Introducing a New Look for Value Management Inc.!

After celebrating 25 years of providing trusted service to our clients, the team at Value Management Inc. (VMI) decided it was time to refresh our brand identity and position ourselves for the next 25 years. We are proud to introduce our new logo, positioning statement, tagline and updated website.

New Logo

Our new logo is definitely the most noticeable change. We believe this new brand identity helps bridge VMI's history of success with our exciting future.

New Positioning Statement:
Investment Banking + Advisory Services

Since our inception in 1991, VMI has been known as "The Business Valuation Specialist," providing a range of financial advisory services. Over the years, our services have evolved and expanded, allowing us to meet the vast needs of clients in a variety of industries.

Moving forward, we will now describe our offering as "Investment Banking + Advisory Services," which accurately reflects our expanded set of core strengths while fully embracing all of the services that clients have relied on VMI to fulfill for decades.

Our services are categorized into the following areas:
- Investment Banking
- ESOP Advisory
- Valuation Advisory
- Family Business Advisory

The VMI team carefully considered this new positioning statement with our clients as the most important priority. We are confident that you will see this change as an enhancement to the level of service you have come to know and expect from us.

New Tagline:
"Gain Clarity. Realize Value."

The new tagline for VMI, "Gain Clarity. Realize Value.," is intended to communicate the primary benefits that our clients receive from using our services. Whether it is a merger or acquisition, ESOP transaction or shareholder dispute, business transactions can be very complex. The VMI team is dedicated to helping our clients navigate these transactions in the most effective way possible. We help businesses assess, understand and realize their value.

Updated Website

As you will see, our website has been updated to reflect all of these changes to our brand and positioning. Be sure to check our website often for new blog articles, news and other resources!

We greatly appreciate your continued trust in VMI and look forward to serving you!

In This Issue:

VMI Highlights:

Susan and Kaitlin Wilusz went back to school and spoke to an Entrepreneurial/Family Business class at St. Joseph's University in late February.

Ed Wilusz is speaking at the PA Spring ESOP Conference on March 30th in York, PA.

Ed Wilusz and Greg Kniesel will be speaking at the NCEO Annual Conference in Denver, Co the first week of April. Value Management Inc. is also a conference sponsor.

VMI will be a sponsor at the Union League Business Expo on April 20th. Please let Susan Wilusz know if you would like to attend.

Identifiable Intangibles Garner Bigger Share of Purchase Price Allocations

More value is being allocated to identifiable intangible assets, while goodwill is holding steady, according to the latest report from Houlihan Lokey on purchase price allocations. The analysis examines 563 transactions in which the acquiring company was based in the United States and publicly held. The study uses "purchase consideration," which is the sum of the purchase price paid and liabilities assumed in connection with a business combination.

Increasing share: The percentage of the purchase consideration allocated to intangible assets increased to 34% on average in 2015, up from 30% in 2014. The percentage of purchase consideration allocated to goodwill is 38% on average in 2015, the same percentage reported for 2014. Contingent consideration (earnouts) represented 21% of purchase consideration (up from 20% in 2014).

The categories of intangible assets acquirers most commonly identified all show percentage increases in terms of frequency of identification: customer-related intangibles, cited in 69% of deals (up from 59% in 2014); trademarks and trade names, 50% (up from 45%); developed technology, 44% (up from 40%); and in-process research and development, 10% (up from 7%). Other intangible assets typically included were noncompete agreements, licenses, permits, and other contracts or agreements.

Marijuana Legalized in Eight New States

Amid the hubbub of the presidential election, voters approved marijuana initiatives in eight of the nine states where it was on the ballot, according to an article in the Journal of Accountancy, which lays out the details.

Big business: A total of 31 states and jurisdictions now have legal marijuana in some capacity. If the momentum toward legality includes all states by 2020, U.S. retail marijuana sales could reach $35 billion, according to a new guide, *What It's Worth: Value and Business Challenges in the Budding Cannabis Industry.* That's serious business, but a business fraught with risks, partly because marijuana is still an illegal substance under federal law. There's also state and local oversight as well as leasing, banking, cash, and security issues. Another resource is the Marijuana Licensing Guide, 2017 edition, which provides the latest marijuana laws and licenses by state.

Extra: President-elect Donald Trump's nomination of Alabama Sen. Jeff Sessions to be the next attorney general has raised fears that the new administration could crack down on weed-tolerant states and crimp industry growth.

Trump's Woes Highlight Human Risk to Brand Values

If a human being is part and parcel of a brand, there's a great deal more risk potential in terms of valuation. This is not a new phenomenon. Before World War I, Camel cigarettes were almost named Kaiser cigarettes! The Trump brand has taken a beating, according to a report from the Associated Press. A representative for Trump maintains the brand is "incredibly strong." But some event planners are shunning Trump properties, travelers are preferring rival hotels, and consumers are staying away from Trump retail products.

The Human Factor: You never know what a human advertising mascot or spokesperson will say or do to impact brand value. But there's no worry if a human is not part of the trademark. Was Speedy Alka Seltzer ever involved in a scandal? Was the Pillsbury Dough Boy ever caught in a love nest? No, they didn't have morals clauses in their contracts. They stayed squeaky clean because they were controllable fictional characters. So maybe when valuing a brand tied to a living person you should consider a discount for lack of control?

Godshall's
Premium Meat and Turkey Products
Since 1945

sold shares to its

Employee Stock Ownership Plan (ESOP)

VALUE MANAGEMENT INC.

served as financial advisor to the ESOP trustee

SUMMERS CONCRETE

sold shares to its

Employee Stock Ownership Plan (ESOP)

VALUE MANAGEMENT INC.

served as financial advisor to the ESOP trustee

PRICE SERVICE DELIVERY QUALITY
PRD POWERRAIL

sold shares to its

Employee Stock Ownership Plan (ESOP)

VALUE MANAGEMENT INC.

served as financial advisor to the ESOP trustee

DESIGN COLLECTIVE

sold shares to its

Employee Stock Ownership Plan (ESOP)

VALUE MANAGEMENT INC.

served as financial advisor to the ESOP trustee

BJ SUPPLY CO.

has been aquired by

Beacon Roofing Supply, Inc.

VALUE MANAGEMENT INC.

initiated transaction and served as financial advisor to seller

A Man With a Plan Can

Joe Pfluger founded BJ supply in 1989. Prior to starting the company, Joe worked as a roofer and then, for a local roofing supplies distributor.

When BJ Supply celebrated its 25th Anniversary in 2014, Joe started to think about selling the business. While the company was always profitable, the rigors of running an independent, single location distributorship had taken its toll and Joe felt burned out.

Joe decided to sell the business using the "sale by owner" method. He received an offer but before he signed any documents, he asked VMI to review the deal. Long story short, it wasn't the right deal for him.

In 2015, Joe engaged VMI to represent him in the sale of his business. VMI helped Joe set realistic goals, advised him on the steps he needed to take to get his business ready for sale and negotiated a deal that accomplished Joe's goals. Fortunately, the timing was good: Joe's business continued to be profitable, the market factors were favorable for selling and VMI found a buyer.

BJ Supply was sold to Beacon Roofing in December 2016. VMI recently sat down with Joe to discuss the sale.

VMI: Joe, what stands out to you about the sale of your business?
Joe: It was so quick! It only took 45 days from when we signed the LOI (letter of intent) until we closed. Of course, there was a lot to do in those 45 days to get it done but everyone cooperated and we pushed through it. Our regular business was brisk during those 45 days, which is generally a good thing, but even that had me concerned for a bit.

VMI: You say that what stood to you was how quickly the process took but in reality, the process started in 2014. Why do you say that the sale seemed to be completed so quickly?
Joe: While the road to the sale was long and bumpy, once the deal was negotiated and signed, the final step went crazy fast!

When I first tried to sell the business in 2014, I didn't have specific goals or a plan. Taking VMI's advice, I did not go forward with the initial deal. Only after I started working with VMI did I begin to understand how buyers viewed my company, the potential for selling and how to close the deal. With VMI's help, I set goals, made a plan and most importantly, stuck to the plan!

Having a plan in place, knowing what I wanted and how to get it made it easier to negotiate when the right buyer was identified. From the first call, to the introductory lunch, to the facility tour took maybe three or four months. The buyer did their homework and before you knew it, we were negotiating. I think it went smoothly because the buyer seemed to be a good match right from the start. We came to terms, signed the documents and voila, closed on schedule!

VMI: The right buyer was found; were there "wrong" buyers?
Joe: I wouldn't say there were wrong buyers but there were bad fits. While we had our plan, we knew that BJ Supply had to fit into the buyer's plans. Our goals had to be compatible with their goals. Our business model, product diversification and

(continued on page 5)

(Continued from page 4)

mix, and unique location had to be attractive to the buyer and present the buyer with the opportunities to not only survive but to thrive. We did speak with several buyers but the situation just wasn't right for both parties to achieve their goals. I trusted the plan and that meant accepting the fact that there were many good companies but not necessarily good acquirers for BJ Supply.

VMI: Earlier, you mentioned that the company was busy and that was a concern for you. Why?
Joe: As I learned, there is more than meets the eye involved with selling a business. Part of what the buyer would receive in the sale, in addition to my company's equipment, and name, and customers, was part of my balance sheet. I understood that the buyer would also receive inventory, and would assume my receivables, as well as certain payables. However, how that would impact the final selling price and how it would be calculated was hard for me. We must have reviewed the topic of working capital 20 times! It was important though because it directly impacted the deal. Getting back to your question, the new business in the month leading up to the sale seemed to be an issue because at first I misunderstood about which assets the buyer would get and for which liabilities they would be responsible. After I understood that I would get credit for all profit leading up to the deal above the target working capital, I felt better.

VMI: Target working capital was an issue?
Joe: It wasn't an issue as far as the deal went but I had to focus on working capital in a way that I had not done before. Understanding the definition of working capital per the terms of the deal and how the daily operations of my business leading up to the closing fit into the deal structure and consequently what I would receive in the end, they were the real issues.

I knew my inventory and receivables. However, making sure that we met the target working capital amount (based on accounts receivable plus inventory minus accounts payable) at closing was a challenge. I started to get worried when I began making large inventory purchases and extending my line of credit in the weeks leading up to the closing. You reassured me that good business was good news and that it would all come out in the wash. It did. We got credit for the amount that exceeded the target working capital. So, in the end, target working capital was not a problem.

VMI: You were ready to get out of the business in 2014 but the deal closed and you are still working there. Was that part of the plan?
Joe: When I first decided to sell, there was no plan. Once I started working with VMI, I learned more about the actual process and what would be involved (i.e. what buyers would expect). That's when I realized that the buyer would expect me to stay with BJ Supply for a transition period. So far, so good. Beacon is a good fit. I was energized by the sale and it brought new life and energy to the business. Most importantly, my new role does not carry the same level of responsibility making it very enjoyable!

Tax Court Corrects Prior Valuation of LP Interest to Startling Result

In an estate tax dispute that has lasted for over five years, the Tax Court revalued the decedent's minority interest in an Oregon family business by order of the 9th Circuit Court of Appeals. The recalculation proved a boon to the taxpayer. The case is *Estate of Giustina v. Commissioner,* 2016 Tax Ct. Memo LEXIS 113 (June 13, 2016) *(Giustina III).*

The Tax Court first valued the decedent's limited-partner interest in a partnership that owned a timber company, including many acres of timberland, in 2011. At the time of the decedent's death, in 2005, the partnership had operated for 15 years. All limited partners were family members or trusts acting on behalf of a family member.

The Tax Court initially decided to value the LP interest by way of the discounted cash flow (DCF) approach and the net asset value (NAV) approach. It gave a 75% weighting to the DCF-derived value and a 25% weighting to the NAV-derived value. The former represented the probability that the business would continue;

(continued on page 6)

the latter the possibility (albeit remote) that the partnership would dissolve and the assets would be liquidated. The Tax Court credited, but adjusted, the estate expert's cash flow calculation, including cutting in half the 3.5% company-specific risk premium the estate's expert had proposed. A hypothetical buyer of the interest could limit the risk through diversification of assets, the Tax Court suggested.

The 9th Circuit Court of Appeals found the Tax Court had made two clear errors that required remanding the case for a new value determination. In terms of the company-specific risk premium, the Tax Court failed to take into account how much wealth a potential buyer would need to affect a diversification, the 9th Circuit observed. And, considering how implausible it was that a buyer of the decedent's limited-partner interest could achieve the dissolution of this long-term partnership, the Tax Court's giving any importance to the value of the assets was improper.

The 9th Circuit ordered the Tax Court "to recalculate the value of the Estate based on the partnership's value as a going concern."

The Tax Court's revised valuation adopted the estate expert's 3.5% company-specific risk premium and gave no weight at all to the assets of the company. As a result, the applicable discount rate for the DCF analysis increased from 16.25% to 18%. The corrections caused the value of the decedent's interest to drop from almost $27.5 million to about $14 million, the Tax Court found. It ordered the parties to recalculate the deficiency based on the revised valuation.

ABOUT VALUE MANAGEMENT INC. VMI is a financial consultuing firm specializing in valuing and selling businesses, corporations and professional practices. Our firm is bulilt on the performance of more than 6,500 valuations. Appraisals are rendered for estate tax planning, litigation support, and many other situations requiring independent appraisal. Our newsletter is published quarterly and does not constitute legal or financial consulting advice. It is offered as an information service to VMI's clients and friends. Those interested in specific guidance for legal and accounting matters should seek competent professional advice. Inquiries on specific transaction matters are welcomed.

VALUE MANAGEMENT INC.
Investment Banking + Advisory Services
2370 York Road, E2 | Jamison, PA 18929
Address Service Requested