



# The Franchise Valuations Reporter



## Our Expertise

Within the franchise, distribution and dealership context, we are experts in:

- Damages, Valuations & Expert Testimony
- Finance, Accounting and Tax
- Cyber Security and E-discovery of Electronically Stored Information

We offer a free initial consultation. If any readers have questions, you are welcome to email or phone us and we will provide our best answer as quickly as possible.

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## Franchise Technology Risk Management



Our franchise law and computer forensics experts provide consulting and implementation of all aspects of cyber security, ESI management and e-discovery for franchise systems - from preparation of cyber security and ESI-related policies and procedures manuals through collection, preservation, processing, production and presentation.

To inquire about our services, please e-mail  
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## Valuations

### *Valuations of Senior Care Facilities Hit Record Highs*

Business Valuations Resources newsletter, citing the 2015 Senior Care Acquisition Report published by Irving Levin Associates, reports that valuations of assisted living and independent living communities are reaching unprecedented heights. For example the average price per unit in the assisted living market jumped by 25% in 2014 to a record \$188,700 per unit while the average price per unit for independent living communities went to \$246,800 per unit. So far in 2015, the strong trend is continuing. "In seniors housing, we saw a deal in 2015 valued over \$500,000 per unit, two deals with prices over \$400,000 per unit and a whopping 15 sold over \$300,000 per unit," Levin reports.

### *Bank Valuations Punished for Complexity*

According to [an article in The Wall Street Journal](#), in terms of how investors value banks, there are two distinct groups: those with significant investment banking businesses and those without. The Journal argues that Barclays, BNP Paribas, Credit Suisse, Deutsche Bank, HSBC, Société Générale and Standard Chartered, because of their investment banking activities, all have market-implied costs of equity higher than banks that are more focused on retail or private banking. The analysis is based on a model using consensus forecasts for earnings and book value to calculate returns.

The Journal article goes on to say,

This suggests that investors still don't expect good operational performance from banks that haven't or don't want to cut back investment banking. They aren't simply deterred by the prospect of fines and other problems with cleaning up past bad behavior.

These banks all have an implied cost of equity for 2016 higher than 10% or even above 11% in the case of Barclays, assuming a growth rate of 2%. Also, none produce returns higher than their implied cost of equity.

### *Discounted Cash Flow Method - Myths Exposed*

"There is a great deal of mythology around DCF valuation, some of it promoted by model-users and some by model-haters," writes Dr. Aswath Damodaran (New York University Stern School of Business). He has set out his 10 common myths of discounted cash flow analysis and will examine each one in his blog over the rest of the year. We will keep track of it.

## Cybersecurity Superstar: Brian Krebs

### *Meet the Man Crusading Against Restaurant Credit Card Hackers*

The same brave fellow we credited in our last issue - intrepid cyber-crime reporter Brian Krebs - has once again exposed a big danger, particularly for foodservice operations. The former *Washington Post* reporter, who is often the first to discover and report on major data breaches at restaurant chains on his KrebsOnSecurity website, says Point of Sale (POS) systems are one of

## We Write the Book

**Franchise Regulation and Damages**, the only treatise that covers valuations of franchises, is updated 3 times a year.

For more details, to see a Table of Contents or to place an order, go to the Wolters Kluwer Law & Business web page [here](#).

## DISCLAIMER

The information provided in this newsletter is for informational purposes only and should not be construed as legal or expert advice which can only be obtained from appropriate professionals. Franchise Valuations, Ltd. and Franchise Technology Risk Management provide such expert advice on the topics addressed herein.

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the weakest spots in a restaurant's operations, thanks to outdated systems.

According to an [article in Eater](#), a digital news site covering restaurant trends for consumers and the foodservice industry, Krebs says restaurant owners often run their POS systems on outdated operating systems like Microsoft XP for which security updates are no longer being offered. For the sake of convenience, POS systems are often set up so information can be accessed remotely by corporate offices or other authorized parties. "Guess what?" Krebs asks. "If the bad guys can remotely log in into your point of sale software, well, it's kind of game over."

Hackers seek efficiency and they love it when chains link several restaurants or hotels together on the same system. That way a single access point can serve as a gateway to thousands of payroll records, credit and debit card transactions and other operational details.

## Cybersecurity: Krebs Exposes Weaknesses on IRS Site

### *How Crooks Exploit Identity Verification Process*

In a recent post on his influential cybersecurity blog, KrebsOnSecurity.com, Brian Krebs advises readers to create their own account at IRS.gov before the crooks do. That's good advice. It turns out that it's not hard for a criminal to register an account in your name and request a transcript of your tax return to be sent to a stranger's email address. Armed with the phony account and your previous tax returns, all kinds of mischief may follow.

In one case detailed by Krebs a taxpayer attempted to file his tax return through TurboTax only to be informed that the return had already been filed and that his refund was being made by direct deposit to a bank account he didn't recognize. It seems that someone had gone to the IRS portal and created an account in the victim's name. Not only did the imposter request past tax returns, he also submitted a phony "corrected" W-2 for a previous tax year that enabled the crook to increase the refund due.

To add insult to injury, the victim was stymied in his investigation of his own identity theft by privacy regulations observed by the IRS, banks and credit bureaus. Even the police were indifferent to his plight at first. Only through an arduous process was the victim able to piece together how the fraud occurred.

Krebs says the IRS enables this type of fraud by using a process for verifying identity using "static identifiers and so-called 'knowledge-based authentication' (KBA) - i.e. , challenge questions that can be easily defeated with information widely available for sale in the cybercrime underground." The correct answers to the KBA multiple-choice questions are not that hard to guess. The same identity verification process is used by other government agencies including the Social Security Administration.

## Tax Policy: Stop Demonizing the IRS

### *"Don't Tax You, Don't Tax Me, Tax That Fellow Behind The Tree"*

That's a quote from Senator Russell Long (D-LA), the long-serving Chairman of the Senate Finance Committee, reminding us of how averse Americans are to paying taxes. But as Justice Oliver Wendell Holmes pointed out, taxes are the price we pay for civilization.

Congress has cut the IRS budget by a total of \$1.2 billion since fiscal 2011, to the current \$10.9 billion. That led to a four-year hiring freeze, which slashed the workforce from more than 108,000 to about 90,000. IRS

Commissioner John Koskinen estimates that every dollar the IRS spends brings in at least \$4 in tax revenues. After years of demonizing tax departments and reducing their funding, we are now dealing with the ultimate in cutting off your nose to spite your face. According to Koskinen a loss of auditors and enforcement employees has resulted in \$7 billion to \$8 billion a year in lost revenues.

Just-released audit coverage statistics from the IRS show a slight increase in audits of partnerships, but decreases in audits of large corporations and S corporations in fiscal year (FY) 2014. For all types of businesses, the FY 2014 audit coverage rate was 0.57 percent, representing a decline from 0.71 percent in FY 2012 and 0.61 percent in FY 2013. Audits of large corporations experienced the steepest decline.

This is crippling to the government according to [an article in The Wall Street Journal](#) because "[t]he individual income tax remains the most important levy in the U.S., providing nearly half of federal revenue. This is unusual: On average, most developed nations get only one-third of their revenue from income taxes. Typically they also impose national consumption taxes, such as a value-added tax, that raise as much revenue as their income tax."

As a result of five years of cuts in the Service's budget, [the Washington Post reports](#), the IRS is "so cash-strapped that Commissioner John Koskinen doesn't bother sugarcoating the state of customer service. 'It's abysmal,' he said. Nationwide, only 4 in 10 callers to the agency's toll-free help line are getting through to a real person. The number of 'courtesy disconnects' - a euphemism for an overloaded system hanging up on the customer - has reached 5 million so far this year, the agency reported."

"As some have called it, this amounts to a tax cut for tax cheats," the IRS Commissioner said in a speech before the Tax Policy Center, a joint project of the Urban Institute and the Brookings Institution. In a [follow-up story the next day, the Washington Post](#) reported that the IRS won't even try to collect from some wealthy Dallas taxpayers who are delinquent. Due to budget reductions, they will only go after those who owe \$1 million or more. People who only owe \$900,000 are home free. "I have to say, sorry, we can't get that money," said Richard Christian, supervisory revenue officer for the Dallas area. "Nobody's ever going to knock on their door."

## Cybersecurity

### *Links to Recent Articles on Cybercrime*

Be sure to see our upcoming article in the June issue of the IFA's *Franchising World*: "**Identify What's Missing From Your Current Cyber-Security Posture**," by Bruce Schaeffer and Henry Chan. We'll provide a link to the article in this space once it is posted.