

The State of the Business Valuation Profession

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NACVA and the CTI's
2022 Business Valuation & Financial Litigation Hybrid & Virtual Super Conference
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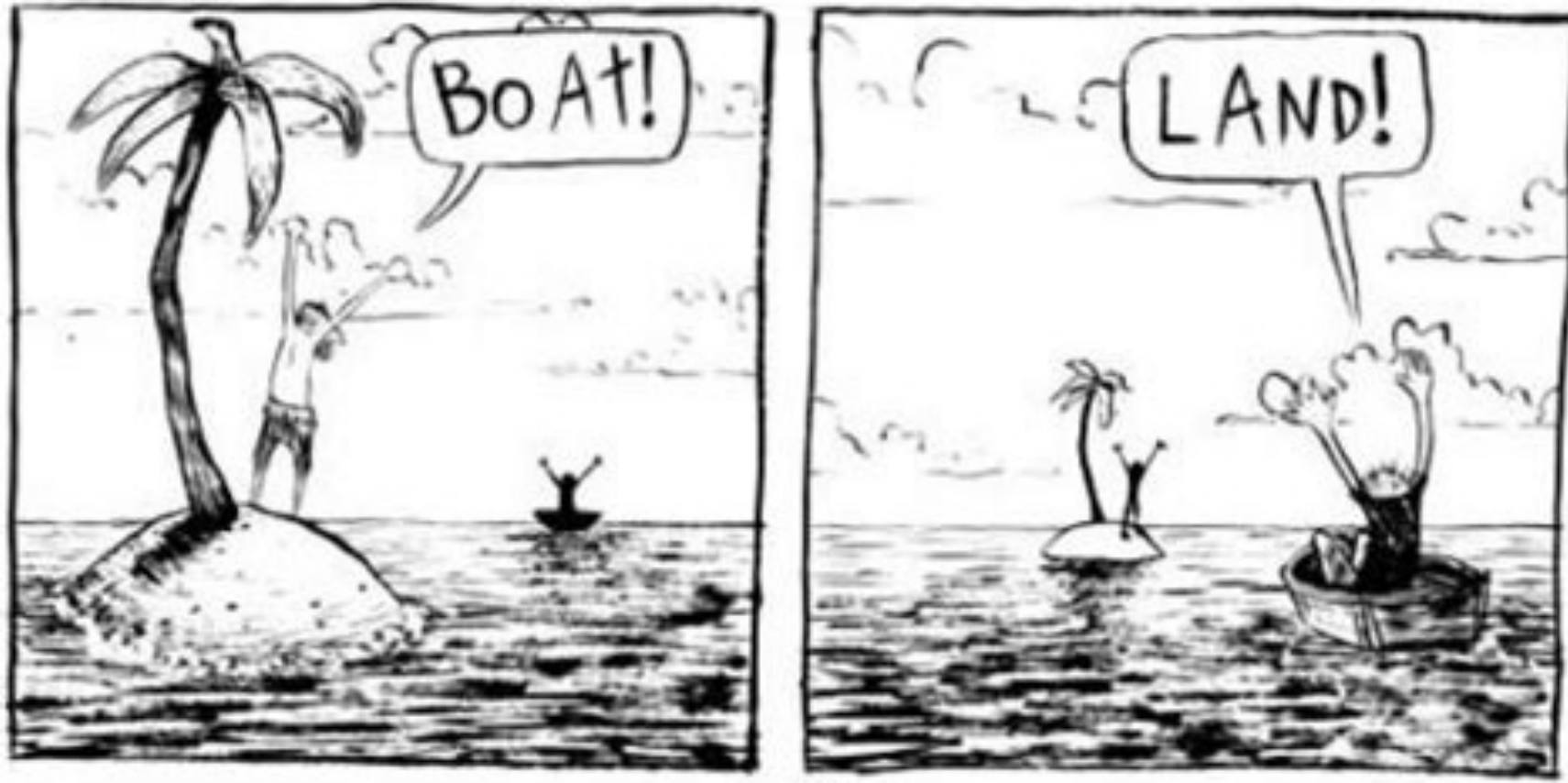
Z. Christopher Mercer is the Chairman and Founder of Mercer Capital. Chris began his valuation career in the late 1970s. He has prepared, overseen, or contributed to hundreds of valuations for purposes related to tax, ESOPs, buy-sell agreements, and litigation, among others. In addition, he has served on the boards of directors of several private companies and one public company. He enjoys working with business owners to address ownership transition issues.

Chris has extensive experience in litigation engagements including statutory fair value cases, divorce, and numerous other matters where valuation issues are in question. He is also an expert in buy-sell agreement disputes.

Chris is a prolific author on valuation-related topics and a frequent speaker on business valuation issues for national professional associations and other business and professional groups.



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Perspective Is Difficult ... for Everyone



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What Is the State of the Profession?

Our Current Reality

1. The profession is aging
2. The profession is consolidating
3. The VPOs are adapting

What Might the Future Hold?

4. What do prominent appraisers say about the future of our profession?
5. What is the future of valuation theory?
6. Marketing will evolve. Will appraisers evolve with it?

Our Current Reality



1. The Profession Is Aging



Baby Boomers

1946 – 1964 | Ages 58 – 76

Gen X

1965 – 1980 | Ages 42 - 57

Millennials

1981 – 1996 | Ages 26 - 41

Gen Z

1997 – 2012 | Ages 10 - 25



A sunset over the ocean with a cloudy sky. The sun is low on the horizon, casting a warm orange glow across the water and sky. The clouds are dark and silhouetted against the bright light of the setting sun.

“Perhaps the greatest challenge facing the appraisal profession now is the sunsetting of careers by baby boomers and their exit from the work force.”

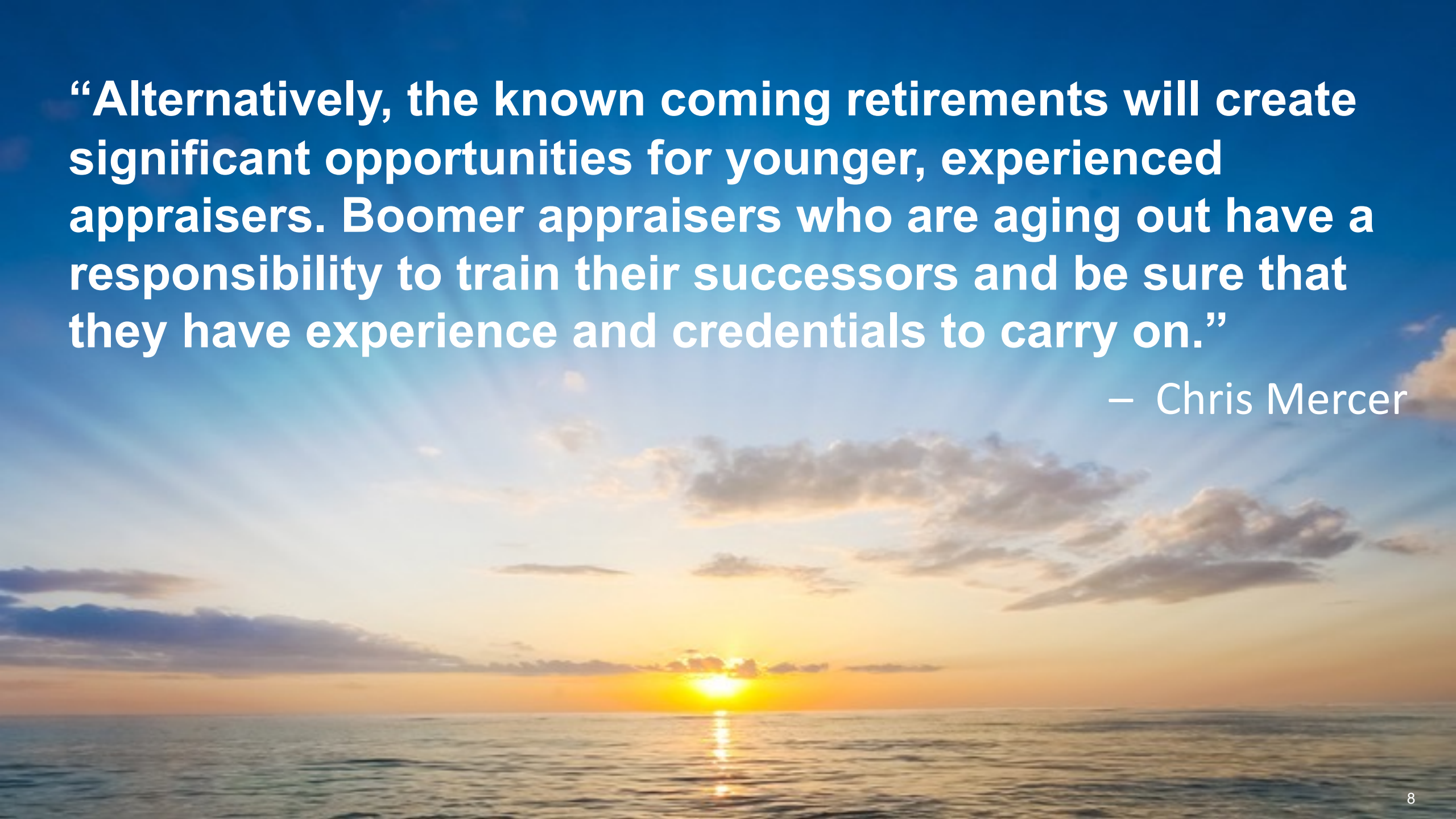
– Johnny White, CEO
American Society of Appraisers

“Retirements of experienced individuals without a replacement will have a negative impact on the profession in the coming decade.”

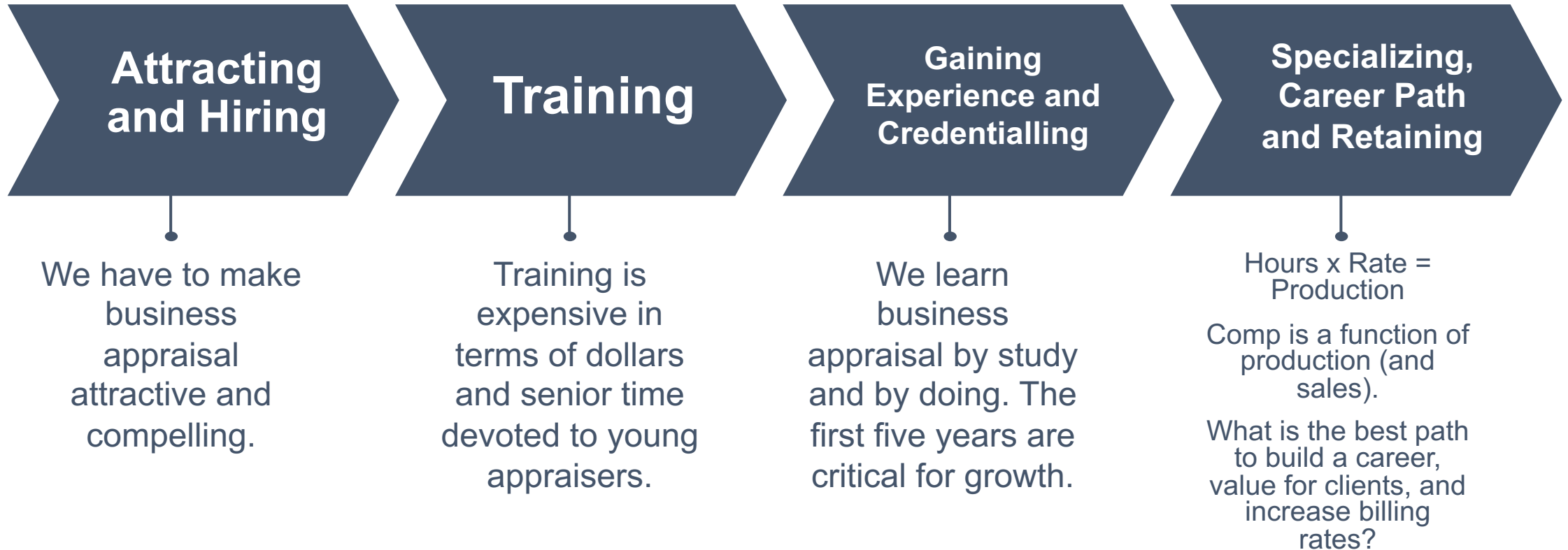
– Experienced Appraiser

“Alternatively, the known coming retirements will create significant opportunities for younger, experienced appraisers. Boomer appraisers who are aging out have a responsibility to train their successors and be sure that they have experience and credentials to carry on.”

– Chris Mercer



With Aging: Major Challenges for Business Valuation

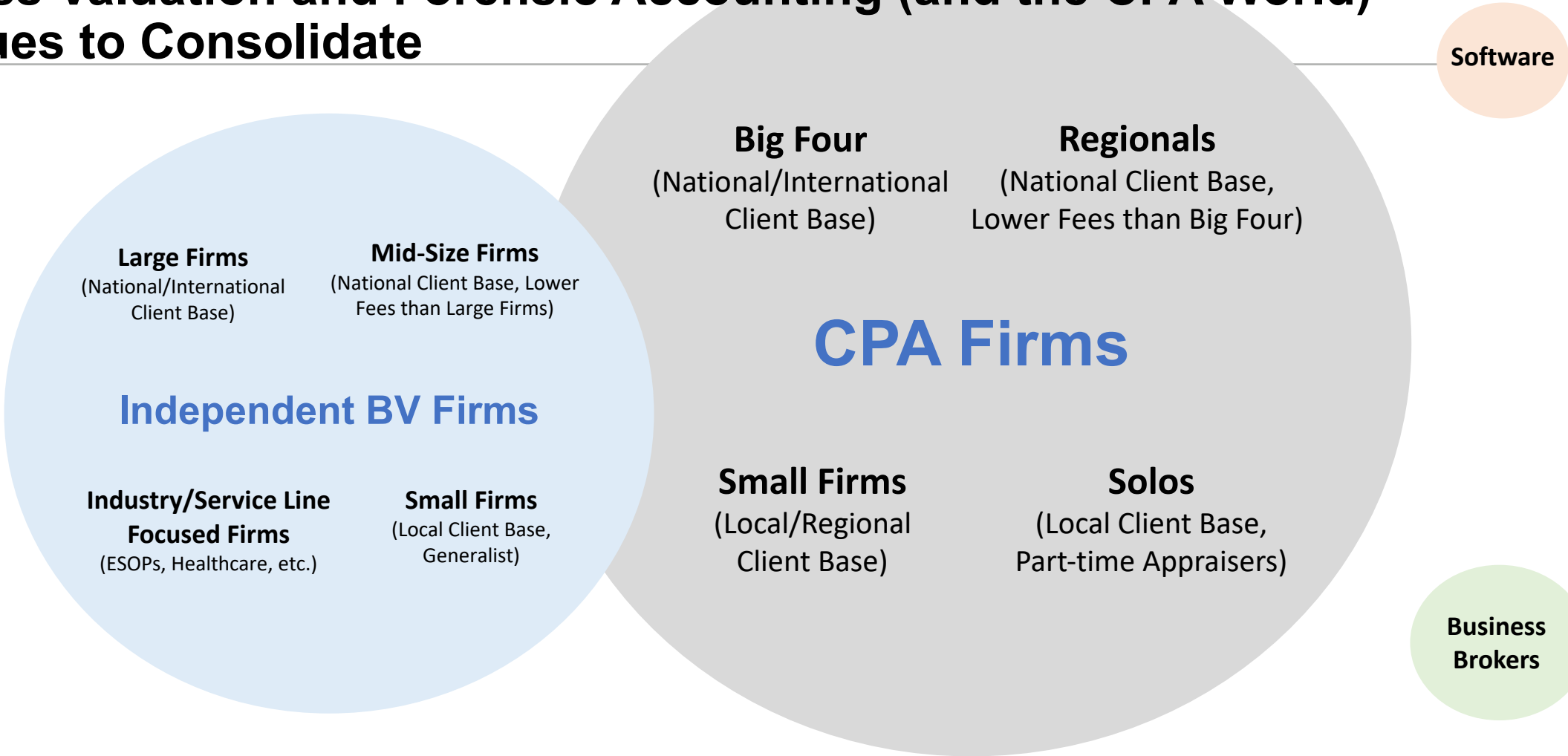


2. The Business Appraisal Profession Is Consolidating

Per IBISWorld, the industry of “Business Valuation Firms” will be growing and consolidating over next few years.



Business Valuation and Forensic Accounting (and the CPA World) Continues to Consolidate



CPA Consolidation and What It Means for Us

3 Leading Causes of Consolidation for CPA Firms

1. Aging leadership is driving need for workable succession alternatives.
2. Strategic change from compliance to higher value added and more profitable areas of consulting.
3. Recognition that to grow at reasonable rates for the larger firms there must be an M&A component to growth.

– Allan D. Koltin

The accounting profession is in a consolidation phase that will have a significant impact on consolidation in the valuation space.

Business appraisal firms have the same issues of aging leadership and threatening commoditization.

Business appraisal firms are facing similar adverse trends with fee compression with compliance work (tax, fair value, 409A, etc.).



3. The VPOs Are Adjusting

ASA

Multi-Disciplinary

Business Valuation is largest discipline with 1,500 credentialed appraisers

During the 1990s and 2000s, the leading provider of educational services to the profession

As a multi-disciplinary society, the ASA lacks the organizational focus on business valuation that is available at NACVA

NACVA

Grown to become the largest BV credentialing organization in U.S. with 6,300 credentialed appraisers

Set a global model for education, training, credentialing, and recertification

While the ASA diverted resources from BV discipline to other disciplines, NACVA reinvested heavily in focused efforts to grow

AICPA

We estimate ~3,400 ABVs at present (unconfirmed), but likely growing some since ABV opened to non-CPAs

The AICPA has multiple focus points and business valuation is only a small part of the whole

Focus on BV is an issue, but the AICPA has sufficient resources to focus there if that decision is made



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American Society of Appraisers Age Distribution

ASA Credentialed Appraisers by Age Group				
Age Group	Count	% Total	Estimated Avg. Age	Product
20-30	31	2.0%	28	0.6
31-40	306	19.8%	37	7.3
41-50	416	26.9%	47	12.7
51-60	393	25.5%	57	14.5
61-65	189	12.2%	67	8.2
66+	188	12.2%	72	8.8
Unknown	21	1.4%	50	0.7

Totals	1,544	100.0%
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52.7
<i>Estimated Average Age</i>



NACVA Age Distribution

2022 NACVA Membership Age Analysis			
Age Brackets	Member % in Bracket	Estimated Avg. Age	Blended
25 to 34	22.0%	29.5	6.5
35 to 44	20.0%	39.5	7.9
45 to 54	23.0%	49.5	11.4
55 to 64	25.0%	59.5	14.9
65 or Older	10.0%	70	7.0
	100.0%		47.7

Estimated Average Age in 2022



2019 NACVA Membership Age Analysis			
Age Brackets	Member % in Bracket	Estimated Avg. Age	Blended
25 to 34	15.0%	29.5	4.4
35 to 44	18.3%	39.5	7.2
45 to 54	24.9%	49.5	12.3
55 to 64	29.0%	59.5	17.3
65 or Older	12.8%	70	9.0
	100.0%		50.2

Estimated Average Age in 2019



The Profession Is Aging

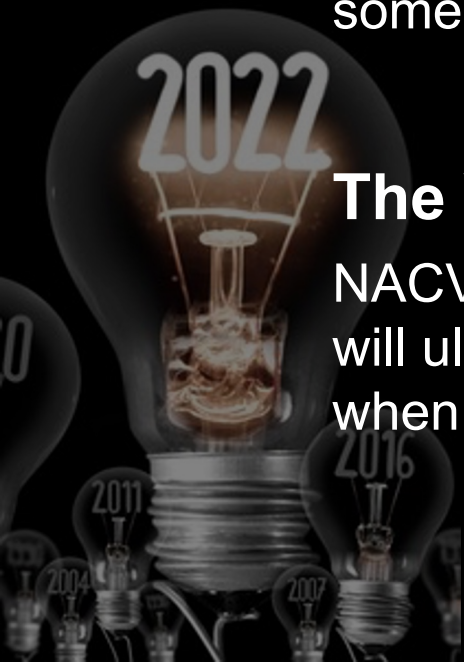
Baby Boomers will continue to age out and Gen X will continue to take over leadership. The profession will continue to grow - there are too many external trends in place for continuing growth not to happen.

The Profession Is Consolidating

The aging of the profession will force consolidation. It will become increasingly difficult to be a small firm without specializations. Consolidation will create new opportunities for some while causing discomfort for many.

The VPOs Are Adapting

NACVA will continue to grow while the ASA and the AICPA continue to struggle. There will ultimately be some consolidation of VPOs although the how is unclear and the when is uncertain.



What Might the Future Hold?



4. What Do Prominent Appraisers Say About the Future of Our Profession?



Is Business Valuation a Commodity Service?

“There is a growing chasm between practitioners who view valuation as a compliance tool focused almost exclusively on:

- (a) getting the best outcome in Tax Court, or
- (b) Providing check-the-box services at the lowest possible price

And those who view valuation as a tool to provide valuable advisory services to clients where addressing client concerns is paramount, and valuation skills are a tool in their toolbox to do that.

Industry specialization naturally feeds these types of relationships.”



Embracing Technology

“Technology and new processes need to be embraced to take out some of the more rote aspects of completing an appraisal.

This will be required to be price competitive, but more importantly, to attract younger people to individual firms and the industry.”

“Appraisal firms must stay on top of technology to attract talent and to remain competitive.”



Are We Losing the Art of Business Valuation?

“The almost holy reliance on so-called empirical data (19 ways to get the cost of equity, adjusting for size by only looking at deciles, 10Z) and methods is alarming.

While the move toward further research and data gathering has been great, experts rely too much on merely applying the techniques and **not standing back to see if it makes sense.**

There has been a movement to replace a deep understanding of the subject business with rote application of the methods and procedures.”



Are We Losing the Art of Business Valuation?

(continued)

“The perceived slow creep towards more cursory analyses on anything but the biggest, most controversial engagements is worrisome.

Shift can be blamed on the proliferation of financial reporting valuations. There was such a land grab for this work following SOX that fees were severely pressured, and corners cut. Then, that became the ‘new normal’ when nobody challenged it.

That work is largely rules-based in my view, and innovative thinking is discouraged because ‘the auditors won’t accept it.’”



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Rise of Commoditization

“A large part of the practice of many firms is fair value for financial reporting. The guidance is being dictated by accountants – sometimes they get it right – but too often it is dictated by auditing concerns, not valuation concerns.

In addition, those dictating the guidance are not up to date with financial theory. So, you will find little innovation and practitioners in the fair value space will be loathe to introduce new and better thinking for fear that the auditors will not accept it.

There is downward pressure on pricing pushing the fair value space to a ‘check the box’ mentality.”



Rise of Commoditization *(Continued)*

“Competition will increase for lower cost work and prices will be impacted in this segment of the market.

Key is developing expertise and marketing broadly.”



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Embracing Expertise vs. Relationships

“The maturation of a ‘digital generation’ – those who grew up with the internet – will change the game. Right now, the decision makers are increasingly Generation X. We got computers as teenagers and got the internet shortly after joining the workforce.

The millennial generation and Gen Z, obviously, know nothing else. When the decision makers are digital natives, their decision-making process changes and that changes what business models and career choices are most effective.

Specifically, what was once a relationship business characterized by lots of local firms becomes harder to maintain when better practitioners are only a Zoom call away.”



Embracing Expertise vs. Relationships *(Continued)*

“The economic pecking order is becoming dependent on the motivations and behavior of clients who hire appraisers based on:

- *Relationships* - because they want a favor and are least willing to pay up for quality
- *Proximity* - because they want the process to be easy and painless and are not very likely to pay for quality
- *Expertise* - because they want the best solution to their problem, and that's worth more to them

Result - Specialized expertise, marketed nationally or internationally, becomes the pathway to the highest effective billing rates.”



Embracing Expertise vs. Relationships *(Continued)*

“For firms, having staff with strong specializations means they are more mobile. Industry expertise leads people to jobs in industry, and investment banking, and investment management, that BV doesn’t have as much experience competing with for talent. **We will have to charge clients more, and pay people more, to keep them in BV.**”

Generally, this may favor larger firms. But specialized boutique providers may rise up – much like specialized law firms that handle only divorce work.”



Opportunities in Compliance Areas?

“Valuation will continue to flourish. Valuation is at the center of all transactions and as such our independent services will continue to be in strong demand.

1. **SEC –2a-5** for asset managers or the need for fairness opinions for continuation funds. Private funds are going retail and there is need for transparency for retail investors
2. **FASB** – the recent termination of the project on goodwill – which would have led to amortization vs. testing for impairment using a fair value approach. FASB also has a project on its research agenda relating to the accounting for internally generated intangibles.
3. **PE/Private markets** – LPs want more transparency and prefer independent opinions on value.
4. **Corporate tax** – structures continue to move and countries all want their share. Valuation is the only way to make sense of values in different jurisdictions.”



There are continuing concerns over commoditization of significant business appraisal services and pressure on fees.

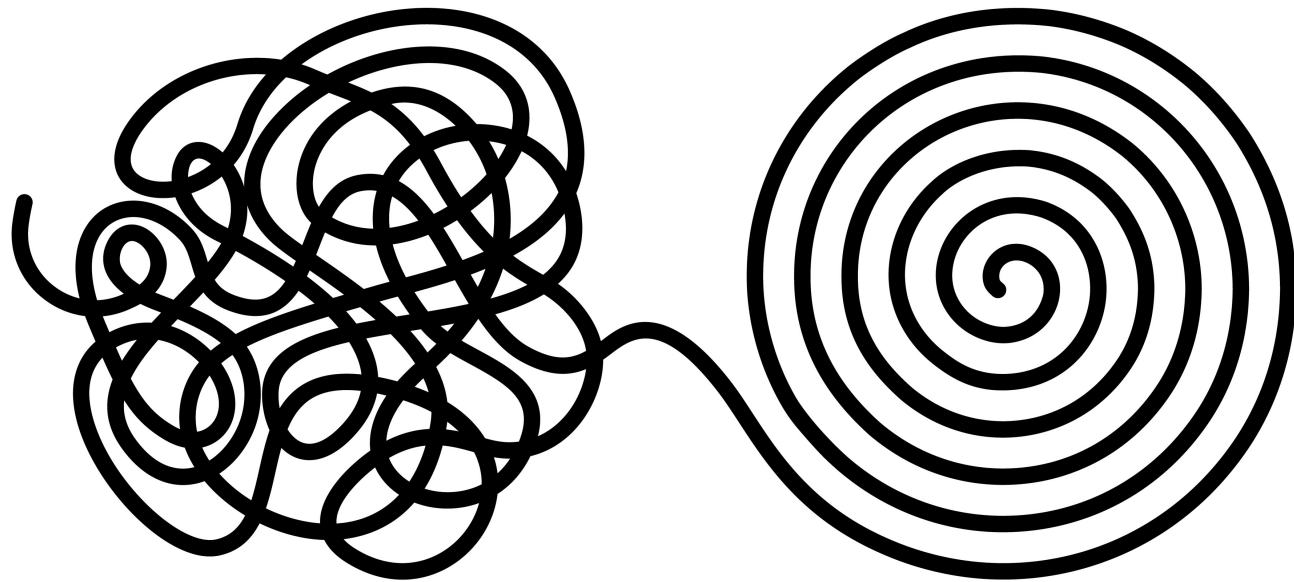
There are concerns over the quality of analysis.

There is a rising belief that specialization is the key out of the commodity trap toward higher fees.

Having observed all this, it is my belief that the profession will continue to grow.



5. What Is the Future of Valuation Theory?



Trends in Business Valuation Theory

Better understanding of the “levels of value”

Growing recognition that restricted stock studies are not useful in DLOM determinations

Increase in use of quantitative methods in DLOM determinations

Enterprise vs. equity valuations

Needed: Better understanding of standard of value known as **fair market value**



Fair Market Value Conceptual Framework

Hypothetical willing sellers

Both are able and
willing to trade

Both fully (reasonably)
informed

Both have financial
capacity

Neither acting under
compulsion



Negotiate Over Price
Value = f (Expected Cash
Flow, Risk, Growth) for
Entity or Interest in Entity

Engage in a (hypothetical)
transaction for the interest
for "money or money's
worth" (cash equivalent
basis)

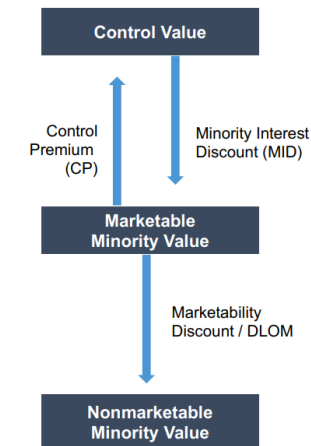
On the Valuation Date
(after the hypothetical
negotiations and all
"marketing" have
occurred)

Hypothetical
willing buyers

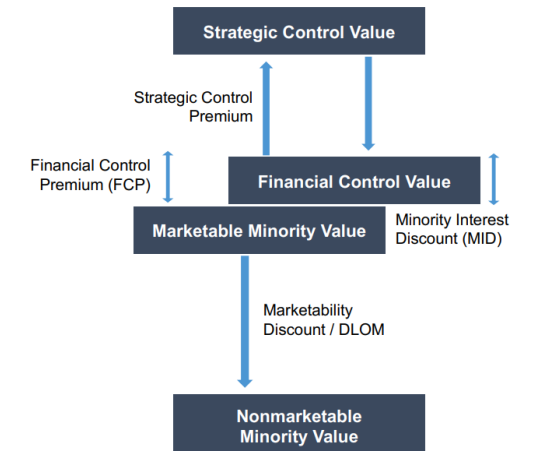
Traditional / Original vs. Current Levels of Value Chart



Traditional/Original



Current /Expanded and Refined



Source: Business Valuation: An Integrated Theory Third Edition - Exhibit 2.15



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Restricted Stock Studies (and Pre-IPO Studies) Are Useless

Increasing Use of Quantitative Methods to Develop Marketability Discounts

Enterprise vs. Equity Methods

Direct to equity methods are used less often than in the past

- Equity multiples from public markets

- Equity discount rates

Trend is towards enterprise value methods

- Enterprise multiples from public markets

- Weighted average cost of capital (WACC)

- Enterprise value less debt plus cash equals equity value



The “Old Way” of Doing Things Will Die Out

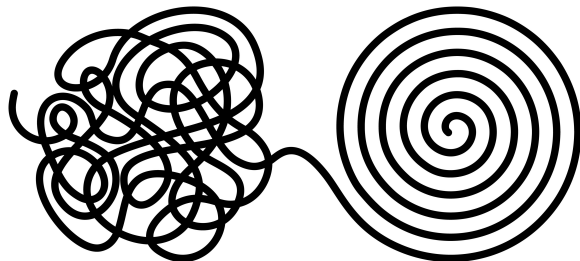
Wiley Finance Series

Business Valuation

An Integrated Theory
Third Edition

Z. CHRISTOPHER MERCER
TRAVIS W. HARMS

WILEY



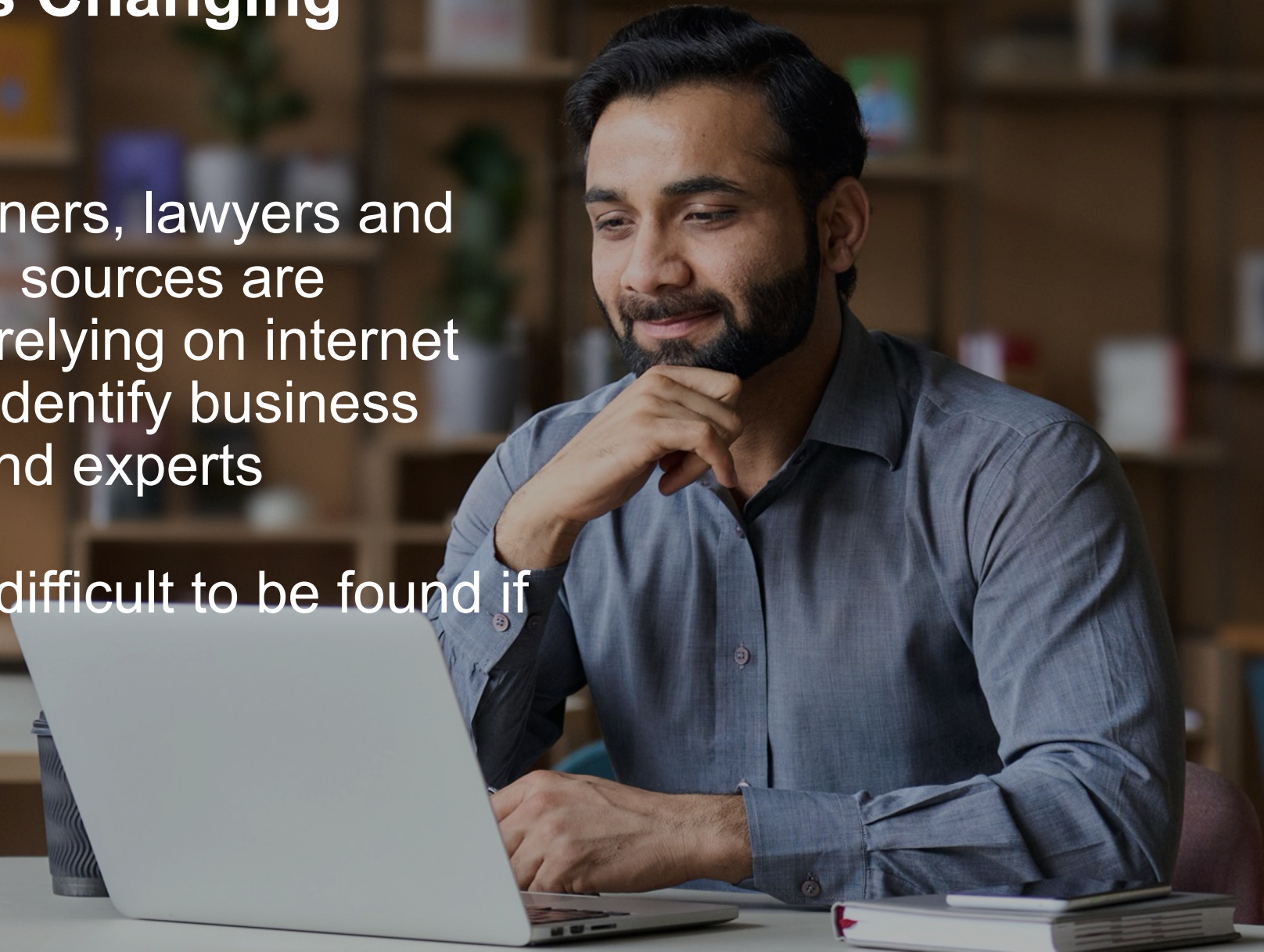
6. Marketing Will Evolve. Will Appraisers Evolve With It?



Marketing of Professional Services is Changing Rapidly

Business owners, lawyers and other referral sources are increasingly relying on internet searches to identify business appraisers and experts

Enormously difficult to be found if a generalist





Harkins, CFA, ABV

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Early Specialization

David Harkins, a panelist from Mercer Capital, had a background in economics and got assigned to business valuation projects his first year out of school, which he combined early with industry focus. This made him an “expert” quicker than his peers in tax or audit “because it generated better management interviews and analyses.”

Business Valuation Update, April 2022



BLOG

RIA Valuation Insights

A weekly update on issues important to the Investment Management industry

Alt Managers Best the Market and Other Types of RIAs During a Rocky Twelve Month Stretch for the Industry

April 8, 2022 | Asset Management | Industry Trends



Implications for Your RIA

Notably, the market for privately held RIAs remained strong in 2021 as investors flocked to the recurring revenue, sticky client base, low capex needs, and high margins that these businesses offer. Deal activity for these businesses continued to be significant in 2021, and multiples for privately held RIAs tested new highs due to buyer competition and shortage of firms on the market. As these dynamics continue into 2022, the outlook for continued multiple expansion and robust deal activity remains favorable assuming interest rates and market conditions stabilize in the near future.”

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We Have to be Found

Google how to value an oilfield services company

The asset-based approach generally represents the market value of a company's assets minus the market value of its liabilities. The asset-based approach can be applied in different ways, but in general, it represents the market value of a company's assets minus the market value of its liabilities. Jun 3, 2019

<https://mercercapital.com/Energy-Valuation-Insights> :
[How to Value an Oilfield Services Company - Mercer Capital](#)

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<https://mercercapital.com/energyvaluationinsights/u...> :
[Understanding Oilfield Services Companies & How to Value ...](#)

Feb 13, 2020 — Understanding the value of an oilfield services (OFS) company is by its very nature a complex matter. In this post we discuss our latest ...

People also ask :


- How do you value an oil company?
- How are oil and gas reserves valued?
- How do you evaluate oil and gas assets?
- How do I start a oilfield service business?

<https://www.linkedin.com/pulse/how-value-oilfield-ser...> :
[How to value an oilfield services company? - LinkedIn](#)

Nov 13, 2018 — Valuing an oilfield services company in many respects is not much different than valuing any other company by using the widely applied ...

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August 6, 2022 | Planning & Strategy | Special Topics

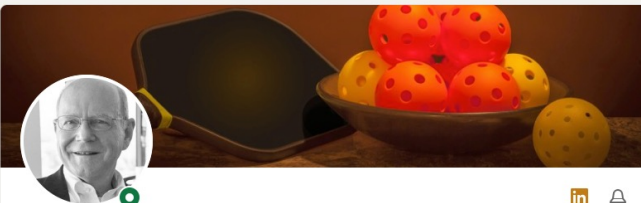

These Loafers Are Made for Walkin'

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

Last week, Tod's – the Italian maker of luxury shoes – announced plans by the founding Della Valle family to take the company private. We discuss the motive behind this transaction and two obligations of all family businesses (public or not) that we believe this transaction highlights.

August 1, 2022 | Planning & Strategy | Shareholder Engagement | Special Topics

How to Have "The Talk" With Your Family Directors



Chris Mercer · 1st
Business Appraisal Review || Buy-Sell Agreements || Statutory Fair Value || Value in Litigation
Talks about #valuation, #appraisalreview, ##appraisalreview, #statutoryfairvalue, and ##buysellagreements
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JULY 2022

Bank Watch

ARTICLE

Strategic Benefits of Stress Testing in an Uncertain Economic Environment

In This Issue

- Strategic Benefits of Stress Testing in an Uncertain Economic Environment
- Public Market Indicators
- MSA Market Indicators
- Regional Focus: Bank Post Recession
- Global Market Capital

Marketing (and Conduct) of Professional Services is Changing Rapidly

- The age of Zoom, Teams and Google Chat is upon us and won't go away
- I think this will help specialists by basically eliminating the need for “local” service
- Geography will be less important in marketing services



Lee Frederickson

Hinge Marketing

- There is a **revolution** going on that is reshaping professional services. It is driven by profound changes in both buyer's behavior and the technology that makes these new patterns possible.
- What has changed is that buyers now have a much greater access to a wider range of professional advice and talent than ever before thanks to the **evolution of the internet**.
- This has allowed them to **easily and quickly locate professionals who have the precise set of skills and expertise to solve the specific issue they are faced with**.

Lee Frederickson

Hinge Marketing *(Continued)*

- Another profound change has been **the erosion of geography** as a key factor in the actual delivery of services.
- With the near universal access to low cost, easy to use video communication the need for face-to-face interaction has greatly diminished.
- In short, **it doesn't really matter where the expert resides.** Remote work is both common and routine.
- The **need** for high level expertise **has never been greater.** With the rapid evolution of technology and the chaos and confusion of the modern business world the **demand for experts who can help address the complex business needs of their clients continues to grow.**

Lee Frederickson

Hinge Marketing *(Continued)*

- What has changed is that **buyers now have a much greater access to a wider range of professional advice and talent than ever before thanks to the evolution of the internet.**
- This has allowed them to **easily and quickly locate professionals who have the precise set of skills and expertise** to solve the specific issue they are faced with.

Have to get found. Internet is key.

Increasingly hard to be a generalist. Specialized expertise makes it easier to be found.

Geography doesn't matter as much as it used to.





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Mercer Capital's Core Services

Mercer Capital is a national business valuation and financial advisory firm

Valuation & Financial Opinions

- Litigation-Related Expert Witness Opinions
- Succession & Shareholder Planning
- Valuations for Corporate Tax Planning
- Valuations for Gift & Estate Tax Planning
- Fairness Opinions
- ESOP & ERISA Advisory Services
- Bankruptcy-Related Valuation Services
- Valuations for Buy-Sell Agreements

Transaction Advisory Services

- M&A and Investment Banking Services
- Bankruptcy/Restructuring Advisory
- Fairness Opinions
- Solvency Opinions
- Quality of Earnings

Litigation Support Services

- Business Damages & Lost Profits
- Corporate Restructuring & Dissolution
- Statutory Fair Value
- Valuation, Labor & Contract Disputes
- Family Law & Divorce
- Tax-Related Controversies
- Initial Consultation & Analysis
- Testimony & Trial Support

Financial Reporting Valuation Services

- Purchase Price Allocation Services
- Impairment Testing Services
- Portfolio Valuation Services
- Equity-Based Compensation Valuation

Family Business Advisory Services

- Customized Board Advisory Services
- Management Consulting
- Independent Valuation Opinions
- Transaction Advisory Services
- Confidential Shareholder Surveys
- Benchmarking/Business Intelligence
- Shareholder Engagement
- Shareholder Communication Support



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Thank You!

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