IACVA Annual Conference, Frankfurt, DE, 2008 – Opening Speech

As chairman of the International Association of Consultants Valuators and Analysts, I have great pleasure in welcoming you to IACVA – Germany's second annual conference in the historic city of Frankfurt am Main, for nearly a thousand years (855 – 1848) the seat of the election of the Holy Roman Emperor.

It is 58 years since I first visited Deutschland, then divided into four occupied zones, for a neverto-be-forgotten visit to the Obermagan Passion Play. In 1950, as an impressionable 16 year old, I also visited Paris for the first time. Naturally, for some while Paris won – boys will be boys. But the changes in that city are nothing compared with the gain in Germany; the only similarity is China since our first visit in 1980.

But now to weightier matters; the role of Germans in corporate finance is well documented. After all, the House of Rothschild originated here in Frankfurt, later to be immortalized in books, film and even a Broadway musical. But your essential contribution to Business Valuation remains unsung.

Most valuation techniques are very old. The cost approach dates back to biblical times, while the market approach was best summed up by Seneca, the Roman philosopher, paraphrasing Aristotle: "Res tantum valet quantum vendi potest" which roughly translates as "a thing is worth only what someone else will pay for it". Even the income approach dates back to the time of the great Emperor Charlemagne, when land sales were expressed as "years purchase" now the price/earnings ratio.

However, good things do not come from only a single source even in the Anglo-Saxon world. The essential technique of today's valuation practice, Discounted Cash Flows is a German innovation. Obviously discounting interest or dividend payments to get the value of a security is much older, mentioned in the earliest discussion of financial analysis I can find, in the London Flying Post of 9 April 1720, relating to how to calculate the value of South Sea Company shares. But its application to the intermittent cash flows from a project or enterprise and the concept of the Terminal Amount, was first established by Martin Faustmann (1822 – 1876) who developed the "Faustmann Formula", still in use by the forestry industry, to determine the value of a plot planted with trees and the optimum times to harvest them. He published this in 1849, 28 years before Hoskold, an Englishman, adapted it to valuing mines.

Today Intangible Assets and Purchase Price Allocations are major topics for many valuators and they are being well discussed here in both German and English. A German version of this welcome, which alas, I cannot properly pronounce so I won't try, is part of your kit. With it I welcome you to what I expect to be an interesting day. Danke Shöen.

James P. Catty