



# Business Valuation Update

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# What Valuation Professionals Need to Know: Highlights From ASA's 2025 Winter Fair Value Conference

By Adam Smith (VRC) and Charles Sapnas (VRC)

On Dec. 11, 2025, the American Society of Appraisers (ASA) hosted its 2025 Winter Fair Value Conference, bringing together leading industry experts to examine emerging issues and evolving practices shaping the future of fair value measurement. Here are highlights from the discussions.

**Artificial intelligence (AI) in valuation.** Panelists emphasized the rapid evolution and potential of AI in valuation. Today, valuation firms use AI to boost efficiency in research, document scans, and mathematical checks. However, AI still requires significant development before it can reliably produce valuations. Transparency remains critical, particularly with respect to how AI tools are used and how client data are managed.

**Challenges in valuing tranche rights.** Tranche-preferred financing is a funding structure where preferred stock is issued in multiple stages (tranches) rather than all at once. A tranche can be released immediately or upon achieving a specific milestone (such as regulatory approval or a revenue target). For companies, this structure provides immediate access to capital and mitigates fundraising uncertainty as future tranches are secured, assuming conditions are met, and, for investors, limits initial exposures. While increasingly common in biotech and early-stage ventures, tranche-preferred structures remain a niche subset of the preferred market.

Traditional valuation models (OPM, PWERM, Monte Carlo simulation) can overlook factors such as optionality and contingent dilution, milestone-contingent capital structures, fair value allocation among securities, and developing estimates of volatility, milestone probability, and time to event. Accurate valuation will be complex and require a clear understanding of the legal terms and milestone definitions.

**Fossil fuel and renewable valuations.** Panelists reviewed industry-specific provisions of the One Big, Beautiful Bill Act and regulatory challenges, including royalty rates and lease sales. They noted that industry consolidation continues and reviewed recent M&A activity and EBITDA multiples by asset type. Discussions also covered the cost of capital and discount rates in select markets, as well as AI-driven data center demand on energy storage capacity.

The conference highlighted why fair value measurements are becoming increasingly complex.

**Practical issues in debt valuation.** This session started with the basics of debt security valuation and then moved on to real-world challenges, such as calibration. Emerging topics included the growth in private credit and the rise of "amend and extend" restructurings.

**Valuation guide updates.** The Appraisal Foundation regularly publishes Valuations in Financial Reporting (VFR) advisories to promote best practices and consistent valuation methods and techniques. During the sessions, members from the Business Valuation Resource Panel working groups offered a sneak peek at two highly anticipated projects, with exposure drafts slated for public comment in 2026.

1. *Company-specific risk premium (CSRP).* Valuation experts add a CSRP (alpha, additional risk premium) to the discount rate for risks not included in other components. A CSRP is often added to the cost of equity component in the weighted average cost of capital (WACC) calculation. There is currently diversity in practice in what

the risk premium should account for and how to quantify it, and existing literature lacks specific guidance. The forthcoming exposure draft will provide structured approaches for identifying and quantifying company-specific risks with a focus on academic research that supports the existence of the CSRP.

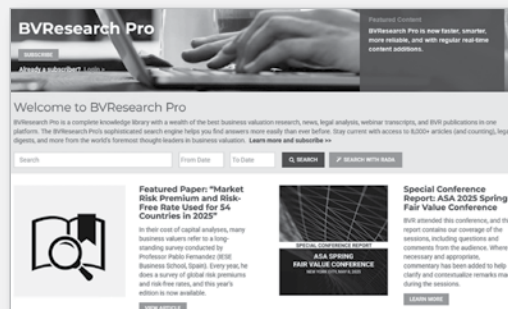
2. *Intangible asset discount rates (IADR)*. There is currently diversity in practice on the development and selection of appropriate IADRs in valuations used for financial reporting purposes, including business combinations, asset acquisitions, fresh start reporting, and impairment testing. Panelists reviewed key concepts from the upcoming exposure draft that offer this guidance:

- *Question rules of thumb*. Common shortcuts such as WACC + premium may not apply in all situations.
- *Tailor rates to each asset*. Avoid applying a single entity-level rate to all intangible assets. Instead develop discount rates that reflect each intangible asset's risk profile and associated cash flows. The advisory will include multiple practical examples.
- *Check for consistency*. Calculate the total intangible asset discount rate as a benchmark to ensure logical consistency across individual asset discount rates.
- *Use a structured approach*. Base analysis on asset characteristics, market data, and risk factors.

**Summary.** The topics discussed at the ASA 2025 Winter Fair Value Conference underscore the increasing complexity of fair value measurement, particularly as valuation professionals navigate emerging technologies, evolving capital structures, and heightened scrutiny of assumptions and methodologies. ♦

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