

Owners looking to cash out are keeping valuers busy

By **Marc Laroque** - June 10, 2022 3:00 am



RETHINKING THINGS: Kevin A. Papa, a partner at Piccerelli, Gilstein & Co. LLP, says he's hearing from a larger number of small-business owners who are reexamining how their company fits in their life and are thinking about an exit strategy. PBN FILE PHOTO/ELIZABETH GRAHAM

In a time of economic upheaval involving sky-high inflation, supply chain problems and staffing shortages, following two years of disruption that came with the COVID-19 pandemic, the demand for business valuations is booming as more business owners than usual plot their exit strategy, according to Rhode Island accountants who specialize in the service.

"I'm as busy as I've ever been," said John E. Barrett Jr., principal of the Cranston-based Barrett Valuation Services Inc., who started his valuation business 23 years ago. "This last year, 2021, was my best year ever. I'm ahead of last year's numbers right now. Most of the valuation people I talk to are pretty much in the same situation."

Barrett says some people are taking these tumultuous times as an opportunity to turn over the reins sooner rather than later. Without identifying his client's company, Barrett says in one case the owner of a Rhode Island business who was in his 70s started working from home during the pandemic and then decided it was time to pass the baton.

"He started spending more time at home and decided, 'I like this,' " Barrett said. "His son is his No. 2. When COVID hit, the son insisted the father stay home for health purposes, and the father liked it and got accustomed to staying home. He called me the other day. He said he wanted to start gifting his son the company."

Karen S. Rice, a certified valuation analyst at the Providence accounting firm Kahn, Litwin, Renza & Co. Ltd., says she's also been busier than ever and that partly has to do with owners suffering from COVID-19 burnout. Rice says she and her colleagues are now working on 17 business valuations, which she says is up around 30% from her caseload a year ago.

"I know a lot of people, because of COVID, decided 'I'm done,' and passed the torch to the next generation," said Rice, who's been doing business valuations since 2008. "There's been a lot of gifts or buyouts [of businesses] because of that."

Kevin A. Papa, a partner at Piccerelli, Gilstein & Co. LLP, who does business valuation work, says he also notices that more small-business owners have been looking to sell, compared with before the pandemic, and they require business valuation services as a result.

"In some cases, small-business owners are rethinking how the business fits in their life and in their future," Papa said. "It seems there are more conversations with business owners around thinking about an exit strategy ... certainly in the last six to nine months."

Barrett says another factor impacting the demand for business valuations is the change in political leadership in the Congress and the White House last year. Barrett says the potential for increases to federal estate and gift tax rates created an impetus for aging business owners to seek a valuation ahead of a potential acquisition or inheritance of a company.

"There was a major concern, a strong concern that there would be major changes to the estate and gift tax laws. That didn't happen," Barrett said. "But that did fuel demand for business valuation services. My business

has increased across the board, not just estate and gift, but also litigation work, divorce work, transactional work. I don't really know exactly why all those elements have increased. But they have."

Rice agrees that "a big influx" in business valuation activity was caused by concerns from business owners who feared that a \$12 million exemption to estate taxes was going to be drastically reduced under the Joe Biden administration and a Democrat majority U.S. House of Representatives. But the Congress didn't move forward with a House proposal to slash the \$12 million exemption, and the 2017 Trump-era tax policy is now expected to sunset in 2025 and revert to the previous standard of \$5 million adjusted for inflation.

While the COVID-19 crisis created difficulties for business valuers at the outset of the pandemic, Barrett says there's now a lot more clarity in the financial outlook for most companies in relation to the direct impacts of the pandemic. Business valuations rely on information regarding historical performance, cash flows, market values, assets, liquidity issues and debt to create an accurate reflection of a company's worth, Barrett says, in addition to qualitative risk assessments related to the quality of management, the customer base, the overall industry outlook and economic trends.

"We're in an environment that's more stable, so it's easier to predict expected future cash flows," Barrett said. "We've been getting back closer to normal in terms of how businesses function right now. The risk environment has improved."

Barrett says that "from a valuation perspective" companies have a much more predictable value than two years ago when the COVID-19 crisis began, but the demand for business valuations will continue at peak levels for at least the near future partly due to "a host of different issues that don't pertain directly to COVID that are causing some problems" and are causing an uptick in turnover of corporate ownership.

"A lot of companies still have supply chain issues," Barrett said. "We're dealing with energy issues. We're dealing with inflation. We're dealing with rising shipping costs, and for a lot of businesses it's harder to get products."

"I don't think it's short-lived," Barrett added. "I think the demand for business valuation services is going to remain strong for the next five-plus years."



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