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What It's Worth

BVR's Glossary of Business Valuation Terms

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To enhance and sustain the quality of business valuations for the benefit of the profession and its clientele, the American Institute of Certified Public Accountants, American Society of Appraisers, Canadian Institute of Chartered Business Valuators, National Association of Certified Valuation Analysts, and the Institute of Business Appraisers have adopted the definitions for the terms included in this glossary, unless otherwise credited to another source. If another source was used other than the original *International Glossary of Business Valuation Terms 2001*, the source will be noted in parentheses after the term is defined.

The performance of business valuation services requires a high degree of skill and imposes upon the valuation professional a duty to communicate the valuation process and conclusion, in a manner that is clear and not misleading. This duty is advanced through the use of terms whose meanings are clearly established and consistently applied throughout the profession.
If, in the opinion of the business valuation professional, one or more of these terms needs to be used in a manner that materially departs from the enclosed definitions, it is recommended that the term be defined as used within that valuation engagement.

This glossary has been developed to provide guidance to business valuation practitioners by further memorializing the body of knowledge that constitutes the competent and careful determination of value and, more particularly, the communication of how that value was determined.

Departure from this glossary is not intended to provide a basis for civil liability and should not be presumed to create evidence that any duty has been breached.

ABAR (*Accredited in Business Appraisal Review*) – Institute of Business Appraisers designation.

Accounts Payable – An accounting entry that represents an entity's obligation to pay off a short-term debt to its creditors. The accounts payable entry is found on a balance sheet under the heading current liabilities. (*investopedia.com*)

Accounts Receivable – Money owed by customers (individuals or corporations) to another entity in exchange for goods or services that have been delivered or used, but not yet paid for. Receivables usually come in the form of operating lines of credit and are usually due within a relatively short time period, ranging from a few days to a year. (*investopedia.com*)

Adjusted Book Value Method – a method within the asset approach whereby all assets and liabilities (including off-balance sheet, intangible, and contingent) are adjusted to their fair market values (NOTE: In Canada on a going concern basis).

Adjusted Net Asset Method – see **Adjusted Book Value Method**.

AIBA (*Accredited by IBA*) - Institute of Business Appraisers designation.

AM (*Accredited Member*) – American Society of Appraisers designation.

Amortization – (1) The paying off of debt in regular installments over a period of time. (2) The deduction of capital expenses over a specific period of time (usually over the asset's life). More specifically, this method measures the consumption of the value of intangible assets, such as a patent or a copyright. (*investopedia.com*)

Appraisal - see **Valuation**.

Appraisal Approach - see **Valuation Approach**.

Appraisal Date - see **Valuation Date**.

Appraisal Method - see **Valuation Method**.

Appraisal Procedure - see **Valuation Procedure**.

Arbitrage Pricing Theory – a multivariate model for estimating the cost of equity capital, which incorporates several systematic risk factors.

ASA (*Accredited Senior Appraiser*) – American Society of Appraisers designation.

Asset (Asset-Based) Approach - a general way of determining a value indication of a business, business ownership interest, or security using one or more methods based on the value of the assets net of liabilities.

AVA (*Accredited Valuation Analyst*) – National Association of Certified Valuation Analysts designation.

Average Revenue Per Unit (ARPU) – a measure of the revenue generated per user or unit. This measure allows for the analysis of a companies revenue generation and growth at the per unit level, which can identify which products are high or low revenue-generators. (*investopedia.com*)

Beta - a measure of systematic risk of a stock; the tendency of a stock's price to correlate with changes in a specific index.

Binomial Options Pricing Model (BOPM) – in finance, the binomial options pricing model (BOPM) provides a generalizable numerical method for the valuation of options. The binomial pricing model uses a "discrete-time framework" to trace the evolution of the option's key underlying variable via a binomial lattice (tree), for a given number of time steps between valuation date and option expiration. Each node in the lattice, represents a possible price of the underlying, at a particular point in time. This price evolution forms the basis for the option valuation. The valuation process is iterative, starting at each final node, and then working backwards through the tree to the first node (valuation date), where the calculated result is the value of the option. (*wikipedia.org*)

Binomial Tree – a graphical representation of possible intrinsic values that an option may take at different nodes or time periods. The value of the option depends on the underlying stock or bond, and the value of the option at any node depends on the probability that the price of the underlying asset will either decrease or increase at any given node. (*investopedia.com*)

Black-Scholes Option Pricing Model – a model of price variation over time of financial instruments such as stocks that can, among other things, be used to determine the price of a European call option. The model assumes that the price of heavily traded assets follow a geometric Brownian motion with constant drift and volatility. When applied to a stock option, the model incorporates the constant price variation of the stock, the time value of money, the option's strike price and the time to the option's expiry. (*investopedia.com*)

Blockage Discount - an amount or percentage deducted from the current market price of a publicly traded stock to reflect the decrease in the per share value of a block of stock that is of a size that could not be sold in a reasonable period of time given normal trading volume.

Book Value – see **Net Book Value**.

Business - see **Business Enterprise**.

Business Enterprise - a commercial, industrial, service, or investment entity (or a combination thereof) pursuing an economic activity.

Business Risk – the degree of uncertainty of realizing expected future returns of the business resulting from factors other than financial leverage. See **Financial Risk**.

Business Valuation - the act or process of determining the value of a business enterprise or ownership interest therein.

BVAL (*Business Valuator Accredited for Litigation*) – Institute of Business Appraisers designation.

Capital Asset Pricing Model (CAPM) - a model in which the cost of capital for any stock or portfolio of stocks equals a risk-free rate plus a risk premium that is proportionate to the systematic risk of the stock or portfolio.

Capitalization - a conversion of a single period of economic benefits into value.

Capitalization Factor - any multiple or divisor used to convert anticipated economic benefits of a single period into value.

Capitalization of Earnings Method – a method within the income approach whereby economic benefits for a representative single period are converted to value through division by a capitalization rate.

Capitalization Rate - any divisor (usually expressed as a percentage) used to convert anticipated economic benefits of a single period into value.

Capital Structure - the composition of the invested capital of a business enterprise, the mix of debt and equity financing.

Cash Flow - cash that is generated over a period of time by an asset, group of assets, or business enterprise. It may be used in a general sense to encompass various levels of specifically defined cash flows. When the term is used, it should be supplemented by a qualifier (for example, "discretionary" or "operating") and a specific definition in the given valuation context.

CBA (*Certified Business Appraiser*) – Institute of Business Appraisers designation.

CBI (*Certified Business Intermediary*) – International Business Brokers Association designation.

CBV (*Chartered Business Valuator*) – Canadian Institute of Chartered Business Valuators designation.

CFA (*Chartered Financial Analyst*) – CFA Institute designation.

CFF (*Certified in Financial Forensics*) – American Institute of Certified Public Accountants designation.

CFFA (*Certified Financial Forensic Analyst*) – National Association of Certified Valuation Analysts designation.

Coefficient of Variation (CV) – a statistical measure of the dispersion of data points in a data series around the mean. It is calculated as follows: Coefficient of Variation = Standard Deviation / Expected Return. The coefficient of variation represents the ratio of the standard deviation to the mean, and it is a useful statistic for comparing the degree of variation from one data series to another, even if the means are drastically different from each other. (*investopedia.com*)

Common Size Statements – financial statements in which each line is expressed as a percentage of the total. On the balance sheet, each line item is shown as a percentage of total assets, and on the income statement, each item is expressed as a percentage of sales.

Company Specific Risk (as defined by *Butler Pinkerton Model*™) – the portion of total risk specific to an individual asset that can be avoided through diversification. (*BVMarketData.com*)

Compound Annual Growth Rate (CAGR) – the year-over-year growth rate of an investment over a specified period of time. The compound annual growth rate is calculated by taking the nth root of the total percentage growth rate, where n is the number of years in the period being considered. This can be written as follows: CAGR = [(Ending Value / Beginning Value) ^ (1 / # of years)] – 1. (*investopedia.com*)

Control - the power to direct the management and policies of a business enterprise.

Control Premium - an amount or a percentage by which the pro rata value of a controlling interest exceeds the pro rata value of a non-controlling interest in a business enterprise, to reflect the power of control.

Cost Approach - a general way of determining a value indication of an individual asset by quantifying the amount of money required to replace the future service capability of that asset.

Cost of Capital - the expected rate of return that the market requires in order to attract funds to a particular investment.

Cost of Goods Sold – The direct costs attributable to the production of the goods sold by a company. This amount includes the cost of the materials used in creating the good along with the direct labor costs used to produce the good. It excludes indirect expenses such as distribution costs and sales force costs. COGS appears on the income statement and can be deducted from revenue to calculate a company's gross margin. (*investopedia.com*)

CPA/ABV (*CPA Accredited in Business Valuation*) – American Institute of Certified Public Accountants designation.

Current Ratio – a liquidity ratio that measures a company's ability to pay short-term obligations. The Current Ratio formula is: Current Ratio = Current Assets / Current Liabilities. Also known as "liquidity ratio," "cash asset ratio" and "cash ratio." (*investopedia.com*)

CVA (*Certified Valuation Analyst*) – National Association of Certified Valuation Analysts designation.

Debt-Free - *we discourage the use of this term*. See **Invested Capital**.

Depreciation – in accounting, an expense recorded to allocate a tangible asset's cost over its useful life. Because depreciation is a non-cash expense, it increases free cash flow while decreasing reported earnings. (*investopedia.com*)

Discount (Transaction Month) (as defined by the *FMV Restricted Stock Study™*) – the percentage difference between the offer price (the price the restricted stock was purchase for) and the transaction month high-low average. A negative number means that the restricted stock sold in the private placement sold at a premium to the transaction month high-low average for the month. (*BVMarketData.com*)

Discount for Lack of Control - an amount or percentage deducted from the pro rata share of value of 100% of an equity interest in a business to reflect the absence of some or all of the powers of control.

Discount for Lack of Liquidity - an amount or percentage deducted from the value of an ownership interest to reflect the relative absence of liquidity.

Discount for Lack of Marketability - an amount or percentage deducted from the value of an ownership interest to reflect the relative absence of marketability.

Discount for Lack of Voting Rights – an amount or percentage deducted from the per share value of a minority interest voting share to reflect the absence of voting rights.

Discount Rate - a rate of return used to convert a future monetary sum into present value.

Discounted Cash Flow Method – a method within the income approach whereby the present value of future expected net cash flows is calculated using a discount rate.

Discounted Future Earnings Method – a method within the income approach whereby the present value of future expected economic benefits is calculated using a discount rate.

Discretionary Earnings – (as defined by Pratt's Stats®) [Operating Profit] + [Owner's Compensation] + [Noncash Charges] (*BVMarketData.com*)

Dividend Yield – a financial ratio that shows how much a company pays out in dividends each year relative to its share price. In the absence of any capital gains, the dividend yield is the return on investment for a stock. Dividend yield is calculated as follows: = Annual Dividends Per Share / Price Per Share. (*investopedia.com*)

Earnings Before Interest & Tax (EBIT) – an indicator of a company's profitability, calculated as revenue minus expenses, excluding tax and interest. EBIT is also referred to as "operating earnings", "operating profit" and "operating income", as you can re-arrange the formula to be calculated as follows: EBIT = Revenue – Operating Expenses. Also known as Profit Before Interest & Taxes (PBIT), and equals Net Income with interest and taxes added back to it. (*investopedia.com*)

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) – an indicator of a company's financial performance which is calculated in the following EBITDA calculation: EBITDA = Revenue – Expenses (excluding tax, interest, depreciation and amortization). EBITDA is essentially Net Income with interest, taxes, depreciation, and amortization added back to it. EBITDA can be used to analyze and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions. However, this is a non-GAAP measure that allows a greater amount of discretion as to what is (and is not) included in the calculation. This also means that companies often change the items included in their EBITDA calculation from one reporting period to the next. (*investopedia.com*)

Economic Benefits - inflows such as revenues, net income, net cash flows, etc.

Economic Life - the period of time over which property may generate economic benefits.

Effective Date - see **Valuation Date**.

Employee Stock Ownership Plan (ESOP) – a qualified, defined contribution, employee benefit (ERISA) plan designed to invest primarily in the stock of the sponsoring employer. ESOPs are "qualified" in the sense that the ESOP's sponsoring company, the selling shareholder and participants receive various tax benefits. ESOPs are often used as a corporate finance strategy and are also used to align the interests of a company's employees with those of the company's shareholders. (*investopedia.com*)

Enterprise - see **Business Enterprise**.

Equity – the owner's interest in property after deduction of all liabilities.

Equity Net Cash Flows - those cash flows available to pay out to equity holders (in the form of dividends) after funding operations of the business enterprise, making necessary capital investments, and increasing or decreasing debt financing.

Equity Risk Premium - a rate of return added to a risk-free rate to reflect the additional risk of equity instruments over risk free instruments (a component of the cost of equity capital or equity discount rate).

Excess Earnings - that amount of anticipated economic benefits that exceeds an appropriate rate of return on the value of a selected asset base (often net tangible assets) used to generate those anticipated economic benefits.

Excess Earnings Method - a specific way of determining a value indication of a business, business ownership interest, or security determined as the sum of a) the value of the assets derived by capitalizing excess earnings and b) the value of the selected asset base. Also frequently used to value intangible assets. See **Excess Earnings**.

Exercise Multiple (as defined by *The BVR/DVA 123R Compliance Calculator™*) – a ratio of the stock price to the contractual strike price at which point it is assumed that the option will be exercised prior to maturity. Industry surveys suggest that the value of this parameter is typically between 1.5 and 2.5. This parameter is typically estimated by calculating the median of ratios of stock prices to strike prices using historical data. (*BVMarketData.com*)

Fair Market Value - the price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arms length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts. {NOTE: In Canada, the term "price" should be replaced with the term "highest price"}

Fair Value – the value of the shares immediately before the effectuation of the corporate action to which the shareholder objects using customary and current valuation concepts and techniques generally employed for similar businesses in the context of the transaction requiring appraisal, and without discounting for lack of marketability or minority status except, if appropriate, for amendments to the certificate of incorporation pursuant to section 13.02(a)(5). (*Revised Model Business Corporation Act* (RMBCA), American Bar Association (1999))

Fairness Opinion – an opinion as to whether or not the consideration in a transaction is fair from a financial point of view.

Family Limited Partnership (FLP) – a type of partnership designed to centralize family business or investment accounts. FLPs pool together a family's assets into one single family-owned business partnership that family members own shares of. FLPs are frequently used as an estate tax minimization strategy, as shares in the FLP can be transferred between generations, at lower taxation rates than would be applied to the partnership's holdings. (*investopedia.com*)

FASA (*Fellow of the American Society of Appraisers*) – American Society of Appraisers designation.

FCBI (*Fellow Certified Business Intermediary*) – International Business Brokers Association designation.

FCBV (*Fellow of the Canadian Institute of Chartered Business Valuators*) – Canadian Institute of Chartered Business Valuators designation.

FIBA (*Fellow of the Institute of Business Appraisers*) – Institute of Business Appraisers designation.

Financial Risk – the degree of uncertainty of realizing expected future returns of the business resulting from financial leverage. See **Business Risk**.

Fixed Assets – (as defined by Pratt's Stats®) All property, plant, leasehold improvements and equipment, net of accumulated depreciation or depletion. (*BVMarketData.com*)

Fixed Asset Turnover – a financial ratio of net sales to fixed assets. The fixed-asset turnover ratio measures a company's ability to generate net sales from fixed-asset investments - specifically property, plant and equipment (PP&E) - net of depreciation. A higher fixed-asset turnover ratio shows that the company has been more effective in using the investment in fixed assets to generate revenues. The fixed-asset turnover ratio is calculated as: Fixed Asset Turnover = Net Sales / Net Property, Plant and Equipment. (*investopedia.com*)

Fixed Charge Coverage – (as defined by Pratt's Stats®) [Operating Profit] / [Interest Expense] (*BVMarketData.com*)

Forced Liquidation Value - liquidation value, at which the asset or assets are sold as quickly as possible, such as at an auction.

Free Cash Flow – ***we discourage the use of this term*****.** See **Net Cash Flow**.
Going Concern - an ongoing operating business enterprise.

Going Concern Value - the value of a business enterprise that is expected to continue to operate into the future. The intangible elements of Going Concern Value result from factors such as having a trained work force, an operational plant, and the necessary licenses, systems, and procedures in place.
Goodwill - that intangible asset arising as a result of name, reputation, customer loyalty, location, products, and similar factors not separately identified.

Goodwill Value - the value attributable to goodwill.

Gross Profit – a company's revenue minus its cost of goods sold. Gross profit is a company's residual profit after selling a product or service and deducting the cost associated with its production and sale. To calculate gross profit: examine the income statement, take the revenue and subtract the cost of goods sold. Also called "gross margin" and "gross income." (*investopedia.com*)

Gross Profit Margin – a financial metric used to assess a firm's financial health by revealing the proportion of money left over from revenues after accounting for the cost of goods sold. Gross profit margin serves as the source for paying additional expenses and future savings. Also known as "gross margin." Calculated as: Gross Profit Margin = (Revenue – COGS) / Revenue. (*investopedia.com*)

Guideline Public Company Method – a method within the market approach whereby market multiples are derived from market prices of stocks of companies that are engaged in the same or similar lines of business, and that are actively traded on a free and open market.

Holding Period (as defined by the *FMV Restricted Stock Study™*) – to prevent a seller from purchasing unregistered securities with a view to resale, Rule 144 requires a holding period of some length of time. After the initial holding period, unregistered securities could be sold only by complying with certain "dribble out," or volume limit provisions of the Rule. (*BVMarketData.com*)

Implied Minority Discount (as defined by the Mergerstat®/BVR Control Premium Study™) – an implied discount computed from the Mergerstat® Unaffected Control Premium. Calculated as: Implied Control Premium = 1 - [1/(1 + control premium)]. (Note: The Mergerstat® Unaffected Control Premium is the target company's common stock price per share unaffected by the acquisition announcement and is selected by Mergerstat® after analyzing each transaction). (*BVMarketData.com*)

Income (Income-Based) Approach - a general way of determining a value indication of a business, business ownership interest, security, or intangible asset using one or more methods that convert anticipated economic benefits into a present single amount.

Intangible Assets - non-physical assets such as franchises, trademarks, patents, copyrights, goodwill, equities, mineral rights, securities and contracts (as distinguished from physical assets) that grant rights and privileges, and have value for the owner.

Internal Rate of Return – a discount rate at which the present value of the future cash flows of the investment equals the cost of the investment.

Intrinsic Value – the value that an investor considers, on the basis of an evaluation or available facts, to be the "true" or "real" value that will become the market value when other investors reach the same conclusion. When the term applies to options, it is the difference between the exercise price or strike price of an option and the market value of the underlying security.

Inventory Turnover – a ratio showing how many times a company's inventory is sold and replaced over a period. Generally calculated as: Sales / Inventory. However, it may also be calculated as: Cost of Goods Sold / Average Inventory. The days in the period can then be divided by the inventory turnover formula to calculate the days it takes to sell the inventory on hand or "inventory turnover days." (*investopedia.com*)

Invested Capital - the sum of equity and debt in a business enterprise. Debt is typically a) all interest bearing debt or b) long-term interest-bearing debt. When the term is used, it should be supplemented by a specific definition in the given valuation context.

Invested Capital Net Cash Flows - those cash flows available to pay out to equity holders (in the form of dividends) and debt investors (in the form of principal and interest) after funding operations of the business enterprise and making necessary capital investments.

Investment Risk - the degree of uncertainty as to the realization of expected returns.

Investment Value - the value to a particular investor based on individual investment requirements and expectations. {NOTE: in Canada, the term used is "Value to the Owner"}.

Key Person Discount - an amount or percentage deducted from the value of an ownership interest to reflect the reduction in value resulting from the actual or potential loss of a key person in a business enterprise.

Levered Beta - the beta reflecting a capital structure that includes debt.

Limited Appraisal – the act or process of determining the value of a business, business ownership interest, security, or intangible asset with limitations in analyses, procedures, or scope.

Liquidity - the ability to quickly convert property to cash or pay a liability.

Liquidity Discount – see **Discount for Lack of Liquidity**

Liquidation Value - the net amount that would be realized if the business is terminated and the assets are sold piecemeal. Liquidation can be either "orderly" or "forced."

Long Term Liabilities – Recorded on the balance sheet, a company's liabilities for leases, bond repayments and other items due in more than one year. (*investopedia.com*)

Majority Control - the degree of control provided by a majority position.

Majority Interest - an ownership interest greater than 50% of the voting interest in a business enterprise.

Market (Market-Based) Approach - a general way of determining a value indication of a business, business ownership interest, security, or intangible asset by using one or more methods that compare the subject to similar businesses, business ownership interests, securities, or intangible assets that have been sold.

Market Capitalization of Equity – the share price of a publicly traded stock multiplied by the number of shares outstanding.

Market Capitalization of Invested Capital – the market capitalization of equity plus the market value of the debt component of invested capital.

Market Multiple – the market value of a company's stock or invested capital divided by a company measure (such as economic benefits, number of customers).

Market Value of Invested Capital (MVIC) (as defined by *Pratt's Stats®*) – also known as the selling price, the MVIC is defined by *Pratt's Stats*® as the total consideration paid to the seller and includes any cash, notes and/or securities that were used as a form of payment plus any interest-bearing liabilities assumed by the buyer. The MVIC price includes the noncompete value and the assumption of interest-bearing liabilities and excludes (1) the real estate value and (2) any earnouts (because they have not yet been earned, and they may not be earned) and (3) the employment/consulting agreement values. (*BVMarketData.com*)

Marketability - the ability to quickly convert property to cash at minimal cost.

Marketability Discount - see **Discount for Lack of Marketability**.

MCBA (*Master Certified Business Appraiser*) – Institute of Business Appraisers designation.

Merger and Acquisition Method – a method within the market approach whereby pricing multiples are derived from transactions of significant interests in companies engaged in the same or similar lines of business.

Mid-Year Discounting – a convention used in the Discounted Future Earnings Method that reflects economic benefits being generated at midyear, approximating the effect of economic benefits being generated evenly throughout the year.

Minority Discount - a discount for lack of control applicable to a minority interest.

Minority Interest - an ownership interest less than 50% of the voting interest in a business enterprise.

Multiple - the inverse of the capitalization rate.

NAICS Code – see **North American Industry Classification System**

Net Book Value - with respect to a business enterprise, the difference between total assets (net of accumulated depreciation, depletion, and amortization) and total liabilities as they appear on the balance sheet (synonymous with Shareholder's Equity). With respect to a specific asset, the capitalized cost less accumulated amortization or depreciation as it appears on the books of account of the business enterprise.

Net Cash Flows – when the term is used, it should be supplemented by a qualifier. See **Equity**

Net Cash Flows and **Invested Capital Net Cash Flows**.

Net Income – a company's total earnings (or profit). Net income is calculated by taking revenues and adjusting for the cost of doing business, depreciation, interest, taxes and other expenses. This number is found on a company's income statement and is an important measure of how profitable the company is over a period of time. The measure is also used to calculate earnings per share. Often referred to as "the bottom line" since net income is listed at the bottom of the income statement. In the U.K., net income is known as "profit attributable to shareholders." (*investopedia.com*)

Net Operating Profit After Tax (NOPAT) – a company's potential cash earnings if its capitalization were unleveraged (that is, if it had no debt). NOPAT is frequently used in economic value added (EVA) calculations. Calculated as: NOPAT = Operating Income x (1 - Tax Rate). (*investopedia.com*)

Net Present Value – the value, as of a specified date, of future cash inflows less all cash outflows (including the cost of investment) calculated using an appropriate discount rate.

Net Profit Margin – the ratio of net profits to revenues for a company or business segment - typically expressed as a percentage – that shows how much of each dollar earned by the company is translated into profits. Net profit margins can generally be calculated as: Net Profit Margin = Net Profit / Revenue; where Net Profit = Revenue – COGS – Operating Expenses – Interest and Taxes. (*investopedia.com*)

Net Tangible Asset Value - the value of the business enterprise's tangible assets (excluding excess assets and non-operating assets) minus the value of its liabilities.

Net Worth – The amount by which assets exceed liabilities. This term can be applied to companies and individuals. (*investopedia.com*)

Noncash Charges – Non-cash charges are typically against the depreciation, amortization, and depletion accounts on a company's balance sheet. Companies take these charges against earnings due to extraordinary circumstances such as accounting policy changes or significant depreciation of asset's market value. (*investopedia.com*)

Non-Operating Assets - assets not necessary to ongoing operations of the business enterprise. {NOTE: in Canada, the term used is "Redundant Assets"}.

Normalized Earnings – economic benefits adjusted for nonrecurring, noneconomic, or other unusual items to eliminate anomalies and/or facilitate comparisons.

Normalized Financial Statements – financial statements adjusted for nonoperating assets and liabilities and/or for nonrecurring, noneconomic, or other unusual items to eliminate anomalies and/or facilitate comparisons.

North American Industry Classification System (NAICS) – used by business and government to classify and measure economic activity in Canada, Mexico and the United States. It has largely replaced the older Standard Industrial Classification (SIC) system; however, certain government departments and agencies, such as the U.S. Securities and Exchange Commission (SEC), still use the SIC codes. (*wikipedia.org*)

Operating Expenses – A category of expenditure that a business incurs as a result of performing its normal business operations. One of the typical responsibilities that management must contend with is determining how low operating expenses can be reduced without significantly affecting the firm's ability to compete with its competitors. (*investopedia.com*)

Operating Profit – the amount of profit realized from a business's own operations, but excluding operating expenses (such as cost of goods sold) and depreciation from gross income. Also known as "earnings before interest and tax" (EBIT). Calculated as: Operating Profit = Revenue – Operating Expenses – Depreciation. (*investopedia.com*)

Operating Profit Margin – a ratio used to measure a company's pricing strategy and operating efficiency. Calculated as: Operating Profit margin = Operating Income / Revenue. Operating profit margin is a measurement of what proportion of a company's revenue is left over after paying for variable costs of production such as wages, raw materials, etc. A healthy operating margin is required for a company to be able to pay for its fixed costs, such as interest on debt. Also known as "operating margin." (*investopedia.com*)

Orderly Liquidation Value - liquidation value at which the asset or assets are sold over a reasonable period of time to maximize proceeds received.

Outstanding Shares – stock currently held by investors, including restricted shares owned by the company's officers and insiders, as well as those held by the public. Shares that have been repurchased by the company are not considered outstanding stock. (*investopedia.com*)

Premise of Value - an assumption regarding the most likely set of transactional circumstances that may be applicable to the subject valuation; e.g. going concern, liquidation.

Present Value – the value, as of a specified date, of future economic benefits and/or proceeds from sale, calculated using an appropriate discount rate.

Price/Earnings Multiple – the price of a share of stock divided by its earnings per share.

Private Placement – the raising of capital via private rather than public placement. The result is the sale of securities to a relatively small number of investors. Investors involved in private placements are usually large banks, mutual funds, insurance companies, and pension funds. (*investopedia.com*)

Portfolio Discount - an amount or percentage deducted from the value of a business enterprise to reflect the fact that it owns dissimilar operations or assets that do not fit well together.

Quick Ratio – an indicator of a company's short-term liquidity. The quick ratio measures a company's ability to meet its short-term obligations with its most liquid assets. The higher the quick ratio, the better the position of the company. The quick ratio is calculated as: Quick Ratio = (Current Assets – Inventories) / Current Liabilities. Also known as the "acid-test ratio" or the "quick assets ratio." (*investopedia.com*)

Rate of Return – an amount of income (loss) and/or change in value realized or anticipated on an investment, expressed as a percentage of that investment.

Redundant Assets – see **Non-Operating Assets**.

Recurring Revenue – the portion of a company's revenue that is highly likely to continue in the future. This is revenue that is predictable, stable and can be counted on in the future with a high degree of certainty. (*investopedia.com*)

Registration Rights Agreement (as defined by the *FMV Restricted Stock Study*™) – even though the resale limitations under Rule 144 have been reduced somewhat over the years, investors still often look for the issuer in a private placement transaction to provide them with a possible liquidity event prior to the end of the holding period. Consequently, investors often require, and issuers often grant, some form of a registration rights agreement to be signed, either as part of the stock purchase agreement or as a separate side agreement thereto. These registration rights provisions typically require the company to do one of two things: (1) register the shares or a portion of the shares within some specified time-frame, at either the company's or the investor's expense ("demand registrations"); or, (2) include the shares or a portion of the shares in any future public offerings that the company makes, if any ("piggyback registrations"). (*BVMarketData.com*)

Report Date – the date conclusions are transmitted to the client.

Replacement Cost New – the current cost of a similar new property having the nearest equivalent utility to the property being valued.

Reproduction Cost New – the current cost of an identical new property.

Required Rate of Return – the minimum rate of return acceptable by investors before they will commit money to an investment at a given level of risk.

Residual Value – the value as of the end of the discrete projection period in a discounted future earnings model.

Restricted Stock – restricted stock, also known as letter stock or restricted securities, refers to stock of a company that is not fully transferable until certain conditions have been met. Upon satisfaction of those conditions, the stock becomes transferable by the person holding the award. Under the securities laws, these conditions are either registration with the U.S. Securities and Exchange Commission (SEC), or fitting into one of the securities exemptions for resale, such as Rule 144. (*wikipedia.org*)

Retained Earnings – the percentage of net earnings not paid out as dividends, but retained by the company to be reinvested in its core business or to pay debt. It is recorded under shareholders' equity on the balance sheet. The formula calculates retained earnings by adding net income to (or subtracting any net losses from) beginning retained earnings and subtracting any dividends paid to shareholders: Retained Earnings = Beginning Retained Earnings + Net Income – Dividends. (*investopedia.com*)

Return on Assets (ROA) – an indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage. (*investopedia.com*)

Return on Equity – the amount, expressed as a percentage, earned on a company's common equity for a given period.

Return on Investment – see **Return on Invested Capital** and **Return on Equity**.

Return on Invested Capital – the amount, expressed as a percentage, earned on a company's total capital for a given period.

Return on Revenue (ROR) – a measure of a corporation's profitability, calculated as net income divided by revenue. (*investopedia.com*)

Revenue – the amount of money that a company actually receives during a specific period, including discounts and deductions for returned merchandise. It is the "top line" or "gross income" figure from which costs are subtracted to determine net income. Revenue is calculated by multiplying the price at which goods or services are sold by the number of units or amount sold. (*investopedia.com*)

Risk-Free Rate – the rate of return available in the market on an investment free of default risk.

Risk Premium – a rate of return added to a risk-free rate to reflect risk.

Rule 144 – promulgated by the SEC under the 1933 Act, Rule 144 permits, under limited circumstances, the sale of restricted and controlled securities without registration. In addition to restrictions on the minimum length of time for which such securities must be held and the maximum volume permitted to be sold, the issuer must agree to the sale. If certain requirements are met, Form 144 must be filed with the SEC. Often, the issuer requires that a legal opinion be given indicating that the resale complies with the rule. (*wikipedia.org*)

Rule of Thumb – a mathematical formula developed from the relationship between price and certain variables based on experience, observation, hearsay, or a combination of these; usually industry specific.

SDE – see **Seller's Discretionary Earnings**

Seller's Discretionary Earnings (as defined by *BIZCOMPS®*) – seller's discretionary earnings is defined by *BIZCOMPS®* as net profit before taxes and any compensation to owner plus amortization, depreciation, interest, other non-cash expense and non-business related expense and normally to one working owner. (*BVMarketData.com*)

Selling, General & Administrative Expenses –

SG&A – see **Selling, General & Administrative Expenses**

Size Premium – size premium is the additional remuneration due to the higher risk and therefore, the higher cost of capital, associated with the smaller size of the company and of the lower trading volume. (*vernimmen.com*)

Special Interest Purchasers – acquirers who believe they can enjoy post-acquisition economies of scale, synergies, or strategic advantages by combining the acquired business interest with their own.

Standard Industrial Classification (SIC) – a United States government system for classifying industries by a four-digit code (*wikipedia.org*)

Standard of Value – the identification of the type of value being used in a specific engagement; e.g. fair market value, fair value, investment value.

Stockholders' Equity – The portion of the balance sheet that represents the capital received from investors in exchange for stock (paid-in capital), donated capital and retained earnings. Stockholders' equity represents the equity stake currently held on the books by a firm's equity investors. It is calculated either as a firm's total assets minus its total liabilities, or as share capital plus retained earnings minus treasury shares. (*investopedia.com*)

Strike Price – the price at which a specific derivative contract can be exercised. Strike price is mostly used to describe stock and index options, in which strike prices are fixed in the contract. For call options, the strike price is where the security can be bought (up to the expiration date), while for put options the strike price is the price at which shares can be sold. The difference between the underlying security's current market price and the option's strike price represents the amount of profit per share gained upon the exercise or the sale of the option. This is true for options that are in the money; the maximum amount that can be lost is the premium paid. Also known as the "exercise price." (*investopedia.com*)

Sustaining Capital Reinvestment – the periodic capital outlay required to maintain operations at existing levels, net of the tax shield available from such outlays.

Systematic Risk – the risk that is common to all risky securities and cannot be eliminated through diversification. The measure of systematic risk in stocks is the beta coefficient.

Tangible Assets – physical assets (such as cash, accounts receivable, inventory, property, plant and equipment, etc.).

Target Invested Capital (as defined by *Mergerstat®/BVR Control Premium Study*™) – target company's implied total invested capital (TIC) based on the sum of the implied market value of equity (the purchase price per share times total shares outstanding reported in the period prior to the transaction's announcement date) plus the face value of total interest bearing debt and the book value of preferred stock outstanding prior to the announcement date. (*BVMarketData.com*)

Terminal Value. see **Residual Value**.

Total Asset Turnover – this is a measure of how well assets are being used to produce revenue. The total asset turnover ratio is calculated as: Total Asset Turnover = Net Sales / Total Assets. (*investorwords.com*)

Total Beta – total beta is equal to the identity: Beta/R or the standard deviation of the stock/standard deviation of the market (note: the relative volatility). Total Beta captures the security's risk as a stand-alone asset (since the correlation coefficient, R, has been removed from Beta), rather than part of a well-diversified portfolio. Since appraisers frequently value closely-held companies as stand-alone assets, Total Beta is gaining acceptance in the business valuation industry. Appraisers can now use Total Beta in the following equation: Total Cost of Equity (TCOE) = risk-free rate + Total Beta*Equity Risk Premium. Once appraisers have a number of TCOE benchmarks, they can compare/contrast the risk factors present in these publicly-traded benchmarks and the risks in their closely-held company to better defend/support their valuations. (*wikipedia.org*)

Total Cost of Equity (TCOE) – Total Cost of Equity (TCOE) = Risk-free rate + Total Beta*Equity risk premium. This equation was developed by Professor Damodaran at NYU. For more information on Total Beta see **Total Beta**. (*BVMarketData.com*)

Transaction Method - see **Merger and Acquisition Method.**

Unlevered Beta – the beta reflecting a capital structure without debt.

Unsystematic Risk – the risk specific to an individual security that can be avoided through diversification.

Valuation – the act or process of determining the value of a business, business ownership interest, security, or intangible asset.

Valuation Approach – a general way of determining a value indication of a business, business ownership interest, security, or intangible asset using one or more valuation methods.

Valuation Date – the specific point in time as of which the valuator's opinion of value applies (also referred to as "Effective Date" or "Appraisal Date").

Valuation Method – within approaches, a specific way to determine value.

Valuation Multiple – see **Valuation Ratio**

Valuation Procedure – the act, manner, and technique of performing the steps of an appraisal method.

Valuation Ratio – a fraction in which a value or price serves as the numerator and financial, operating, or physical data serves as the denominator.

Value to the Owner – see **Investment Value**.

Vesting Period – In options, the remaining time period during which the option cannot be exercised. (*BVMarketData.com*)

VIX – see **Volatility Index**

Volatility Index – VIX is the ticker symbol for the Chicago Board Options Exchange Volatility Index, a popular measure of the implied volatility of S&P 500 index options. A high value corresponds to a more volatile market and therefore more costly options, which can be used to defray risk from this volatility by selling options. Often referred to as the *fear index*, it represents one measure of the market's expectation of volatility over the next 30 day period. (*wikipedia.com*)

Voting Control – *de jure* control of a business enterprise.

Weighted Average Cost of Capital (WACC) – the cost of capital (discount rate) determined by the weighted average, at market value, of the cost of all financing sources in the business enterprise's capital structure.

Z-Score – a statistical measure that quantifies the distance (measured in standard deviations) a data point is from the mean of a data set. In a more financial sense, Z-score is the output from a credit-strength test that gauges the likelihood of bankruptcy. A z-score of 0 is equal to a 50% probability of bankruptcy. (*investopedia.com*)

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(503) 291-7963