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# Crisis spurs businesses to reevaluate their worth

By **Nancy Lavin**
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SERVICES SOUGHT: Certified public accountant and certified business appraiser John E. Barrett Jr., principal at Barrett Valuation Services Inc., has experienced increased demand and new challenges in calculating business values since the pandemic hit.

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As principal of Barrett Valuation Services Inc., John E. Barrett Jr. staked his career on his ability to assess risk.

But the metrics he has long relied on to calculate a company's risk, and in turn, its value – historical performance and cash flows, market values, and assets – fail to capture the rollercoaster ride the economy has taken since COVID-19 hit.
Add in the potential for a change of political power in Washington post-November election and heightened civil unrest amid continued police brutality and the country seems to have reached a boiling point of risk potential.

Which means Barrett and other certified business valuation analysts have had to get creative with the traditional tools and measurements they use in their assessments, while simultaneously servicing an influx of clients seeking valuations as a measure of certainty when all else is in flux.

"When things are uncertain, people look for opportunities to buy, sell or gift, all of which require valuation services," said Kevin A. Papa, a partner at Piccerelli, Gilstein & Co. LLP whose certifications include public accounting and business value analysis.

Another driver behind businesses' interest in valuations is the ample array of government and private loans and grants available to help offset COVID-19-related losses. While most of these, such as forgivable payroll loans through the U.S. Small Business Administration's Paycheck Protection Program, don't strictly require a business valuation, many companies want updated value assessments in order to better understand how much money they may be eligible for, according to Melissa Travis, CEO and president of the Rhode Island Society of Certified Public Accountants.

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**KEVIN A. PAPA, Piccerelli, Gilstein & Co. LLP partner**

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“It’s one thing for a business owner to perceive what they think their business is worth,” Travis said. “It’s a whole other thing to get it valued.”

The RISCPA has been inundated with inquiries from companies looking to get a handle on how their business value has changed – and for how long that change might last – since March, Travis said. At the same time, the demand has sparked new classes and certification offerings from national accounting organizations seeking to grow the number of CPAs with the requisite training for business valuations.

Barrett has long been sought after for his firm’s specialty in valuation services. But general accounting firms such as Kahn, Litwin, Renza & Co. Ltd. are also seeing a surging interest in valuation services, according to Karen Rice, a CPA and valuation analyst and partner in KLR’s tax services group. None of the clients seeking valuations through KLR or other local analysts were willing to be interviewed for the story.

Not only is the number of clients asking for valuations piling up but the assessments have also gotten more complicated.

The traditional benchmarks used to determine a company’s worth – based largely on performance history over a period of several years – no longer make sense given the dramatic changes most have experienced since the pandemic hit. “There’s really no pattern anymore, it’s a spike up or down,” Papa said of company performance.

Rather than looking at the history of capitalization of earnings, Papa has turned to an alternate formula known as discounted cash flow, which better captures the immediate market fluctuations the pandemic has caused. But inputting information into a formula isn’t enough; analysts must also use their savvy and company data to estimate how long a change in value will last, projecting multiple values based on a range of scenarios.

Further complicating the valuation process is how to account for short-term injections of cash through PPP loans or other funding: should it be considered debt or income? Even if the company is expecting its loan to be forgiven, indicating it should fall on the income side of calculations, including the one-time payment in longer-term risk calculations may be inaccurate.

The American Society of Certified Public Accountants, along with other state and national organizations, has issued guidelines around how to include PPP and other loan or grant monies into valuation calculations. But individual analysts still differ in their approaches.

“If you had three people value your business, two would come up with a different amount,” Travis said.

While the uncertain economic climate makes calculating a business’s worth more difficult, it’s not an unprecedented situation. Barrett likened the current marketplace fluctuations to the ones in the 2001 dotcom bubble and the 2008 financial crisis.

“We are in a time of greater uncertainty, yes, but we also have a lot of tools in our tool kit to deal with [it],” he said.

The biggest takeaway, in Barrett’s mind, based on those prior economic crises is that the strength of a company’s balance sheet before a recession remains the biggest determinant of its ability to weather an economic storm, regardless of short-term changes in valuation.

Savvy business owners might also find ways to take advantage of temporary reductions in their value, which could be used to reduce the amount they must pay in federal gift and estate taxes, for example.