

ON THE COVER



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CYBERSECURITY AND BUSINESS VALUATIONS: INCREASING VALUE AND REDUCING RISK FOR VALUATORS

By Raymond Hutchins and Dave Miles, CPA, CVA, CGMA

It is rare and notable when anything new hits the valuation industry. But that moment has come. Cybersecurity due diligence must now be part of any new business valuation. To ignore this new reality invites unnecessary credibility challenges, liability, and litigation. Cybersecurity risk applies to all businesses today, not just large enterprises. The authors discuss the overall impact on business valuation.

IN THIS ISSUE...

12 THE ROLE OF MANAGERIAL ABILITY IN FIRM VALUATION

By Davit Adut, PhD; Marinilka Barros Kimbro PhD; Marc Picconi, PhD; and Philipp Schaberl, PhD

In this article, the authors provide an explanation based on Ohlson (1995) and empirical evidence that managerial ability significantly influences the relationship between market value and accounting fundamentals, such as book value of equity, net income, cash flows, and accruals.

21 LETTERS TO THE EDITOR

In this issue, we have two detailed responses to articles that appeared earlier this year.

**Response to *How Not to Use Duff and Phelps Data*, May/June 2019**  
By Joshua Feldman, CPA, CFE, CVA, AIAF

I read the article, *How Not to Use Duff & Phelps Data*. I agree with some of Grabowski, d'Almeida, and Jacobs (D&P) observations, but certainly not all, as my article (*Rethinking Using Arithmetic Mean Returns in Calculating Small Company Risk Premiums*, *The Value Examiner*, November/December 2018) would indicate.

**Response to *Vasicek and Blume Betas: Back to the Future (Parts I and II)*, January/February 2019; March/April 2019**

By Prof. Dr. Leonhard Knoll, Prof. em. Dr.; Dr. h.c. Lutz Kruschwitz, Prof. Dr.; Dr. Andreas Löffler; and Prof. Dr. Daniela Lorenz

In the first two issues of *The Value Examiner* in 2019, Diana Raicov and Richard Trafford offered a further contribution to the ongoing studies on the modification of CAPM and, in particular, on the empirical estimation of Beta. They compare different methods for estimating Beta and evaluate them according to the criteria of unbiasedness, stability, and predictive ability. We would like to make some comments on their procedures and results.

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ACADEMIC INSIGHTS

ROUND TABLE DISCUSSION: EDUCATING TOMORROW'S LEADERS

With: Peter Lohrey, PhD, CVA, CDBV; Lari Masten, MSA, CPA, ABV, CFE, CPVA, CVA, MAFF, ABAR; Danny Pannese, MST, CPA, ABV, CVA, CSEP; Keith Sellers, CPA, ABV; and Richard Trafford, MSc, CVA, CFE, MAFF, FAIA, FCT, FHEA

Moderated by Nancy McCarthy, Senior Editor, *The Value Examiner*

Over the course of the year, this column is expertly written by Peter Lohrey. However, in the summer months, Dr. Lohrey takes a well-deserved break. Last month, our guest editor was Matthew Crane, DBA, ASA, CPA. This month, Dr. Lohrey has been joined by several members of *The Value Examiner* editorial board for a lively discussion on the challenges and needs of students who one day hope to enter the valuation profession.

## DEPARTMENTS

## 32 LITIGATION INSIGHTS

**PROPER TRANSFER-PRICING RATES BETWEEN U.S. AND PUERTO RICO: WAL-MART PUERTO RICO, INC. V. ZARAGOZA-GOMEZ***By Kevin A. Diehl, JD, CPA*

For a valuation expert, *Wal-Mart Puerto Rico, Inc. v. Zaragoza-Gomez*, Civil No. 3:15-CV-03018 (JAF), 174 F. Supp. 3d 585 (2016), is gold. It first discusses how to value transfers between related entities in the U.S. and Puerto Rico, an ongoing issue for many Fortune 500 companies expanding to multiple states and internationally. The case is a good example of transfer-pricing valuations in today's business environment in general. It does ultimately show that Wal-Mart utilizes the proper transfer-pricing valuation steps.

## 35 PRACTICE MANAGEMENT

**HOW IRS GUIDANCE MAKES IT IMPOSSIBLE TO COMPLY WITH SECTION 2801 IN TWO HOURS OR LESS***By Fabio Ambrosio, JD, LL.M., MBA, CPA, PFS, ABV, CFP, EA, CVA, MAFF, CFE, CGMA,*

In 2008 Congress added Section 2801 to the Internal Revenue Code. This section targets those individuals who, by relinquishing citizenship or residency, could potentially escape the gift or estate tax. The author describes, how the mechanics of how Section 2801 have troubled the IRS for the last eleven years.

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**PRACTICING SOLO: ZACHARY SHARKEY***By Rod P. Burkert, CPA, ABV, CVA, MBA*

The author interviews sole practitioner, Zachary Sharkey, CFA, CPA, ABV, from St. Louis, MO.

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**TELLING YOUR STORY: EDITORIAL BOARD MEMBERS AND CONTRIBUTORS TO THE VALUE EXAMINER SAY WHY THEY WRITE (PART II)***Compiled by Nancy McCarthy, Senior Editor, The Value Examiner*

Kindra Hall, a motivational speaker and one of the keynotes at the June 8, 2019 NACVA and the CTI's Annual Consultants' Conference, presented a unique topic: "The Power of Storytelling on Your Journey to the Top." In the March/April 2019 issue of *The Value Examiner*, contributors and board members gave insights into why they write. In this issue, we hear from several more professionals who write as part of their business life.



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5217 South State Street, Suite 400  
Salt Lake City, UT 84107  
Tel: (801) 486-0600, Fax: (801) 486-7500  
E-mail: NACVA1@NACVA.com

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*The Value Examiner* is devoted to current, articulate, concise, and practical articles in business valuation, litigation consulting, fraud deterrence, matrimonial litigation support, mergers and acquisitions, exit planning, and building enterprise value. Articles submitted for publication should range from 500 to 3,000 words. Case studies and best practices are always welcome.

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