

# Value Matters™

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# All in the Family Limited Partnership

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

Many enterprising families have January 1, 2026, circled on their calendars. Why? Because the individual estate tax exemption reverts to \$6 million (give or take, depending on inflation) in 2026 from its current level of \$12 million. As a result, many estates that are not currently large enough to be taxable will become so, and the effective tax rate for all estates will increase.

A recent *Wall Street Journal* article highlighted the benefits, and potential downsides, of family limited partnerships, or FLPs (and their close cousin, the family limited liability company).

The “magic” of the FLP is the ability to transfer assets to heirs, and out of taxable estates, at discounted values. The WSJ article points out that the IRS is skeptical of many FLP planning strategies, noting that audit challenges may become more frequent as the IRS puts its new \$80 billion enforcement budget to work.

While the valuation discounts applicable to FLPs may seem like estate planning magic, there really is no sleight-of-hand involved. Instead, valuation discounts reflect economic reality.

## Fair Market Value Is an Arm's-Length Standard

Estate planning transfers must be accounted for using the “fair market value” of the subject interest. Revenue Ruling 59-60 offers the following definition for fair market value: “the price at which the property would change hands between a

willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts.”

There's a lot there, but for this post, we will simply highlight that fair market value is not determined with respect to a specific buyer or seller and therefore does not consider any familial relationship between the transferor and transferee in an exchange. Rather, fair market value describes how a transaction involving the subject interest would occur between two “willing” parties, both of whom have reasonable knowledge of relevant facts.

Under this standard of value, business appraisers typically value interests in FLPs using a three-step approach.

## The Market Value Balance Sheet

The first step is to compile a listing of all assets owned by the FLP, reduced by any liabilities. FLPs hold all kinds of assets, some of which have more readily ascertainable values than others. So, for some FLPs, the market value balance sheet can be constructed simply by referring to a brokerage statement, while other assets, like shares in a family business, will require a separate valuation process. Once the market values of the assets and liabilities have been determined, the difference between the two, referred to as “net asset value” or “NAV,” provides the starting point of the valuation analysis.

## It's Nice to Be in Charge

If the subject interest possessed sole discretion over the operations of the FLP, net asset value would be an appropriate proxy for fair market value. After all, rather than sell the interest at a discount, the holder of such an interest would instead liquidate the underlying assets and settle the liabilities of the FLP, thereby realizing the net asset value.

However, the FLP interests used in estate planning transfers rarely have such authority (as would be possessed by a sole general partner). Small, limited partner interests lack the ability to direct the operations of the FLP or force the liquidation or distribution of the underlying assets. Willing buyers operating under the fair market value standard are wary of such investments. All else equal, they prefer to be the ones making the key investment and operational decisions. When submitting to someone else's decisions, they demand a higher return on their investment by applying a discount to the pro rata share of net asset value.

This reflects a simple economic reality: minority interests in asset portfolios are worth less than the corresponding share of net asset value. There is ample real-world evidence supporting this conclusion in the market for shares in closed-end funds, which regularly trade at discounts to NAV.

## It's Even Better to Be Liquid

That is where the similarities between FLP interests and shares in closed-end funds end, however. Unlike investors in closed-end funds who can quickly convert their shares to cash, there is little to no liquidity for most interests in FLPs. All else equal, investors tend to prefer liquid assets to illiquid ones. As a result, our "willing buyer" from the fair market value definition requires an additional discount to be convinced to buy a minority interest in an FLP.

Once more, this discount is no mere valuation parlor trick but instead reflects economic reality. The discount appropriate to your family limited partnership interest will be a function of four primary economic characteristics:

- **Duration of the expected holding period.** Since investors prefer liquidity, the longer a willing buyer would expect to be stuck holding the FLP interest, the larger the discount.
- **Magnitude of expected distributions.** Even when not readily marketable, some FLP interests receive regular distributions (beyond those needed to pay pass-through tax liabilities), while others receive none. The greater the magnitude of the expected interim distributions, the lower the discount.
- **Expected capital appreciation of underlying assets.** For the willing buyer, returns can only come from two sources: distributions (accounted for above) and capital appreciation. All else equal, the faster the underlying FLP assets are expected to grow in value, the smaller the discount.
- **Holding period risks.** Return follows risk, and owning the subject FLP interest is riskier than owning the underlying assets outright. The more incremental risk associated with the subject FLP interest, the greater the return required by the willing buyer, resulting in a larger discount.

## Be Sure the FLP Structure Is Right for Your Family

Valuation discounts for FLPs are not convoluted mirror tricks on the part of appraisers but rather reflect the straightforward economic reality of FLP interests. However, for these discounts to withstand IRS scrutiny, the economic reality we've described in this post must match, well, reality. As noted in the WSJ article, families forming FLPs should be prepared to live with the economic reality of having an FLP, including identifying and adhering to a clear business purpose, formal meetings, and pass-through taxes.

We have valued minority interests in well over 1,000 FLPs over the past forty years. We don't know if an FLP is right for your family, but if you and your tax and legal advisors conclude that it is, give one of our valuation professionals a call to see how we can help you.



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# What Do the Midterm Elections Mean for Your Business?

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

The 2022 midterm elections have come and gone and the Republican party has secured a slim majority in the House and the Democrat party did the same in the Senate. What does this mean for tax policy over the next few years? In this article, we focus on three main tax dilemmas that will be most important to your business.

## Individual Tax Rates

There are a number of tax provisions set to expire in 2025 that were passed as part of the Republican's *Tax Cuts and Jobs Act (TCJA)*. This 2017 legislation significantly reduced the corporate tax rate and temporarily cut individual rates. It is expected that since Republicans have taken control of the House, protecting previously passed policies will be among the party's top priorities, despite the potential impact on inflation. One of the tax breaks set to revert to the pre-2017 levels if the TCJA is not extended is the individual income tax rate, which would return the top marginal rate to 39.6% from the current 37%. On the right, are the current single-filer and married filing jointly tax brackets, as well as the changes if the TCJA does expire in 2025.

In an interview on C-Span prior to the mid-term election, Nebraska Rep. Adrian Smith said that if the GOP regains Congress, advancing legislation for permanent individual tax rate cuts would be his first priority. However, many economists have debated that the GOP tax plan goes against the promise to combat inflation and reduce the federal deficit. Howard Gleckman, a senior fellow at the **Tax Policy Center**, states that extending these tax cuts promulgated from the TCJA may further fuel inflation by stimulating consumer spending.

### Single Filer Tax Brackets for Ordinary Income

Current Rates Under Tax Cuts and Jobs Act		Rates When Law Expires in 2025	
10%	\$0 - \$9,525	10%	\$0 - \$9,525
12%	\$9,525 - \$38,700	15%	\$9,525 - \$38,700
22%	\$38,700 - \$82,500	25%	\$38,700 - \$93,700
24%	\$82,500 - \$157,500	28%	\$93,700 - \$195,450
32%	\$157,500 - \$200,000	33%	\$195,450 - \$424,950
35%	\$200,000 - \$500,000	35%	\$424,950 - \$426,700
37%	\$500,000+	39.6%	\$426,700+

Source: Tax Foundation

### Married Filing Jointly Tax Brackets for Ordinary Income

Current Rates Under Tax Cuts and Jobs Act		Rates When Law Expires in 2025	
10%	\$0 - \$19,050	10%	\$0 - \$19,050
12%	\$19,050 - \$77,400	15%	\$19,050 - \$77,400
22%	\$77,400 - \$165,000	25%	\$77,400 - \$156,150
24%	\$165,000 - \$315,000	28%	\$156,150 - \$237,950
32%	\$315,000 - \$400,000	33%	\$237,950 - \$424,950
35%	\$400,000 - \$600,000	35%	\$424,950 - \$480,050
37%	\$600,000+	39.6%	\$480,050+

Source: Tax Foundation

## Estate Taxes

On October 28, 2021, President Biden announced a framework for the **Build Back Better Act**. This Act invests in family care, health care, and combating the climate crisis. It will also implement key reforms to make the tax system more equitable by ensuring that the wealthiest Americans and most profitable corporations shoulder a more significant portion of the overall tax burden. Specifically, these proposals included a reduction of the federal estate tax exemption (amount of assets that can transfer to an heir free of estate tax) to \$3.5 million per person, as well as eliminating the tax basis step-up at death. These proposals were dropped from the legislation as the **Build Back Better Act** stalled in the Senate.

Regardless of the fate of these specific proposals, effective January 1, 2026, under current law, the estate tax exemption will be reduced to \$5 million per person or \$10 million for a married couple – subject to inflation increases. Currently, each U.S. citizen has a \$10 million exemption from estate taxes, and for a married couple, that amount is doubled. As the exemption is indexed for inflation, in 2022, the exemption is \$12.06 million per person. Persons whose estates may be subject to estate tax under the projected 2026 exemption levels should consult with legal counsel and advisors to review their current estate plans and evaluate possible strategies for preserving their wealth and planning for future generations.

## Qualified Business Income (QBI) Deduction

The IRS defines Qualified Business Income (QBI) as the net amount of qualified income, gains, deductions, and loss from any qualified trade or business, including income from partnerships, S corporations, sole proprietorships, and certain trusts. The Tax Cuts and Jobs Act introduced a new deduction taking effect in 2018 for noncorporate taxpayers in respect of their qualified business income. This deduction is up to 20% of their QBI, plus 20% of qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership (PTP) income. Income earned by a C corporation or from providing services as an employee is not eligible for the deduction.

Prior to the TCJA, the corporate income tax rate was 35%, and dividends were taxed at a top rate of 23.8%, resulting in an aggregate tax rate of about 50% on distributed corporate business income. Contrast this to a pass-through entity, for which earnings are passed through and taxed in the hands of the owners. Before 2018 the top ordinary income tax rate was 39.6%, and thus, there was an approximate 10% tax rate advantage operating a pass-through entity rather than a corporation. The TCJA included a permanent reduction to the corporate tax rate from 35% to 21% and reduced the top individual rate to 37%. Without any further changes, the tax rate advantage in operating a business as a pass-through entity would have decreased from roughly 10% to less than 3%. The 20% QBI deduction was the TCJA's answer, as only 80% of certain pass-through entity income is subject to tax for qualifying taxpayers.

Given the results of the mid-terms on top of the general gridlock in Washington, it is uncertain if the 20% QBI deduction will be a tax advantage for much longer, as the deduction would ultimately expire if the TCJA is not extended past 2025.

## Conclusion

No one can say with certainty what the election results will mean for tax policy. However, it may be advantageous to discuss your personal and business situation with your tax advisors.



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# Recession, Expectations & Value

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

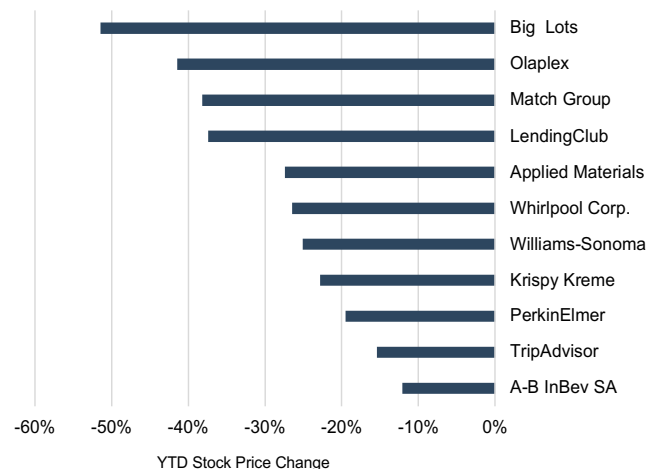
The uncertain macroeconomic environment is causing corporate managers to consider how a recession would influence their businesses. In early June, the *Wall Street Journal* published comments from eleven public company CFOs discussing their expectations for how their businesses would fare if the expected economic downturn occurs.

Perhaps not unexpectedly, the CFOs interviewed by the Journal were generally optimistic regarding the outlook for their companies in the event of a recession.

- Some focused on how recession-resilient their industries are, including Big Lots (discount retail), Match Group (online dating), Anheuser-Busch InBev (beer), and Olaplex Holdings (beauty products). The CFO of Tripadvisor anticipated that 2+ years of pandemic-induced cabin fever will put travel at the top of consumers' wish lists even amid a recession.
- Others highlighted actions that they have already taken, or can take, to mitigate the effects of a downturn: ClubLending has tightened credit standards for hourly workers, the CFO of Williams-Sonoma cited the ability to cut expenses and reduce inventory and capital spending, PerkinsElmer indicated that a larger base of recurring revenue will put the company in good stead, and Krispy Kreme discussed the company's strategy of expanding distribution points.

- Finally, the CFO of Applied Materials replied that – in terms of order flow – no slowdown in demand is evident yet, while the CFO of Whirlpool believes that pandemic-related demand will continue to outpace constrained supply.

How realistic are these expectations? Only time will tell; however, since all eleven companies are publicly traded, we can see how investors are grading those expectations. The graph below summarizes year-to-date share price performance for each company.



Consistent with general stock market trends, share prices are down for each company, with Anheuser-Busch InBev faring the best (-12%) and discount retailer Big Lots feeling the most pain (-51%). Investors seem to be on board with the thesis that beer consumption is recession-proof but less convinced about the prospects for Big Lots.

Your family business doesn't receive a daily grade from the market, but you do have expectations for the future. How will your family business fare if a recession sets in, and how are expectations affecting the value of your family business today? When discussing value, we find it helpful to group expectations into three primary categories: cash flow, risk & return, and growth.

## Cash Flow

Value is not a “what have you done for me lately?” game – it is a “what will you do for me tomorrow?” game. How will stubbornly high inflation, tight labor markets, and persisting supply chain disruptions affect the cash flows for your family business over the next year?

- What effect will rising prices have on demand for your product or service? Are your customers net beneficiaries of rising price levels, or will rising prices put a dent in their propensity to spend on your product?
- How are labor availability and wage pressures influencing the cost of doing business for you? Are you able to pass higher operating costs along in the form of higher prices, or are your profit margins getting squeezed?
- Is maintaining an appropriate level of working capital tying up more of your cash flow? Have supply chain disruptions caused you to hold larger quantities of more expensive goods? Are any of your customers facing financial distress that could stretch out collections?
- Is the increasing cost of capital goods reducing cash flow that would otherwise be available for debt service or owner distributions?

## Risk & Return

Since the end of 2021, yields on long-term treasury securities have increased from 1.94% to around 3.30%. Our colleague **Brooks Hamner, CFA, ASA** wrote about the **inverse relationship** between interest rates and valuation multiples several weeks ago. While Brooks was writing specifically about the value of investment management firms, his observations apply broadly to all companies. In short, all else equal, rising interest rates put downward pressure on the value of all financial assets.

But thinking about your family business specifically, how have expectations regarding risk evolved as the economic picture has become murkier? Like A-B InBev, do you have a compelling case that your family business really is recession-proof? Or would investors be skeptical of the strategies at your disposal to counteract the negative effects of a broader economic slowdown?

## Growth

Finally, how would a prolonged recession change the ground rules for your industry and the effectiveness of your family business's growth strategy? Would a downturn cause you to defer capital investment in support of the next growth engine for your family business? Or, would a slowdown allow you to capture market share at the expense of financially-weaker competitors? How could the structural changes that accompany economic disruptions alter the demand trajectory for your product or service?

## Conclusion

Cash flows, risk & return, and growth provide a helpful framework for evaluating expectations for your family business. If the *Wall Street Journal* had called you last week, what would you have told them about your plans?



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## Beway Provides Conflicting Guidance re Statutory Fair Value in New York

Reprinted from Chris Mercer's Blog

New York has been one of only a very few states allowing the imposition of marketability discounts in statutory fair value appraisal processes. Like nearly all other states, New York case law prohibits the use of minority interest discounts in fair value appraisals.

In this post, I provide a review of a portion of a leading New York case in which the New York Appellate Division, First Department addresses the issue of minority interest and marketability discounts in statutory fair value determinations. As always, cases are reviewed from business and valuation perspectives. We are not lawyers; however, business appraisers are required to have a working knowledge of statutory and case law that are relevant to determinations of business value.

In another [post](#), I review the Supreme Court's (the lower court) decision in *Beway* to provide an understanding of the facts of the case that led to the Appellate Division's decision. Following that, I will provide an analysis of historical marketability discount determinations in all (or, at least close to all) New York appellate court decisions addressing the issue. Readers will likely be surprised at the results.

### [Beway on Fair Value](#)

The leading appellate level decision on the definition of fair value in New York is *Beway*, (*Friedman v. Beway Realty Corp.*, 206 A.D.2d 253, 614 N.Y.S.2d 133 (1st Dept. 1995).

Citing the Delaware Supreme Court case of *Cavalier* (*Cavalier Oil Corp. v. Harnett* - 564 A.2d 1137 (Del. 1989)), *Beway* refers to the portion of the *Cavalier* decision that states:

*More important, to fail to accord to a minority shareholder the full proportionate value of his shares imposes a penalty for lack of control, and unfairly enriches the majority shareholders who may reap a windfall from the appraisal process by cashing out a dissenting shareholder, a clearly undesirable result.*

*Beway* goes on to discuss several "principles" of law relating to statutory fair value determinations. (emphasis added below):

Several principles have emerged from our cases involving appraisal rights of dissenting shareholders under Business Corporation Law § 623 or its predecessor statute.

(1) **The fair value of a dissenter's shares is to be determined on their worth in a going concern**, not in liquidation, and fair value is not necessarily tied to market value as reflected in actual stock trading (*Matter of Fulton*, 257 N.Y. 487, 492)."The purpose of the statute being to save the dissenting stockholder from loss by reason of the change in the nature of the business, **he [or she] is entitled to receive the value of his [or her] stock for sale or its value for investment"** (id., at 494 [emphasis supplied]).



(2) The second principle does not inform any position on marketability discounts and is omitted.

(3) **Fair value requires that the dissenting stockholder be paid or his or her proportionate interest in a going concern**, that is, the intrinsic value of the shareholder's economic interest in the corporate enterprise (*Matter of Cawley v. SCM Corp.*, 72 N.Y.2d 465, 474).

(4) The fourth principle does not inform any position on marketability discounts and is omitted.

(5) Determinations of the fair value of a dissenter's shares are governed by the **statutory provisions of the Business Corporation Law that require equal treatment of all shares of the same class of stock** (*Matter of Cawley, supra*, at 473).

Principles (1), (3) and (5) relate directly to the applicability or not of marketability discounts.

Principle (1) requires that fair value "...be determined on their worth in a going concern. The same principle says further that "...he [or she] is entitled to receive the value of his [or her] stock for sale or its value for investment" Principle (1) is inconsistent with the imposition of marketability discounts in fair value determinations.

Principle (3) is direct. "Fair value requires that the dissenting stockholder be paid for his or her proportionate interest in a going concern..." The guidance goes on to describe fair value as "...the intrinsic value of the shareholder's economic interest in the corporate enterprise." As with Principle (1), Principle (3) is inconsistent with the imposition of marketability discounts in New York fair value determinations.

Principle (5) provides the clearest guidance of all. Fair value determinations "...are governed by the statutory provisions of the Business Corporation Law that require equal treatment of all shares of the same class of stock."

This point from Principle (5) needs to be clear. Assume the following:

- The net asset value of an asset holding entity is \$50 million.
- There are 50,000 shares outstanding, so net asset value is \$1,000 per share.
- A dissenting shareholder owns 5,000 shares or 10% of the entity.
- If a marketability discount of, say, 16% is allowed (as in *Gaiimo*), the dissenter's shares would be valued at \$840 per share (\$1,000 per share x (1 - 16%)), and his shares would be worth \$4.2 million, or a total discount of \$0.8 million.

What about the controller's shares? The net asset value of the 90% controlling interest is \$45 million. If a discount of \$0.8 thousand is added to her value, they are worth \$45.8 million. The controller's 45,000 shares are, therefore worth \$1,018 per share, or 21% greater than the \$840 per share value for the dissenter. *That is hardly "equal treatment of all shares of the same class of stock."*

*Beway* apparently did **not** consider additional guidance from *Cavalier* that pertains to the appropriateness of marketability discounts in fair value determinations in Delaware. A few paragraphs prior to the first quote from *Cavalier* above, we find:

*Cavalier contends that Harnett's "de minimus" (1.5%) interest in EMSI is one of the "relevant factors" which must be considered under Weinberger's expanded valuation standard. In rejecting a minority or marketability discount, the Vice Chancellor concluded that the objective of a section 262 appraisal is "to value the corporation itself, as distinguished from a specific fraction of its shares as they may exist in the hands of a particular shareholder." We believe this to be a valid distinction. [emphasis added]*

The point is that *Cavalier* allows neither marketability nor minority interest discounts. If I quoted a business appraisal resource as supporting my opinion, that support would be undermined if, on review, that same source provided conflicting guidance two pages earlier and I did not somehow reconcile the apparent discrepancy in my report.

In the final analysis, the trial court allowed a 21% marketability discount in *Beway*. After providing the guidance noted above and much more that effectively argues for no marketability discounts, the Appellate Division, First Department did not disagree with the discount allowed by the lower court. The case was remanded to the Supreme Court to reconcile what the Court of Appeals thought was an apparent discrepancy in the lower court's marketability discount. The final marketability discount, after remand, was 21%.

*Beway* clearly allowed unequal treatment of the same class of stock. It did not provide a value representing a proportionate interest in a going concern. And it did not provide the value of the dissenters' shares and investments, rather charging them for illiquidity. *Beway* is difficult for me to understand. But then, I'm just a businessman and a valuation guy. However, as we will see in the near future, the final marketability discount in New York Appellate Court decisions has been 0% in half of the cases since 1985.



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# These Loafers Are Made for Walkin'

## Italian Shoemaker, Tod's, Opts Out of the Public Markets

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

In early August, Tod's – the Italian maker of luxury shoes – announced plans by the founding Della Valle family to take the company private. Under the proposed transaction, the Della Valle family would invest €338 million to increase its ownership interest from just under 65% to 90%. Following the transaction, the remaining 10% equity position will be held by luxury conglomerate LVMH.

The proposed purchase price of €40 per share represents a 21% premium relative to the pre-announcement trading price for the shares of about €33 per share.



From a pandemic low of approximately €18, Tod's share price peaked at approximately €64 per share in June 2021, from which level shares have fallen steadily to the €30 to €35 range preceding the going private announcement.

### Motivation For Transaction

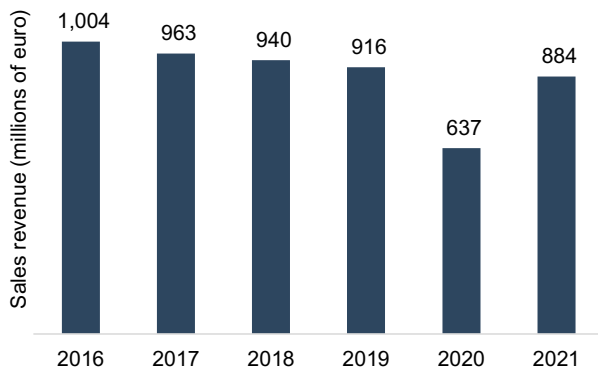
Having been a public company for more than twenty years, what is the family's motivation for taking the company private now? According to the Wall Street Journal, the Della Valle family is taking the company private to “accelerate its development” and “free the company of ‘limitations’” resulting from its public status. The plan to “accelerate” development is interesting, given that it seems like the most common reason companies cite for going public is to improve access to capital to “accelerate” company growth.

Most family businesses will never have to think about whether to list their shares on a public exchange, much less – having done so – to reverse course and take the family business private again. Nonetheless, we believe Tod's transaction highlights two obligations of all family businesses, whether publicly listed or not. The first is the imperative to perform, and the second is the responsibility to report.

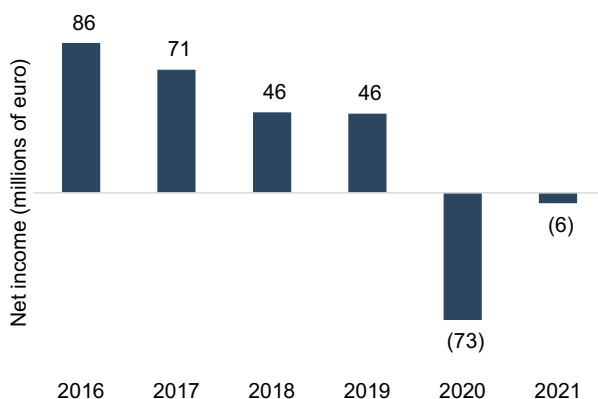
### The Imperative to Perform

The stock price chart presented on the left is uninspiring. Over the past five years (prior to announcing the going private transaction), Tod's shares had shed approximately 50% of their value. In contrast, the shares of luxury conglomerate LVMH tripled in value over the same period, from €233 to €691 per share, while shares of Gucci parent Kering nearly doubled (from €313 to €553).

A quick look at the income statement for Tod's confirms that the underperformance of the shares mirrored underperformance operationally. Since acquiring the Roger Vivier brand in 2016, annual revenue at Tod's has fallen at a 2.5% annual clip.



Earnings have suffered as well, with the company reporting net losses in 2020 and 2021.



The losses in 2020 and 2021 forced the company to discontinue dividend payments, which had already fallen with earnings from €2 per share in 2016 to €1 per share in 2019.

In short, the company failed to deliver value to its shareholders, and the financial performance suggests that it may have been strategically adrift. Following the €400 million acquisition of the Roger Vivier brand (from a related party, no less), Tod's invested approximately €220 million in capital expenditures and one small acquisition during the five years ended 2021 (less than 5% of revenue). Against a backdrop of weakening organic performance, the company had dwindling resources for significant capital investment to spur growth.

Not being accountable to public investors frees family business leaders to consider a broader range of performance objectives other than profit alone. However, being privately-held does not free family business directors from the imperative to perform. Any non-financial goal to which a family may aspire, no matter how noble or laudable, is ultimately supported and underwritten by growing, profitable core business operations. One task of a director is to consider how best to allocate the family's capital resources to earn a competitive return on capital.

Family shareholders may not have the flexibility of public investors in the short term, but in the long-term family capital will flow toward its highest and best use. Chronic underperformance will cause the highest and best use to be found outside the family business, which will likely undermine many of the non-financial goals and objectives of the family, often to the detriment of employees, suppliers, customers, and other stakeholders.

We can't quite envision how taking Tod's private will "accelerate" its growth. That said, the family has recognized that the current trajectory is not sustainable and is attempting to address the company's underperformance. Are you and your fellow directors holding yourselves accountable for generating sustainable competitive returns on capital for your family shareholders?

### The Responsibility to Report

The second obligation is the responsibility to report. While the "limitations" of being a public company prompting the transaction were not enumerated, the burden of reporting results to public shareholders is time-consuming and sometimes requires companies to disclose what they believe is competitively sensitive information. While public companies in Europe are not on the quarterly reporting cycle faced by SEC registrants in the U.S., the annual (and semi-annual) reports of European companies are far more detailed than those of their U.S. counterparts, as you can see [here](#).

Having read through the most recent annual report, it is not hard to see why Tod's management would be eager to get out from underneath that reporting burden. Privately-held family businesses save a lot of time and money by not being

subject to onerous financial reporting obligations. However, that does not mean that shareholder reporting is not important for family businesses. In reality, shareholder reporting is more important for family businesses than public companies. After all, public companies are reporting their results and strategy to anonymous strangers and institutional investors, while family businesses report their results to grandparents, parents, siblings, aunts, uncles, and cousins.

In our experience, many family businesses ignore the benefits of being intentional and strategic about how they report financial results to family shareholders. They do so at their own peril. Uninformed family shareholders eventually become suspicious family shareholders. And suspicious family shareholders often become disgruntled – or, even worse – litigious family shareholders.

Family business directors are stewards of the family's wealth, and reporting is a fundamental obligation of stewards. No, it is not necessary to prepare SEC-worthy quarterly reports for your family shareholders. But that does not give directors license to ignore shareholders. Rather, it gives family business leaders the flexibility to report what family shareholders need to know, with the appropriate frequency and in the most

relevant format. Any time and resources saved by shirking this responsibility will pale in comparison to the costs and distraction of dealing with suspicious and unengaged family shareholders.

Check out our whitepaper on communicating financial results to family shareholders, which you can download [here](#).



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# Mercer Capital

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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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