

MERCER CAPITAL

Pitfalls in Real Estate and Business Valuations

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Scott A. Womack

(615) 345-0234

womacks@mercercapital.com

Michael J. King

865.525.0880

mjk@painebickers.com



Paine | Tarwater | Bickers, LLP

ATTORNEYS AT LAW



BUSINESS VALUATION &
FINANCIAL ADVISORY SERVICES

WWW.MERCERCAPITAL.COM

Why are Valuations different?

Art vs. Science



Business Valuation: Both Art and Science

Those knowledgeable about valuation recognize that the field is as much art as science.

Business valuation is often described as part art and part science because many of the techniques used by business appraisers require the use of subjective assumptions.

The practice of valuation is an inexact art, not a precise science.

***Athlon Sports Communications, Inc. v. Duggan*, 549 S.W.3d 107, 123 (Tenn. 2018)**

What is the purpose of a Business Valuation?

“

**To protect the
integrity of the
transaction or event**

When & Why a Valuation is Needed?

Valuation Triggers: 4 Basic Quadrants

(Generally) Not
Regulatory
Driven

Litigation

- Buy/Sell Disputes
- Family Law
- Contract Disputes
- Business Torts
- Tax Disputes
- Dissenting Shareholder Disputes
- ESOP/ERISA Disputes
- Bankruptcy
- Economic Damages

Transactional

- Sale of Business (Pricing / Negotiations)
- Buy/Sell Agreements
- Stock Exchange / Public Co. / IPO
- Installment Sale
- ESOP's
- Fairness Opinions
- Incentive / Corporate Planning

Regulatory
Driven

GAAP / Financial Reporting

- ASC 805 - Allocation of Purchase Price
- ASC 350 & 360 Impairment
- ASC 718 - Equity Based Compensation
- ASC 820 - Portfolio Valuation

Tax

- Estate & Gift Taxes
- Charitable Gifting
- 409(a) Transactions
- IRC 367(d) "Toll Charge"
- Transfer Pricing
- IRC 197 – Allocation of Purchase Price
- Corporate Reorganizations & Basis Step Ups
- IRC 280G "Golden Parachute"

Property Valuations

Qualifications to Provide Opinions on Value of Land

Tennessee has long “followed a policy of liberality in admitting opinion evidence respecting the fair cash market value of real estate” allowing both lay and expert witnesses to give his or her opinion of the fair market value of real estate so long as it is not founded on pure speculation.

Long Line of Cases Including ***City of Pulaski v. Morris*, 2010 WL 3732161 (Tenn. Ct. App. Sept. 23, 2010)**

Credentials/Licenses – Real Estate

Qualified

MAI
State Licenses

Can be Qualified

ASA

Qualifications requiring further Questions

Realtor
Zillow
Property Tax
Assessor

What to Look for in an BV Expert

1. Excellent reputation
2. A “professional witness?”
3. Ability to provide insights from business and valuation perspectives
4. Valuation experience and credentials
5. Publications and speaking background
6. Testimony experience (plaintiffs, defendants, or both)
7. Communications skills (need to explain complex financial issues in layman’s terms)
8. “Grace under pressure”
9. Does the expert have the time and support to handle the matter under consideration
10. Independence
11. Industry experience?

Credentials/Licenses - BV

Qualified

ASA
CVA
ABV
CFA

Can be Qualified

CPA
CFE
Economist
Professor
Ph.D.

Qualifications requiring further Questions

Business Broker
CFP

Assignment Definition

Business Name	ABC Company
Business Interest Under Consideration	100%, XX%, or TBD Non-Controlling Interest
Standard of Value	Fair Market Value
Level of Value	Non-marketable, minority interest
Effective Date	December 31, 2020
Type of Engagement	Appraisal Report

Ownership Interest Under Consideration

- **Confirm in planning phase**
 - Any changes in owned % interest during marriage?
 - Ownership percentage for dissenting Shareholder
- **Level of Value**
- **DLOC and DLOM**
 - Confirm with state statute



Standards of Value

Fair Market Value

Fair Value

Strategic/Investment Value

Fair Value vs. Fair Market Value

It is worth noting that dissenters' rights statutes use the term "fair value," not "fair market value."

"Fair value" in this context is not the same as fair market value.

"Fair market value" is typically defined as the price at which property would change hands between a willing buyer and a willing seller when neither party is under an obligation to act.

Athlon Sports Communications, Inc. v. Duggan, 549 S.W.3d 107, 119 (Tenn. 2018)

Fair Value vs. Fair Market Value

‘Fair value’ with respect to a dissenter’s shares means the value of the shares immediately before the effectuation of the corporate action to which the dissenter objects, excluding any appreciation or depreciation in anticipation of the corporate action. Tenn. Code Ann. § 48-23-101(4)

Tennessee’s dissenters’ rights statutes do not specify how “fair value” price is ascertained.

The determination of a company’s value is generally left to the discretion of the courts or appraisers or both.

Athlon Sports Communications, Inc. v. Duggan, 549 S.W.3d 107, 119 (Tenn. 2018)

8 factors of Revenue Ruling 59-60

- 1** The nature of the business and the history of the enterprise from its inception
- 2** The economic outlook in general and the condition and outlook of the specific industry in particular
- 3** The book value of the stock and the financial condition of the business
- 4** The earning capacity of the company

8 factors of Revenue Ruling 59-60

- 5 The Dividend-paying capacity
- 6 Whether or not the enterprise has goodwill or other intangible value
- 7 Sales of the stock and the size of the block to be valued
- 8 The market price of stocks of corporations engaged in the same or a similar line of business having their stocks actively traded in a free and open market, either on an exchange or over-the-counter

Premise of Value

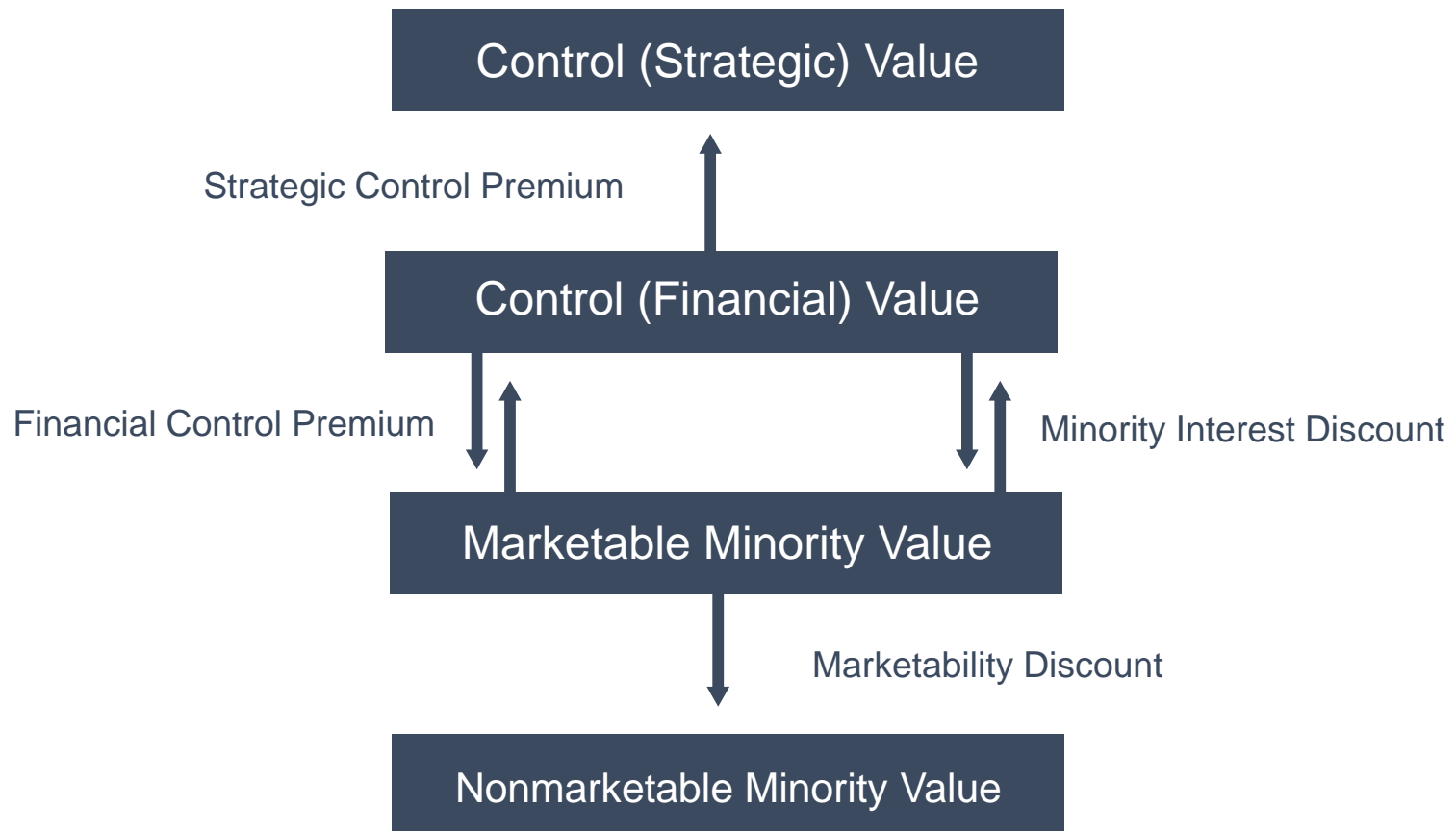
Going Concern

Assumes the business will continue operations as an ongoing business enterprise

Liquidation

Assumes the business will be sold either in an orderly or forced liquidation

Levels of Value



Date(s) of Valuation

Why is this possibly ‘tricky?’

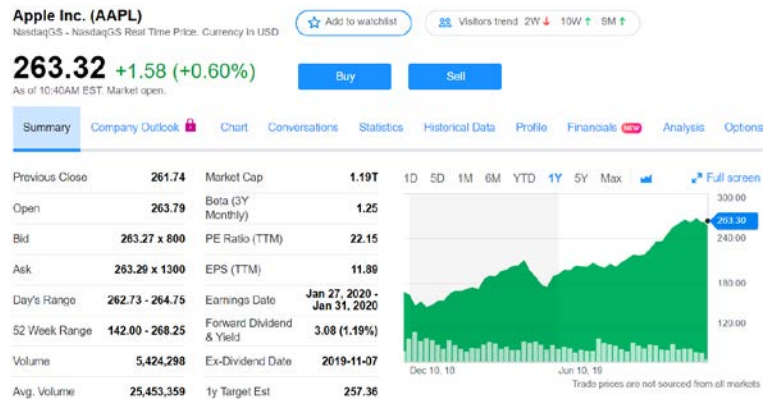
- Known or Knowable concept
- Any Separate/Non-marital Component?
 - Date of Marriage
- State Statute
 - Date of Separation
 - Current/Date of Trial
 - Agreed-upon Date depending on reporting
- Passing of time – lengthy processes
 - Report date > Trial date
 - Update or new valuation necessary?



Business Valuation

Business valuation is the process of determining the value indication of a business, business ownership interest, security, or intangible asset. The process is similar to the valuation of public interests, and the work product resembles a real estate appraisal.

Public Company



Traded on an exchange like NYSE or NASDAQ;
Price of shares readily available

Private Company



There is no public market with frequent buyers and sellers;
Hypothetical Buyer and Seller

Valuation Approaches

Real Estate vs. Business/Company

Delaware Block Method

(Old Exclusive Approach)

- Appraiser first determines: (a) market value, (b) asset value, and (c) earnings value.
- Once these three values are ascertained, each is “multiplied by a weighted factor expressed as a percentage of the whole so that the products of the calculations, when added together, will equal one hundred percent and represent the total value of each share.
- The weight to be given the particular values takes into consideration the type of business, the objectives of the corporation, and other relevant factors

Weinberger Method

New Approach

We adopt the more open *Weinberger* approach, which allows proof of value by any techniques or methods which are generally considered acceptable in the financial community and otherwise admissible in court.”

Only the speculative elements of value that may arise from the ‘accomplishment or expectation’ of the merger are excluded.

***Athlon Sports Communications, Inc. v. Duggan*, 549 S.W.3d 107, 126 (Tenn. 2018)**

Tennessee Code Annotated §48-249-505(c)

Purchase at Fair Value - LLC

If the existence and business of the LLC are continued following the termination of a membership interest under § 48-249-503(a) ... regardless whether such termination of membership interest was wrongful, any member whose membership interest has so terminated ... is entitled ... to receive from the LLC the fair value of the terminated membership interest as of the date of termination of such membership interest, calculated as set forth in § 48-249-506, in consideration for all such membership interest.

Tennessee Code Annotated §48-249-506(3)(B)

Calculation of Fair Value - LLC

In a proceeding to determine the fair value of a membership interest in an LLC, the court:

(i) Shall enforce any governing terms in the LLC documents as to the amount of fair value and other terms of payment. . .

Tennessee Code Annotated §48-249-506(3)(B)

Calculation of Fair Value - LLC

(ii) In the absence of any such governing terms in the LLC documents, the court may consider, among other relevant evidence the going concern value of the LLC, any other agreement among any members fixing the price or specifying a formula for determining value of membership interests for any other purpose, the recommendations of an appraiser appointed by the court, if any, the recommendations of any of the appraisers of the parties to the proceeding, and any legal or financial constraints on the ability of the LLC to purchase the membership interest[.]

***Raley v. Brinkman*, 621 S.W.3d 208 (Tenn Ct. App. 2020)**

Fair Value - LLC

By using the term “fair value” rather than “fair market value” and by specifically listing the going concern value of the LLC as relevant evidence, the General Assembly expressed its intent that fair value should, generally, be determined based on the value of the business as a going concern and not the market price.

***Raley v. Brinkman*, 621 S.W.3d 208 (Tenn Ct. App. 2020)**

Fair Value - LLC

Therefore, we shall apply Delaware's definition of fair value and hold that fair value pursuant to Tenn. Code Ann. §§ 48-249-505 to -506 is the member's proportionate interest in the company valued as a going concern.

Tennessee Code Annotated § 61-1-701

Purchase of Dissociated Partner's Interest

The buyout price of a dissociated partner's interest is the amount that would have been distributable to the dissociating partner under § 61-1-807(b) if, on the date of dissociation, the assets of the partnership were sold at a price equal to the greater of the liquidation value or the value based on a sale of the entire business as a going concern without the dissociated partner and the partnership were wound up as of that date. Interest must be paid from the date of dissociation to the date of payment.

Valuation Approaches

Asset-Based Approach

Considers cost or market values of the Company's tangible assets and liabilities

Income Approach

Utilizes expected future earnings, discounted back to present or a single capitalization of one or more earnings measures

Market Approach

Utilizes pricing metrics from public companies, private company transactions, or transactions within the entity itself

Asset Approach

The fundamental accounting equation expresses the relationship between the company's assets, liabilities, and equity



Adjusted Book Value : A method within the asset approach whereby all assets and liabilities (including off-balance sheet, intangible, and contingent) are adjusted to their fair market values. Common terms referring to this approach:

- Cost approach
- Replacement approach
- Liquidation value

When May an Asset-Based Approach be Appropriate?

- Asset-intensive businesses
- Asset holding entities
- Recession/Economic Downturns

Note: Further appraisals may be necessary – examples: property appraisal, equipment or inventory appraisal.

Asset Approach

STRENGTHS

1. Accounting formula that is easy to follow
2. Good indicator of value for a liquidating company or a Company in a declining industry
3. Can establish the minimum value of a company

WEAKNESSES

1. Ignores a Company's earnings
2. Doesn't consider the intangible or goodwill value of a Company
3. May ignore the fair market value of some underlying assets

Income Approach

* There are **MULTIPLE** methods in this approach

No matter the specific approach taken, an income approach is a general way of determining the value of a business by converting anticipated future economic benefits into a single present amount.

Single Period Capitalization Methods

Capitalization of Earnings Method

Capitalization of Cash Flow Method

Multi-Period Capitalization Method

Discounted Cash Flow Method

Theoretical Basis – Single Period Method

The Gordon Growth Model

$$\text{Value} = \frac{\text{CF}}{(r - g)}$$

$$\text{Value} = \text{Earnings} \times \text{Multiple}$$

?



Value increases when:

- Cash flow increases;
- Growth increases; and
- Risk decreases

Simple Example & Terms to Know

Application of the Gordon Model Value Indication

Expected Cash Flow (CF)	\$1,000
Constant Growth Rate of CF (g)	10%
Discount Rate (r)	20%
Capitalization Rate (r-g) (20%-10%)	10%
Capitalization Factor/ Multiple (1/r-g) (1/10%)	10.0x
Value = Earnings x Multiple (\$1,000 x 10.0x)	\$10,000

Valuation Adjustments to Earnings

- **Importance of Adjustments**
- **Importance of Adjustments to Earnings in Litigation**
 - Potential for altering the financial position of the business and/or compensation of divorcing party in anticipation of divorce/litigation
- **Specifically,**
 - Owner Compensation
 - How is the owner is paid over a period of time not just at the current day?
 - Possible pay-out arrangements?
 - Perquisites
 - Support marital/family lifestyle?
 - Non-Recurring Items: Litigation, Insurance, Hail/Tornadoes
 - Others, ex: rent expense if related-party entities

Discount Rate Components

- Risk-Free Rate
- Equity Risk Premium
- Market Beta
- Size Premium
- Specific Company Risk

Derivation of Capitalization Factor	
Risk-Free Rate	2.15%
Equity Risk Premium	5.50%
Guideline Beta	1.00
Beta Adjusted Common Stock Premium	5.50%
Size Premium	5.22%
Specific Company Risk Premium	6.00%
Equity Discount Rate (Required Rate of Return)	18.87%
- Sustainable/Perpetual Growth Rate in Earning Power	-4.50%
Capitalization Rate	14.37%
Capitalization Factor	6.96
Capitalization Factor	6.95

Specific Company Risk

- Economic (National, Local, Regional)
- SWOT Analysis
- Management Depth
- Dependence on Key Man/Relationships
- Customer Concentration
- Supplier Constraints
- Competition
- Labor

Income Approach

STRENGTHS

1. Flexibility in valuing Companies at different stages in their life cycle
2. Reflects value of a Company based upon its earnings and growth potential

WEAKNESSES

1. Reliance on Company/Management produced projections
2. Number of assumptions
3. Sensitivity and reliance on assumptions

Change in “r”

Derivation of Capitalization Factor		
Risk-Free Rate		2.15%
Equity Risk Premium	5.50%	
x Market Beta	1.00	
Beta Adjusted Common Stock Premium		5.50%
Size Premium		5.22%
Specific Company Risk Premium		6.00%
Equity Discount Rate (Required Rate of Return)		18.87%
- Sustainable/Perpetual Growth Rate in Earning Power		-4.50%
Capitalization Rate		14.37%
Capitalization Factor		6.96
Capitalization Factor		6.95

Determination of Value		
Ongoing Earning Power		\$750,000
Capitalization Factor	6.95	
Capitalized Earnings Value		\$5,212,500
Indicated Value: Capitalization of Earnings Method		\$5,213,000

Derivation of Capitalization Factor		
Risk-Free Rate		2.15%
Equity Risk Premium	5.50%	
x Market Beta	1.00	
Beta Adjusted Common Stock Premium		5.50%
Size Premium		5.22%
Specific Company Risk Premium		2.00%
Equity Discount Rate (Required Rate of Return)		14.87%
- Sustainable/Perpetual Growth Rate in Earning Power		-4.50%
Capitalization Rate		10.37%
Capitalization Factor		9.64
Capitalization Factor		9.65

Determination of Value		
Ongoing Earning Power		\$750,000
Capitalization Factor	9.65	
Capitalized Earnings Value		\$7,237,500
Indicated Value: Capitalization of Earnings Method		\$7,238,000

Change in “g”

Derivation of Capitalization Factor

Risk-Free Rate		2.15%
Equity Risk Premium	5.50%	
x Market Beta	1.00	
Beta Adjusted Common Stock Premium		5.50%
Size Premium		5.22%
Specific Company Risk Premium		6.00%
Equity Discount Rate (Required Rate of Return)		18.87%
- Sustainable/Perpetual Growth Rate in Earning Power		-4.50%
Capitalization Rate		14.37%
Capitalization Factor		6.96
Capitalization Factor		<u>6.95</u>

Determination of Value

Ongoing Earning Power		\$750,000
Capitalization Factor	6.95	
Capitalized Earnings Value		\$5,212,500
Indicated Value: Capitalization of Earnings Method		<u>\$5,213,000</u>

Derivation of Capitalization Factor

Risk-Free Rate		2.15%
Equity Risk Premium	5.50%	
x Market Beta	1.00	
Beta Adjusted Common Stock Premium		5.50%
Size Premium		5.22%
Specific Company Risk Premium		6.00%
Equity Discount Rate (Required Rate of Return)		18.87%
- Sustainable/Perpetual Growth Rate in Earning Power		-2.00%
Capitalization Rate		16.87%
Capitalization Factor		5.93
Capitalization Factor		<u>5.95</u>

Determination of Value

Ongoing Earning Power		\$750,000
Capitalization Factor	5.95	
Capitalized Earnings Value		\$4,462,500
Indicated Value: Capitalization of Earnings Method		<u>\$4,463,000</u>

Change in “Earning Power”

Derivation of Capitalization Factor

Risk-Free Rate	2.15%
Equity Risk Premium	5.50%
x Market Beta	<u>1.00</u>
Beta Adjusted Common Stock Premium	5.50%
Size Premium	5.22%
Specific Company Risk Premium	<u>6.00%</u>
Equity Discount Rate (Required Rate of Return)	18.87%
- Sustainable/Perpetual Growth Rate in Earning Power	<u>-4.50%</u>
Capitalization Rate	14.37%
Capitalization Factor	6.96
Capitalization Factor	<u>6.95</u>

Determination of Value

Ongoing Earning Power	\$750,000
Capitalization Factor	<u>6.95</u>
Capitalized Earnings Value	\$5,212,500
Indicated Value: Capitalization of Earnings Method	<u>\$5,213,000</u>

Derivation of Capitalization Factor

Risk-Free Rate	2.15%
Equity Risk Premium	5.50%
x Market Beta	<u>1.00</u>
Beta Adjusted Common Stock Premium	5.50%
Size Premium	5.22%
Specific Company Risk Premium	<u>6.00%</u>
Equity Discount Rate (Required Rate of Return)	18.87%
- Sustainable/Perpetual Growth Rate in Earning Power	<u>-4.50%</u>
Capitalization Rate	14.37%
Capitalization Factor	6.96
Capitalization Factor	<u>6.95</u>

Determination of Value

Ongoing Earning Power	\$500,000
Capitalization Factor	<u>6.95</u>
Capitalized Earnings Value	\$3,475,000
Indicated Value: Capitalization of Earnings Method	<u>\$3,475,000</u>

Market Approach

* There are **MULTIPLE** methods in this approach

Guideline Public Company Method

A method within the market approach whereby market multiples are derived from market prices of stocks of companies that are engaged in the same or similar lines of business, and that are actively traded on a free and open market.

Guideline Company Transactions Method

Pricing multiples are derived from transactions of significant interests in companies engaged in the same or similar lines of business.

Transactions Method

Develops an indication of value based upon consideration of actual transactions of the subject company.

Market Approach

STRENGTHS

1. Straightforward calculation
2. Value indications on various metrics – Revenue, EBITDA, Net Income, SDE, etc.
3. Value reflected in the market

WEAKNESSES

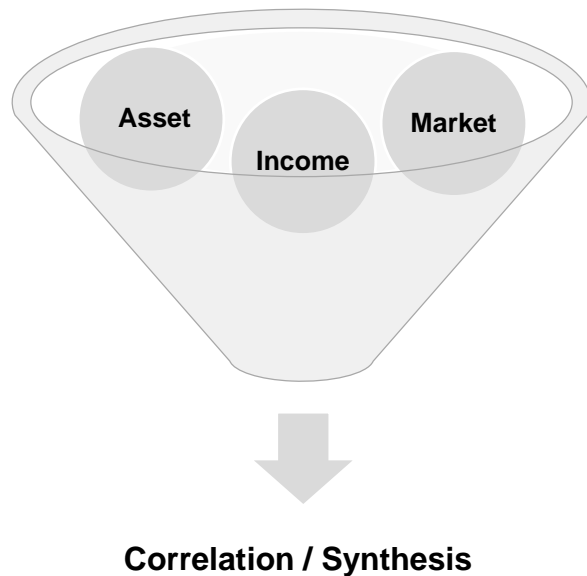
1. Sources of data (private or internal transactions)
2. Comparability of market comparable to subject company
3. Sample size

Market Approach

WEAKNESSES

4. Time/Relevance of Transactions
5. Arm's length transaction vs. motivation of buyer/seller
6. Not as flexible on inputs

Synthesis of Valuation Approaches



A proper valuation will factor, to varying degrees, the indications of value developed utilizing the three approaches outlined.

A valuation is much more than the calculations that result in the final answer.

It is the underlying analysis of a business and its unique characteristics that provide relevance and credibility to these calculations.

What are some common flaws to look for in Valuation Reports?

Common Flaws

1. Not using acceptable methodology or ignoring relevant methodology
2. Using flawed projections
3. Too much precision in assumptions/conclusions – DLOM, Specific Company Adj.
4. Overreliance on Rules of Thumb
5. Blindly Using Comparable Transactions



Common Flaws

6. Mismatching Discount Rates with Measures of Economic Income
7. Mismatching Interest-Bearing Debt with Measures of Economic Income
8. Not listing or relying on source documents
9. Inability to defend assumptions and link to source documents
10. Double counting/biased assumptions



Double/Triple Counting Example

	1		2		3	
	Judgmental Key Person Discount		Incremental Company Specific Risk		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

Special Topics

Separate vs. Marital Component?

- **Pre-marital ownership?**
- **Inheritance?**
- **Acquiring additional ownership during the marriage?**
- **State Statute**
 - Equitable Division, Community Property or Dual Class
- **Understand involvement of divorcing party**

Separate vs. Marital – TN Code 36-4-121

- (b)(1)(A) Marital property – defined as all personal property, both tangible and intangible, acquired by either spouse during the course of the marriage.
- (b)(1)(B) Marital property includes income, and any increase in value during the marriage of, property determined to be separate property in accordance with subdivision (b)(2) if each party substantially contributed to its preservation and appreciation. Contribution must be “real” and “significant”.
- (b)(1)(D) As used in this subsection (b), substantial contribution may include, but not limited to, the direct or indirect contribution of a spouse as a homemaker, wage earner, parent or financial manager, together with such other factors as the court have jurisdiction thereof may determine.
- (b)(2)(A) Separate property means all property owned by a spouse before marriage, including, but not limited to, assets held in individual retirement accounts (IRAs) as that term is defined in the Internal Revenue Code 1986 as amended.

Active vs. Passive Appreciation

“

Appreciation – the rise in value of an asset, such as current real estate or business. Increases in value can be attributed to interest rate changes, supply and demand changes, or various other reasons.

Active vs. Passive Appreciation

“

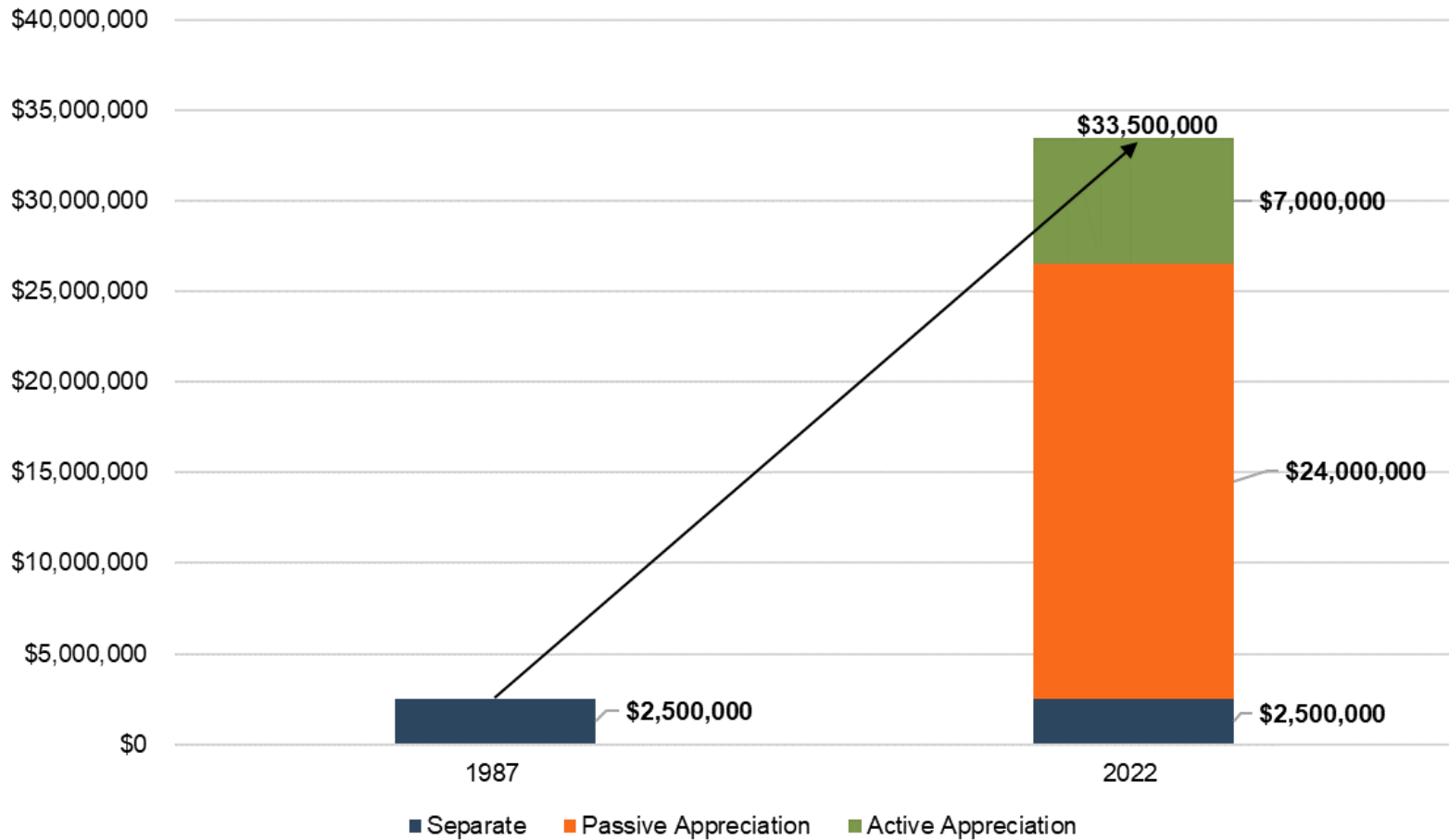
Active Appreciation – the rise in, or increase in value, due to the active, direct and indirect, efforts of one or both spouses.

Active vs. Passive Appreciation

“

Passive Appreciation – the rise in, or increase in value, due to external factors, such as the market.

Active vs. Passive - Example



Goodwill of a Business

In context of a divorce, personal goodwill of one of the spouses in a business is not a marital asset that can be divided among the parties.

Cela v Cela, 2021 WL 3240238 (Tenn Ct App 2021) citing Smith v Smith, 709 S.W.2d 588, 592 (Tenn Ct App 1985).

Personal vs. Enterprise Goodwill

- Depends on the unique facts and circumstances of the underlying entity and individual
- **Enterprise Goodwill:** derived from characteristics specific to the business, regardless of who operates it.
 - Examples could be franchises, nationally known names of business, others...
- **Personal Goodwill:** derived from characteristics specific to the individual.
 - Examples could be a solo service-provider with limited staff and saleable opportunity, or, another example could be a person with unique, specialized skillset that would be not transferable in a sale if he/she was not present.

Why is Personal vs. Enterprise Goodwill Important

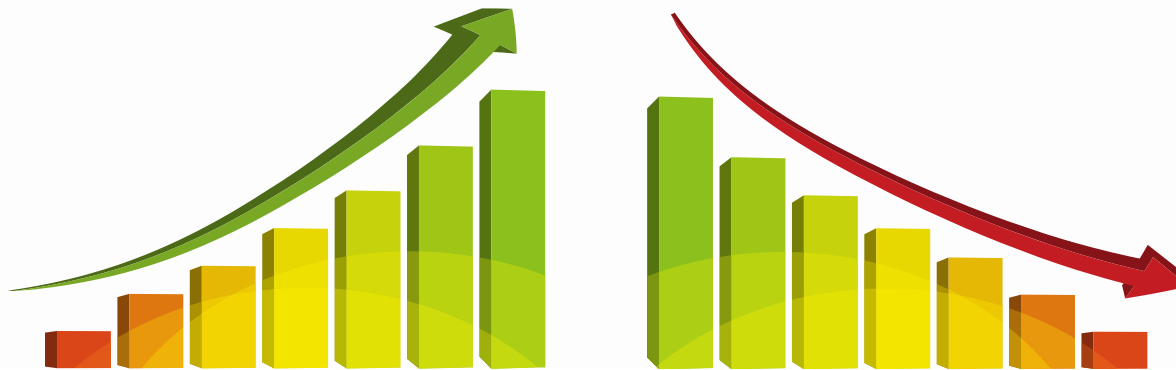
- Divorce and Taxation Examples
- **Thorough analysis necessary**
 - Various reasonable methodologies
 - Refer to statute and state precedent
 - Work closely with your attorney
- If personal goodwill is present, and you are in a state that treats it as separate, that component (often a % expressed then in dollar amount) becomes non-divisible
- **Often, this is where experts (or clients!) disagree**

Covid Impact vs. Litigation Recession

- Covid winners vs. Covid losers
- Litigation/Divorce Recession
- Industry/Economic Factors

WHAT is the goal?

To determine the ongoing, sustainable earnings or cash flow of the business



Marketability Discounts

Divorce

Valuation experts apply discounts for lack of marketability to reflect the lack of liquidity of an ownership interest, i.e. how quickly and easily it can be converted into cash.

Telfer v. Telfer, 558 S.W.3d 643 (Tenn Ct App 2018)

Marketability Discounts

Divorce

Thus, experts consider using this type of discount when no ready market exists for an interest or when the provisions in a partnership agreement restrict the ability of a partner to liquidate the interest.

Telfer v. Telfer, 558 S.W.3d 643 (Tenn Ct App 2018)

Marketability Discounts

Divorce

Generally, applicability of the use a lack of marketability discount depends on the characteristics of the ownership interest being valued, not whether the owner of the interest actually intends to sell the interest.

Telfer v. Telfer, 558 S.W.3d 643 (Tenn Ct App 2018)

Marketability Discounts

Divorce

In the context of a proceeding involving the valuation and division of marital assets, courts sometime find application of a lack of marketability discounts inappropriate, but in many instances, the decision to apply the discount is seen as discretionary.

Telfer v. Telfer, 558 S.W.3d 643 (Tenn Ct App 2018)

Marketability Discounts

Methodologies

Empirical Studies

Restricted Stock Studies

Pre-IPO Studies

Qualitative Analysis

Prospects for Liquidity, Events to Purchase/Sell Interest, Restrictions on Transfer, Pool of Potential Buyers, Risk or Volatility, Size and Timing of Distributions, Concentrations of Ownership

Quantitative Models

Quantitative Marketability Discount Model (QMDM), Finnerty Model, etc.

Valuation Report Checklist



Is there a signed certification or transmittal letter from the appraiser?



Is the Standard of Value stated and defined?



Are the Scope and Assignment of the subject property stated and defined?



Does the report state that is prepared in accordance with appropriate professional standards (USPAP, SSVS 1, AICPA, NACVA, etc.)



Does the report contain sections of the Company background indicating the appraiser has an understanding of the Company's history, operations and risk factors?

Valuation Report Checklist



Does the report contain a section indicating the appraiser's understanding of the industry and economic conditions?



Does the report contain a section analyzing the Company's historical operating performance?



Does the report include a benchmarking analysis?



Does the report consider all three approaches to value and give an explanation if one or more approaches was excluded or not relied upon?



Does the report give and provide support for the key assumptions including ongoing cash flow, normalization adjustments to earnings, growth, discount rate, etc.?

Valuation Report Checklist



Are the value indications obtained from various methods reconciled and explained appropriately?



Does the final conclusion seem reasonable and supported?

About Mercer Capital

Mercer Capital is a national business valuation and financial advisory firm.

We offer a broad range of services, including corporate valuation, financial institution valuation, financial reporting valuation, gift and estate tax valuation, M&A advisory, fairness opinions, ESOP and ERISA valuation services, and litigation and expert testimony consulting.

We have provided thousands of valuation opinions for corporations of all sizes in a wide variety of industries. 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 in connection with engagements involving their clients.

For over 35 years, Mercer Capital has been bringing uncommon professionalism, intellectual rigor, technical expertise, and superior client service to a broad range of public and private companies and financial institutions located throughout the world. Feel confident in our experience and expertise.

About Paine, Tarwater and Bickers, LLP

Paine, Tarwater, and Bickers, LLP was founded in 1987. Located in Knoxville, TN, the firm is regularly retained in all types of litigation matters including mass tort, product liability, commercial, construction, employment, environmental, and estate cases. Known as a national litigation boutique, the lawyers of Paine Tarwater and Bickers regularly serve as trial counsel for large multi-national corporations. The firm has a strong regional presence representing clients in courtrooms throughout Tennessee - from Memphis to Kingsport.

Questions?

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Pitfalls in Real Estate and Business Valuations

Scott A. Womack

(615) 345-0234

womacks@mercercapital.com



BUSINESS VALUATION &
FINANCIAL ADVISORY SERVICES

Michael J. King

865.525.0880

mjk@painebeckers.com



Paine | Tarwater | Bickers, LLP

ATTORNEYS AT LAW