

ISSUES + UPDATES

2ND QUARTER 2025

Sales Prices for Sports Teams are Soaring to Record Levels

The valuations of sports teams are continuing to climb — and climb rapidly. Recently, the Buss family sold the Los Angeles Lakers team for a franchise valuation of \$9.9 billion. That's way more than the previous media valuations had put the team at. Also, it's just three months after the Celtics held the honor for the highest sale price for a professional sports team at \$6 billion. The average NBA team is worth nearly \$5 billion now. The average team was worth a little bit more than \$100 million in 1995.

According to CNBC, the average team values are as follows:

National Football League	\$6.5 billion
National Basketball Association	\$4.7 billion
Major League Baseball	\$2.6 billion
National Hockey League	\$1.9 billion

The most valuable soccer team is Real Madrid, worth \$6.7 billion, according to CNBC's "Official Global Soccer Valuations 2025." The world's 25 most valuable soccer teams are worth an average of \$2.76 billion.

Victor Matheson, a professor of economics at College of the Holy Cross who specializes in sports business, said in his 30 years of studying sports sales, he can't remember a team selling for less than it was purchased. For example, a minority interest in the Philadelphia Eagles recently sold for an implied \$8.3 billion valuation; Jeffrie Lurie acquired the team in 1994 for \$195 million. A 10% stake in the Milwaukee Bucks was sold in September 2024, which valued the small-market NBA team at \$4 billion, a windfall from when the team was sold a decade earlier for \$550 million.

Cord-cutting, streaming and DVRs have made it more difficult for advertisers to reach viewers, meaning live sports programming has become more important. Major sporting events have reliably been among the most-watched events on television. "Sports content is the lifeblood of the media industry and that drives

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VMI Highlights:

We're thrilled to share some exciting news from our team!

Please join us in congratulating Katie Wilusz, on the arrival of her new baby boy – John Edward! We are overjoyed for Katie and Chris and their growing family.

If your firm is interested in having VMI give a presentation on business valuations and/or mergers & acquisitions, please contact Susan Wilusz at smw@valuemanagementinc.com.

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tremendous value for these franchises,” said Lori Bistis, a deals partner and one of the leaders of accounting and consulting firm PricewaterhouseCoopers’ sports practice. Bistis said it only makes sense to see sports franchise values rise in tandem with that of lucrative television rights deals. “We’re not surprised to see the increase in valuation and all the data points to it continuing,” she said.

Another factor: Buyers of professional sports teams know they will have access to valuable data on the demographics and spending behavior of their fans. This data can be monetized through different viewing experiences, merchandise and events. Additionally, the increase in sports gaming since it became legal in 2018 is also driving up the interest in sports and sports programming.

Delaware Chancery Court Determines a Zero Value for Common Stock Shares and Determines That the Merger Triggering the Fair Value Determination Was Fair

***Jacobs v. Akademos, Inc.*, 2024 Del. Ch. LEXIS 355 (Oct. 30, 2024)**

In this post-trial opinion by Vice Chancellor Laster, the court addressed claims arising from a merger involving Akademos Inc., a privately held company that operated virtual bookstores for educational institutions. The company struggled financially for over two decades, failing to achieve profitability despite substantial investments.

In 2020, Akademos’ venture capital investor, Kohlberg Ventures, proposed a cash-out merger at a valuation of \$12.5 million. Given the company’s capital structure, the merger’s terms provided no value to common stockholders, prompting challenges from plaintiffs—including the company’s founder, Brian Jacobs. The plaintiffs sought appraisal of their shares and pursued claims of fiduciary duty breaches and aiding and abetting against the directors and Kohlberg Ventures.

The court ultimately found that the plaintiffs’ appraisal claims lacked merit and determined the fair value of the common shares to be zero. Additionally, the court concluded that the defendants carried their burden of proving the financing transactions and merger were entirely fair. Judgment was entered in favor of the defendants.

New York Surrogate Court Finds Testimony Based on AI as Unreliable and Sets Standards for Admission of AI-Based Testimony

***Matter of Weber*, 2024 N.Y. Misc. LEXIS 8609; 2024 NY Slip Op 24258 (Oct. 10, 2024)**

Of particular interest in this case is the use of artificial intelligence and the implications for its reliability in court proceedings. Expert witness Charles Ranson admitted to using Microsoft Copilot, a generative AI tool, to cross-check calculations for his supplemental damages report. However, he was unable to explain the prompts he used, the sources Copilot relied upon, or its operational mechanics. The court expressed concern over the reliability of AI-generated evidence, as its outputs varied when tested with identical prompts on different devices, raising questions about its consistency and accuracy.

The court noted that, while AI tools were increasingly common, their results were not inherently admissible in court. New York courts follow the Frye standard, requiring scientific evidence to be generally accepted in its relevant field. The court emphasized the lack of evidence establishing the reliability of Copilot or its acceptance in fiduciary services. Without sufficient proof of reliability, the court deemed the AI-generated calculations inadmissible. It also underscored the need for transparency, finding that the use of AI in legal evidence should be disclosed and subjected to pretrial hearings to ensure fairness and accuracy.

ESOP Group Happy Over Withdrawal of DOL Valuation Regs

The ESOP Association is pleased that the proposed regs the Department of Labor issued in draft form regarding ESOP valuations have been withdrawn due to the new administration’s regulatory freeze.

Unworkable: The proposed regs deal with the issue of adequate consideration, but they need to be made more clear, says Jim Bonham, CEO of the ESOP Association. He contends that the proposal was not an attempt to help ESOPs grow or to reduce their cost of formation but rather an “effort to turn trustees into appraisers themselves.” The proposed regs came with an accompanying exemption to “provide a safe

harbor for newly created ESOPs that are making their initial purchase of non-publicly traded common stock from selling shareholders in compliance with ERISA's fiduciary provisions. The exemption would be unworkable and give ammunition to plaintiffs seeking to file "nuisance lawsuits" and force trustees into a settlement agreement," Bonham says, and the group would "actively encourage the Trump administration to not even revisit it."

Do 'Home CEOs' Enhance Company Value?

Yes, according to a paper in the *Journal of Banking and Finance*. A "home CEO" is a CEO who leads a company located within 100 miles of his or her birthplace. The paper's authors find that home CEOs increase corporate social responsibility (CSR) engagement, which strengthens local stakeholder trust and improves financial performance. They also find that firms with home CEOs experience higher asset turnover, lower cost of equity, and increased productivity, sales, and profit margins. Their deep local connections foster stronger relationships with employees, customers, and suppliers, leading to higher satisfaction and loyalty. These firms also perform better during crises, demonstrating resilience and long-term value creation.

Consider Actuarial Risk in Buy-Sells With Mandatory Redemptions at Death

Actuarial risk—the probability that an owner will die and trigger a mandatory redemption—should be considered when valuing a company that has a buy-sell agreement requiring redemption at death. This risk is not just theoretical—it's real and measurable. If a company is obligated to redeem an owner's interest upon death and that death is inevitable (as it always is), then the company carries a contingent liability that can materially affect its financial health and valuation. The greater the likelihood of a triggering death—based on the owners' ages or health—the greater the potential financial burden on the company. This is especially significant when older owners hold large equity stakes.

An assessment should be made whether the company has the ability to meet that redemption obligation—through cash flow, life insurance, borrowing capacity, or other means. If it cannot, the actuarial risk of the

death becomes a value-reducing factor. Mandatory redemptions are like "lit-fused bombs"—legal obligations with uncertain timing but certain eventual impact.

Asset Valuations Move to No. 1 Spot in Class Actions

For the first time since tracking began by Cornerstone Research, asset valuations and impairments are now the most common accounting-related securities class action filings and settlements. For many years, revenue recognition was the most common alleged GAAP violation, according to Cornerstone's latest report, which examines accounting case filings and settlements in 2024. About one-third (33%) of the suits shareholders brought against companies last year alleging GAAP errors cited asset valuation and impairment, compared to 20% in the year earlier. Revenue recognition was cited in 23% of the cases, down from 27% in 2023, the report says. Overall, the number of accounting-related securities class action filings and settlements remained steady in 2024, but the total value of those settlements declined by 36% from the prior year, according to the report.

Outdated Valuation

***Walker v. Foundation Risk Partners Invs. GP, LLC*, 2025 Del. Ch. LEXIS 95; 2025 X 90268 (April 15, 2025)**

The court held that the general partner breached the limited partnership agreement by applying an outdated, low valuation to the B unit issuance, which unfairly diluted existing B unit holders. The general partner's methodology failed the contractual test of reasonableness under Delaware law. This case once again emphasized that a valuation should consider information that was known or knowable at the valuation date.

M&A Disputes on the Rise, per BRG Report

Disputes related to mergers and acquisitions (M&A) are clearly on the rise, according to the "2025 M&A Disputes Report" from BRG. The data reveal that more than three-quarters of respondents experienced a year-over-year increase in dispute activity in 2024, compared to 2023. Looking ahead, nearly 70% expect

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How to Increase Business Value & Attract Buyers

For a professional whose job is to help prepare owners and their businesses for sale, it's often easy to identify actions or steps that could increase value and attract buyers. This is not so easy for business owners because their expertise is found elsewhere and running the business routinely captures their full attention. It is important for owners to be aware of what specifically impacts their business' value and how buyers view those and other relevant factors. If beauty is in the eye of the beholder, then value is in the eye of the buyer/investor. A business is worth what a buyer is willing to pay for it. How will others see the business? How much will they pay for it, how will they pay for it, and why pay that for it?

1. Track value. It's no surprise that the first concern of most business owners considering a sale or transition is the value of the business. Tracking value implies that you know what the value is to begin with or that you at least have a good idea of the current reasonable range of value. Establishing an initial range of pricing is a key early step to successfully selling a business and/or making plans to increase value. Identifying the key components to your value will help you track progress.

2. Increase revenue. Not to overlook the obvious, but higher revenue can lead to increased value. Companies with higher revenue levels can qualify for pricing multiples not available for smaller businesses. While it's not the norm, some businesses are even priced based on revenue.

3. Diversify revenue sources. Diversity of revenue streams can increase value and enhance appeal. It's as simple as not having all your eggs in one basket. It could be the number of clients, or offering different services or products. In general diversification of revenue sources helps reduce risk. Reducing risk increases value.

4. Increase profits and/or profitability. Cash flow is often king when it comes to value. Higher profit (more earnings) and higher profit margin (higher percentage of earnings-to-sales) businesses attract higher pricing multiples.

5. Reduce/eliminate less profitable work. Not all business is good business. Reviewing and comparing services and offerings for overall contributions to value can help identify better or worse areas. Cleaning up accounts is viewed favorably by buyers and tends to promote increased value.

6. Reduce expenses. Finding a better way to do business shows effort and common sense. Eliminating

waste or excess reflects good stewardship. Addressing owner-related expenses will need to be done eventually. Sustainable expense reductions can add directly to the bottom line and increase value.

7. Reduce key person dependence and strengthen management. You're great, but you'll be retiring someday. It's good for you (increases value) and the business (buyers like it very much) if others can run operations without you. Next generation leaders need to be identified and prepared. Managerial depth and operational redundancies ensure that business can continue smoothly should something happen to key people.

8. Document operational procedures and responsibilities. There is typically not a single, comprehensive "operator's manual" for a business. However, this is an important concept for businesses. It helps employees as well as outsiders know how things work. From documenting how and how often machine maintenance occurs to the responsibilities of personnel, the more a business is documented the more attractive it will be to buyers. Increased documentation can lead to increased value.

9. Upgrade financial statements. Financial statements are the most important documents for a business. Timely filed and accurate tax returns are expected. Buyers typically look for income statements, balance sheets and cash flow statements prepared at a level commensurate to the business' operations, complexity and size. Most basic are compiled statements, followed by reviewed statements. Audited financials are the highest level of reporting. In recent years, company's with inadequate financial statements have obtained "Quality of Earnings" reports, which are like mini-audits. Enhanced reporting increases value and gives the buyer higher confidence in what is reported.

10. Engage professionals. Seeking professional assistance can help to identify specific areas that impact value and appeal to buyers. Engaging a seasoned M&A expert can help owners understand what they reasonably have (and what it's reasonably worth) and how and how long it will take to achieve owners' goals. Aside from helping establish reasonable pricing expectations, an experienced M&A pro can help maximize value.

VMI has had great successes increasing value to owners selling a business. On several recent transactions, VMI negotiated deals that closed at prices greatly increased (20%+) over existing offers. Contact Andrew Wilusz at amw@valuemanagementinc.com to confidentially discuss how to increase value and attract buyers.

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dispute volumes to increase further in 2025, while 64% anticipate a rise in the average value of these disputes. For the report, BRG surveyed 209 professionals, including lawyers (both private practice and in-house), private equity professionals and investors, and corporate finance advisors.

Reasons why: Several factors are contributing to this upward trend, including heightened regulatory scrutiny—particularly around antitrust and foreign investment issues—along with greater complexity in deal structures and post-transaction obligations such as earnouts and purchase price adjustments.

Additionally, the growing involvement of private equity firms, which are increasingly willing to pursue formal dispute resolution, has added to the litigious landscape.

In a Gift Tax Deficiency Case, the Tax Court Tackles a Number of Valuation Tax Issues

***Pierce v. Comm’r*, T.C. Memo 2025-29; 2025 Tax Ct. Memo LEXIS 30 (April 7, 2025)**

Findings of fact. Kaleb Pierce and his ex-wife built a business, Mothers Lounge, around a controversial “free, just pay shipping” model, selling knockoff maternity and baby products through various subsidiaries. Aggressive and unconventional marketing strategies fueled their rapid success, but the business faced mounting challenges, including quality complaints, competition from Amazon, litigation (notably from Bebe Au Lait for patent infringement and false advertising), and internal turmoil stemming from Pierce’s extramarital affair and a blackmail attempt. These factors significantly destabilized the business by the June 2014 valuation date.

Transfers and audits. In June 2014, amid marital and business instability, Kaleb Pierce and his then-wife executed estate planning transactions involving their company, Mothers Lounge. Each transferred a 29.4% interest in the business to an irrevocable trust and sold a 20.6% interest to a new LLC, Giving Stream, which the trusts owned. The reported gift values were based on a valuation by David Posey. The IRS audited their 2014 gift tax returns, and, during the audit, the couple abandoned Posey’s valuation and commissioned a new one from Lone Peak Valuation Group. This revised report showed lower projected profits.

Despite submitting the new valuation to the IRS, the dispute was not resolved, and the IRS issued deficiency notices. Pierce and his wife petitioned the

Tax Court; she settled before trial, leaving Pierce to proceed alone.

Application of the known or knowable standard

A central pillar of the court’s analysis was that the valuation must reflect facts that were “known or reasonably knowable” as of the valuation date, a well-established principle in tax valuation law. The court cited *Estate of Gilford v. Commissioner*, 88 T.C. 38 (1987), for the proposition that post-valuation events were considered only to the extent they were foreseeable on the valuation date.

The court applied this principle rigorously, concluding that the following were known or reasonably knowable as of June 4, 2014:

- The fragility of Mothers Lounge’s business model, which relied on consumer misunderstanding of shipping costs and lacked product differentiation;
- Emerging competition from Amazon, including its superior logistics, customer service, and policy transparency, which already posed a serious and visible threat;
- Internal dysfunction, including growing tensions between the co-founders (Pierce and Ms. Bosco) and reduced product pipeline innovation;
- Litigation risk, particularly from Bebe Au Lait and Rufflebutts Inc., which reflected a foreseeable consequence of the company’s knockoff strategy;
- A noticeable drop in marketing performance, including the diminishing returns of promotional email campaigns and affiliate saturation; and
- The existence of no new products in development, signaling a stagnating business.

The court excluded truly post hoc information, such as the ultimate settlement of lawsuits or specific financial results occurring after June 2014, except where such outcomes were predictable based on existing trends and facts.

Marketability and control discounts.

The court applied:

- A 25% marketability discount, based on the illiquid nature of the closely held LLC and difficulties in selling minority interests; and
- A 5% control discount, reflecting the lack of operational control tied to the transferred interests. The court rejected more aggressive discounts due to the moderate limitations the operating agreement imposed.

Expert testimony

While the court focused primarily on factual and economic inputs under the DCF method, it also confronted a key and recurring technical issue in the

valuation of pass-through entities: whether to “tax affect” the projected cash flows.

The tax affecting issue in pass-through valuation.

One of the technical flashpoints in this case, and in valuation cases generally, was the treatment of tax affecting for pass-through entities like S corps or LLCs.

A. What is tax affecting? Tax affecting is the practice of applying a corporate tax rate to the earnings of a pass-through entity in order to:

1. Estimate net income to equity holders (as if the entity paid tax like a C corp); and

2. Match valuation inputs (e.g., discount rates) based on public C corp data.

How the court handled tax affecting in Pierce.

A. No blanket prohibition. Importantly, the court did not impose a categorical bar on tax affecting. Instead, it acknowledged—consistent with modern precedent—that tax affecting can be appropriate if it reflected the economic realities of the entity and was supported with thoughtful analysis.

B. Limited scope in this case. Here, the petitioner’s valuation expert applied a partial tax affecting approach:

- His cash-flow projections were not tax affected at the entity level (consistent with S corp treatment); and

• However, he did adjust the discount rate using data that assumed taxation, such as the after-tax cost of equity derived from public comparables.

The court noted that, while the expert didn’t fully tax affect the entity’s income, he made a balanced attempt to align pass-through income with a tax affected discount rate—a hybrid approach that minimized distortion.

C. The court’s view. The court accepted petitioner’s expert’s handling of tax affecting, stating that:

- The discount rate and cash-flow projections were internally consistent;

• The approach reasonably captured the economics of the S corp structure; and

• The methodology reflected the benefits of pass-through status, such as avoiding double taxation, while also recognizing that investors demand returns net of their own tax liabilities.

In doing so, the court implicitly endorsed a flexible, facts-and-circumstances approach to tax affecting—neither rigidly rejecting it nor requiring a full application.

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