

## Glossary of Business Valuation Terms

<b>Adjusted Net Assets Method</b>	A method in the asset approach whereby all assets and liabilities (including off-balance sheet, intangible, and contingent) are adjusted to their fair market values.
<b>Asset-Based Approach</b>	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.
<b>Beta</b>	A measure of systematic risk of a stock; the tendency of a stock's price to correlate with changes in a specific index.
<b>Blockage Discount</b>	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.
<b>Business</b>	A commercial, industrial, service, or investment entity (or a combination thereof) pursuing an economic activity.
<b>Business Risk</b>	The degree of uncertainty of realizing expected future returns of the business resulting from factors other than financial leverage. See Financial Risk.
<b>Business Valuation</b>	The act or process of determining the value of a business enterprise or ownership interest therein.
<b>Capital Asset Pricing Model (CAPM)</b>	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.
<b>Capitalization</b>	A conversion of a single period of economic benefits into value.
<b>Capitalization of Earnings Method</b>	A method in the earnings approach whereby economic benefits for a representative single period are converted to value through division by a capitalization rate.
<b>Capital Structure</b>	The composition of the invested capital of a business enterprise, the mix of debt, and equity financing.
<b>Cash Flow</b>	Cash that is generated during 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.

## Glossary of Business Valuation Terms

<b>Cash Flow Available to Equity</b>	Those cash flows available to pay out to equity investors (in the form of dividends) after funding operations of the business enterprise, making necessary capital investments, and increasing or decreasing debt financing.
<b>Cash Flow Available to Invested Capital</b>	Those cash flows available to pay out to equity investors (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.
<b>Common Size Financial Statements</b>	Financial statements in which each line is expressed as a percent of the total. On the balance sheet, each line item is shown as a percent of total assets; and on the income statement, each item is expressed as a percent of sales.
<b>Comparable Transactions Method</b>	A method in the market approach whereby pricing multiples are derived from transactions of interests in businesses engaged in the same or a similar line of business.
<b>Control</b>	The power to direct the management and policies of a business enterprise.
<b>Control Premium</b>	An amount or a percentage by which the pro rata value of a controlling interest exceeds the pro rata value of a minority interest in a business enterprise to reflect the power of control.
<b>Controlling Interest</b>	An ownership interest in a business enterprise having the ability to exercise the prerogatives of control.
<b>Cost of Capital</b>	The expected rate of return that the market requires in order to attract funds to a particular investment.
<b>Discount for Lack of Control</b>	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.
<b>Discount for Lack of Marketability</b>	An amount or percentage deducted from the value of an ownership interest to reflect the relative absence of marketability.
<b>Discount Rate</b>	A rate of return used to convert a future monetary amount into present value.
<b>Discounted Future Earnings Method</b>	A method in the earnings approach whereby the present value of future expected economic benefits is calculated using a discount rate.
<b>Earnings Approach</b>	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 forecasted economic earnings into a present single amount.
<b>EBITDA</b>	Earnings before interest, taxes, depreciation, and amortization.

## Glossary of Business Valuation Terms

<b>Economic Benefits</b>	Inflows such as sales, net income, net cash flows, etc.
<b>Effective Date</b>	See Valuation Date.
<b>Equity</b>	The owner's interest in property after deduction of all liabilities.
<b>Equity Risk Premium</b>	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).
<b>Excess Earnings</b>	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.
<b>Excess Earnings Method</b>	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.
<b>Fairness Opinion</b>	An opinion as to whether the consideration in a transaction is fair from a financial point of view.
<b>Financial Risk</b>	The degree of uncertainty of realizing expected future returns of the business resulting from financial leverage. See Business Risk.
<b>Forced Liquidation Value</b>	Liquidation value where the asset or assets are sold as quickly as possible such as at an auction.
<b>GAAP</b>	Generally accepted accounting principles
<b>Going Concern</b>	An ongoing operating business enterprise.
<b>Going Concern Value</b>	The value of a business enterprise that is expected to continue to operate in the future. The intangible elements of <i>going concern value</i> resulting from factors such as having a trained work force, an operational plant, and the necessary licenses, systems, and procedures in place.

## Glossary of Business Valuation Terms

<b>Goodwill</b>	That intangible asset arising as a result of name, reputation, customer loyalty, location, products, and similar factors not separately identified.
<b>Guideline Companies Method</b>	A method in the market approach whereby market multiples are derived from market prices of stocks of corporations that are engaged in the same or a similar line of business having their stocks actively traded in a free and open market, either on an exchange or over-the-counter.
<b>Intangible Assets</b>	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.
<b>Internal Rate of Return</b>	A discount rate at which the present value of the future cash flows of the investment equals the cost of the investment.
<b>Intrinsic Value</b>	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.
<b>Invested Capital</b>	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.
<b>Investment Risk</b>	The degree of uncertainty as to the realization of expected returns.
<b>Investment Value</b>	The value to a particular investor based on individual investment requirements and expectations.
<b>Key-Person Discount</b>	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.
<b>Levered Beta</b>	The beta reflecting a capital structure that includes debt.

## Glossary of Business Valuation Terms

<b>Limited Valuation</b>	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.
<b>Liquidity</b>	The ability to quickly convert property to cash or pay a liability.
<b>Liquidation Value</b>	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."
<b>Market Approach</b>	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 business to similar businesses, business ownership interests, securities, or intangible assets that have been sold.
<b>Market Value of Equity (MVE)</b>	The share price of a publicly traded stock multiplied by the number of shares outstanding.
<b>Market Value of Invested Capital (MVIC)</b>	The market value of equity plus the market value of the debt component of invested capital.
<b>Market Multiple</b>	The market value of a business's stock or invested capital divided by a business measure (such as economic benefits, number of customers).
<b>Marketability</b>	The ability to quickly convert property to cash at minimal cost.
<b>Marketability Discount</b>	See Discount for Lack of Marketability.
<b>Mid-Year Discounting</b>	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.
<b>Minority Discount</b>	A discount for lack of control applicable to a minority interest.
<b>Minority Interest</b>	An ownership interest less than 50% of the voting interest in a business enterprise.
<b>Multiple</b>	The inverse of the capitalization rate.

## Glossary of Business Valuation Terms

<b>Net Book Value</b>	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 stockholder'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.
<b>Net Present Value</b>	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.
<b>Net Tangible Asset Value</b>	The value of the business enterprise's tangible assets (excluding excess assets and non-operating assets) minus the value of its liabilities.
<b>Non-Operating Assets</b>	Assets not necessary to ongoing operations of the business enterprise.
<b>Normalized Earnings</b>	Economic benefits adjusted for non-recurring, non-economic, or other unusual items to eliminate anomalies and/or facilitate comparisons.
<b>Normalized Financial Statements</b>	Financial statements adjusted for non-operating assets and liabilities and/or for non-recurring, non-economic, or other unusual items to eliminate anomalies and/or facilitate comparisons.
<b>Orderly Liquidation Value</b>	Liquidation value at which the asset or assets are sold during a reasonable period of time to maximize proceeds received.
<b>Premise of Value</b>	An assumption regarding the most likely set of transactional circumstances that may be applicable to the subject valuation; e.g., going concern, liquidation.
<b>Present Value</b>	The value, as of a specified date, of future economic benefits and/or proceeds from sale that are calculated using an appropriate discount rate.
<b>Price / Earnings Multiple</b>	The price of a share of stock divided by its earnings per share.
<b>Rate of Return</b>	An amount of income (loss) and/or change in value realized or anticipated on an investment, expressed as a percentage of that investment.
<b>Report Date</b>	The date conclusions are transmitted to the client.
<b>Required Rate of Return</b>	The minimum rate of return acceptable by investors before they will commit money to an investment at a given level of risk.

## Glossary of Business Valuation Terms

<b>Residual Value</b>	See Terminal Value.
<b>Return on Equity</b>	The amount, expressed as a percentage, earned on a business's common equity for a given period.
<b>Return on Invested Capital</b>	The amount, expressed as a percentage, earned on a business's total capital for a given period.
<b>Risk-Free Rate</b>	The rate of return available in the market on an investment free of default risk.
<b>Risk Adjustment</b>	A rate of return added to or subtracted from a risk-free rate to reflect risk.
<b>Rule of Thumb</b>	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.
<b>Standard of Value</b>	The identification of the type of value being used in a specific engagement; e.g., fair market value, fair value, investment value.
<b>Strategic or Synergistic Buyers</b>	Acquirers who believe they can enjoy post-acquisition economies of scale, synergies, or strategic advantages by combining the acquired business interest with their own.
<b>Systematic Risk</b>	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.
<b>Tangible Assets</b>	Physical assets such as cash, accounts receivable, inventory, property, plant and equipment, etc.
<b>Terminal Value</b>	The value as of the end of the discrete projection period in a discounted future earnings model.
<b>Unlevered Beta</b>	The beta reflecting a capital structure without debt.
<b>Unsystematic Risk</b>	The risk specific to an individual security that can be avoided through diversification.
<b>Valuation</b>	The act or process of determining the value of a business, business ownership interest, security, or intangible asset.
<b>Valuation Approach</b>	A general way of determining a value indication of a business, business ownership interest, security, or intangible asset using one or more valuation methods.

## Glossary of Business Valuation Terms

<b>Valuation Date</b>	The specific point in time as of which the valuator's opinion of value applies (also referred to as "effective date" or "appraisal date").
<b>Valuation Methodology</b>	A specific way to determine value in an approach.
<b>Valuation Procedure</b>	The act, manner, and technique of performing the steps of a valuation methodology.
<b>Value Multiple</b>	A fraction in which a value or price serves as the numerator and financial, operating, or physical data serves as the denominator.
<b>Voting Control</b>	<i>De jure</i> control of a business enterprise.
<b>Weighted Average Cost of Capital (WACC)</b>	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.