

## **IVSC BVB February 2024 Update**

This IVSC Update highlights preliminary decisions of the IVSC Business Valuation Board (Board). Projects affected by these decisions can be found on the *IVSC Publication Schedule*. The Board's final decisions on IVS® Standards and Amendments as set out in the *IVSC Standards Review Board Due Process and Working Procedures*.

The Board met physically in **New York on 26, 27 and 28<sup>th</sup> February**.

### **Agenda:**

#### ***Monday 26<sup>th</sup> February 2024***

1. Opening remarks by the Chair and update by CEO
2. Record of previous meeting notes (January 2024) and other logistical issues
3. Presentation by AICPA
4. Presentation by Daniel McCarthy on Customer Lifetime Value and Customer Based Corporate Valuation (CBCV)
5. Discussion on the presentation by Daniel Mc Carthy

#### ***Tuesday 27<sup>th</sup> February 2024***

6. Opening remarks by the Chair
7. Discussion about forthcoming IVSC agenda consultation
8. Presentation by Professor Aswath Damodaran and questions
9. Debriefing of the dialogue with Professor Damodaran and other business

#### ***Wednesday 28<sup>th</sup> February 2024***

10. Presentation by Michael Mauboussin
11. Debriefing of the dialogue with Michael Mauboussin
12. Conclusion of Business

The Board was asked if there were any conflicts of interest in relation to the proposed topics and no conflicts were declared.

## **Monday 26<sup>th</sup> February 2024**

### **1. Opening remarks by the Chair and update by CEO**

- a. The Chair welcomed the attendees and the guest speaker (NEO Nick Talbot)
- b. Nick Talbot updated the BVB about recent progress of the IVSC including:
  - i. New members
  - ii. Advances of the IVS in various jurisdictions and domains, including IP financing
  - iii. Summary financial affairs of the IVSC
- c. Next steps:
  - i. None.

### **2. Record of previous meeting notes (January 2024) and other logistical issues**

- a. The TD-BVB asked attendees if they had any remarks on the record of the previous BVB meeting that had been previously circulated.
- b. There were no remarks on the notes of the previous meeting of the BVB.
- c. The BVB discussed the logistics of the upcoming meetings, including the reception of guest speakers.
- d. The TD-BVB asked for volunteers to respond to an enquiry by EFRAG on the PIR of lease accounting standards.
  - i. Four Board members volunteered.
- e. Next steps:
  - i. BVB TD to contact EFRAG to respond to enquiry.

### **3. Presentation by AICPA**

- a. The AICPA was represented by:
  - i. Yelena Mishkevich, Frederick Bort, Mark Edwards (in-person)
  - ii. Mike Moskowitz; Gary Roland (remote)
- b. The speakers discussed the various guides published by the AICPA and the process behind them.
  - i. The final version of the Business Combinations guide will be published in July 2024.
  - ii. Several issues are common to the IVS and AICPA guides, including intangible assets, Inventory and non-financial liabilities (deferred income);
- c. The speakers and the members of the BVB agreed to continue collaborating in the future.
- d. Next steps:
  - i. None.

4. **Presentation by Daniel McCarthy on Customer Lifetime Value and Customer Based Corporate Valuation (CBCV)**
  - i. Dan Mc Carthy introduced himself and how his current academic work is rooted in his experience working at a hedge fund and creating a business later sold to Nike.
  - ii. Customer-based valuation uses information about the customer base to determine the value of the firm.
    1. for example: number of customers, contribution margin per customer, retention rate.
  - iii. CBCV helps to generate “accurate” revenue projections. It applies to all sorts of business, but SaaS have very good data about their unit economics.
  - iv. For Dan Mc Carthy, subscription business should disclose customer KPIs:
    1. Total customers acquired (period by period),
    2. and total active customers (period by period), and
    3. Period 1 retention.
    4. Discriminated sales & marketing costs.
  - b. The speaker and the members of the BVB agreed to continue collaborating in the future.
  - c. Next steps:
    - i. None.
5. **Discussion on the presentation by Daniel Mc Carthy**
  - a. The BVB discussed the tenor of the presentation by Dan Mc Carthy
  - b. The BVB discussed how Dan Mc Carthy’s work could be included in the forthcoming perspective paper which will examine customer relationships and be a capstone for the series on intangible assets.
  - c. Next steps:
    - i. None.

***Tuesday 27<sup>th</sup> February 2024***

6. **Opening remarks by the Chair**
  - a. The Chair welcomed the attendees.
  - b. Next steps:
    - i. None.
7. **Discussion about forthcoming IVSC agenda consultation**
  - c. The BVB discussed the preliminary list of topics compiled by the Chair and the TD.
  - d. These topics encompass six (6) broad themes:

- i. Digital assets and cryptocurrencies
  - ii. ESG
  - iii. Intangible assets
  - iv. The impact of AI and technology on valuations
  - v. Business valuation
  - vi. General valuation
- e. The BVB added, culled, and amended various proposed consultation topics within those themes.
- f. The BVB-TD undertook to forward the list to the SRB for consideration.
- g. Next steps:
  - i. None.

**8. Presentation by Professor Aswath Damodaran and questions**

- h. The chair of the BVB introduced Professor Damodaran and moderated the proceedings.
- i. Attendees included the members of the BVB, as well as members of the other Boards (TAB, FI, SRB).
- j. Professor Damodaran went through his presentation.
- k. The presentation and ensuing discussion with attendees covered the following topics:
  - i. Limitations in financial statements.
  - ii. Prive vs Value
  - iii. Terminal value.
  - iv. Disclosure of intangible assets
  - v. ESG
  - vi. Alternative investments.
- l. Next steps:
  - i. None.

**9. Debriefing of the dialogue with Professor Damodaran and other business**

- m. The BVB discussed the main points of Professor Damodaran's intervention and how they relate to the BVB's ongoing work.
- n. The BVB discussed logistical issues pertaining to the third and final day of meetings.
- o. Next steps:
  - i. None.

**Wednesday 28<sup>th</sup> February 2024**

10. **Presentation by Michael Mauboussin**

- a. The Technical Director of the BVB introduced Michael Mauboussin and moderated the proceedings.
- b. Attendees included the members of the BVB, as well as members of the other Boards (TAB, FI, SRB).
- c. The discussion with attendees covered the following topics:
  - i. Valuation and strategy.
  - ii. Base rates
  - iii. The consequences of the decline in the number of listed companies
  - iv. Terminal Value
  - v. Distribution of returns and their impact on valuations.
  - vi. Capital allocation, and reallocation of cash flows.
  - vii. Company lifecycle
  - viii. Limits to corporate growth and the impact on returns.
  - ix. Value creation
  - x. Weighing the inside and the outside view
  - xi. Pattern Recognition – Experience and expertise.
  - xii. Is the world becoming less predictable, more unstable?
  - xiii. Value migration and the impact on valuations
- d. Next steps:
  - i. None.

11. **Debriefing of the dialogue with Michael Mauboussin and concluding business**

- e. The BVB discussed the main points of Michael Mauboussin's intervention and how they relate to the BVB's ongoing work.
- f. The BVB discussed how the learnings of the various meetings could be included in the forthcoming perspective paper which will examine customer relationships and be a capstone for the series on intangible assets.
- g. Next steps:
  - i. None.

12. **Conclusion of Business**

- a. The Chair thanked the two outgoing BVB members for their service as this was their last physical meeting.
- b. The TD reminded the BVB that the next physical meeting would be held in London on 13<sup>th</sup> to 15<sup>th</sup> May 2024.
- c. There was no other business.
- d. The Chair ended the proceedings.

- e. Next steps:
  - i. None.