

BVU PROFILE:

**NACVA Thomas R. Porter Award Winner Offers
Advice and Insights to Valuation Experts**

Editor's note: P. Dermot O'Neill has over 40 years of experience as a CPA with a diverse background and practice. He is the president of P. Dermot O'Neill, CPA PC, which concentrates on business valuation, forensic accounting and litigation support, transaction consulting, financial analysis, and income taxation. In addition to being a CPA, he holds the ABV, CFF, CVA, MAFF, and ABAR credentials. He has served as an expert witness, teaches business valuation in a graduate program, and is managing editor of the National Litigation Consultants Review. In 2015, he was the recipient of NACVA's Thomas R. Porter Lifetime Achievement Award, which recognizes a member's exemplary character, leadership, and professional achievements. BVU was fortunate to be able to talk with him about his career and his insights into the practice of business valuation.

BVU: How did you get into valuation?

O'Neill: In college, I started studying engineering but after my first year switched to business. I went to work for an accounting firm and got into accounting systems design. This was in the late 1960s and early 1970s, when clients were moving from manual books to an automated system, so I designed custom systems. I liked the analytic aspect of that work, and it was very beneficial to me later on. I then moved into tax and took graduate courses in taxation. I was working in a tax practice, and the owner was the local divorce guru who also did some business valuation for divorce. I liked valuation and the analytics involved, so in 1994 I started to do the training for business

valuation. I got my CVA from NACVA, and then when I had enough experience I was able to take the test for the ABV from the AICPA. I went to work in the valuation and litigation services group at a national consulting firm that was affiliated with a national CPA firm. They had about 20 partners and about 100 staff, so there was always someone who needed a valuation of some type. If you're with a CPA firm, the best marketers are the partners in the firm who know what valuation is all about—they're your best source of business.

BVU: You are accredited in business appraisal review (ABAR). Can you comment on that credential?

O'Neill: It's a very powerful credential because you are able to opine on the credibility of a valuation report, which is very critical to a judge. I'm often called in to review the appraisal reports of the opposing side in litigation matters. The most recent ones I've done involved very contentious matters that were ready to go to court. In all of the cases, the parties settled after reading my reports.

BVU: What is the most common error you see in reviewing valuation reports?

O'Neill: One of the most common issues I see is advocacy, where the valuation expert, through the use of chosen methodologies, is being an advocate as opposed to being objective. Another issue is a lack of foundation for the numbers utilized. For example, the report will state that a certain percentage is used for a discount for

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lack of marketability, but there will be no explanation as to why that number was used. The report may include data from restricted stock studies or pre-IPO studies, but there is no specific explanation as to why the particular percentage was chosen. It may point out that the percentage used is an average of the relevant data, but that's the "flaw of averages."¹ Unless the company is "average," the average number may be misleading.

BVU: *What do you feel are the most controversial issues today in terms of business valuation theory or methodology?*

O'Neill: I see two issues as particularly controversial: the tax-affecting issue and the control premium. In terms of tax affecting, for years I've been an advocate of using a pretax discount rate as opposed to taking a tax deduction from earnings or cash flow. From a litigation standpoint, it's practically impossible to explain tax affecting to a judge or jury. Adjusting the discount rate ties into what Nancy Fannon, Keith Sellers, Aswath Damodaran, and others have been advocating. It also ties in to what the Tax Court has been saying—that they don't throw out tax affecting but no expert has adequately explained why the court should consider it. There needs to be more work done in this area, but there have been steps made so far.

As for the control premium, it was thought that the prices in the public market represented minority interests. Therefore, in an M&A situation, a company was really buying control. I think that's a fallacy because we really don't know what they're buying. We know they're buying future synergies and strategic positioning, so looking to the public market for a control premium is probably not the best thing to do, although we do it. Maybe in the future someone will take a look at private-company information, such as *Pratt's Stats* data, to see if there's some way to glean control premium information from that data.

1 Sam L. Savage, *The Flaw of Averages; Why We Underestimate Risk in the Face of Uncertainty*, John Wiley & Sons Inc., Hoboken, N.J., 2009-2012.

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BVU: *You've done a great deal of testifying in court. How can a valuator break into expert witness work?*

O'Neill: Typically, the most successful way is to do pro bono work for nonprofits or charities to build up your CV. You may not get paid, but it's an investment to make in order to gain experience. Another good idea is to represent the nonpropertied spouse in a divorce matter who typically doesn't have the funds to pay a retainer or your regular fee. You don't take the engagement for free, but you charge what the client can afford. You may or may not have to write it off, but it's critical to build up your CV if you want to do expert witness work. I did one recently for a public agency that involved a wrongful death case. The agency is on a limited budget, so I charged about a third of what I would normally charge because it increases my experience testifying in a wrongful death case.

If you're in a CPA firm, you may get some resistance to these ideas, so you'll need to garner the support of the partners and the other people in the firm. Educate them as to what you do and how you'd like to get into the expert witness area.

BVU: *Over the years, you've developed a diverse practice. If you were starting out today, would you specialize in a particular area of business valuation?*

O'Neill: The first thing I would do is look for a mentor, which is extremely important for someone to have. Hopefully, that mentor would tell me that before I make a decision about specializing that I should get some basic experience and training in accounting, finance, and economics. I teach business valuation in the graduate business program at Rider University, under the MAcc program [Master of Accountancy], so many students have an undergraduate degree in accounting. I tell them that they have all the accounting that they need to know for business valuations, so their graduate studies should include finance, for example, because valuation is not just about accounting. The students who get their master's in accounting and want to jump right into business valuation

should consider first going into public accounting or consulting to gain a range of experience.

BVU: *Do you see any valuation growth areas on the horizon, such as litigation, divorce, or fair value?*

O'Neill: Litigation and divorce are growth areas, and one of the reasons I sense is that many of the "dabblers" are getting weeded out. The CPAs who primarily did accounting and tax work but also valuations on the side have found that it is not something you dabble in. But this has created some pricing pressures because clients are looking for the lower fees that the dabblers charged. There are also opportunities related to the fact that the baby boomers are retiring, so there will be some growth in valuations for that market as they sell or gift their businesses to family members.

I don't think that fair value is going to be a growth area per se. Back in 2013, the FASB decided not to require the fair value standards for closely held companies, so that cut into the market. Some colleagues of mine who felt that closely held companies were looking to be acquired by private equity funds or funds looking to go public found they had to expand their practices into litigation, for example.

BVU: *Congratulations on receiving the Thomas R. Porter award from NACVA. The award recognizes an individual's achievements in both the business valuation and financial forensics communities. Can you comment on the use of financial forensics from a valuation standpoint?*

O'Neill: Business valuation and forensics both come down to analytics—looking at a situation, analyzing it, and coming up with a conclusion. I look at it from the standpoint of skills. Business valuation and forensics both require the same skill sets; they're just applied differently.

Years ago someone asked me what I did for a living, and I said that I was a forensic financial analyst. The person said: "Oh, just like 'CSI.'" Yes, it's exactly like "CSI"—but instead of dead bodies, we're dealing with dead transactions, dead

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financial relationships, etc. We look at evidence and draw conclusions and express opinions, which is really what forensics is all about. And it can be in various contexts, such as business valuation or lost profits. Right now I have a case where someone at a third-party payroll service took a client's money by taking the withheld payroll taxes and not turning them over to the IRS. This is not business valuation or lost profits—it's an analytics situation. You need to look beyond the labels.

BVU: *You have both the CFF and MAFF credentials in financial forensics. How did getting these make you a better valuator?*

O'Neill: It was an opportunity to improve my analytical skills and also my report writing skills. It also helps you look at things in different ways through the eyes of other practitioners. It also expands your networking, which is invaluable. You come in contact with some great people as you go through this kind of continuing education.

Another reason for getting the credential was that, when I was doing forensic work for litigation, I would get the question of why I didn't have the forensics credential that's issued by my own organization [the AICPA].

BVU: *How does forensics come into play in a typical valuation?*

O'Neill: Forensics, or analytics if you will, is intertwined with valuation. For example, if I'm looking at a company's revenue, I know it's made up of two components: units and price. So I will ask for that information. Then I will look at the units and prices and see how they may be correlated with the industry, local demographics, and so on. The forensics piece of it is the ratio analysis that is done to correlate what's going on in the industry with what I'm seeing in the subject company. You do this in order to determine whether the historical financials relate closely enough to the industry and market so that you can use them as a basis for the forward-looking valuation such as a single period capitalization model. That's how I apply the forensics—or analytics—to the business valuation.

BVU: *How can the business valuation profession improve itself?*

O'Neill: I think that to improve the profession you need to educate the users about how to use our services. Some of the attorneys and clients who think they know what business valuation is don't know how to use it. We need to educate them on how to use the process.

P. Dermot O'Neill's practice is located in Glen Mills, Pa. He can be reached at damages@comcast.net. ♦