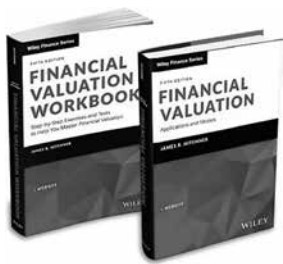


BUSINESS VALUATION UPDATE

TIMELY NEWS, ANALYSIS, AND RESOURCES FOR DEFENSIBLE VALUATIONS

What's New in the 5th Edition of *Financial Valuation Applications and Models?*

By Harold G. Martin, Jr., Keiter (Glen Allen, Va.)



Financial Valuation Applications and Models (FVAM), 5th ed., James R. Hitchner, editor and coauthor, and the related *Financial Valuation Workbook*, 5th ed.,

James R. Hitchner, author. Published by John Wiley & Sons Inc., Hoboken, N.J. *FVAM* is over 2,100 pages, including the accompanying website. Amazon is offering the hardcover book and the related workbook at a price of \$158.31 (shipping is included).¹ This Amazon price is subject to change.

A Personal Note

Over the course of my 40-year career, it has been my privilege to know personally and work with many of the “best and brightest” in the valuation profession. Jim Hitchner ranks among those at the top of my short list. I have known Jim for almost 30 years, and, during that time, we have collaborated on many large, complex valuation and litigation projects, co-presented numerous seminars at national and regional valuation conferences, and, most recently, worked together as partners in the Financial Consulting Group.

In 2003, I was honored when Jim asked me to serve as one of the coauthors on the first edition

of *FVAM*, as this was my first opportunity to be a coauthor of a textbook, and it helped me significantly in advancing my career. The opportunity that Jim provided to me is representative of his passion for helping others as both a mentor and educator. As a thought leader in business valuation, he has given a tremendous amount back to our profession through his numerous publications and seminars, as well as his development of educational programs for organizations such as the American Institute of Certified Public Accountants (AICPA) and the National Association of Certified Valuation Analysts (NACVA).

The publication of the new 5th edition of *FVAM* represents another milestone in his distinguished career and serves as a major contribution to the business valuation body of knowledge. The example that Jim has set is one that we should all strive to emulate as we pass the torch to the next generation of business appraisers.

Background and Genesis of the New 5th Edition

In 2002, Jim conceived the idea of developing a valuation textbook that would represent the collective knowledge of a group of nationally recognized valuation professionals. Of particular note, each professional was to be a coauthor of the entire book. According to the publisher, John Wiley & Sons Inc., *FVAM* was the first and remains the only financial textbook of this type. The book was designed to reflect the group’s collective views on business valuation concepts

¹ [amazon.com/Financial-Valuation-Applications-Models-Finance/dp/1119880939](https://www.amazon.com/Financial-Valuation-Applications-Models-Finance/dp/1119880939).

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and the application of those concepts in practice. Further, where alternative viewpoints existed, both sides were to be presented. The subsequent editions of *FVAM*, including the new 5th edition, continue to honor these key objectives.

Editor and Coauthors

Jim has served as the editor for each edition of *FVAM* and is also one of the 32 coauthors for the new 5th edition. The other coauthors are well-known and respected valuation practitioners. The group includes: R. James Alerding, Rosanne J. Aumiller, Don Barbo, Neal J. Beaton, Marc D. Bello, Erica Bramer, James T. Budyak, Karolina Calhoun, Carol Carden, Larry R. Cook, Don M. Drysdale, Edward J. Dupke, Jay E. Fishman, Michelle F. Gallagher, Chris Hamilton, Bethany M. Hearn, Theodore D. (Ted) Israel, Harold G. Martin Jr., Lari B. Masten, Raymond E. Moran, Katherine E. Morris, Alina V. Niculita, Maureen M. Rutecki, Greg P. Saunders, Ronald L. Seigneur, Mark Smith, Stacey Udell, Samuel Y. Wessinger, Laurie-Leigh White, Richard M. Wise, and Kevin Yeaplos.

The group includes practitioners from small regional firms (e.g., Brueggeman and Johnson Yeaplos PC, HBK Valuation Group LLC, and Keiter, Seigneur Gustafson LLP) to large national firms (e.g., Alvarez & Marsal, CLA LLP, Mercer Capital, Stout, Valuation Research Corp., VMG Health, etc.) from all over the U.S. and Canada. Collectively, the group has over several hundred years of professional experience. The coauthors are members of many professional valuation and financial organizations, including the American Institute of Certified Public Accountants (AICPA), the American Society of Appraisers (ASA), the CFA Institute, the Institute of Business Appraisers (IBA), and the National Association of Certified Valuators and Analysts (NACVA). The collective credentials of the group include the following:

- Twenty-five Accredited in Business Valuation (ABV) with the AICPA;

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- Seventeen Accredited Senior Appraisers (ASA) with the ASA;
- One Certified Business Appraiser (CBA) with the IBA;
- Four Chartered Financial Analysts (CFA) with the CFA Institute;
- Four Certified Fraud Examiners (CFE) with the ACFE;
- Twelve Certified in Financial Forensics (CFF) with the AICPA;
- Twenty-six Certified Public Accountants (CPA);
- Eight Certified Valuation Analysts (CVA) with the NACVA; and
- Two Chartered Global Management Accountants (CGMA).

Nine of the coauthors are members of the AICPA Business Valuation Hall of Fame (Alerding, Beaton, Carden, Cook, Dupke, Hitchner, Martin, Seigneur, and Yeanoplos), and two are members of the ASA College of Fellows (FASA) (Fishman and Wise). Six of the coauthors are also members of Business Valuation Resources' *Business Valuation Update* Editorial Advisory Board (Alerding, Beaton, Fishman, Martin, Seigneur, and Yeanoplos).

Purpose and Intended Audience

FVAM is a comprehensive valuation text that serves as an introduction to the body of knowledge for beginning practitioners but also includes discussion of more complex topics for intermediate and advanced practitioners. As with most texts of this type, *FVAM* presents a thorough discussion of valuation theory and principles. However, what distinguishes *FVAM* from other texts are numerous examples and models illustrating the *application* of those theories and principles. The text also includes a comprehensive

case study and written report illustrating how to present the valuation results in compliance with the professional standards of the AICPA, ASA, IBA, NACVA, and USPAP.

FVAM and the related *Financial Valuation Workbook* were also written with the objective of providing a textbook for educational purposes. Both texts are used as the primary course materials for the American Institute of Certified Public Accountants' (AICPA) National Business Valuation School and the National Association of Certified Valuation Analysts' (NACVA) Advanced Valuation: Applications and Models course. The AICPA has also recently adopted the 5th edition of *FVAM* for its new university curriculum for undergraduate and graduate business schools that offer elective courses in valuation and plans to roll out this curriculum later this year.

Finally, *FVAM* also serves as a reference for other professionals who must deal with valuation, including: appraisers, actuaries, attorneys, bankers, business brokers, business owners, financial analysts, government agencies (e.g., IRS, SEC, DOL, OIG, and DOJ), insurance agents, investment advisors, investment bankers, judges, pension administrators, and stockbrokers.

Topics Included in *FVAM* and New Information

The new 5th edition of *FVAM* has been significantly expanded to over 2,100 pages (1,480 in print and 640 on the website). It includes substantive updates to the material presented in prior editions, as well as new chapters presenting selected topics not previously discussed.

A summary of the more significant updates and new material is presented below.

Chapter 1, "Introduction to Financial Valuation":

Presents new addendums with the various glossaries with which an analyst must comply, including the 2001 *International Glossary of Business Valuation Terms*, *AICPA Glossary of Additional*

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Terms, and *2022 International Valuation Glossary*, along with a discussion of which glossary or glossaries must be followed depending upon the organizations to which an analyst belongs.

Chapter 2, "Standards of Value": Includes updated information on the standards of value used in litigation, divorce, tax, purchase price allocations, dissenting rights and shareholder oppression suits, pricing public stocks, etc.

Chapter 3, "Research and Its Presentation": Introduces additional data sources used to support valuation analysis.

Chapter 5, "Income Approach": Discusses new "best practices" for applying the income approach in a discounted cash flow model, including the terminal-year calculation; dealing with debt, direct-to-equity, and invested capital models; the relationship between the discounted cash flow method and the capitalized cash flow method and when to use each; and the proper way to use the excess earnings/cash flow method.

Chapter 6, "Cost of Capital/Rates of Return": Includes new material presenting examples using the CAPM, modified CAPM, buildup method, and WACC to estimate the discount rate; discussions on the pros and cons of using Pepperdine data and Dr. Aswath Damodaran's data; a detailed discussion on the Kroll Cost of Capital Navigator (including a "Quick Study") and the BVResources Cost of Capital Professional; and an update on reasonable tests using benchmark data.

Chapter 7, "International Cost of Capital": Presents the methods and sources of data used to develop the cost of capital for the valuation of international companies, illustrated by a new case study.

Chapter 8, "Market Approach": Discusses the key issues to be considered in selecting comparable guideline public companies and guideline transactions, as well as updated sources of data and methods for adjusting valuation multiples

for differences in size, growth, and risk. Also included are case studies illustrating the application of the market approach.

Chapter 9, "Asset Approach": Presents an updated case study using the net asset approach, as well as addendums on how to understand real estate and machinery and equipment appraisals.

Chapter 10, "Valuation Discounts and Premiums": Presents new levels-of-value charts, as well as an updated discussion of how to handle a 100% controlling interest versus a minority interest versus a majority interest; discounts for lack of liquidity of a 100% controlling interest; and how to estimate the DLOM. Also presented is a new case study illustrating how to support DLOMs, including restricted stock studies and data, option models, and DCF methods.

Chapter 11, "Addendum—Sample Valuation Report": Presents a new business valuation case study and detailed report that is in compliance with AICPA, NACVA, IBA, and ASA standards as well as USPAP. (*Note: This is probably the most comprehensive example of a report that you will find in any text.*)

Chapter 13, "Valuation of Pass-Through Entities": Includes an updated discussion of the various S corp models and why some of the models that used to result in an S corp premium are now resulting in a C corp premium.

Chapter 14, "Estate, Gift, and Income Tax Valuations": Presents an updated discussion of relevant tax court cases.

Chapter 16, "Summary of Tax Court Case Valuation Issues": Includes an updated summary of over 160 Tax Court cases.

Chapter 17, "Shareholder Disputes": Presents new court decisions for shareholder litigations.

Chapter 18, "Employee Stock Ownership Plans": Presents a revised discussion of repurchase

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requirements, levels of value, executive compensation, and court cases.

Chapter 19, "Valuation in the Divorce Setting," Chapter 20, "Valuation Issues in Small Businesses," and Chapter 21, "Valuation Issues in Professional Practices": Includes an updated discussion of different types of goodwill, the use of noncompetes, double dipping, valuation methods, and reasonable tests.

Chapter 22, "Reasonable Compensation": Provides an updated discussion of methods and models used to estimate reasonable compensation.

Chapter 23, "The Valuator as Expert Witness": Presents updates on tips for preparing for and presenting expert witness testimony.

Chapter 24, "Fair Value Measurement and the Valuation of Intangible Assets": Presents an updated purchase price allocation case study, including detailed examples of intangible asset valuations.

Chapter 26, "Business Damages": Presents an updated discussion about the estimation of economic damages in litigation.

Chapter 27, "Other Valuation Service Areas": Discusses the valuation of debt, preferred stock, restricted stock, early-stage companies, options, etc.

Chapter 28, "Valuation of Healthcare Service Businesses": Presents updated detailed case studies.

Chapter 29, "Determination of Compensation in the Healthcare Industry": Includes an updated discussion focusing on unique aspects of healthcare reasonable compensation analyses.

Chapter 30, "Special Industry Valuations": Presents an updated discussion of valuations of construction, oil and gas, restaurants, and bars and nightclubs.

Chapter 31, "Buy-Sell Agreements": Includes completely rewritten guidance to assist business owners with the development of buy-sell agreements.

Chapter 32, "Valuation Views and Controversial Issues: An Illustration": Expands upon the case study and report presented in Chapter 11 and illustrates important topics and applications with special "Valuation Views" boxes.

ValTips. One of the unique features of *FVAM* is the inclusion of hundreds of "ValTips," which highlight many critical topics that are often controversial.

Companion Website. *FVAM* also has a companion website that can be found at wiley.com/go/FVAM5E, which includes additional chapter addendums referenced throughout the book.

Summary

As an instructor for the AICPA Business Valuation School for the past 20 years, students have often asked me what texts I would recommend for inclusion in a valuation library. I have always recommended that *FVAM* be included. Further, if I could only choose one text, it would be *FVAM*. The reason is that, while many texts do a good job of discussing valuation concepts, *FVAM* also presents numerous examples illustrating the application of those concepts, as well as providing a comprehensive example illustrating how to present the valuation results in a report that complies with all of the professional organizations' standards.

I have *FVAM* in my own professional library, and I refer to it often when conducting valuation projects. Moreover, I have often cited *FVAM* when presenting expert witness testimony on litigation matters in the courtroom to support my opinions, as it is widely known and recognized within the business valuation profession. Both the AICPA and NACVA have also adopted it for their business valuation courses, and many courts have

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recognized it. I highly recommend this text for all business valuation appraisers and other professionals who have the need for a comprehensive treatise on business valuation. ♦

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Forbes recognized him in its inaugural list of "America's Top 200 CPAs for 2024," and he is a member of the AICPA Business Valuation Hall of Fame; a coauthor of *Financial Valuation: Applications and Models*, 1st, 2nd, 3rd, 4th, and 5th editions; a contributing author to *Cost of Capital: Estimation and Applications*, 2nd, 3rd, and 4th editions; and a member of Business Valuation Resources' Business Valuation Update Editorial Advisory Board. He can be reached at hmartin@keitercpa.com.

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