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Firms mine value from valuations

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By Alicia Korney

Just four months after its acquisition of a 10-person business valuation practice, Chicago-area CPA and financial services firm Mueller & Co. said that it's already seeing new business grow out of the deal. Mueller had long had a relationship with Michael Beilman of Aurora, Ill.-based Nickels, Beilman & Co., usually referring divorce court and corporate work to the smaller firm that the 90-person Mueller was conflicted out of. The firms already felt comfortable working with one another, and Mueller partner David Nissen said that similar retirement formulas made for an easy merger.

Beilman joined Mueller as a partner on Jan. 1, bringing with him the credential and the attorney connections that the firm had in mind. Nissen said that with a larger firm and resources to draw on, Beilman has already secured a significant amount of new business from companies with between \$800,000 and \$500 million in enterprise value.

"Unlike a house or real estate, a small business usually has no comparables anywhere else in the country," Nissen said. "Knowing what that business is really worth, that's a number very worth knowing. And that's not going to change. That's definitely a space we want to be a player in."

Business valuation remains a lucrative niche service. It tied with estate/trust/gift tax planning for No. 5 in a poll of Accounting Today's 2006 Top 100 Firms, with 72 percent of responding firms saying that they're seeing increased business in that area.

Meanwhile, 68 percent of the nearly 300 respondents who participated in the National Association of Certified Valuation Analysts' 2004 Consulting Industry Survey predicted more than 10 percent growth in their consulting practices in 2005.

Of the business valuation services being performed, 33 percent were tax-related (estate, gift, charitable and succession); 18 percent were business-related (purchase, sale, mergers and acquisitions, initial public offering, reorganization, bankruptcy and franchise); 44 percent were litigation-related (divorce, economic loss, business disputes/disruption, arbitration and eminent domain); and the remaining 5 percent were other (including banking, finance, insurance, employee stock option plans and fairness opinions).

Eighty-seven percent of the survey's 289 respondents were also CPAs. Results from the 2005 survey are still being calculated for release at NACVA's 13th Annual Consultants' Conference, scheduled for the first weekend in June.

New things to value

While the field's stalwarts - from divorce court to FAS No. 141 and 142 work - remain reliable sources of business, globalization is coming into play in a variety of ways that practitioners and the organizations that govern them are beginning to prepare for.

Dennis J. Roberts, chairman of investment banking firm The McLean Group LLC, which focuses on businesses valued at between \$3 million and \$500 million, said that it might be the strongest market for business valuers in history, due to a combination of factors.

As has been long predicted, the members of the Baby Boom are now hitting the age where they're beginning to consider the prospect of retirement (the oldest of the generation are now in their 60s). Roberts said that the nation is on the verge of seeing the largest transfer of business assets ever - an estimated \$15 trillion over the next 10 to 14 years.

"There's no doubt there seems to be a lot of people interested in becoming umbrella-drink drinkers nowadays," Roberts said.

At the same time, Roberts noted that the business environment of today is very different from that of two - or even one - generation ago. "Where the midmarket companies might once have stayed in the same hands for 20 or 25 years, that's just not the case anymore," he said. And in the information age, where business leaders are often driven by technology, Roberts said that it's not uncommon for companies to be created and sold within 24 to 36 months.

Also, Roberts said that private equity groups - today's version of the venture capitalists of the 1990s - are spending big-time. He said that the groups invested \$175 billion into the midmarket last year, after averaging only \$30 billion in each of the previous five years. And finally, Roberts said that it's worth noting that the U.S. economy has been strong for the last three years, providing investors with both the cash to spend and the courage to spend it.

Other drivers

Robert M. Stutz II, with GBQ Partners LLP, in Columbus, Ohio, said that M&A is still a growing field, and estate tax questions always provide a constant market, alongside price allocation and goodwill impairment questions.

Mel H. Abraham, whose Simi Valley, Calif.-based practice frequently works with the Internal Revenue Service, said that in many cases, it's a better-educated consumer or end user who expects higher standards from business valuation reports, and creates the demand for skilled practitioners.

Brian K. Pearson, founder and president of Valuation Advisors LLC, in Buffalo, N.Y., and chairman of the New York State Society of CPAs' Business Valuation Committee, said that a lot of work is still driven by FAS No. 141 and 142. Testing of the standards provides a lot of valuation work, especially for public companies. Under FAS No. 142, there must be an annual determination made of whether there is an impairment of goodwill, and, if that's found, then a charge against earnings needs to be made.

Pearson also said that M&A across a range of industries continues, as does estate and gift work. In planning the New York society's recent business valuation conference, he said that a lot of the speakers were chosen with a "back to basics" theme in mind.

"Business valuation is still an art, but there's some science in what methodology you use," Pearson said. "From my standpoint, the most important piece is how you use your judgment. There's a lot of nuance that doesn't come down to just dollar signs. The art of it is professional judgment."

Both Stutz and Abraham expect to see financial reporting requirements eventually adding to valuers' work, and the work in the family law and estate tax realm to remain strong. Abraham said that he is

seeing more and more industry-specific focus within the business valuation niche, with practitioners focusing on areas such as professional sports teams, medical practices and car dealerships.

"One of the big mistakes I think you can make as a professional is trying to be everything to everyone," Abraham said. "This is an industry where it's really important to get the support of constant research, mentoring and feedback. ... When it comes to valuation, where accountants are used to looking at historical information, valuation is all about the future."

"For different industries, it hits in different waves," said investor-banker Roberts. He pointed to the staffing industry as one example. In the mid-1990s, companies were being bought for up to 12 times earnings; by 1999, those same business were selling for earnings multiples of only four or five. Today, Roberts said, the industries attracting buyers' attention are operating in government contracting, health care and, after Sept. 11 and the Afghanistan and Iraq wars, the defense and intelligence-focused arena.

Speaking for the numbers

Edward Dupke, a senior consultant in the Valuation and Forensic Services Division of Clifton Gunderson LLP, is also the chair of the AICPA Business Valuation Standards Task Force, whose work on valuation standards was originally projected to span six to eight months - and is now entering its fourth year.

Based in Phoenix, Dupke said that the complications aren't that surprising, especially when considering the diversity of constituencies affected by business valuation.

"It's just another example of how much more complicated our world is getting," Dupke said. "In a lot of fields, the numbers speak for themselves. An audit is an audit. But the final valuation is different depending on the purpose. "

The writing of the standards was done by a core trio of people, including Dupke, and a fourth person was brought in for their knowledge of intellectual property. The standards, "Statements on Standards for Valuation Services," were last issued for a public exposure period in March 2005, which stayed open for nearly six months.

Dupke said that he hopes to have one final exposure, for 60 days, issued by May 15, with a final approval being granted sometime this fall. "There haven't been a lot of changes," he said. "But the changes that have happened are important ones." (See box, above.)

More than 2,000 members of the AICPA, up from about 1,500 in December 2003, hold the institute's Accredited in Business Valuation credential. CPAs are required to successfully pass a two-part exam to receive the credential, and then complete another 60 hours of related CPE during the three years after taking the test. About 6,000 professionals - comprised of both CPAs and other valuation and consulting professionals - hold the CVA credential.

Dupke also said that the dream hasn't died for some form of North American business valuation engagements credential. The AICPA is continuing to talk with a variety of certifying associations of valuation analysts in the United States and Canada to see if they can agree on some commonalities. Dupke said that all of those groups - which include the American Society of Appraisers, the Canadian Institute of Chartered Business Valuators, NACVA and the Institute of Business Appraisers - are keeping an eye on developments in the European Union. A solidified North American credential would carry greater weight in the global economy.

The idea makes sense, said The McLean Group's Roberts. The market for valuation services is already split pretty evenly among three camps, he said, with a third of clients consisting of private equity groups and hedge funds, and another third being individual buyers making strategic purchases, either to acquire competitors or grow their own business. The last third consists of offshore transactions, with at least one party located outside the U.S.

"There's no doubt we're living in a smaller world," said Roberts. "Just like all those years of prognosticating about the Baby Boomers and the wealth transfers, globalization is really here. Like everything else in the business world, business valuation is going to feel that influence."