Accountants, 69, 251. See also Professional	Advertising capacity, 147
advisors	Advisory team, 69–71. See also Professional
Accounting Alternative for private	advisors
companies, 311, 316, 325	Alliances, 78
Accounting standards	Alpha, 142
International Financial Reporting	Alternatives to sale/transfer of business,
Standards (IFRS). See International	71–73
Financial Reporting Standards (IFRS)	Altman, Edward, 59
U.S. GAAP. See Generally accepted	American Institute of Certified Public
accounting principles (GAAP)	Accountants (AICPA), 312
Accounting Standards Codification (ASC)	Valuation of Privately-Held Company
ASC 350 Goodwill and Other Intangible	Equity Securities Issued as
Assets, 311, 325–326	Compensation (Practice Aid), 358–390
ASC 718 Stock Compensation, 354	Amortization, 335, 336
ASC 805 Business Combinations, 311, 312,	Angel investors, 355, 359, 360
315–329, 331	Appraisal Foundation, 312
ASC 820, Fair Value Measurements, 311,	Appraisals, 200, 217, 218, 226, 353-354
313–315, 320, 323, 326, 327, 334, 336	Appraisers, 232, 251, 312, 313
Accounts receivable, 55, 202	Artistic-related intangible assets, 318. See also
Accrual basis of accounting, 109	Intangible assets
Acquisition method of accounting 323	ASC. See Accounting Standards Codification
Acquisition premium, 9	(ASC)
Acquisition team, 80, 81, 85, 383, 384	Assembled workforce, 317, 328, 333, 340,
Acquisitions	349-351
described, 78	Asset (cost) approach
planning for. See Planning for merger and	accounts receivable, 202
acquisition process	adjusted book value method, 102,
and shareholder value, 91	202–208, 231, 418
and strategic plan, 91	appraisals, 200, 226
target companies, 82-85	asset surpluses or shortages, 207
types of, 79	book value versus market value, 200
Activity ratios, 53–57	as check to value, 231
Adjusted book value method, 102, 202-208,	defined, 101, 102
231, 418	in economic or industry downturns, 201,
Adjustments	202
assets (adjusted book value method),	and fair market value, 202
202–207	going concern value, 201
control adjustments, 110-112, 117,	high-tech start-ups, 364
215–216, 224	holding companies, 201
financial statements, 109-112, 117, 188,	and income approach, 120, 207, 208
221, 222	intangible assets, 333, 349-352
premiums and discounts. See Discounts;	liquidation value method, 102, 201, 202
Premiums	and market approach, 120, 207, 208

Asset (cost) approach (contd.)	Bloomberg, 387
methods, 102	Book value, 20, 35, 57, 110, 136, 170, 177,
and noncontrolling interests, 201, 202,	200, 231
206, 227	Bottom fishers, 200
nonoperating assets, 120, 204–207	Bring-along rights, 281
off-balance sheet assets and liabilities,	Brokers. See Business brokers
202, 206–208	Build-up model
replacement cost method (RCM), 333,	described, 143
343, 349–350	Duff & Phelps Risk Premium Report Size
reproduction cost, 333	Study (D&P report), 149, 150
use of, 103, 199, 200, 208, 218, 219, 226,	equity risk premium, 143, 144
333	formula for, 144
value conclusion, review of, 226, 227	risk-free rate, 143, 144
Asset sales, 185, 271–279	small-company risk premium, 142–145,
Asset turnover, 35–38, 57	157
Assets	specific-company risk premium,
contingent, 324	143–149
contributory, 335, 340, 343, 344	use of, 223
highest and best use, 315	Business broker method, 231
intangible. See Intangible assets	Business brokers, 5, 84, 185. See also
surpluses or shortages, 207	Professional advisors
value of and measure of investment, 20	Business combinations
and value of company, 23	ASC 805 Pusiness Combinations, 311, 312,
value of in income approach, 120.	315–329, 331
See also Income approach	defined, 316
value of in market approach, 120. See also	inancial reporting, 315–329. See also
Market approach	Financial reporting
ASU-2014-18 (customer relationship and	forms of, 78, 79
non-compete non-recognition), 317	Business Exit Readiness Index™ (BERI),
ASU-2014-2 (goodwill amortization), 317, 325	257–259
@Risk, 113	Business owners. See also Buyers; Exit
Attorneys, 69, 70, 81, 89, 251. See also	planning; Sellers
Professional advisors	divorce, disability, and death, impact of,
Auditing standards	249, 250
AU-C Section 540–Auditing Accounting	and financial planning, 247–249
Estimates, Including Fair Value	investment versus employment in
Accounting FaimAtes, and Related	company, 245, 246
Disclosures, 313'	multiple owners, 244, 247, 250, 253
AU-C Section 500–Audit Evidence, 313	succession planning, 63, 65, 69, 71, 199,
Audits	200, 266, 287
fair value estimates, 312, 313	Buy-sell agreements, 354
legal audit, 71, 72	Buy-side considerations
	cross-border transactions, 381–390
Balance sheet	entry price, 313
adjustments, 110, 111, 202–208	Buyers
off-balance sheet assets, 202, 206-207	bottom fishers, 200
Bankruptcy, 58, 59. See also Solvency	financial, 7, 23
measures	motives, 65
Bargain purchase, 324	strategic, 7–10, 12, 13, 23, 357
Beta (ß), 140–143, 152, 157, 223	walk-away price, 9
BIZCOMPS, 182	
BizMiner, 176	Capital, access to, 146
Black-Scholes Option Pricing Model	Capital Adequacy Opinion, 290
(BSOPM), 115–117, 213, 357	Capital, cost of. See Cost of capital

Capital asset pricing model (CAPM)	Collars, 275, 276
assumptions, 139, 140, 157	Common stock, 138, 139
beta, 140, 141	Company analysis, 52, 53. See also
and closely-held businesses, 140, 141	Competitive analysis; Financial analysis
cost of equity computation, 141	Compensation
formula for, 140	control adjustments, 110-112, 117,
modified capital asset pricing model, 142,	215–216, 224
143, 156, 223	employment agreements, 285
use of, 139, 223	stock options. See Stock options
Capital expenditures, 21, 31, 105, 106, 147	Competitive analysis. See also High-tech
Capital IQ, 182, 187, 448	start-ups
Capital leases, 206	company analysis, 52, 53
Capital structure, 31, 146, 354	competitive factors for nonpublic entities,
Capitalization of cash flow in single-period	53, 54
capitalization method (SPCM), 102	financial analysis, 54–59
Capitalization of earnings in single-period	industry analysis, 49-52
capitalization method (SPCM), 102	and macroenvironmental risk, 49-53
Capitalization rate	overview, 59, 60
discounted cash flow (DCF), 126, 128,	qualitative versus quantitative
132, 133	assessments, 1
single-period capitalization method	risk and value drivers, analysis of, 42
(SPCM), 121–123	specific-company risk, assessment of,
Cash basis of accounting, 109	48–53
Cash burn rate, 355, 356	strategic planning and value creation,
Cash terms, 279	43, 44
Cavendish Seafood Distributors, valuation	and value creation, 41
example	Competitive Strategy (Porter), 50, 132
adjusted book value method, 418	Consultants, 69
background information, 10, 11, 399–401	Contiguous acquisitions, 79
economic conditions, 402, 403	Contingent consideration, 324
fair market value, calculation of, 11	Continuum of value, 264–265
growth forecast, 404	Contract-based intangible assets, 318, 332
impairment testing example, 325–326	Contractual backlog. See Order backlogs
investment value computation, 420–427	Contributory asset charges, 335, 340, 343, 344
investment value to strategic buyer, 12, 13	Control adjustments, 109, 110, 215–216, 224
owner's concerns, 11	Control premium, 8, 158, 211–212, 215, 216
potential buyers 401, 402	Controlling interests
purchase price allocation, 324, 325	control adjustments, 109, 110, 215–216,
specific industry conditions, 403	224
stand-alone fair market value, 404–418	described, 209
value conclusion considerations, 427, 428	valuation considerations, 227
Certified in Entity and Intangible Valuations	Convertible debt, 22
(CEIV), 312	Corporate culture, 66, 97
Chakrabarti, Rajesh, 393	Corporate practices and procedures, 332
Change-in-control provisions, 281, 286	Cost approach. See Asset (cost) approach
Charitable remainder trusts, 266	Cost approach. See Asset (Cost) approach Cost of capital. See also WACC (weighted
	-
Chicago Morgantila Evelando 387	average cost of capital)
Chicago Mercantile Exchange, 387	build-up model, 143–151
Closely-held businesses	capital asset pricing model, 139–142, 156
and capital asset pricing model (CAPM),	common errors in computing, 176–179
140, 141	common stock, cost of, 138, 139
and WACC computation, 170, 171	debt capital, cost of, 136–138, 169
Configuration of variation 113 118	described, 135, 136
Coefficient of variation, 113, 118	discount rate, 22, 135

Cost of capital. See also WACC (contd.)	Damodaran, Aswath, 362, 388
equity cost for target company, example	Days in accounts payable, 55
of determining, 157–158	Days in inventory, 56
equity cost versus debt cost, 136, 137	Days in receivables, 55
Ibbotson SBBI 2009 Valuation Yearbook	Days in working capital, 56
(SBBI), 135, 144	DCF method compared, 124
international cost of capital, 156, 387–390	Deal negotiation. See Negotiations
preferred stock, cost of, 138	Deal size, 4
private cost of capital, 153–156	Deal structure
required rate of return, 20, 22, 24, 34, 135	as part of offering memorandum,
Cost reductions, 93, 94, 120	75, 78
Covenant not to compete. See Non-compete	stock versus assets, 271–279
agreements	and transaction multiples, 185
Coverage ratios, 53, 57, 58	Deal terms
Cross-border transactions	cash, 279
acquisition team, 383, 384	negotiations, 279–282
buy-side considerations, 381–390	as part of offering memorandum, 74, 75
cultural issues, 383, 390, 393	statistics on M&A payment terms, 64
currency conversion, 384–387, 395	Debt and equity capital providers,
customs, 384	return to, 22
due diligence, 390–395	Debt capital, 22, 23, 136–138, 169. See also
	Cost of capital; WACC (weighted
entity structure, 384	The second secon
financial reporting issues, 391	average cost of capital)
financing issues, 383, 384, 386	Debt firencing, effect of on ROI, 28–31,
geopolitical issues, 385	
hold-back clauses, 395	Debt ratio, 58
information technology (IT) issues, 393	Debt to equity ratio, 58
intellectual property issues, 391	Debt to total capital ratio, 59
international cost of capital, 387–390	Decision trees, 113, 118
labor laws, 384, 391, 392	Deferred tax liabilities, 204–206, 208
language translation, 391, 395	Department of Labor, 295, 305
letter of intent, 390, 395	Depreciation, 106, 109, 110
negotiations, 383, 390, 394	Differential value method (DVM), 332, 343,
overview, 381	346, 348, 350
regulatory and legal compliance, 394, 395	Direct capitalization method, 332
representations and warranties, 395	Disability, 249
security issues, 385	Disclosures, financial reporting for business
sell-side considerations, 395	combinations, 323
synergies, 386	Discount for lack of control (DLOC), 159,
tax considerations, 384, 393, 395	201, 209–214, 224. <i>See also</i> Control
valuation issues, 385, 386	adjustments
CRSP Decile Size Premia Study, 149, 152	Discount for lack of marketability (DLOM),
Crystal Ball, 113	201, 211–215, 224
Cultural issues in cross-border transactions,	Discount rate
383, 390, 393	and cost of capital, 22, 135
Currency conversion, 386–387, 395	high-tech start-ups, 360, 361
Current ratio, 54	intangible assets, 335, 340–343, 345
Customer-related intangible assets, 316–319,	review of, 223
324, 333. See also Intangible assets	Discounted cash flow (DCF) analysis
Customer relationships, 317–319, 326, 333,	capitalization rate, 121, 122, 132
335, 337, 340, 341, 343–344	described, 123, 124
Customers	discounted cash flow (DCF) analysis, 102,
access to, 148	124, 126, 127
concentration of, 147	discounted future earnings (DFE) analysis
reaction of, 66	102, 124

end-of-year convention, 125	Early-stage companies, 128, 355, 356.
forecast period, reasonableness of, 222	See also High-tech start-ups
formula for, 124, 127	Earn-outs, 83, 284, 285, 324, 328, 349, 385,
high-tech start-ups, 361, 363, 365, 366	386, 395
intangible assets, 332-334	Earnings before interest, taxes, depreciation
leases, 320	and amortization (EBITDA).
and long-term growth rate, 131-133	See EBITDA
and management flexibility, 115	Earnings before interest and taxes (EBIT).
midyear discounting convention, 127	See EBIT
order backlogs, 322	Earnings measures, 106–108
and risk, 124, 136	EBIT (earnings before interest and taxes)
single-period capitalization method	and distortion of value, 107, 108
compared, 124	and high-tech start-up valuations, 364
terminal value, 124, 126–128, 131, 222	MVIC/EBIT multiple, 191, 192, 196
three-stage model, 128-130, 363	and profitability measures, 57
two-stage model, 128, 363	and solvency measures, 58
use of, 134	EBITDA (earnings before interest, taxes,
value reconciliation process, 229	depreciation and amortization)
and WACC, 174. See also WACC (weighted	and distortion of value, 107, 108
average cost of capital)	and high-tech start up valuations, 364
Discounted future earnings (DFE)	MVIC/EBITDA multiple, 191–193, 196
analysis, 102, 124	Economic or in a stry downturns
Discounts	asset (cost) approach, 201, 202
applicability of, 210, 211	and earn-outs, 284, 285
control adjustments, 215, 216	Economic value added, 38
determining, 213	Economies of scale, 147
discretion in size of, 213, 214	FDGAR (Electronic Data Gathering
and fair market value, 209	and Retrieval), 186
lack of control, 159, 201, 209-214, 224	Effective termination clause, 285
lack of marketability, 201, 211–213, 224	Employee Retirement Income Security Act
professional judgment required, 216	(ERISA), 261 Employee stock ownership plan (ESOP),
trademarks, 346	259–266, 272, 292, 295, 305, 432,
Distress ratios, 58	458, 459
Distribution capability, 148.	Employees, key. See Key employees
Distribution networks, 333	Employment agreements, 285
Dividends, 17, 21, 137	End-of-year convention, 125
Divorce, 249	Enterprise value, 169. See also Invested
DoneDeals, 182	capital
Due diligence	Entity structure, 146, 384
in asset sales, 277	Entry price (buy-side), 313
cross-border transactions, 390–395	Equity allocation methods, high-tech
and deal timetable, 76, 77	start-ups, 377–380
and financial reporting requirements,	Equity capital
326–329	common stock, 138
inadequate, as cause of failed M&As, 66	and cost of capital, 22, 23. See also
intangible assets, 318–323	Cost of capital
and preparing for M&A, 73, 86–89	cost of versus debt cost, 136, 137
professional advisors, need for, 324	preferred stock, 138
request list, 86, 87	target company, example of determining
Due Diligence for Global Deal Making	cost of capital, 157–158
(Rosenbloom), 391	and WACC. See WACC (weighted average
Duff & Phelps Risk Premium Report Size	cost of capital)
Study (D&P report), 149–151	Equity risk premium (ERP), 138, 140, 142,
DuPont analysis 35–36 52 53	143. 157

European Union (EU), 394	premiums and discounts. See Discounts;
Evergreen provisions, 285	Premiums
Executive summary in offering	sellers, 6, 7
memorandum, 74	stand-alone value, 5-8, 11, 13, 53, 60, 66,
Existing technology, 317, 319-320, 328, 332,	67, 120, 404–419
341, 343, 345, 346	Fairness Opinion, 12, 289–307, 459
Exit planning	Fair value
barriers to, 243–247	ASC 820, Fair Value Measurements, 311,
considerations for, 244-247	313–315, 320, 323, 326, 327, 334, 336
employee stock ownership plan, 260,	AU-C Section 500-Audit Evidence, 313
262, 266	AU-C Section 540-Auditing Accounting
and financial planning, 245, 247–248	Estimates, Including Fair Value
gifting strategies, 262, 263	Accounting Estimates, and Related
high-tech start-ups, 357, 373	Disclosures, 313
importance of, 243, 247	audits, 312, 313
liquidation, 262, 264	fair value accounting, 312
management buyout (MBO), 261,	hierarchy, 315, 334
262, 265	Fiduciary, 289–297, 305 307, 455
options, evaluating (step 4), 252,	FIFO (first in, first out), 203, 204
258–262	Financial Accounting Standards Board
owner, identifying type of (step 3), 252,	(FASB), 310
256, 257	Accounting St. ndards Codification (ASC).
owner's exit goals, setting (step 1), 252–245	See Accounting Standards Codification
owner's financial and mental readiness,	(ASC) State on Auditing Standards (SAS)
assessing (step 2), 252, 254, 256	Statements on Auditing Standards (SAS), 313
plan execution (step 6), 252, 265, 267	website, 329
private equity group (PEG)	Financial analysis
recapitalization, 260, 264	activity measures, 53–57
process, 243, 250–267	coverage ratios, 53
professional advisors, 251–252, 267	financial leverage, 53
and strategic plan, 251	liquidity ratios, 53–55
third party, sale to, 259	profitability measures, 53, 54, 57
timing of, 249, 250	purpose of, 59
value, preserving, protecting, and	solvency measures, 53, 54, 57–59
increasing, 265, 266	Financial buyers, 7, 23
values, range and applicability of (step 5),	Financial distress prediction, 59. See also
252, 263–265	Solvency measures
written plan, 250, 253	Financial economies and synergy,
Exit price (sell-side), 313	93–95
Exit strategy, high-tech start-ups, 357, 373	Financial leverage, 28–31, 53, 57, 58, 169,
Expected value, 112, 118	170. See also Debt financing, effect of
	on ROI
Facilities, 147–148	Financial planning, 245, 247–249, 251
Failure of M&As, reasons for, 65, 67	Financial reporting
Fair market value	acquisition method, 323
in asset (cost) approach, 202	ASC 350 Goodwill and Other Intangible
assumptions, 6	Assets, 311, 325–326
buyers, 6, 23	ASC 805 Business Combinations, 311, 312
and continuum of value, 264, 265	315–329, 331
defined, 6	ASC 820, Fair Value Measurements, 311, 313–315, 320, 323, 326, 327, 334, 336
and income approach, 220 investment value compared, 9, 23, 33.	313–315, 320, 323, 326, 327, 334, 336 and auditing standards, 312, 313
See also Investment value	audits of fair value estimates, 312, 313

1 1 22/	
bargain purchase, 324	Gifting strategies, 262, 263
business combinations, 316–329	Going concern value, 103, 201, 336. See also
changes in, 310	Value in use
contingent assets and liabilities, 324	Goodwill
contingent consideration, 324	in adjusted book value method, 204, 205
cross-border transactions, 391	ASC 350 Goodwill and Other Intangible
disclosures, 323	Assets, 311, 325–326
and due diligence process, 326–329	in business combination financial
equity securities, 324	reporting, 317
generally accepted accounting principles	and customer relationships, 319
(GAAP), 310, 311	impairment testing, 320-326, 328
IAS 36, Impairment of Assets, 311	and measure of investment, 20
IAS 38, Intangible Assets, 311	and measure of value, 23
and intangible assets, 316–323, 331	Grabowski, Roger, 139, 145, 150
International Financial Reporting	Greenfield analysis, 346
Standards (IFRS), 310, 311	Growth-in-perpetuity method, 345, 346
Norwalk Agreement, 310, 312	Guideline companies
overview, 309	analysis of, 188, 189
partial acquisitions, 324	beta, 157
post-transaction, 309	financial statement adjustments, 188
references, 329, 330	lack of, 188
restructuring costs, 323	selection of, 107, 187, 225
transaction costs, 323	source: of public company data, 186, 188
Financial statements	Guideline public company method
adjustments, 109–112, 117, 188	ben-fits of, 189, 195, 196
and intangible assets, 352	described, 186–189
preparing for sale of company, 72	guideline companies. See Guideline
Financing issues in cross-border transactions,	companies
383, 384, 386	and high-tech start-ups, 363, 375
Finished goods, 203	and market approach, 181, 182
FINRA Rule 2290, 295	market multiples, 102, 186-189, 195, 198, .
First Chicago method (FCM), 367-370	See also Multiples
Fixed asset turnover, 56, 57	public company data, sources of, 186
Fixed assets, adjusted book value method,	use of, 218, 219, 228
205	value conclusion, review of, 225–228
Fixed stock exchange intro, 280	value reconciliation process, 229, 230
Fixed stock price, 280	Gupta-Makherjee, Swasti, 393
Foreign competition, 149	
Foreign Corrupt Practices Act, 383	Hart-Scott-Rodino Act, 394
Foreign Investment and National Security Act	Hedging foreign currencies, 387, 395
of 2007, 394	Hierarchy of value, 315, 334
Form 10-K, 186	High-tech start-ups
Form 10-Q, 186	angel investors, 355, 359, 360
Form 8594, 278	appraisals, need for, 353-354
Franchises, 334, 346	asset (cost) approach, 365-366
Free cash flow, 21	characteristics of, 355, 356
Fundamental method for high-tech start-ups,	compared to other industries, 355, 356
367, 370, 371	development, stages of, 353, 358-360
	discount rates, 360, 361
Generally accepted accounting principles	discounted cash flow (DCF) analysis, 361,
(GAAP), 310, 326, 335	363, 365, 366
Geopolitical issues in cross-border	equity allocation methods, 377-380
transactions, 385	exit strategy, 357, 371
GF Data, 182	external analysis, 356, 357

High-tech start-ups (contd.)	high-tech start-ups, 361–363
First Chicago method (FCM), 367-370	intangible assets, 332-333. See also
fundamental method, 367, 370-371	Intangible assets
income approach, 361-363	invested capital model, 103, 104, 220.
initial public offerings (IPOs), 353, 354,	See also Invested capital
359–360, 362, 364, 368, 369, 371,	investment value, 120, 220, 221
373–376, 378, 379	market approach compared, 119, 120,
internal analysis, 357	227, 228
liquidation scenarios, 358, 366, 373, 374,	methods, 102, 121
376, 378	multi-period excess earnings method
market approach, 334	(MPEEM), 319–321, 332
mezzanine financing, 359	overview, 119, 220
Monte Carlo simulation (MCS), 366	
option-pricing method (OPM), 378-380	profit split method, 332
overview, 353, 380	rate of return, 119, 223
probability-weighted expected return	real options analysis, 120
method (PWERM), 378–380	relief from royalty method, 320, 332, 334.
probability-weighted scenario method	See also Relief from revalty method
(PWSM), 372–377	(RFRM)
real options analysis (ROA), 366, 367	single-period capitalization method. See
revenue multipliers, 367, 372	Single-period capitalization method
risk, 356, 358, 360, 361, 366, 380	(SPCM)
shareholder value, maximizing, 353–354,	stand-alor.e lair market value, 120
358, 361	use of, 103, 119, 120, 134, 218, 219, 227,
single-period capitalization method	228, 333
(SPCM), 361	value conclusion, review of, 220-225,
and stock options, 353, 354, 357, 377	227, 228
strategic planning, 353–354, 357–358, 361	and value of assets, 120, 207, 208
valuation methods, 361–380	yield capitalization method, 332
venture capital funding, 354–356,	Income statement, adjustments to, 111, 112
359–360, 366	Increment/cost decrement analysis, 346
venture capital valuation method (VC	Industry analysis, 49-52, 356, 357
method), 367, 368, 377	Industry life cycle, 132
venture capitalists, valuation methods	Information technology (IT) issues in
used by, 367–372	cross-border transactions, 393
	Initial public offerings (IPOs), 353, 354,
Highest and best use, 315	359–360, 362, 364, 368, 369, 371,
Holding companies 201	373–376, 378, 379
Holding companies, 201 Horizontal acquisitions, 79	Insurance, 251, 266, 274
Horizontal acquisitions, 79	Intangible assets
	8
Ibbotson Equity Risk Premium Series studies,	adjusted book value method (asset
151	approach), 205
IFRS. See International Financial Reporting	amortization, 275–276
Standards (IFRS)	ASC 350 Goodwill and Other Intangible
Impairment testing, 311, 320–326, 328, 336	Assets, 311, 325–326
In-process research and development	assembled workforce, 317, 328, 333, 340,
(IPR&D), 318, 320, 333, 341	349–352
Income approach	contract-based, 318, 332
adjustments, 222, 224. See also Control	contributory asset charges, 335, 340, 343,
adjustments	344
defined, 101	corporate practices and procedures, 332
differential value method, 332	cost approach, 333, 349-352
direct capitalization method, 332	customer relationships, 317-319, 329, 333,
fair market value, 145, 221	335, 337, 340, 341, 343-344

differential value method (DVM), 332,	Integra, 176
343, 346, 348, 350	Intellectual property, 148–149, 391. See also
direct capitalization method, 332	Intangible assets
discount rate, 335, 340–341, 346	Intermediaries, use of, 5, 69, 70, 73, 82–85,
distribution networks, 333	89, 185, 192, 287. <i>See also</i> Business
existing technology, 317, 319–320, 328,	brokers; Investment bankers
332, 341, 343, 345, 346	Internal controls, 149
expenses, 337	Internal development versus acquisitions, 79
and financial reporting, 316–323, 331	Internal Revenue Code (IRC)
and financial statements, 352	section 197(a), tax amortization benefit,
franchises, 334, 346	342. See also Tax amortization
goodwill. See Goodwill	benefit
IAS 38, Intangible Assets, 311	section 336, stepped-up basis election,
impairment testing, 320–326, 328, 336	275
in-process research and development	section 409A, deferred compensation, 354
(IPR&D), 318, 320, 333, 341	Internal Revenue Service (IRS)
income approach, 120, 332–333	Form 8594, 278
intellectual property, 148, 391	International Accounting Standards Board
licensing agreements, 78, 321, 333, 345,	(IASB), 310, 312
346	International Accounting Standards (IAS)
liquor licenses, 334	IAS 36, Impairment of Assets, 311
market approach, 120, 334	IAS 38, Intangible Assets, 311
multi-period excess earnings method	Internation ar cost of capital, 387–390
(MPEEM), 332, 334, 343–344, 350	International Country Risk Guide, 388
non-compete agreements, 321, 333, 346,	International Financial Reporting Standards
348	(IFRS)
order backlogs, 317, 318, 321, 322, 333,	countries adopting, 310
341, 342	IFRS 3, Business Combinations, 311, 312,
patents, 317, 318, 320–322, 328, 333, 334,	316, 324, 331
336, 345	International Fisher Effect, 386
profit split method, 332	International mergers and acquisitions. See
proprietary technology, 341, 349	Cross-border transactions
and purchase price allocation, 316, 319,	International Monetary Fund (IMF), 387
331, 337, 343, 346	
	International Organization for
relief from royalty method (RFRM), 334,	International Organization for Standardization, 392
relief from royalty method (RFRM), 334, 344–346, 350	International Organization for Standardization, 392 International Valuation Handbook–Guide to
relief from royalty method (RFRM), 334, 344–346, 350 remaining useful life, 332, 335–337, 346	International Organization for Standardization, 392 International Valuation Handbook–Guide to Cost of Capital, 388
relief from royalty method (RFRM), 334, 344–346, 350 remaining useful life, 332, 335–337, 346 replacement cost method (RCM), 333,	International Organization for Standardization, 392 International Valuation Handbook–Guide to Cost of Capital, 388 International Valuation Standards Council,
relief from royalty method (RFRM), 334, 344–346, 350 remaining useful life, 332, 335–337, 346 replacement cost method (RCM), 333, 343, 349–350	International Organization for Standardization, 392 International Valuation Handbook–Guide to Cost of Capital, 388 International Valuation Standards Council, 312
relief from royalty method (RFRM), 334, 344–346, 350 remaining useful life, 332, 335–337, 346 replacement cost method (RCM), 333, 343, 349–350 revenues, 337	International Organization for Standardization, 392 International Valuation Handbook–Guide to Cost of Capital, 388 International Valuation Standards Council, 312 Intrinsic value, 7, 232, 237, 460
relief from royalty method (RFRM), 334, 344–346, 350 remaining useful life, 332, 335–337, 346 replacement cost method (RCM), 333, 343, 349–350 revenues, 337 royalty agreements, 333	International Organization for Standardization, 392 International Valuation Handbook–Guide to Cost of Capital, 388 International Valuation Standards Council, 312 Intrinsic value, 7, 232, 237, 460 Inventory
relief from royalty method (RFRM), 334, 344–346, 350 remaining useful life, 332, 335–337, 346 replacement cost method (RCM), 333, 343, 349–350 revenues, 337 royalty agreements, 333 royalty rate, 334, 337, 344, 345	International Organization for Standardization, 392 International Valuation Handbook–Guide to Cost of Capital, 388 International Valuation Standards Council, 312 Intrinsic value, 7, 232, 237, 460 Inventory adjusted book value method (asset
relief from royalty method (RFRM), 334, 344–346, 350 remaining useful life, 332, 335–337, 346 replacement cost method (RCM), 333, 343, 349–350 revenues, 337 royalty agreements, 333 royalty rate, 334, 337, 344, 345 software, 317, 318, 322, 333, 345	International Organization for Standardization, 392 International Valuation Handbook–Guide to Cost of Capital, 388 International Valuation Standards Council, 312 Intrinsic value, 7, 232, 237, 460 Inventory adjusted book value method (asset approach), 203–204
relief from royalty method (RFRM), 334, 344–346, 350 remaining useful life, 332, 335–337, 346 replacement cost method (RCM), 333, 343, 349–350 revenues, 337 royalty agreements, 333 royalty rate, 334, 337, 344, 345 software, 317, 318, 322, 333, 345 tax amortization benefit, 335, 342–345	International Organization for Standardization, 392 International Valuation Handbook–Guide to Cost of Capital, 388 International Valuation Standards Council, 312 Intrinsic value, 7, 232, 237, 460 Inventory adjusted book value method (asset approach), 203–204 turnover, 56, 204
relief from royalty method (RFRM), 334, 344–346, 350 remaining useful life, 332, 335–337, 346 replacement cost method (RCM), 333, 343, 349–350 revenues, 337 royalty agreements, 333 royalty rate, 334, 337, 344, 345 software, 317, 318, 322, 333, 345 tax amortization benefit, 335, 342–345 trademarks and trade names, 322–323,	International Organization for Standardization, 392 International Valuation Handbook–Guide to Cost of Capital, 388 International Valuation Standards Council, 312 Intrinsic value, 7, 232, 237, 460 Inventory adjusted book value method (asset approach), 203–204 turnover, 56, 204 Invested capital, 103–104, 117, 169, 170, 190,
relief from royalty method (RFRM), 334, 344–346, 350 remaining useful life, 332, 335–337, 346 replacement cost method (RCM), 333, 343, 349–350 revenues, 337 royalty agreements, 333 royalty rate, 334, 337, 344, 345 software, 317, 318, 322, 333, 345 tax amortization benefit, 335, 342–345 trademarks and trade names, 322–323, 326, 333, 334, 336, 337, 341, 345–347	International Organization for Standardization, 392 International Valuation Handbook–Guide to Cost of Capital, 388 International Valuation Standards Council, 312 Intrinsic value, 7, 232, 237, 460 Inventory adjusted book value method (asset approach), 203–204 turnover, 56, 204 Invested capital, 103–104, 117, 169, 170, 190, 220. See also Net cash flow to invested
relief from royalty method (RFRM), 334, 344–346, 350 remaining useful life, 332, 335–337, 346 replacement cost method (RCM), 333, 343, 349–350 revenues, 337 royalty agreements, 333 royalty rate, 334, 337, 344, 345 software, 317, 318, 322, 333, 345 tax amortization benefit, 335, 342–345 trademarks and trade names, 322–323, 326, 333, 334, 336, 337, 341, 345–347 valuation approaches, 332–334	International Organization for Standardization, 392 International Valuation Handbook–Guide to Cost of Capital, 388 International Valuation Standards Council, 312 Intrinsic value, 7, 232, 237, 460 Inventory adjusted book value method (asset approach), 203–204 turnover, 56, 204 Invested capital, 103–104, 117, 169, 170, 190, 220. See also Net cash flow to invested capital (NCF _{IC})
relief from royalty method (RFRM), 334, 344–346, 350 remaining useful life, 332, 335–337, 346 replacement cost method (RCM), 333, 343, 349–350 revenues, 337 royalty agreements, 333 royalty rate, 334, 337, 344, 345 software, 317, 318, 322, 333, 345 tax amortization benefit, 335, 342–345 trademarks and trade names, 322–323, 326, 333, 334, 336, 337, 341, 345–347 valuation approaches, 332–334 valuation methods, 332, 343–352	International Organization for Standardization, 392 International Valuation Handbook–Guide to Cost of Capital, 388 International Valuation Standards Council, 312 Intrinsic value, 7, 232, 237, 460 Inventory adjusted book value method (asset approach), 203–204 turnover, 56, 204 Invested capital, 103–104, 117, 169, 170, 190, 220. See also Net cash flow to invested capital (NCF _{IC}) Investment
relief from royalty method (RFRM), 334, 344–346, 350 remaining useful life, 332, 335–337, 346 replacement cost method (RCM), 333, 343, 349–350 revenues, 337 royalty agreements, 333 royalty rate, 334, 337, 344, 345 software, 317, 318, 322, 333, 345 tax amortization benefit, 335, 342–345 trademarks and trade names, 322–323, 326, 333, 334, 336, 337, 341, 345–347 valuation approaches, 332–334 valuation methods, 332, 343–352 and value of company, 20, 23	International Organization for Standardization, 392 International Valuation Handbook–Guide to Cost of Capital, 388 International Valuation Standards Council, 312 Intrinsic value, 7, 232, 237, 460 Inventory adjusted book value method (asset approach), 203–204 turnover, 56, 204 Invested capital, 103–104, 117, 169, 170, 190, 220. See also Net cash flow to invested capital (NCF _{IC}) Investment and improving ROI, 31
relief from royalty method (RFRM), 334, 344–346, 350 remaining useful life, 332, 335–337, 346 replacement cost method (RCM), 333, 343, 349–350 revenues, 337 royalty agreements, 333 royalty rate, 334, 337, 344, 345 software, 317, 318, 322, 333, 345 tax amortization benefit, 335, 342–345 trademarks and trade names, 322–323, 326, 333, 334, 336, 337, 341, 345–347 valuation approaches, 332–334 valuation methods, 332, 343–352 and value of company, 20, 23 WACC (weighted average cost of capital),	International Organization for Standardization, 392 International Valuation Handbook–Guide to Cost of Capital, 388 International Valuation Standards Council, 312 Intrinsic value, 7, 232, 237, 460 Inventory adjusted book value method (asset approach), 203–204 turnover, 56, 204 Invested capital, 103–104, 117, 169, 170, 190, 220. See also Net cash flow to invested capital (NCF _{IC}) Investment and improving ROI, 31 invested capital model, 103, 104, 220. See
relief from royalty method (RFRM), 334, 344–346, 350 remaining useful life, 332, 335–337, 346 replacement cost method (RCM), 333, 343, 349–350 revenues, 337 royalty agreements, 333 royalty rate, 334, 337, 344, 345 software, 317, 318, 322, 333, 345 tax amortization benefit, 335, 342–345 trademarks and trade names, 322–323, 326, 333, 334, 336, 337, 341, 345–347 valuation approaches, 332–334 valuation methods, 332, 343–352 and value of company, 20, 23 WACC (weighted average cost of capital), 341, 342, 344	International Organization for Standardization, 392 International Valuation Handbook–Guide to Cost of Capital, 388 International Valuation Standards Council, 312 Intrinsic value, 7, 232, 237, 460 Inventory adjusted book value method (asset approach), 203–204 turnover, 56, 204 Invested capital, 103–104, 117, 169, 170, 190, 220. See also Net cash flow to invested capital (NCF _{IC}) Investment and improving ROI, 31 invested capital model, 103, 104, 220. See also Invested capital
relief from royalty method (RFRM), 334, 344–346, 350 remaining useful life, 332, 335–337, 346 replacement cost method (RCM), 333, 343, 349–350 revenues, 337 royalty agreements, 333 royalty rate, 334, 337, 344, 345 software, 317, 318, 322, 333, 345 tax amortization benefit, 335, 342–345 trademarks and trade names, 322–323, 326, 333, 334, 336, 337, 341, 345–347 valuation approaches, 332–334 valuation methods, 332, 343–352 and value of company, 20, 23 WACC (weighted average cost of capital), 341, 342, 344 WARA (weighted average return on	International Organization for Standardization, 392 International Valuation Handbook–Guide to Cost of Capital, 388 International Valuation Standards Council, 312 Intrinsic value, 7, 232, 237, 460 Inventory adjusted book value method (asset approach), 203–204 turnover, 56, 204 Invested capital, 103–104, 117, 169, 170, 190, 220. See also Net cash flow to invested capital (NCF _{IC}) Investment and improving ROI, 31 invested capital model, 103, 104, 220. See also Invested capital measuring for ROI, 17, 19–21
relief from royalty method (RFRM), 334, 344–346, 350 remaining useful life, 332, 335–337, 346 replacement cost method (RCM), 333, 343, 349–350 revenues, 337 royalty agreements, 333 royalty rate, 334, 337, 344, 345 software, 317, 318, 322, 333, 345 tax amortization benefit, 335, 342–345 trademarks and trade names, 322–323, 326, 333, 334, 336, 337, 341, 345–347 valuation approaches, 332–334 valuation methods, 332, 343–352 and value of company, 20, 23 WACC (weighted average cost of capital), 341, 342, 344	International Organization for Standardization, 392 International Valuation Handbook–Guide to Cost of Capital, 388 International Valuation Standards Council, 312 Intrinsic value, 7, 232, 237, 460 Inventory adjusted book value method (asset approach), 203–204 turnover, 56, 204 Invested capital, 103–104, 117, 169, 170, 190, 220. See also Net cash flow to invested capital (NCF _{IC}) Investment and improving ROI, 31 invested capital model, 103, 104, 220. See also Invested capital

Investment risk, assessing, 112–117 Investment theory and exit planning, 247.	Liquidation value method, 102, 201, 202 Liquidity ratios, 53–55
See also Exit planning	Liquor licenses, 334
Investment value	Long-term growth rate
computation, Cavendish Seafood	macroeconomic factors, 131, 132
Distributors example, 420–427	selection of, 222
and continuum of value, 263-265	in single-period capitalization
fair market value compared, 8, 9, 23	method (SPCM), 121–123,
income approach, 120, 220. See also	131–134
Income approach	101 101
premiums and discounts, 215, 216.	
See also Discounts; Premiums	Macroeconomic factors and long-term
to strategic buyers, 8-10, 12-14,	growth rate, 131, 132
23, 33	Macroenvironmental risk, 49-53
IPO. See Initial public offerings (IPOs)	Majority interest, 209. See also Controlling
ISO 9000/9001, 392	interests
	Management
Jayaraman, Narayanan, 393	depth and breadth of, 146–147
Joint ventures, 78	flexibility, 115
Justification of purchase test, 232	retention of, 83
Justification of purchase test, 232	Management buyout (MBO), 261–262, 264
	Mark to market, 202
Key employees, 147, 254, 349, 354, 357	
Key executives, 244, 248	Market analysis as part of offering
	memorandum, 74
Labor laws and cross-border transactions,	Market approach
384, 393	defined, 101
Lack of control. See Discount for lack of	guideline public company method.
control (DLOC); Minority interests;	See Guideline public company
Noncontrolling interests	method
Lack of marketability. See Discount for tack	high-tech start-ups, 334
of marketability (DLOM)	income approach compared, 119-120,
Language translation in cross-border	227–228
transactions, 391, 395	intangible assets, 334
Leases, 206, 320–321	judgment required, 181
Legal audit, 71	M&A transaction data method. See Merger
Legal compliance. See Regulatory and legal	and acquisition transaction data
compliance	method
Leonetti, John, 243, 252	methods, 102
Letter of intent, 86, 390, 395	multiples, 119, 120
Leverage ratios, 58	principle of substitution, 181
Leveraged buyout analysis, 231-232	use of, 103, 219, 227–228
Liabilities	value conclusion, review of, 225–226
and asset transactions, 276, 277	
contingent, 324	and value of assets, 119, 207, 208
deferred tax liabilities, 204-206, 208	Market multiples. See Multiples
nonrecurring, 205	Market participants, 313–315, 317, 320, 326,
off-balance sheet, 206-208	327, 336
Licensing agreements, 79, 321, 333, 345	Market share, 146
LIFO (last in, first out), 203, 204	Market value of invested capital (MVIC),
Liquidation	190–192, 196, 197
and exit planning, 262, 264	Marketing capacity, 147
high-tech start-ups, 358, 366, 373, 374,	Marketing-related intangible assets, 318.
376, 378	See also Intangible assets
premise of value, 102, 201	Memorandum of understanding, 390.
valuation, 103	See also Letter of intent

Merger and acquisition transaction	Negotiations
data method benefits of, 196, 197	consideration of other side's needs and
and changes in economic cycle, 191	goals, 286
deal structure, 185-186	cross-border transactions, 383, 391
described, 182-185	deal structure, 271–276
and high-tech start-ups, 364, 374	fair market value as beginning point, 9
and market approach, 102, 181-182	overview, 269
market multiples, 102, 182, 189, 190.	and price, 270, 271
See also Multiples	and professional advisors, use of, 270
review of value conclusion, 220-221	purchase price allocation, 278
use of, 217, 228	skills required, 269
value reconciliation process, 229, 230	terms of sale, 279–282
Mergerstat, 3, 61–64	value, 270, 282–283
Mergers, described, 78	Net book value, 200
Mezzanine financing, 359	Net cash flow, 13, 17–23, 25, 26, 31, 33, 37,
Midyear discounting convention, 127	38, 41, 104, 105, 117
Minority interests. See also Noncontrolling	Net cash flow return to debt and equity
interests	capital, 22
control adjustments, 110	Net cash flow to invested capital (NCFIC),
degree of marketability, 224	13, 22, 23, 25, 27, 32, 38, 105, 106, 108
described, 209	Net income to invested capital (I/C), 35
and fair market value, 7	Non-compete agreements, 168, 282, 317,
and value, 24	318, 521, 324, 328, 333, 346, 348
Mission statements, 43	Noncontrolling interests
Modified capital asset pricing model	and asset (cost) approach, 201, 202, 205,
(MCAPM), 142, 143, 223	226–228
Monte Carlo simulation (MCS), 113, 114, 366	degree of marketability, 224 and minority interests, 209. <i>See also</i>
Moody's, 388, 389	Minority interests
Morningstar, Inc., 135	Nonfinancial issues, 67, 68
Most advantageous market, 314	Nonfinancial motivations of sellers, 8
Motives for selling, 64–65	Nonoperating assets, 120, 205–206
MPEEM. See Multi-period excess earnings	Nonrecurring assets and liabilities, 205
method (MPEEM)	North American Industry Classification
MSCI, 388	System (NAICS) codes, 187
Multi-period excess earnings method	Norwalk Agreement, 310, 312
(MPEEM), 319–321, 538, 343–344	0 /- /-
Multiples	Off-balance sheet assets and liabilities, 206
and checks to value, 231–232	Offering memorandum, 73–74
commonly used multiples, 190 examples of, 193	Operating leases, 206
in high-tech start-up valuations, 364	Operations 200
in market approach, 119, 120	integration of, 66
market approach, 117, 120 market value of invested capital (MVIC),	operating strategy, 97
191	Opportunity cost, 136. See also Cost of capital
MVIC/EBIT, 192, 196	Option-pricing method (OPM), 378–380
MVIC/EBITDA, 192, 196	Options. See Black-Scholes Option Pricing
MVIC/revenue (MVIC/R), 193, 197	Model (BSOPM); Real options analysis
price/book value (P/BV), 193, 197	(ROA); Stock options
price/cash flow (P/CF), 193	Order backlogs, 317, 321–322, 333, 341, 342
price/earnings (P/E), 192, 195, 369	Orderly transactions, 313
selection of, 190–191	Owners. See Business owners
use of, 181, 182	
MVIC/EBIT, 192, 196, 233	Paglia, John, 153
MVIC/EBITDA, 192, 196, 233, 415, 417	Partial acquisitions, 324
MVIC/revenue (MVIC/R), 191, 197	Patents, 317, 320-321, 328, 333, 334, 336, 345

PCOC. See Private cost of capital (PCOC)	Private Capital Markets (Slee), 153
Pepperdine Private Capital Market Required Rates of Return, 154, 155	Private companies, stock of as payment for target, 281
Pepperdine Private Capital Market Line, 156	Private cost of capital (PCOC), 153–156
Performance measures, 284	Private equity buyout, 232, 233
Personal Goodwill, 270, 282–283, 430, 432	Private equity group (PEG) recapitalization,
Pinnacle Equity Solutions, 243	260, 264
Planning for merger and acquisition process	Probability analysis, 112-118, 222, 357,
acquisition process, 80–86	363, 372
acquisition strategy, 78–80 due diligence, 86–89	Probability-weighted expected return method (PWERM), 368, 372, 378
failure of M&As, reasons for, 65–67	Probability-weighted scenario method
importance of, 61	(PWSM), 372–377
sales strategy and process, 67-78	Process improvements, 93, 94, 120
statistics on M&A activity. See Statistics	Products and services, evaluating, 147, 382
on M&A activity	Professional advisors accountants, 60, 97
Porter, Michael E., 50, 51	acquisition team, 81, 85, 383, 384
Portfolio planning, 247–249. See also Exit	appraisers, 251
planning	attorneys, 69, 251
Post-transaction accounting. See Financial	business broker 5, 84, 185
reporting	consultants, 05
Pratt's Stats, 182, 448	exit planring, 243–267
Preferred stock, 22, 138, 354	experience of in M&A transactions, 107
Premise of value, 201	fees, 248
Premiums	financial planners, 251
acquisition premium, 8	insurance, 251
applicability of, 210–211	Intermediaries, 5, 82, 84, 185, 192, 287
company size, 223	investment bankers, 5, 70, 185, 192, 289,
control, 8, 180, 181, 210–211, 215, 216	296, 395
discretion in size of adjustment, 214	need for, 324
equity risk, 145, 150–152	in negotiations, 269
existing technology, 346	target identification services, 84
and fair market value, 209	Professional judgment
professional judgment required, 216	in application of premiums and discounts,
size of adjustment, 213, 214	211
small-company, 142, 145, 152	in market approach, 181
specific-company r.k premium, 140, 143, 145, 162,	in value reconciliation and conclusion, 228–230
and synergies, 91, 92, 97, 209	Profit margin, 35–38
Prepaid expenses, 204	Profit split method, 332
Preparing for merger and acquisition	Profitability measures, 57, 59. See also
process. See Planning for merger and	DuPont analysis
acquisition process	Proprietary technology, 341
Price/book value (P/BV), 193, 197	Public companies
Price/cash flow (P/CF), 193	guideline companies. See Guideline
Price/earnings (P/E)	companies; Guideline public company
and cost of capital, 159	method
in high-tech start-up valuations, 364	as source of merger and acquisition
in market approach, 119, 120, 191, 195	transactional data, 182, 183. See also
multiples, 191, 195	Merger and acquisition transaction
past earnings, issues with, 18	data method
Principal market, 314	value, market measurements of, 17-19, 39
Principle of substitution, 181	Public Company Accounting Oversight
Private capital market, 19, 153–156, 162, 187	Board (PCAOB), 312, 313

Purchase price allocation Cavendish Seafood Distributors, case	Return and improving ROI, 32
study example, 324, 325 and goodwill, 20	in income approach, 119. See also Income approach
and intangible assets, 316–318, 331, 337,	measuring for ROI, 17–39
343, 344	Return on assets (ROA), 35–36, 57
preliminary, 278	Return on capital employed (ROCE), 20
Puts, 281	Return on equity (ROE)
PWERM. See Probability-weighted expected	calculation of, 28
return method (PWERM)	debt, effect of, 22, 28–31, 34
PWSM. <i>See</i> Probability-weighted scenario method (PWSM)	and profitability measures, 57
	volatility, 30
	Return on investment (ROI)
QED Report on Venture Capital Financial	calculation of, illustration, 24-27
Analysis (QED Research), 360, 372	common questions and concerns, 32-34
Qualitative versus quantitative	debt financing, effect of, 22, 28–31, 34
assessments, 41	for equity, 28. See also Return on equity
Quick ratio, 54	(ROE)
Quien muo, y i	improving, strategies for, 35, 36
Rate of return	investment, measuring, 17, 19
	and profitability measures, 47
historical data, 108	public company value creation model,
in income approach, 119. See also Income	17–19
approach	rate of neturn, 17, 19, 22, 37
and net cash flow, 108	return, measuring, 17, 19, 22
return on investment (ROI), 17, 19–34	value, 17–19
review of selection of, 222 in single-period capitalization method	Return on revenues, 57
(SPCM), 122, 123, 131–134, 136	Return on sales, 35. See also Profit margin
Raw materials, 203, 207	Reuters, 387
Real options analysis (ROA), 114–116, 120,	Revenue enhancements, 93, 120
366, 367	Revenue multipliers, 387
Reasonableness check (rules of thumb), 220	Revenue Ruling 59-60, 6
Recapitalization, 260, 264	Risk
Receivables turnover, 55	and discount rate. See Discount rate
Recessions, 3. See also Economic or industry	high-tech start-ups, 356, 358, 360, 361,
downturns	367, 379
Regulatory and legal compliance	macroenvironmental, 49-53
cross-border transactions, 381, 382	quantifying, 18, 19, 33
preparing for sale, 73	and rate of return, 22-23, 32. See also Rate
risk assessment, 149	of return
Relief from royalty method (RFRM), 320, 322,	and return, 17, 18, 22-23
332, 343–346, 350	specific-company risk, assessment of,
Remaining useful life, 332, 334-338, 343	48–53
Replacement cost method (RCM), 322, 333,	SWOT analysis. See SWOT analysis
343, 349–351	systemic, 140–142
Representations and warranties, 377, 395	and terms of sale, 279–282
Reproduction cost, 333	unsystematic, 48
Required rate of return, 20, 22–24, 26, 34,	@Risk, 113
135. See also Cost of capital; WACC	Risk analysis
(weighted average cost of capital)	and causes of M&A failures, 67
Research and development (R&D), 320.	investment risk, 120–117
See also In-process research and	and stock versus asset purchase, 271
development (IPR&D)	Risk drivers, 44
Restructuring costs, 323	Risk-free rate, 143–145, 151, 158

Risk reduction, 93, 95 RMA Annual Statement Studies, 176, 177 ROI. See Return on investment (ROI) Royalty agreements, 333 Royalty rate, 334, 337, 344, 345, 347 Rule 144, 279 Rules of thumb, 220, 231, 433	Small-company premium (SCP), 142–145, 152, 157 Software intangible asset value, 316, 317, 344 Monte Carlo simulation, 113–114 valuation of for internal use, 332 valuation of in business combinations,
· · · · · · · · · · · · · · · · · · ·	315–325, 331
S corporations, 266	Solvency measures, 46, 57–59
SCP. See Small-company premium (SCP)	Solvency Opinion, 235, 290, 299
SCRP. See Specific-company risk premium	SPCM. See Single-period capitalization
(SCRP)	method (SPCM)
Search process, 82	Specific-company risk premium (SCRP), 142,
Section 338 Election, 278	143, 145, 149, 157, 158, 162, 164, 223,
Securities and Exchange Commission (SEC)	420
and audit standards, 313	Stand-alone fair market value. See Fair
EDGAR database, 186	market value
Form 10 C, 186	Standard & Poor's, 388–389
Form 10-Q, 186 and high-tech start-up valuations, 353	Standard deviation 112, 113, 118
Rule 144, 279	Standard Industry Classification (SIC)
Security issues, cross-border transactions, 385	codes, 187
Sell-side considerations	Start-ups high-tech. See High-tech start-ups
cross-border transactions, 395	Statistical tools for assessing risk, 112–113,
exit price, 313–314	Statis ics on M&A activity, 3, 4, 61, 243
Sellers	Stock
and fair market value, 6-8	appreciation, 18, 21, 32
inexperience of, 67	common stock, 138–139
lost opportunity, 67	dividends, 18, 21, 32, 137
motives for selling, 63	as payment for target, 279
nonfinancial motivations of, 8	preferred stock, 22, 138, 354
planning for M&A process. See Planning	transfer restrictions, 146, 248
for merger and acquisition process	Stock options
value of company to current owners, 5–6	Black-Scholes Option Model, 115–117
Selling brochure. See Offering memorandum	high-tech start-ups, 353, 354, 357, 358, 377
Shareholder value	Stock sales, 271–276, 285
high-tech start-up: 353–355, 358, 361 increase in as goal of acquisition, 91, 92	Strategic buyers
Shareholders in private companies, 248	and fair market value, 6-8, 23
Single-period capitalization method (SPCM)	and high-tech start-ups, 357
assumptions, 122, 123	and investment value, 7-11, 23, 33
capitalization of cash flow, 102	Strategic planning
capitalization of earnings, 102	high-tech start-ups, 353–355, 357, 358, 361
capitalization rate, 121, 122	importance of, 8
formula for, 121, 122	and value creation, 4, 35–38
high-tech start-ups, 361	Strategic value, 8, 24. See also Investment
and long-term growth rate, 121-123, 127,	value
131–133	Strategic vision, 96–97
and rate of return, 122, 123, 134, 136, 138	Strategies for improving ROI, 31
use of, 134, 223	Strengths, weaknesses, opportunities, and
and WACC, 174–176. See also WACC	threats (SWOT) analysis. See SWOT
(weighted average cost of capital)	analysis
Sirower, Mark L., 65, 92, 93, 96 Slee Rob 153	Subsequent events, deal provisions for, 286, 287

Successor to business owner, 63, 65,	proprietary, 341, 349
69, 71, 199, 200, 250. See also Exit	technology-based intangible assets,
planning	316–317
Sunk cost, 18, 20	unpatented, 317, 318
Supervisory control and data administration	Technology-based intangible assets, 316–317.
(SCADA), 392	See also Intangible assets
Suppliers, 147, 148	Terminal value, 124, 126-128, 131-133
SWOT analysis	Terms of sale. See Deal terms
acquisition planning, 80	Third party, sale to, 259-260, 373
	Times interest earned, 58
in competitive analysis, 48, 52, 53, 60	Timetable for deal, 75–76
and value creation strategies, 35–38	Total asset turnover, 57
Synergies	Total debt to equity, 58
assessing, 95–96	Trade secrets, 148, 318, 320, 349
"bounce-back" benefits, 80, 93	Trademark Act of 1946, 322
and causes of M&A failure, 65, 66	Trademarks and trade names, 323-324
cornerstones of, 96	Transaction costs, 323
cross-border transactions, 385	Transfer pricing, 384, 393
defined, 92, 93	Turnarounds, 83
and investment value, 7-11, 23	, is 6
measuring, 91–97	Underperforming companies, 20
and planning process, 96–97	Unpatented technology, 317–318
and premiums, 91, 92, 96	Unsystematic risk, 48, 142
sources of, 93–94	
and value creation, 4	U.S. GAAP. See Generally accepted
The Synergy Trap: How Companies Lose the	uccounting principles (GAAP) U.S Securities and Exchange Commission
Acquisition Game (Sirower), 65, 92, 93	
The second secon	(SEC). See Securities and Exchange
Systematic risk, 140–142	Commission (SEC)
Systems integration, 97	Useful life, 326, 332, 334–338
Systems integration, 97 Tangible assets. See Assets Target companies initial contact with, 84, 85	
Tangible assets. See Assets	Valuation
Target companies	approaches. See Valuation approaches
	consultants, 69
search criteria, 82–85	continuum of value, 264
search process, 82	value conclusion. See Value conclusion
Tax amortization benefit, 335, 339, 342-348	Valuation approaches
Tax considerations	asset (cost) approach. See Asset (cost)
asset sales versus stock sales, 271-279	approach
cross-border transactions, 384, 395	going concern, 103, 201, 335
and deal negotiations, 279	income approach. See Income approach
deferred tax liabilities, 205–206	intangible assets, 326–328. See also
and exit planning, 266	Intangible assets
fixed assets (adjusted book value), 205	liquidation, 103
stock sales, 280	market approach. See Market approach
*	selection of, 227–228
tax adjustments, 204, 205, 208	use of, 103
terms of sale, 279	Valuation Handbook-U.S. Guide to Cost of
Technology	Capital, 19, 144, 152, 177
ability to keep pace with, 148	Valuation methods
existing, 319–320, 322, 328, 341, 345, 346	high-tech start-ups, 361-380
improvements to and synergy, 93, 94	intangible assets, 332-334. See also
information technology issues in	Intangible assets
cross-border transactions, 393	overview, 102, 103

Valuation of Privately-Held Company Equity	Value reconciliation, 217, 228–230
Securities Issued as Compensation	Variance, 112, 118
(AICPA Practice Aid), 358, 360	Vendors, 148
Value	Venture capital funding, 354–356, 359, 366
to current owners of private companies, 4	Venture capital valuation method (VC
and exit planning, 265–267	method), 367, 368, 377
external factors affecting, 6	Venture capitalists, valuation methods used
fair market value. See Fair market value	by, 367–372
and growth, 33	Vertical acquisitions, 72
and ROI, 17, 19–34	Vistage, 255
whole versus fractional interest, 23–24	8-1, -22
Value conclusion	W/ACC (weighted eveness seet of socital)
accuracy in calculations, 217	WACC (weighted average cost of capital) closely-held businesses, 171
appraisal assignment, review of, 217–218	· · · · · · · · · · · · · · · · · · ·
and appraiser's expertise, 232	common errors in computing, 176–179
asset approach review, 225–226	in computation of private company ROI,
averaging of results, 228	illustration, 24, 27
broad perspective, need for, 217–220	debt, effect of, 32, 169
Cavendish Seafood Distributors, case	intangible asset valuations, 341, 343
study example, 406, 407	iterative process, 171
checks to value, 231–232	overview, 170
income approach review, 220–225	private companies, 23
market approach review, 225–226	and risk. 31, 32, 37, 38
reasonableness check (rules of thumb),	shortcut formula, 174–176
220	Walk-away price, 9
valuation approaches employed, 218–219	WARA (weighted average return on assets),
value reconciliation, 228–230	341, 346
Value creation	Warranty obligations, 206
and competitive analysis, 41, 44, 48	Websites
components of, 38	Damodaran, Aswath, 388
private companies, 4, 19–34	FASB, 313
public company model, 17–19	IASB, 310
and strategic planning, 4, 43	International Monetary Fund (IMF), 387
strategies for, analyzing, 35-38	Weighted average cost of capital (WACC). See
and synergies, 5	WACC (weighted average cost of
through M&A, 3, 4, 10	capital)
Value drivers	Weighted average return on assets (WARA),
asset turnover, 3	341, 346
and competitive analysis, 42–43	Win-win benefits of M&A, 10–11
and continuum of value, 264	With or without analysis, 348
identifying and quantifying, 35	Work in progress, 203
profit margin, 35	Working capital, 276
useful life, 336	Working capital turnover, 56
Value in use, 201, 208. See also Going	
concern value	Yield capitalization method, 332
Value Opportunity Profile (VOP), 146, 162,	
163, 165, 166	Z-score, 59
100, 100, 100	:1 < 4