state something like the following: "Mr. Jones, the controlling shareholder, is a key person in the management of ABC Company. He is responsible for a significant portion of the Company's sales, he is responsible for achieving below peer cost of sales, and is a key manager of the business. For these reasons, we apply a key person discount of 20% to the initial indication of value…"

While Mr. Jones may be a key person, the application of a judgmental discount, such as noted above, is not a reasonable valuation procedure, despite the definition describing the key person discount as such.

The value of ABC Company, like the value of any company, is a function of its expected cash flows, the growth of those cash flows, and the risks associated with achieving those cash flows. The same is true for the value of interests in ABC Company (or any company), where the value of the interest is based on the expected cash flows to the interest, their growth, and the risks associated with achieving them over the expected holding period of the investment.

The preceding paragraph states the essence of the Integrated Theory of Business Valuation. The third edition of ***Business Valuation: An Integrated Theory*** (Mercer and Harms), which is published in the Wiley Finance Series, is available on Amazon. This article examines the so-called key person discount in light of the Integrated Theory.

Three Takes on the Key Person Discount

The following examples reflect the efforts of three appraisers to determine the impact of the "keyness" of Mr. Jones on the value of ABC Company. The examples assume similar initial assessments of risk and expected growth, and similar assessments of the basic earning power of ABC. The examples reached the same conclusion for purposes of convenience and clarity.

- Appraiser 1 applies a key person discount of 20%.
- Appraiser 2 examines the key person issue in terms of incremental company specific risk.
- Appraiser 3 analyzes the potential impact of the loss of Mr. Jones on expected growth and on expected cash flows.

The examples are shown in the figure below.

	1 Judgmental Key Person Discount		2 Incremental Company Specific Risk		3 Lower Expected Cash Flows and Lower Growth	
Long-Term Treasuries		1.80%		1.80%		1.80%
Equity Risk Premium	5.50%		5.50%		5.50%	
Beta	1.25		1.25		1.25	
Beta-Adjusted ERP		6.88%		6.88%		6.88%
Size Premium		5.50%		5.50%		5.50%
Company-Specific Risk		1.00%		1.00%		1.00%
Key-Person Risk Premium		0.00%		**3.07%**		**0.00%**
Equity Discount Rate		15.18%		18.24%		15.18%
Expected Long-Term Growth		-3.00%		-3.00%		
Expected Growth w/o Key Person						**-2.50%**
Equity Cap Rate		12.18%		15.24%		12.68%
Multiple (1 / Cap Rate)		8.20		6.56		7.89
Net Cash Flow to Equity		$1,000,000		$1,000,000		**$831,480**
Expected Cash Flow w/o key Person						
Multiple (per above)		8.20		6.56		7.89
Initial Edquity Estimate		$8,200,000		$6,560,000		$6,560,000
Key Person Discount	**-20%**	($1,640,000)		$0		$0
Marketable Minority/Financial Control Value		**$6,560,000**		**$6,560,000**		**$6,560,000**

Appraiser 1 builds up a discount rate of 15.18% in rows 1-8 above. He assumes long-term expected growth of 3%, which yields an equity capitalization rate of 12.18% and a multiple for net cash flow of 8.20x. His assessment of a single period income for capitalization is $1.0 million of net cash flow to equity. His initial conclusion of fair market value of ABC at the marketable minority and financial control level of value is $8.2 million. Assume that this basic assessment is shared by the other two appraisers. At this point, Appraiser 1 sticks his finger to the wind and divines that the key person discount should be 20%. Applying that discount yields a conclusion of value of $6.56 million.

Assume also that Appraiser 1 got lucky and that this is a reasonable conclusion reached by unreasonable means. There is no market evidence to provide a basis for assessing the reasonableness of a judgmental key person discount.

Appraiser 2 comes along with a similar assessment of ABC Company. He is aware of the "keyness" of Mr. Jones to ABC. Appraiser 2 elects to apply an additional company specific risk premium of 3.07% (he got lucky – I used Goal Seek). His assessment of the discount rate was otherwise the same as for Appraiser 1. The equity discount rate for Appraiser 2 is 18.24%, which is higher than for Appraiser 1. Appraiser 2 observed that his discount rate appeared reasonable in light of the implied discount rates in transactions of similarly risky companies as ABC. Appraiser 2 assumes the same expected growth as Appraiser 1 and develops an equity cap rate of 15.24% and a multiple of 6.56x. Applying that multiple to expected net cash flow yields an indication of value of $6.56 million.

Appraiser 2 reached the same conclusion as Appraiser 1 but employed a reasonable method of increasing risk while maintaining the same assessment of capitalizable net cash flow. Appraiser 1 should realize that any time he uses a judgmental key person discount, anyone can solve for the implied incremental company specific risk that is implied and, in that light, assess the reasonableness of his conclusion.

Appraiser 3 has a similar assessment of underlying risk as Appraiser 1, but recognizes that the absence of Mr. Jones could have a significantly negative impact on the net cash flow of ABC Company. This manifests in two ways for Appraiser 3. He lowers expected long-term growth from 3.0% to 2.5%. His cap rate therefore lies in between those of Appraisers 1 and 2, as does his multiple of 7.89x. Appraiser 3 did an extensive analysis of the impact of the loss of Mr. Jones on the expected cash flows of ABC Company. Based on his estimate of potential for lost sales to key customers and the potential for increased cost of goods sold in his absence, Appraiser 3 estimated that capitalizable net cash flow should be $831 thousand. Applying his multiple of 7.89x to this cash flow yields an indication of value of $6.56 million.

Appraiser 3 applied another reasonable method in achieving his concluded value. Appraisers 2 and 3 developed their conclusions of value based on their respective assessments of expected cash flow, risk and growth for ABC Company. Appraiser 1 did not, and his method is flawed as a result.

The purpose of this article is to suggest that the key person discount, like many valuation questions and issues, can and should be examined in the context of expected cash flows, their growth, and the risks associated with achieving them. This consistent focus on these three key elements of value lies at the heart of the Integrated Theory of Business Valuation. You can obtain your copy of ***Business Valuation: An Integrated Theory Third Edition*** **here.**

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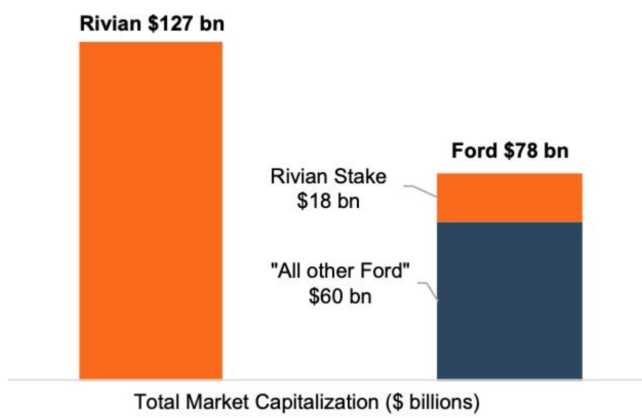
Built Ford "Family" Tough

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

Ford Motor Company **(NYSE:F)** is one of America's most iconic brands. Did you also know they are still significantly led and run by the Ford family? One of the great-grandsons of founder Henry Ford, William Clay Ford Jr., leads the board of directors at Ford. Another great-grandson, Edsel II, is also on the board. Collectively, the Ford family holds enough Class B super-voting shares to **elect 40% of the board of directors.**

A newer car maker, Rivian Automotive **(NasdaqGS: RIVN)**, saw its IPO price the company at **nearly $70 billion**. Admittedly, my first thoughts are best reflected by an investor of "The Big Short" fame Michael Burry: speculation gone wild. Rivian is an electric vehicle (or "EV") start-up that has generated virtually no revenue. At the time of this writing (November 12, 2021), Rivian's market capitalization was north of **$127 billion**, making it the second most valuable U.S. car maker behind Tesla. Rivian has made 156 vehicles, implying a cool $1 billion per vehicle delivered valuation. Those are numbers that would make Elon Musk blush. For perspective, Ford delivered over 5 million cars in fiscal 2019, or an implied $15,000 per car.

As fate would have it, Ford has an effective 14.4% ownership interest in the electric car start-up, giving it an implied stake of over $18 billion. Not bad given its sub-$1 billion of invested capital. If one were to do a "back-of-the-envelope" sum of the parts valuation of Ford, Rivian now represents over **20% of Ford's market capitalization.**



We don't highlight the current irrational exuberance to spur you into investing in an EV start-up or give you a case of 'FOMO', but to encourage us to think again about family business diversification, something we have **written on previously.** When thinking about diversification, it is helpful for family business owners to think about three questions: What, Who, and Why?

What Is Diversification?

Diversification is simply investing in multiple assets as a means of reducing risk. Suppose one asset in the portfolio takes a big hit. In that case, some other segment of the portfolio will likely perform well at the same time, thereby blunting the negative impact on the overall portfolio. A big question when considering diversification is correlation: if what you are investing in is closely tied to your business currently, diversification benefits are blunted. The following example illustrates the two sides of the equation when diversifying expected returns and correlation.

Potential Investment	Expected Return on Investment	Correlation to Current Business
#1 - Capacity Expansion	12%	High
#2 - Purchase of Supplier	10%	Moderate
#3 - Purchase of Warehouse	8%	Low

We note there is not a right answer to the investment choice example above ex-ante: That choice depends on who is investing and for what purpose (discussed in detail below). If you aim to maximize returns and have confidence in your industry, you would pick option #1. If you are more conservative or are not highly confident in your near-term outlook, you may likely choose #3. We discuss the who and why later in this article.

When one thinks about Ford's investment in Rivian, it appears the legacy car company took the middle road (some correlation, but higher expected return). Rivian is very much a car company, but one focused on electric vehicles. Initially, Ford invested in Rivian so the two **would work together** to develop a fully electric Lincoln. Ford has catapulted into the electric car space in recent years to much fanfare, with its **Mustang Mach-E** and **F-150 Lighting**, making its current investment in a certain light appear redundant, albeit lucrative.

However, Ford considers Rivian a "strategic investment," according to a **spokesman's comments to CNBC**. "We've said that Rivian is a strategic investment and we're exploring potential collaborations," T.R. Reid said. "We won't speculate about what Ford will do, or not, in the future." What Ford decides to do with its very richly priced potential conflict-of-interest investment (competitor, plus Ford supplies certain parts to the start-up) is yet to be seen.

Diversification to Whom?

Whose perspective is most important in thinking about diversification? As we discussed in a **previous article**, a family business shareholder likely has a view on diversification within the company based on their own personal portfolio mix. For example, if the vast majority of a shareholder's personal wealth (and income) is derived from the family business, that individual would likely be more concerned with the riskiness of the business overall and prefer more diversification within the company to ensure stability.

Also, consider a well-diversified shareholder outside the family business, and their family business ownership represents a smaller allocation of their personal portfolio. That person would likely prefer to make their own diversification decisions (with dividends paid by the company) or prefer the company to make focused (undiversified) investment decisions to maximize expected returns.

In the case of Ford, one wonders how the Ford family feels maintaining a heavy weighting in the new venture. The Ford family has considerable wealth outside their Ford stock stakes, lowering the need to maintain conservatism within Ford. The family may view the large EV car company stake as a distraction and prefer to make their own, if they so choose, large EV investments outside the business. This logic could lead to a sale or paring down of the stake. This would also allow Ford to utilize part of the proceeds and invest deeper in their own company efforts.

Conversely, one could argue the 'combustion engine' is going the way of the Model T, and diversification into an electric vehicle company might be a way to stabilize company performance. The family may view the investment in the separate EV company as a 'safety valve' if Ford's own EV efforts do not pan out. While it may partially distract from the core Ford mission, it could lead to more stable shareholder returns. Again, 'who' is experiencing diversification affects how the company will likely face this question in the future.

Why Diversify?

Family businesses often provide a different 'who' regarding diversification and a different 'why' to their publicly traded, non-family controlled counterparts. **What the family business means** to you impacts how you think about diversification decisions for the family business.

Family Business Meaning	Implications for Diversification
Growth Engine for Future Generations	Managers favor concentrated (undiversified) operations and holdings as a means of maximizing capital appreciation
Store of Value	Mangers emphasize diversification as a means of minimizing undesirable volatility in operating results and value of the business.
Source of Wealth Accumulation	Manager emphasis on diversification at the shareholder level. Substantial distributions as a tool to facilitate shareholder diversification.
Source of Lifestyle	Managers pursue diversification strategy to minimize risk to dividend and distributions, depending on available reinvestment opportunity.

Depending on what the business means to the family, the potential for diversification benefits (correlation, discussed above) may take priority over absolute return. There are no right or wrong answers regarding risk tolerance, but there are tradeoffs that need to be acknowledged and communicated plainly. Family shareholders deserve to know the 'why' for significant investment decisions.

How do you or the Ford family think about your family business meaning? If dividends were key for Ford, with meaning in the 'lifestyle' or 'wealth accumulation' buckets, a divesture of sorts might be appropriate to generate liquidity for investing in other uncorrelated assets or maintain the family's lifestyle. But as discussed, Ford's recent performance and prior move into the EV space has been a big splash for the legacy car giant. Keeping Rivian may be a sign that the family views Ford as the combustion (or electric) engine for future generations of the family and is willing to keep diversification within the company lower and not attempt to overly diversify outside it. Your family must decide its meaning as a business before you begin to think about diversification to provide the framework and context for coming to a big decision.

Next Steps

Family business owners can take these three questions and apply them to their businesses. Remembering what diversification is and the importance of correlation, who are the stakeholders seeing the largest impact of diversification, and defining what the business means to you all can help guide the diversification question. Some next steps he has highlighted in ***The 12 Questions That Keep Family Business Directors Awake at Night*** include:

- Calculate what portion of the family's overall wealth is represented by the family business
- Identify the three biggest long-term strategic threats to the sustainability of the existing family business operations
- Establish a family LLC or partnership to hold a portfolio of diversifying assets (real estate, marketable securities, etc.)
- Create opportunities to provide seed funding to family members with compelling ideas for new business ventures

And if in the end, your diversification plans send you into uncharted territory or lead you to maintain the status quo, Mr. Henry Ford Sr. has quotes for both.

"If I had asked people what they wanted, they would have said faster horses."

"Any customer can have a car painted any color that he wants so long as it is black."

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Family Business Dividend Survey Results

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

This summer, we partnered with ***Family Business Magazine*** to conduct our inaugural survey of dividend practices at family-owned businesses. In this issue of *Value Matters*, we feature an article that we wrote for the magazine summarizing the survey results. We hope you enjoy and gain some insights that can help you and your family evaluate your current policy and make plans for the future.

Determining what portion of earnings should be distributed to family shareholders each year can be perilous.

Few decisions faced by family business leaders are as perilous as determining what portion of earnings should be distributed to family shareholders each year. Pay too little, and shareholders having no other source of liquidity from their shares may grow restive. Pay too much, and attractive opportunities for growth may wither on the vine, imposing a hard to define, but very real, cost on future generations. As a result, maintaining the appropriate balance between current income for existing shareholders and reinvestment for future generations can feel like a tightrope walk for family business leaders.

When embarking on such a high-stakes endeavor, prudent leaders want to learn as much as they can from others in similar situations. To help family business leaders learn from one another, Mercer Capital partnered with *Family Business Magazine* to administer a survey on dividend practices at family businesses. Nearly 300 enterprising families responded, and we provide a summary of what we learned in this article.

Are There Any Families Like Mine?

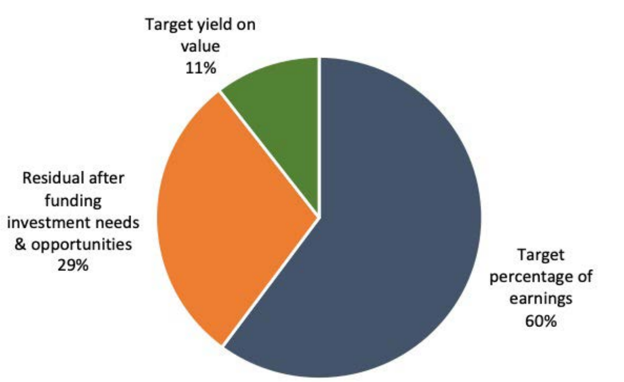
The respondents to the survey represent a diverse group of family businesses, in terms of age, industry, size and geography. The median age of the family businesses in our sample was about 70 years, with nearly half being founded prior to 1950. The largest industry concentrations were in manufacturing (30% of respondents) and real estate (12% of respondents). About half of respondents reported revenue of less than $100 million, and approximately 10% reported more than $1 billion of annual revenue.

What's the Plan?

Unlike shareholders in public companies, family shareholders can't easily access the value of their shares by selling on the open market. Dividends are the most tangible expression of what can often feel like merely "paper" wealth. It's nice to be rich; it's even better to have money. Given this dynamic, it is not surprising that family businesses are more likely than public companies to pay dividends. Whereas about half of public companies pay dividends to shareholders, over 80% of the family businesses responding to our survey indicated that they do. However, nearly half of respondents reported not having a formal dividend policy. In other words, a significant group of family businesses are paying dividends, but they're not sure why.

Those who do have a formal dividend policy reported a few different policy objectives. As shown in Exhibit 1, the most common dividend policy identifies a target payout ratio of earnings (net earnings for C corporations, or earnings after tax distributions for pass-through entities). While family businesses prioritize paying dividends, overall payout ratios tend to be modest, with the target payout ratio for 60% of respondents at less than 25% of earnings. This suggests to us that most family businesses are wary of killing the golden goose.

Exhibit 1 :: Dividend Policy Objectives



Nearly 30% of dividend policies prioritize the investment needs of the business and treat dividends as a residual amount after attractive investment opportunities have been funded. Finally, a smaller minority of respondents prioritize shareholder returns in the form of establishing a target dividend yield (generally on the order of 2% to 4% of value).

What Signal Are You Sending?

Dividends are powerful signals about management's outlook for the family business. Annual reports and shareholder letters may or may not get read, but dividend checks always get cashed. Because of this "signaling effect," public company managers are loath to cut dividends in the face of a short-term earnings crunch and are hesitant to raise dividends beyond a level that they are confident they can maintain.

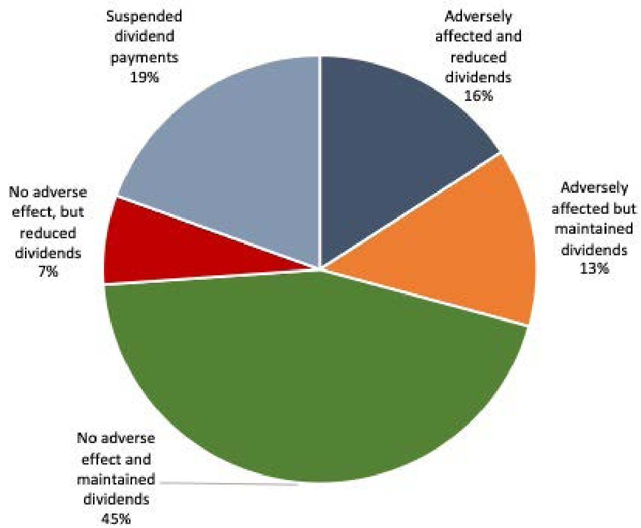
In contrast, nearly half of the family business survey respondents indicated that dividends fluctuate from year to year, and only 20% reported having a mechanism in place to smooth out dividends amid volatile earnings. Without strong, well-cultivated shareholder consensus and engagement around the dividend policy, dividend volatility can reduce the "value" of the dividend stream to shareholders. Uncertainty regarding the dividend stream makes it harder for shareholders to make reliable personal financial plans. Dividend uncertainty also presents challenges for family business managers who need to plan significant capital investments years in advance.

Public companies can emphasize dividend stability amid volatile earnings using share repurchases. Buying back shares and paying dividends are both tools to return capital to shareholders. Public companies tend to allocate more capital to share repurchases than to dividend payments. There are likely several reasons for this, one of which is that when earnings are down and capital is scarce, slowing the pace of share repurchases is less of a negative signal to investors than cutting the dividend. In other words, share repurchases serve as a release valve for volatile earnings at public companies. However, only 21% of our survey respondents reported having a formal share repurchase program available to provide liquidity to family shareholders. Without this release valve in place, it should not be too surprising that families report a higher degree of dividend volatility. We suspect that more family businesses will institute share repurchase programs in the future.

Pandemic Blues

The COVID pandemic presented a (hopefully) once-in-a-generation challenge for family businesses. Much like the broader economy, the pandemic did not affect all family businesses in the same way. We asked survey participants to describe what effect the pandemic had on the performance of their family businesses and their dividend decisions. Exhibit 2, on the next page, summarizes the responses.

Exhibit 2 :: Effect of Pandemic on Family Business Dividends

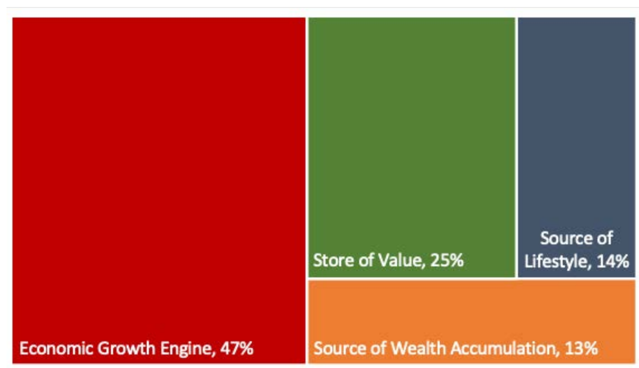


- Just over half of respondents indicated that the pandemic had no adverse effect on the financial performance of their family business. As a result, a significant majority of these respondents did not modify their dividend practices in response to the pandemic. Nonetheless, nearly 15% of those family businesses reporting no ill effects from the pandemic on financial performance reduced dividends, presumably to preserve family business capital in the face of grave economic uncertainty.
- Among family businesses that did see their financial performance suffer during the pandemic, there was a mix of dividend responses. Approximately 27% of such family businesses elected to maintain their dividend, signaling to family shareholders that they were confident in the long-term prospects of the family business. The remaining companies either cut dividends or suspended them entirely.
- Nearly 20% of all survey respondents reported suspending dividends altogether because of the pandemic. Given the significance of dividend payments to family shareholders, the decision to suspend dividends reveals the gravity of the threat the pandemic posed to some family businesses. Deciding when and how to reintroduce dividend payments will be a significant challenge for these families.

What's It Mean to You?

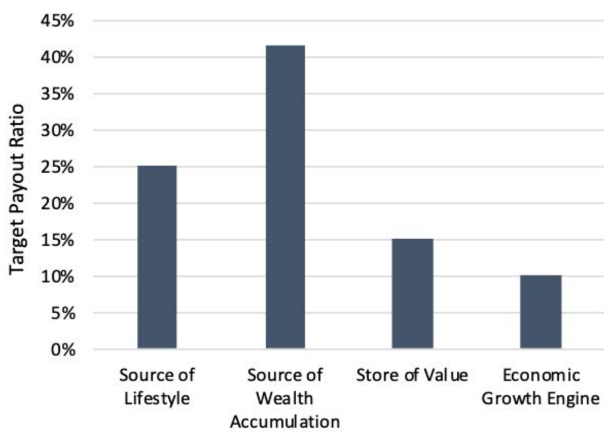
Crack open a standard finance textbook, and dividend policy will look easy. Simply invest in all available positive investments with a positive net present value, maintaining an optimal mix of debt and equity financing, and distribute what is left over. Unfortunately, that theory assumes that shareholders are economic robots. However, most family shareholders are people. Unlike robots, people invest things (including family businesses) with meaning. We asked survey participants to describe what their family business means to them, and the responses are summarized on Exhibit 3.

Exhibit 3 :: Effect of Pandemic on Family Business Dividends



In our experience, the most successful (and peaceful) enterprising families are those in which there is consensus regarding what the family business means to the family. When there is alignment on meaning, it is easier to find alignment on dividend practices. This is borne out when we examine the median target payout ratios for businesses sorted by the different family business meanings noted in Exhibit 3. As shown in Exhibit 4, on the next page, there is a clear correlation between what the family business means to the family and dividend practice.

Exhibit 4 :: Family Business Meaning and Target Payout Ratio



If the family business serves as a source of wealth accumulation and diversification for family members, it makes sense that payout ratios would be relatively high. In contrast, if the family business is perceived as an economic growth engine for future generations, large dividend payments will detract from that goal. Misalignment on meaning can trigger shareholder discontent: Individual shareholders who want the company to be a source of wealth accumulation will likely be frustrated if the rest of the family views the company as an economic growth engine and makes dividend decisions accordingly.

The Last Word

Many survey respondents provided additional comments that were illuminating. We will close with one that we think expresses the sentiments of many family shareholders: "I feel that maybe some businesses don't discuss dividends openly. I feel that we are one of these. It is 'undiscussable.'"

Don't let dividends be an "undiscussable" in your family. We hope the results of this survey can provide a starting point for healthy dividend discussions at your family business.

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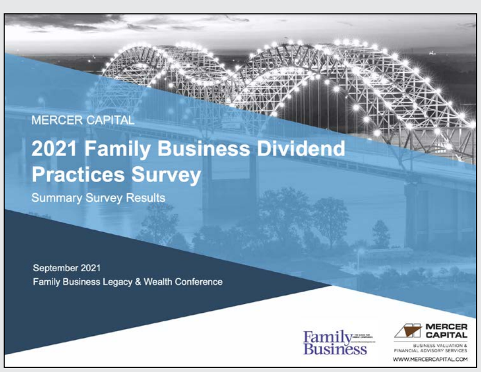

SUMMARY RESULTS

2021 Family Business Dividend Practices Survey

DOWNLOAD SUMMARY

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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