Acquirer cash flow, stand-alone basis, 172e	Available cash flow, perspective, 109–11, 109e
- · · · · · · · · · · · · · · · · · · ·	
,, _F /, 1000	

Canadian Institute of Chartered	income approach, 83
Business Valuators, 350	increase, 44
Capital, 201–03	incremental value,
components, WACC (relationship),	post-combination, 173e
169e	interim cash flows, likelihood, 391
costs/structure, dynamic	normalized cash flows, usage, 45
relationship, 166-69	numerator position, 37
gains, reduction, S election	projection, 100e–02e
(impact), 459	target/acquirer cash flows,
investments, return (earning	stand-alone basis, 172e
example), 102	unusual/nonrecurring events,
venture capital returns, 388-89	adjustments, 113–14
Capital Asset Pricing Model	valuation input, 353
(CAPM), 155–57	value/return, relationship, 145e
Capital expenditures, 94, 132, 138	values, contrast, 63
Capitalization rate, 21	C corporations, 370
Capital structure, 163–64	calculation, 372e
assumptions, development	dividend payment, absence, 415,
(methods), 163	419–21, 422e
capital costs, dynamic relationship,	equivalent dividend yield,
166–69	calculation, 376e, 451e,
comparison, 167e	463e
impact, 168e, 181-83	equivalent yield, 373, 374e
iterative method, 163	forecast period, 448
performance measures, 183	minority interest, 468
target capital structure method,	near-term sale potential, 415,
163–64	421–26, 423e
Cash flow (CF), 42e, 43	shareholder value, 454e
adjustments, 84, 112-15, 113e,	transactional expenses/liabilities,
134	differences, 444–45
available cash flow, perspective,	value differences, 436e
109–11	Change-of-control transaction data,
differences, 356	usage, 36
expected cash flow to equity,	Companies (subject company)
39–40, 39e	analogy, creation, 178
expected growth rate (G_{CF}) ,	attractiveness, increase, 125, 170
53e, 54	characteristics, 369
firmwide equity cash flows,	company-specific risk premium,
non-pro rata distribution,	158–60
380	debt, absence, 161
forecasts, 84, 90e, 100-04	EBITDA margin, generation
future growth, augmentation, 55	(example), 229
Gordon Model input, 440	equity value, 29, 29e

growth reinvestment, 402–403	Corporate finance/operational
industry conditions, 366	decisions, normalization,
liquidation/sale/recapitalization,	114
248	Corporate taxes, 372, 460e, 461e
money, loss, 311	Cost of debt capital, 161-62
offers, 362	Cost of equity capital, 148-61
pre-announcement price, 235	
prior transactions, 329	Debt, 161-62
private company transaction	Debt, repayment, 97
structure, 165–66	Depreciation, 92–93, 93–94, 138
sale, 361, 403	Direct multiple selection approach,
subject company WACC/growth	211e
rate, 205	Discounted cash flow (DCF)
tax characteristics, adjustment,	equation, solution, 13
370–77	expectations, 332e
transaction price, 235	inputs, specification, 330–31
Conceptual premiums, 36	model, 85e, 88e
Controlling interest value levels,	shareholder level, 331–38
353–56	ten-year increments, 87e
Controlling owner, exit strategies,	two-stage enterprise DCF model,
364	332e
Controlling shareholder	two-stage shareholder DCF model
characteristics, 369–70	333e
Control premium (CP), 36	Discounted cash flow (DCF) method
adjustment, 258-59	analyst migration, 87-88
application, 238e, 267	application, 13, 20
calculation, bases (usage), 233e	fundamental equivalence, 85–87
data, 38, 233-34, 236-39	single-period capitalization
discounts, 318	method, 83–90
existence, 20	Discounted value, 393
expression, 233-34, 235e, 236	Discount for lack of marketability
historical perspective, 247	(DLOM), 65–66
measurement, 234	Discount rate, 39e, 40, 42e, 43, 141,
Mergerstat Review definition,	315
251e	Discounts, 34, 352e
observed control premiums,	Distribution
234–36, 240–42	determination, 281
studies (Mergerstat Review),	expected growth, assumption,
250–52	404
traditional measurement, 50	growth, expectation, 334, 336
valuation analyst reliance, 50	making, 368
Corporate earnings, taxation, 438,	negative yield, 375
459	non-pro rata distributions, 339

Distribution (Continued)	Emory Studies (pre-IPO study), 319
personal taxes (elimination), S	Enterprise basis, 28, 72–73, 74e,
election (impact), 459	75–77, 109e
timing, 334, 336	Enterprise cash flows, 83, 90-94
total distribution payout, 373	derivation, 91e
yield, expectation, 333, 336	expected growth, increase, 44
Distribution expenses, 131	projected enterprise cash flows,
Dividends	reasonableness (assessment),
expectations, absence, 298	136–39
expected growth, assumption,	strategic cash flow adjustments,
377–78, 404	meaning, 133–34
growth, 377–78	strategic control adjustments, 115,
history, 369	128–33
median yield, 311	suboptimal reinvestment, 380
payment, 368	valuation, 81
policies, impact, 381-82	Enterprise DCF expectations, 332e
preferential dividend claims, 369	Enterprise discount rate, incremental
receipt, timing (assumption),	HPP (sum), 453
378–79	Enterprise, strategy, 125, 170
timing, 404	Enterprise valuation multiples,
yield, 370e, 373e, 402	conceptual math, 186e, 226e
Due diligence, 393–94	Equity
Duff & Phelps Cost of Capital	cost, strategic buyer consideration,
Navigator, 153	55
	discount rate, 29e, 30, 298
Earnings, 21–22, 216	holders, expected cash flow, 29e,
reinvestment, company history,	30
382	interests, 428
single-period capitalizations, 13	investments, value (growth), 12
Earnings before interest and taxes	offering/acquisition, likelihood
(EBIT), 93, 187	(increase), 364
Earnings before interest, taxes,	total equity value, 39, 39e, 334
depreciation, and	Equity basis, 27, 73–76
amortization (EBITDA),	business valuation, Integrated
91–92, 184–92, 189e	Theory, 67
capitalization, indicated value,	Integrated Theory, 67, 68e
194, 197e	value, conceptual levels
depreciation factors, 191e	(comparison), 74e
EBITDA to EBIT ratio, 212	Equity cash flows (CF), 95–99
formula, 190	components, 84
margins, 194, 212, 229	derivation, 97e
Economic factors, impact, 20	expected growth rates (G_{CF}) , 29e,
Emory, John, 319	30–31, 39e, 40–41, 42e, 43

strategic control buyer viewpoint, Financial Control Premium (FCP), 53, 53e 36, 44–46, 44e, 73, 76, 263 Equity risk premium (ERP), 150–55, Financial control value levels, 42e, 154e, 155e 357e Existing/pro forma capital structures, Financial engineering, usage, 124–25, comparison, 167e 170 Expected benefits, sharing Financially motivated guideline (willingness), 44 transactions, 225–29 Expected cash flow, 37, 108-15 Financial returns, generation (focus), 124-25 Expected distribution, assumption, Firmwide equity cash flows, non-pro 404 Expected dividend yield (D %), rata distribution, 380 368–77, 404 Firmwide levels, 435–36, 440–45, Expected growth rate (G_V) , 61–62 441e assumption, 379-85 FMV/Stout opinions database, development, 381-83 implied required dividend policies, impact, 381-82 returns/HPPs, 313-17 FMV/Stout restricted stock database, evidence (provision), asset 306-17, 307e, 308e, 310e, appraisals (usage), 382 factors, 379-81 312e leverage, change (impact), 383 Forward multiples, 183-84 Freely traded shares, 284-87, 284e, marketability discounts, sensitivity, 384e 285e, 293e portfolio composition, impact, Fundamental adjustment applicability, 216, 228-29 sensitivity, relationship, 384-85 direct quantification, 204-09 value, contrast, 63 impact, 208e Expected holding period, 336, implied fundamental adjustment, 360 - 68209 - 14assumption, holding period qualitative factors, 200-04 quantification, 205e, 206 (correspondence), 429 estimation, factors, 363-65 scenarios, 207e marketability, relationship, 361–63 Fundamental valuation model, 293e monitoring costs, 398, 406 components, usage, 26 ranges, 367-68, 404 enterprise basis, 23e uncertainties, 398, 406 equations, 13e, 72e Expected return, 412, 414 equity basis, 21-23, 21e, 22e Future returns, impact, 122 Future values, expectation, 315–16 Fair market value, determination, 20 Family, relationships, 366

General/administrative expenses, 132

Gordon Model, 292–93, 293e, 295,

320, 440, 442

Financial buyers, 128e, 227e, 265

Financial Control, 27, 35, 76–77,

114, 124-25, 135

Gross margin, 200 Gross profit multiple, 191–92, 194 Growth, 199–214, 356 company reinvestment, 402–03 expectations, 203–04 Gordon Model input, 440, 442 growth in value, 451–52, 465 historical growth, 203 prospects, differences, 228 subject company growth rate, 205 valuation input, 353, 355 Guideline growth rate, 205 Guideline public companies, 222–23, 224e enterprise value multiples, example, 193–96 market approach, 177	Hitchner and Morris Studies (pre-IPO study), 319 Hitchner, James, 319 Holding period (HP), 333, 336–38 analysis, 430e areas, investigation, 365–66 assumption, 360–68 expected holding period assumption, correspondence, 429 importance, 281 incremental holding period risk, 339, 344 length, impact, 412 marketability discounts, sensitivity, 384e uncertainty, 391
performance metrics, comparison,	value, growth, 334, 336
195e	Holding Period Premium (HPP), 61,
reasonableness, assessment,	65, 287, 292–94
244–45	expected HPP, calculation, 301e
Guideline public company multiples, 45	FMV/Stout opinions database, 313–17
usage, 218e	implied holding period premium
value enterprise levels, relationship,	analysis, 314e
214–19	market evidence, 387-91
Guideline public/private company	measurement, 296–301
WACC, 208	required return on equity, sum, 386
Guideline transactions, 221–33, 224e method, 244, 272–75	Holding period (HP) return, 61, 62e, 338
multiples, 242, 243e	expectations, range, 334
Guideline WACC, 204–05	median implied holding period return, 316
Historical adjustments, applicability, 126e, 127e, 135e	range, development, 396
Historical cash flows, transition, 84	Illiquid assets, owner risk, 63, 65
Historical ERP, calculation, 154e	Illiquidity, incremental risks
Historical growth, 203	(association), 66
Historical ownership policies, 363	Implied annual return, 317
Historical reinvestment patterns, 203	Implied expected annual return, 316
Historical results, adjustment, 116–17	Implied holding period premium, 314e, 316
Historical returns, 204	Implied holding periods, 315

Implied minority interest discount, Integrated valuation model, traditional definition reconciliation, 27 Interest, 407, 431 (usage), 50 Implied required returns (FMV/Stout Interest expense, 96–97 opinions database), 313–17 Interim benefits (USPAP discussion), 429, 431 Inbound/outbound license/sharing Interim cash flows, 391, 448-50, agreements, entry, 248 Income approach, 96e, 141 462, 465 market approach, relationship, Interim growth rates, 99-104 Internal rate of return (IRR), 99, 178-80, 179e shareholder level, 330-31 101e-02e, 103-04, 411-12 Income taxes, deduction, 97 International Glossary of Business Incremental borrowings, 98 Valuation Terms (IGBVT). 349 - 50Incremental holding period premium, Invested capital, 103-04, 103e, 204 enterprise discount rate (sum), 453 Investments, 142 Incremental holding period risk, cash flow characteristics, 12 duration, 12 339-46 holding period, assumption, Incremental return, determination, 299-300 360 - 68risk characteristics, 12 Incremental risks, 66, 341e, 345e, Investors, 362, 431, 432e 346e Issuer, information (adequacy), 280 Incremental value, cash flows Iterative method, 163 (post-combination), 173e Inflation, expectation, 106 Inflows, impact, 99 Joint venture/partnership agreements, Information, 394, 398, 406 entry, 248 Initial public offerings (IPOs), 271, 321, 322e, 362 Leverage, 124, 170 benchmark IPO pricing, change, impact, 383 differences, 325 relative negotiating leverage, candidate, likelihood, 393 factors, 130e Integrated Theory, 54, 435 Leveraged family limited partnership, enterprise basis, 28e, 71 commercial real estate enterprise level, 78e holding, 420e equity basis, 19, 28e Liquidation horizon, PPI forecast, expected cash flow, relationship, 387 108 - 15Liquidity, 349–53 Nath approach, consistency, absence, discount, 352-56 260 - 61ASA business valuation pre-IPO discount, 320-25, 321e definition/standards, symbolic notation, 27–28 350-53, 351e value, conceptual levels, 27 discounts, definitions, 352e

Liquidity (Continued) IGBVT definition, 349–50, 350e marketability, relationship, 349 Long-term management (LTM)	equation, 65, 66e, 335e holding period, analysis, 430e impact, combination, 344 midpoint, 415
multiples, 183 Long-term Treasury yields, 151e	restricted stock, conceptual equivalency, 295e restricted stock discount,
Management	relationship, 295-96
compensation/perquisites, determination, 247	rise, economic factors (impact), 338–46
Management/ownership succession,	sensitivity, 384e
364	Marketable Minority, 27, 75, 76, 406
Manufacturing overhead, 131	interest level, public company
Marginal tax rate, 162	equivalence, 115–23
Market, 103-04, 103e	levels, 54–55, 76–77, 120e, 135,
capitalization, decline, 311	258
market return data, availability,	Marketable minority value level, 20,
395	35, 353–55, 354e
multiples, usage, 107	Market approach, 177, 221 income approach, relationship,
participants, WACC (relationship),	178–80, 179e
165–69	shareholder level, 329–30
prices, analysis, 152 Marketability, 349–53	Market Participant Acquisition
absence, discount, 352–53	Premium (MPAP), 252–58
achievement, 412	Median implied holding period
ASA business valuation definition,	return, 316
351e	Median restricted stock discounts,
ASA business valuation standards,	315
350–53	Mergers and acquisitions (M&As),
expected holding period,	negotiation/completion, 248
relationship, 361–63	Mergerstat Review (control premium
IGBVT definition, 349-50, 350e	study), 250–52, 251e
liquidity, relationship, 349	Minority interest discount (MID),
prospects, 393	46–50, 74
Marketability discount (MD)	calculation, 241e, 259–67, 260e
(DLOM), 38, 65–67, 73,	conception, 259
335, 352e	conceptual discount, contrast, 37
absence, base case, 340	disappearance, 258–67
agency costs/incremental risks,	equation, 48e, 49, 49e
impact, 346e	existence, question, 267–68
development, 359	historical perspective, 247
difference, 259 economic factors, impact, 20	inference, observed control premiums (usage), 240–42
economic factors, impact, 20	premiums (usage), 270-42

Minority interests, 266, 364–65 Normalizing adjustments, 117-23, Minority investors, 109-11, 118, 267 381-82 Minority shareholders, annual financial statements Operating cash flow, 91, 98e, 122 (company provision), 403 Operating efficiency, 200–01 Modified Public Market Equivalent Operating margin, projections (mPME), calculation, 390 (comparison), 137–38 Monitoring costs, 394, 398 Operational efficiency, enhancement, Morris, Katherine E., 319 125-26, 170 Multiples, 187-93 Operational management, capital structure, impact, 181-83 appointment/change, 247 forward multiples, 183-84 Operational policy, setting, 248 long-term management (LTM) Opportunity costs, concept multiples, 183 (suggestion), 15 measurement period, impact, Outflows, impact, 99 183-85 Owner compensation, excess valuation multiples, adjustment, (operational decision), 123 199-214 Partnership Profiles, Inc. (PPI), return NASDAQ composite index, rate study, 387 comparison, 389, 389e Pass-through tax distribution, 373 Nath, Eric, 260 Payout ratios, impact, 439e National Association of Certified Performance, 116, 204 Valuation Analysts, 350 measures, valuation multiples Negotiation, concept (implication), (application), 213e 410-11 metrics, comparison, 195e Net operating profit after taxes Periodic returns, calculation, 143e (NOPAT), 23, 93, 185-87, Personal taxes elimination, S election (impact), 186e Net reinvestment, absence, 100e 459 Nominal growth rate, expectation, rates, 460e, 461e 106 Portfolio composition, impact, 383 Nonmarketable Minority, 27, 63, Positive-NPV projects, 64e, 120e, 359, 386, 447e identification/execution Nonmarketable minority value, 60, (ability), 103-04 61, 75, 297e Post-combination cash Non-pro rata distributions, 339, flows/incremental value, 173e Nonrecurring events, adjustments, Post-TCJA S corporation valuation 113-14, 117-23, 121e discount, indication, 465, 467 Nonrecurring events, historical discount rate, 465 results (adjustment), 116–17 example, 462–67 Normalized cash flows, usage, 45 forecast period, 462

Post-TCJA S corporation valuation	Pro forma capital structures,
(Continued)	comparison, 167e
interim cash flows, projection, 462,	Pro forma income taxes, 93
464	Projected enterprise cash flows,
pre-tax earnings, base level, 463	reasonableness (assessment),
Pre-IPO discounts, 317–25	136–39
calculation, 318e	Prospective adjustments,
components, 323e, 324e	applicability, 126e, 127e,
defining, 318–19	135e
Integrated Theory	Public companies
calculation, 321e	acquisitions, 223
relationship, 320-25	investors, pro rata dividends, 266
Pre-IPO studies, 271, 319–20, 331	marketable minority interest level,
Pre-IPO subjects, studies	equivalence, 115-23
(differences), 325	restricted stock, definition, 276-77
Pre-IPO transactions, 317, 320, 324,	stocks, investor minority interest
329–30	sale, 266–67
Pre-IPO valuations, 322e, 323	trading prices/restricted shares, 24
Premiums, 20, 34	valuation multiples, meaning,
Present Value of Interim Cash Flow,	180–99
61e, 332–33	Publicly traded partnership returns,
Present Value of Terminal Value	387–88
(PVTV), 61e, 332–33	Public market price, restricted stock
Present value principle, 4–5,	transaction price
12–14	(reconciliation), 300e
Pre-tax cost of debt, 161–62	Public minority investors, control,
Pre-tax earnings, base level, 463	266
Pre-tax income, 97	Public multiples, 45, 206
Principal, loss, 351	
Principle of alternative investments,	Qualified Business Income (QBI),
5, 14–15	461e
Principle of expectations, 4, 5–8	deduction, 462, 465
Principle of growth, 4, 9–10	Quantitative Marketability Discount
Principle of rationality, 5, 15–16	Model (QMDM), 26, 61,
Principle of risk and reward, 4,	270, 317, 327
10–11	agency costs, 341e, 343e
Private companies, 165–66, 223–25	analysis, 346, 409e, 410, 449e
Private equity cash flows, financial	application, 401
control level, 124–27	assumptions, 359, 402e, 403–07,
Private equity funds, financial return	405e, 411
generation (focus), 124–25	background, assumption, 402–03
Private equity returns, 389–90, 390e	condensed examples, 414–27
Production inputs, cost, 131	incremental risks, 341e, 345e

mechanics, example, 335–38 representation, 337e results, 407–10, 426e S corporation results, 456e, 466e shareholder level DCF model, 331 structure, 332–35 Uniform Standards of Professional Appraisal Practice, relationship, 427–33 usage, example, 401–14	Relative negotiating leverage, factors, 130e Relative sharing, importance, 132–33 Relative value, firmwide levels, 443–45 Repurchase activities, 362 Required holding period return (R _{hp}), 61, 62e assumption, 385–99 derivation, 397e, 408e, 432e, 452e development, methodology,
Real estate investment trusts (REITs), 371 Realized equity risk premiums, calculations, 153–55 Realized returns (historical returns) analysis, 152 asset value, relationship, 144 changes, required returns (impact), 146e measurement, 142–43 observability, 144 outcomes, 144 required returns, 142–48, 143e Reasonableness, assessment guideline public company method, 244–45 income/market approaches, 219–20 weighted average cost of capital, 175–76 Reasonableness, common sense (relationship), 395 Reinvestment	development, methodology,
company history, 382 effects, 101e–02e historical reinvestment patterns, 203 impact, 100–04 management decisions, 84 net reinvestment, absence, 100e rates, 99–104	fundamental valuation model, 293e, 294e holders, expected holding period, 287 holding, riskiness (investor assessment), 292 investment inducement, 301 Restricted stock

Restricted stock (Continued)	periodic returns, calculation, 143e
FMV/Stout restricted stock	premium returns, generation
database, review, 306-17	(private equity investor
historical studies, 302–06,	techniques), 124–25
303e-04e	rate, analysis, 413e, 425e
marketability discounts, conceptual	realized returns, required returns,
equivalency, 295e	142–48
performance, investor expectations	trailing 10-year annualized returns
(importance), 287	389e
studies, 301–02, 394–95	value/cash flow, relationship, 145e
transactions, 298, 300e, 329-30	Revenue
Restricted stock discount (RSD), 271,	multiple, 192
275, 387	projections, comparison, 137
analysis, Silber Study, 288-92,	synergies, impact, 130
288e, 290e, 291e	Revenue Ruling 59-60, impact, 14,
conceptual source, 293e	16, 395
data points, usage, 278	Right of first refusal, 393, 398
defining, 277–79	Rights of first refusal limiting
definition/calculation, 277e	transferability (ROFR), 407
equation, 293e	Risk
inferences, 277–78	differences, 199–214, 356
issuances, dollar size (average), 289	expected return, relationship, 11e
issuers, size variation, 289	factors, 202
marketability discount,	Gordon Model input, 442
relationship, 295-96	premium, 158–60
meaning, understanding, 279	profile, 201–03, 228
negotiation, 294–95	valuation input, 353
reasons, 292–94	Risk-free rate, 149–50
revenues/market capitalization,	Rule 144 (SEC), 276–84
average, 290	applicability, 279–84
SEC Rule 144, applicability,	Preliminary Note, 280
279–84	restriction period reduction, 302
variation, causes, 289	
Restrictive agreements, 393–94	S corporations, 371–75
Return (R), 142–48	asset sale, 445
acceptance, 44	benefits, 437–40, 439e
comparisons, restricted stock study	distribution, negative yield, 375
implications, 394–95	dividend yield, calculation, 373e
expected return, risk (relationship),	economic distributions, tax-free
11e	nature, 438
future returns, impact, 122	election, 437
implied expected annual return,	firmwide level value, 440–42
316	forecast period, 448

minority interest, 468	CF expectations, 332e
net proceeds, 444	controlling shareholder
QMDM input considerations,	characteristics, 369-70
446–54	dividends, historical record
QMDM results, 456e, 466e	(valuation consideration),
shareholder basis, 444-45	392
shareholder level value, 446-58	offers, 362
shareholder value, 454e, 460e,	relationships, 366
461e	Shares, price, 315
tax basis build-up analysis, 457e	Silber Study, 302
Tax Cuts and Jobs Act of 2017	samples, 291e
(TCJA), 458–67	summary statistics, 288e, 290e
transactional expenses/liabilities,	usage, 288–92
differences, 444–45	Single-period capitalization method
value differences, 436e	application, 87-88
Securities Act of 1933, 280	change, meaning, 88
Securities and Exchange Act of 1934,	DCF method, 83-90
279	fundamental equivalence, 85-87
Securities and Exchange Commission	unreliability, 88
(SEC) Rule 142, 276–84,	usage, 45
302	Single-period capitalization model,
Securities Exchange Act of 1934, 276	86e, 90e
Selling/marketing expenses,	Single-period income capitalization,
reduction, 132	valuation method, 12-13
Sensitivity, expected growth rate	Size premium, 157–58, 159e, 202
(relationship), 384-85	Standard & Poor's 500 Index
Shareholder cash flow, 66, 269	(S&P500), 10e
Shareholder level, 436	Standard & Poor's 1000 Index ,
asset-based approach, 328-29	EBITDA depreciation
cash flow benefit, 438, 440	factors, 191e
DCF model, 331–38	Statements on ASA Business
discount rate, 453–54	Valuation Standards (SBVS),
forecast period, 448	180, 274
income approach, 330–31	Stout Restricted Stock Study, 274
market approach, 329–30	Strategic acquirer cash flows, 128–35
valuation approaches, 328-31	Strategic adjustments, 131e
value, 446–58	Strategically motivated guideline
value differential, 454	transactions, 229–33
Shareholder level discounted cash	Strategic buyers
flow model, 60, 61e	attributes, 128e
Shareholders	equity cost (R), consideration, 55
agreements, 363	equity discount rate (R), 53–54,
basis, 444–45	53e

Strategic buyers (Continued)	market participant evaluation
return, lower level (acceptance), 57	process, 84
seller synergistic/strategic benefits,	meaning, 105–07
57	Terminal value
Strategic cash flow adjustments,	adjustments, assumption, 385
meaning, 133–34	calculation, 379e
Strategic Control, 27, 35	extra-normal growth,
adjustments, 114, 128-33	incorporation, 107
level, 51–55, 128–35, 171–74	inclusion, 88e
value, 75	projection, 451–52, 465
Strategic Control Premium (SCP), 36,	Thomson Reuters Venture Capital
55–58, 74–75, 263	Index (TRVCI), 389
Strategic policy, setting, 248	Three-level chart, refinement,
Strategic transactions, conceptual	51, 52e
dynamics, 129	TIC Foundation, usage, 255, 257
Strategic values, range, 173e	Total debt, equivalence, 75
Suboptimal reinvestment, 339, 380	Total distribution payout, 373
Systematic risk (beta), 201–02	percentage, expectations, 463
, , , , , , , , , , , , , , , , , , , ,	Total equity value, 39, 39e, 334, 336
Target capital structure method,	Total value creation, relative sharing,
163–64	172, 173e
Target cash flow, stand-alone basis,	Trailing 10-year annualized returns,
172e	389e
Taxable corporate income, tax	Transaction multiples
payments, 438	components (financial buyers),
Tax Cuts and Jobs Act of 2017	227e
(TCJA), 437	guideline transaction multiples,
post-TCJA S corporation	242, 243e
valuation, example, 462–67	impact, 217e
S corporations, relationship,	Transferability (limitation), right of
462–67	first refusal (impact), 398
yield inputs, comparison, 464e-65e	Two-stage enterprise DCF model,
Tax equivalent yields, 375	332e
Tax pass-through entities, 371–75	Two-stage shareholder DCF model,
C corporate equivalent dividend	333e
yield, calculation, 451e,	
463e	Uniform Standards of Professional
distributions, 372e	Appraisal Practice (USPAP)
Integrated Theory, application, 435	QMDM, relationship, 427–33
interim cash flows, uncertainty,	requirements, 428–31
392	Rule 9-4(c), 427
Terminal growth rates, 104–08	Rule 9-4(d), 428, 429
conceptual meaning, 106e	SR 9-4(d), 428–29

SR 9-4(c), transfer restrictions, 432, 433	Valuations in Financial Reporting Valuation Advisory 3
Unit pricing, 200	(Appraisal Foundation), 252
Unleveraged family limited	Value (Appraisar Foundation), 232
partnership	base level, 267–68
commercial real estate holding,	cash flow/return, relationship, 1456
	charts, traditional/modified levels,
414, 417–19, 418e	37e, 52e
land holdings, 414, 415–17	conceptual levels, 23–27, 74e
undeveloped real estate holding,	control levels, 35
416e	derivation, 45
Unrealistic expectations (usage),	enterprise basis, 73–77
expectations role (impact),	equity basis, 32e, 73–77
8–9	equity levels, 25e
Unusual events, adjustments,	expected growth, 66
113–14, 117–23, 121e	expected growth rate (G_V) , 61–62,
Unusual events, historical results	379–81
(adjustment), 116–17	financial control level, 39, 39e, 40,
US Private Equity Index, 390	84, 170–71, 214–15
	firmwide levels, 54, 56e, 441e
Valuation	firmwide levels, shareholder value
analyst experience/judgment, 394	level, contrast, 58-60, 59e
assessment, 424	fundamental adjustment, impact,
components, comparison, 73e	208e
guidance, 359	future values, expectation, 315–16
inputs, 353–55	growth, 334, 404
questions, 20	implications, levels, 51
range concept, 410–11	implied adjustments, 198e
ratios, 272, 274	indications, 85, 178
realized returns, impact, 145	marketable minority interest level,
treatment, firmwide levels, 435–36	29–35, 117–21
Valuation Advisors Studies and	marketable minority level, 29e, 30,
Database (pre-IPO study),	170, 214, 323
319–20	nonmarketable minority level, 60,
Valuation multiples	61e
adjustment, 199–214	principles, 5
application, 213e	questions, 3–4
example, 182e	source, 20
implied fundamental adjustment,	strategic control level, 51–55, 53e,
209–14	135, 171–74, 215–17
market expectations, relationship, 185–93	three-level chart, refinement, 51, 52e
meaning, 180-99	understanding, world of value
structure, 180e	(impact), 4–5

Value enterprise levels, guideline
public company multiples
(relationship), 214–20

Value levels, 169–74
charts, traditional/modified levels,
262e, 264e
comparison, 73–77
conceptual descriptions, 26
guideline transaction multiples,
relationship, 242
relationships, 249e, 258

Valuing Shareholder Cash Flows
(Mercer), 306

Venture capital returns, 388–89

Weighted average cost of capital (WACC), 99
assumptions, cumulative effect, 165e
capital components, relationship, 169e

capital structure, impact, 168e components, 148-64, 149e equation, 148 guideline WACC, 204-05 IRR, relationship, 101e–02e, 103-04 levels, 169-74 market participants, relationship, 165-69 reasonableness, assessment, 175-76 subject company WACC, 205 usage, 189e Willamette Studies (pre-IPO study), 319 Working capital, 94, 132, 139 World of value, goal, 4-5

Yield inputs, comparison, 464e