Welcome & Opening Remarks

Johnnie White, CEO/Executive Vice President | American Society of Appraisers

Keynote Address

9:35 - 10:35am

Big Market Delusion
Bradford Cornell, Emeritus Professor of Finance | UCLA

In entrepreneurs’ minds, big markets offer the promise of easily scalable revenues that, coupled with profitability, can translate into large profits. This session examines how the “big market promise” affects business formation and financing, with a focus on the role of overconfidence on the part of both entrepreneurs and their financiers (venture capitalists and public equity) in creating a collective overpricing of companies in alleged big markets—and an inevitable correction. For valuation professionals, the key lesson is that pricing based on multiples and the peer group can lead to significant overpricing. Put simply, companies can appear fairly priced relative to other companies in a big market, but they might all be overvalued.

How to Market Your Professional Designation

Barry Lebow, CEO | Barry Lebow Professional Services Inc.

It is not enough to be an ASA as that alone will not attract new business, it is how you use it and how you market yourself. How to reach other professionals who will 1) give you continued volume business over your career and 2) greatly increase your fees.

You Get What You Pay For: Voting, Non-Voting, and Supervoting Shares

John Taylor, ASA, Managing Director | Houlihan Lokey Financial Advisors, Inc.
Yuka Itami, ASA, Senior Vice President | Houlihan Lokey Financial Advisors, Inc.

In circumstances which a company has a dual class structure (e.g. both voting and non-voting classes of stock), there may be an observed (or inferred) price difference between the two. The generally understood concept of “greater value for greater rights” would lead us to assume such would usually be in favor of the voting stock. However, when substantial numbers of both voting and non-voting shares are outstanding, one vote owned by a marginal investor outside
the control group is likely not enough to impact corporate decisions. Further, commonly used methods to measure empirical price differences among listed securities and/or transactions may not adequately express the relevant differential. This panel will discuss our recent research and findings on this topic as regards the relative values of voting, non-voting, and super-voting shares. Session covers Houlihan Lokey’s recent research and filings regarding the potential premia/discounts based on historical studies and more detailed and nuanced analyses. Specific areas of discussion include: anecdotal considerations, other factors which may impact price, analytical frameworks to screen for comparable datapoints, and interpretation of the outputs.

[Business Valuation 2]  
Why LEAP’s Provide Defendable Discounts for Lack of Marketability (DLOM’s)  
Brian Pearson, ASA, Managing Member | Valuation Advisors, LLC

The presentation will review LEAP stock option discounts for lack of marketability for 6, 12, 24- and 36-month time frames from a sample group of 30 well known, large publicly traded companies (e.g. Starbucks, Walmart, Microsoft etc.). The discount calculation process will be reviewed and discussed, with the resulting discounts will be shown over a 12-month period of time. The discounts for a closely held company (CHC) will then be demonstrated by using the LEAP discounts as a starting point combined with a Predictive Illiquidity Model (PIM) for the typical CHC, using the 12 factor test PIM. A question and answer period will follow.

[Multi-Discipline]  
Gift and Estate Tax Appraisals: An Estate Planner’s Perspective  
Mel M. Justak, Partner | Reed Smith LLP

This session will present an estate planner's perspective on gift and estate tax appraisals based on experience in IRS audits and explaining provisions to clients.

1:00 - 2:00pm  
[Business Valuation 1]  
Potential Pitfalls of FCF Forecasting in the Terminal Period  
Joseph Thompson, ASA, Director | The Griffing Group  
David Neuzil, Consultant | The Griffing Group

In applying the discounted cash flow (DCF) method, there are common errors that occur in the terminal period ranging from over/under investment in fixed assets, working capital, and amortization impacts. Our presentation will cover common mistakes to avoid when projecting the free cash flow in the terminal period. In addition, we will cover the "Value Driver Models" (e.g., McKinsey and Bradley-Jarrell) for forecasting net investment into perpetuity. Finally, we will discuss potential issues surrounding accounting vs. economic measurements of investments made by companies.

[Business Valuation 2]  
Delaware Case Updates  
Gil Matthews, Chairman Emeritus and Senior Managing Director | Sutter Securities, Inc.

In the past four years, the Delaware Supreme Court has issued several major opinions that addressed transaction-related corporate valuations. The presentation will discuss these opinions as well as numerous valuation-related Court of Chancery decisions in the same period. It will contrast the Delaware courts’ views valuing companies in arm’s-length transactions with its valuations in related party transactions and will discuss the impact of those differing approaches on statutory appraisals. It will also discuss Delaware’s views on valuation methods, with a focus on inputs into DCF calculations. This topic will be of particular interest to valuators who may testify as experts in valuation cases and to those who prepare fairness opinions.
The Compelling Use of Business Valuation Appraisals in Litigation

John C. Sciaccotta, Attorney | Aronberg Goldgehn
Honorable Thomas R. Mulroy, Associate Judge, Circuit Court of Cook County

This session will offer best practices relating to the use of business valuation expert testimony at trial. Learn more about preparing the expert and designing the testimony for the most compelling and persuading impact upon the judge and jury.

2:30 - 3:30pm

[Business Valuation 1]
Estimating Long Term Growth Rates

Roger Grabowski, FASA, Managing Director | Duff & Phelps
Ashok Abbott, Ph.D., Associate Professor of Finance | West Virginia University

Terminal Value estimates used in the discounted cash flow (DCF) method often account for the largest percentage of the total indicated value and are highly influenced by growth rate expectations. Typical formulation of DCF requires an estimate of the expected organic growth rate of the subject business as it exists on the valuation date. Session will present new empirical research on organic industry-level growth rates – growth rates actually realized over the long-run with effect of acquisitions removed. In addition, we will present empirical data on how profitability changes as growth in revenues change.

Monday, October 12, 2020

[Business Valuation 2]
Valuation Enforcement Cases – SEC and IRS Valuation Controversies

Anthony S. Kelly, Partner | Dechert LLP
Natalie Hoyer Keller, Partner/Tax | Kirkland & Ellis LLP

Regulatory organizations consistently identify valuation as a “key area of focus.” This session offers an overview on the array of recent SEC and IRS enforcement actions related to business valuations and lessons learned.

4:00 - 5:30pm

[Business Valuation 1]
Applying Environmental, Social and Governance Standards to Valuations

John Buley, Professor of the Practice of Finance | Duke University, Fuqua School of Business

Fund Managers in public and private equity and credit have embraced investing in assets meeting Environmental, Social and Governance ("ESG") standards. Many more are investing assets in funds seeking broader social impact or funds that meet the United Nations Sustainable Development Goals. From a niche market only a few years ago, it is estimated that ESG funds now comprise over $5trillion in assets. Many predict this number to double in the next two years. We will explore the growth in this asset class and discuss how to benchmark performance. We will discuss both how and why this field has surged in popularity and consider a few of the risk factors that may affect performance. Finally, we consider how existing methods of valuation may be inadequate in the context of ESG applied to large, multi-sector portfolios.
Early Stage Valuation: A Fair Value Perspective
Antonella Puca, CPA/ABV, CFA, CEIV, Senior Director | Alvarez & Marsal Valuation Services LLC

The category of early stage companies includes start-up companies which have an initial concept, design or business plan, but not an actual product, as well as multi-billion-dollar companies with significant revenue and operations that have yet to reach profitability. The valuation of an ESEs is based on a mix of quantitative analysis, people insight and intuition for the company’s growth prospects. In spite of their diversity, ESEs have unique characteristics as a group that warrant special consideration in valuation.

This presentation provides an overview of the valuation of early stage companies under the fair value standard of Financial Accounting Standards Board, Accounting Standards Codification Topic 820, Fair Value Measurements and International Financial Reporting Standards 13, Fair Value Measurement. In presenting the “state of the art” in ESE valuation, we intend to harmonize the views of venture capital investors, investment bankers, auditors and valuation specialists.

Tuesday, October 13, 2020

8:00 - 9:00am
[Business Valuation]
Popularity: Pricing and Premiums
Roger G. Ibbotson, Professor in the Practice Emeritus of Finance, Yale School of Management | Chairman, Zebra Capital Management

This session will provide theoretical and empirical evidence that total payouts (dividends plus buybacks) are the key drivers of long-run stock market returns. We will also see how total payouts per share (adjusted for the share decrease from buybacks) grew in line with economic productivity, whereas aggregate total payouts grew in line with GDP and we will see that a dividend discount model (DDM) based on current yields and historical growth rates underestimates expected returns relative to the total payout model.

[Multi-Discipline]
Emerging Technologies: Lab Grown Diamonds in Semiconductors

9:05 - 10:05am
[Business Valuation 1]
M&A and Valuations: Skilled Nursing and Assisted/Independent Living Facilities
Vanessa Claiborne, ASA, President & CEO | Chaffee & Associates, Inc.

Attendees will learn the key valuation drivers and metrics that go into valuing skilled nursing facilities and assisted independent living facilities as well as an overview of industry market conditions and outlook.
[Business Valuation 2]
Top 15 Glitches of Valuation Reports for ESOP Purposes

Hillary Hughes, ASA, Director | Prairie Capital Advisors, Inc.
Erin Hollis, ASA, Managing Member | AIW, LLC

The presentation will highlight 15 commonly cited errors and shortcomings in the valuation analysis and reports conducted for ESOP Administration and ESOP Transaction purposes. The presentation will offer examples and tips for identifying and avoiding the errors.

[Multi-Discipline]
Defensive Practices / Mock Trial (continued)

Jeffrey W. Brend, ASA, CPA/ABV, CFE, CFF, AAML, Attorney at Law | Levin & Brend, P.C.
Craig M. Capilla, Attorney | Franklin Law Group
Mark A. Munizzo, ASA, President | Equity Network

10:30am - 12:00pm [Business Valuation 1]
International Cost of Capital: Understanding and Quantifying Country Risk

James Harrington, ASA, Director | Duff & Phelps LLC
Carla Nunes, Managing Director | Duff & Phelps LLC

Country risk, the additional risk that investors bear when making a cross-border investment, is a critically important but often overlooked component of the cost of capital. Country-specific factors like political instability, uncertain legal regimes, and economic turmoil cause investors to require an incremental premium for putting their capital at risk. And while few would dispute the notion that risk varies across countries, there is not universal agreement on how best to measure country risk. Indeed, incorporating country risk into the investment analysis process is as much art as science. Join Carla Nunes and James P. Harrington (both of Duff & Phelps) as they take a deep dive into the subject of country risk. They will present their framework for cross-border valuations and explain how to properly account for country risk in a discounted cash flow valuation. Topics will include: (i) a framework for cross-border valuations, (ii) common approaches for incorporating country risk in valuation, (iii) international cost of equity models and selection criteria, and (iv) practical application through a case study.

[Business Valuation 2]
TCJA, Kress, Jones, and Cecil: Where Do We Go From Here

Daniel R. Van Vleet, ASA, Managing Principal | The Griffing Group

During the last two years, there have been significant developments in tax law and court decisions that have fundamentally challenged the way business valuations are conducted. The Tax Cuts and Jobs Act (TCJA) contains sweeping changes to corporate and individual tax rates, deduction limitations, and the tax treatment of pass-through entities (PTEs). These changing characteristics affect the valuations of C corps and PTEs in a disparate manner. We have also had decisions and pending decisions in the U.S. District Court and U.S. Tax Court that address the valuation of pass-through entities in Kress, Jones, and Cecil. In this presentation, I will discuss the valuation-related characteristics of the TCJA and provide quantitative solutions that address these characteristics. I will also discuss the relevant valuation aspects of recent judicial matters and how to interpret the guidance provided by various courts.

[Multi-Discipline]
Defensive Practices / Mock Trial (continued)

Jeffrey W. Brend, ASA, CPA/ABV, CFE, CFF, AAML, Attorney at Law | Levin & Brend, P.C.
Craig M. Capilla, Attorney | Franklin Law Group
Mark A. Munizzo, ASA, President | Equity Network
An analysis of academic articles with examples on how to model convertible debt using binomial model all had errors. We will review the framework for valuing convertible debt. Discuss the strengths and weaknesses of various option pricing models when valuing convertible debt. And show various option pricing valuation models that actually work.

In this session, Financial Accounting Standards Board (FASB) Supervising Project Manager Joy Sy provides an update on the FASB’s active project, including its review of identifiable intangible assets and subsequent accounting for goodwill.

In convertible debt valuation practice the notion of a "volatility haircut" is fairly common - an idea that the market pricing for convertible debt doesn't incorporate the full expected volatility for the underlying security. As such, an artificial cap on the volatility input is sometimes introduced to arrive at a value that is more aligned with market practice. In this presentation, we investigate the application of a "volatility haircut" by comparing the market pricing on publicly traded and recently issued convertible securities, and model prices based on available market inputs. We consider practical modeling approaches that could allow practitioners to reconcile market and model prices.

On February 25, 2016 ASC 842 was added to the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). ASC 842 replaces ASC 840 and provides new lessee and lessor guidance for financial accounting and reporting. The new guidance took effect on January 1, 2019 for calendar year end public companies but was recently deferred for private companies. The new Standard significantly changes the accounting for leases, particularly for lessees, which are now required to record all leases in excess of 12 months on their balance sheet, reflected as a Right of Use asset and a liability based on the present value of future lease payments. This has broad implications for companies, including to EBITDA measures and debt covenants. In the valuation and accounting for both operating and finance leases appraisers and accountants will need to consider the future lease payments, lease term, lessee end of lease
purchase options, renewal options, and implicit discount rate found in lease agreement or the incremental borrowing rate (IBR). In particular, determination of the IBR can present challenges for companies. Additionally, the valuation of leases in the context of a business combination (under ASC 805) is impacted by the adoption of ASC 842. For example, in the case of acquired leases in which the acquire is the lessee, ASC 805 now requires that leases be valued in accordance with ASC 842, with the exception that the ROU asset is adjusted for favorable or unfavorable terms relative to market.

[Multi-Discipline]
80/20: Profitability and Growth
Peter Philippi, Founder/Chairman | Strategex LLC

In this presentation you will get a completely new perspective on the old 80/20 Principle and how it applies to every aspect of your business. You’ll walk away with some powerful tools you can use to begin to improve your company performance immediately. In this high energy and high-powered session, Peter Philippi will walk through the 80/20 process with a mission to provide a basic understanding of how the 80/20 Principle is applied to your business – and to life! He will present a series of concepts and practical examples such that the learning can be applied as soon as the session is complete. Learn how to uncover the critical few customers, products/services and activities that provide 80% of the value. Don’t spend as much time and resources on the 80% that provide very little value, and that are costing your company far more that you ever expected!

3:35m - 4:35pm

[Business Valuation 1]
When Beta Breaks Down: Practical Approaches to Improving Cost of Capital Estimates
Adam Smith, ASA, PwC Deals - Valuation, Managing Director | PwC
David Polan, CFA, CPA, PwC Deals - Valuation, Senior Manager | PwC

This presentation will cover the fundamentals of why consideration of the beta R^2 indications is an important step in developing a supportable cost of capital estimate. We will present factors that may lead historical beta indications (and resulting cost of equity) to be unreasonably low and present some ideas on potential practical solutions to produce more reasonable / supportable discount rate indications, including consideration of “implied” beta and cost-of-equity based on public stock prices and forecasts.

[Business Valuation 2]
Using Management's Forecasts Under the Mandatory Performance Framework
Mark Zyla, ASA, CPA/ABV, CFA, Managing Director | Zyla Valuation Advisors LLC

Management typically prepares Prospective Financial Information (“PFI”) which is used as an input in a discounted cash flow model, a common valuation method both in fair value measurements and elsewhere. Current best practices dictate that Valuation Specialists should determine whether or not the PFI prepared by management is reasonable for use in their analysis. The Mandatory Performance Framework ("MPF") in valuations for financial reporting provides additional guidance as to assessing the reasonableness of PFI for use by a valuation specialist. This presentation will focus on the how to determine the reasonableness of management’s PFI for use in your analysis.

[Multi-Discipline]
Advisory Opinion 20: Opinion of Value
Joel D. Gonia, ASA - ARM & MTS/M&E, Senior Review Appraiser | KATS M & E, LLC