INTERNATIONAL VALUATION GLOSSARY – BUSINESS VALUATION

DRAFT - IN CONSULTATION

[date of draft and effective as of: December 14, 2020]

PURPOSE

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.

To enhance and sustain the quality of business valuations internationally for the benefit of the public at large and the business valuation profession, the following identified societies and organizations have worked collaboratively to create the definitions for the terms included in this glossary, and have adopted these definitions:

- **AICPA – American Institute of Certified Public Accountants**
- **ASA – American Society of Appraisers**
- **CBV Institute – Chartered Business Valuators Institute**
- **RICS – Royal Institution of Chartered Surveyors**
- **TAQEEM – Saudi Authority for Accredited Valuers**

SCOPE

This glossary has been developed as part of ongoing efforts to harmonize definitions for business valuation and intangible asset terms.

Some of the terms in this glossary may differ slightly based on the purpose of the valuation and jurisdiction. Furthermore, organizations such as valuation professional organizations, accounting regulatory bodies, tax authorities and courts may have somewhat different definitions and interpretations. Users are also encouraged to make reference to finance texts for more information on specific terms.

In some instances, cross referenced terms have been provided to the authoritative body that defines the specific term – one example of this is the term “fair value”.

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.

The definitions included herein are intended to be a resource for business valuation professionals, and are not meant to be prescriptive. The use of the appropriate definition relies on the professional judgement of the valuation professional. This glossary presumes that the valuation professional consulting this glossary has appropriate training and competence in business valuation.

This glossary's aim is to include technical terms that are likely to be helpful to valuation professionals but also to users of valuations. In determining the terms to be included in this glossary, the following items were excluded:

- terms whose definition can be found in a common dictionary;
- generally understood finance terms (such as "hindsight" or "EBITDA") or common accounting and audit terms (such as "useful life") or terms used in other disciplines;
- practice terminology or performance frameworks;
- terms specific to a particular valuation professional organization (VPO) or used within a particular VPO's standards;
- jurisdictional differences, including terms of local accounting or legal standards. Users of this glossary are cautioned that if a jurisdictional definition applies, it should take precedence over the definitions in this glossary (one example of this might be with respect to the term "fair value").

Various relevant valuation and accounting standards were considered in the creation of this glossary, including International Valuation Standards (IVS), International Financial Reporting Standards (IFRS), United States Generally Accepted Accounting Principles (US GAAP), Uniform Standards of Professional Appraisal Practice (USPAP), etc.

CONSIDERATIONS AND LIMITATIONS

These definitions are subject to change. This glossary is intended to be a "living document" and updated regularly. These definitions are current as of the date noted at the end of the document. The glossary uses the term "see also" to refer to terms that are related, but not synonymous. Synonymous terms are cross-referenced with the word "also known as". Contrary terms are cross-referenced using "contrast with".

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.

CONTRIBUTORS

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- Institute of Chartered Accountants in England and Wales (ICAEW) (England and Wales)
- Institute of Valuers and Appraisers (IVAS) (Singapore)
- International Institute of Business Valuers (iiBV)
- International Valuation Standards Council (IVSC)
- National Association of Certified Valuators and Analysts (NACVA) (United States)
- The Appraisal Foundation (TAF)

A

Acquisition Premium — in a merger or an acquisition, the difference between the purchase price and pre-acquisition value of the target firm. See also **Control Premium** and **Market Participant Acquisition Premium**.

Active Market — a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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 market values or other appropriate **Basis of Value** or **Standard of Value**. Also known as the **Asset Accumulation Method** or **Summation Method**.

Adjusted Net Asset Value Method — also known as **Adjusted Book Value Method.**

All Risks Yield — the reciprocal of the **Capitalization Factor**, usually expressed as a percentage. See also **Capitalization Factor; Capitalization Rate.**

Appraisal — also known as **Valuation.**

Appraisal Approach — also known as **Valuation Approach.**

Appraisal Date — also known as **Valuation Date; Effective Date; Measurement Date.**

Appraisal Method — also known as **Valuation Method.**

Appraisal Procedure — also known as **Valuation Procedure.**

Appraised Value — the Valuation Professional's opinion or conclusion of value.

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

Asset Accumulation Method — a method commonly under the **Asset Approach** under which the value of the enterprise is determined to be the sum of the value of the enterprise's individual assets and liabilities (e.g **Intangible Assets**, unrecorded assets and liabilities and contingent assets and liabilities). Also known as **Adjusted Book Value Method** or **Summation Method.**

Asset Approach — a general way of determining a value indication of a business, business ownership interest, or security using one or more methods based on a summation of the value of the assets net of liabilities, where each of the assets and liabilities have been valued using either the market, income, or cost approach. See also **Cost Approach.**

Attrition – the annual rate of loss, decay, or churn, expressed as a percentage, of an existing asset such as a customer relationship, workforce or technology-related asset. The attrition rate may be utilized in forecasting the expected future cash flows of a similar asset.

B

Backsolve Method — within the **Market Approach** wherein the equity value for a privately held company is derived from a recent transaction between unrelated parties in the company's own instruments.

Basis of Value — a statement of the fundamental measurement assumptions of a valuation. The basis of value is also the standard or definition of value being used (e.g. **Fair Market Value**, **Market Value**, **Fair Value**, **Investment Value**). Also known as **Standard of Value.**

Beta — a measure of systematic risk or volatility of a security; the total return of a security correlated to the return of a specific portfolio of assets (i.e. an index).

Blockage Discount — an amount or percentage deducted from the current market price of a publicly-traded or privately-held 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 — also known as **Net Book Value.**

Business — also known as **Business Enterprise.**

Business Combination — a transaction or other event in which an acquirer obtains control of one or more businesses.

Business Enterprise — a commercial, industrial, service, or investment entity (or a combination thereof) pursuing an economic activity. Also known as **Enterprise.**

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

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

C

Calibration — the process of reconciling the unobservable inputs used in a valuation technique so that the result of that valuation technique equals a specified value.

Capital Asset Pricing Model (CAPM) — a model in which the cost of capital for any security or portfolio of securities equals a risk-free rate plus a risk premium that is proportionate to the systematic risk of the security or portfolio. Additional premiums may be appropriate, such as size premium, country-risk premium and company-specific risk premium.

Capitalization — a conversion into value of the economic benefits of a single period.

Capitalization Factor — any multiple or divisor used to convert the expected economic benefits of a single period into value.

Capitalization of Earnings Method — a method within the **Income Approach** whereby expected economic benefits (e.g. cash flow, earnings) 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 into value the expected economic benefits of a single period.

Capital Structure — the composition of the invested capital of a **Business Enterprise**, the mix of debt and equity financing.

Carrying Amount — the amount at which an asset is recognized in the financial statements of an entity after deducting any accumulated depreciation and any accumulated impairment losses. See also **Book Value** and **Net Book Value.**

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.

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 revenues.

Company-Specific Risk — the risk that is inherent to an investment in a specific company, rather than **Systematic Risk.** Also known as **Unsystematic Risk.**

Contributory Assets — any tangible or **Intangible Assets** required for the generation of the cash flows associated with the subject intangible asset being valued using methods such as the **Multi-Period Excess Earnings Method.** See also **Contributory Asset Charge.**

Contributory Asset Charge — a charge deducted from the cash flows attributed to the intangible asset being valued to reflect a fair return on (and return of, when appropriate) **Contributory Assets** required for the generation of the cash flows associated with the intangible asset being valued. See also: **Contributory Assets; Excess Earnings Method; Multi-Period Excess Earnings Method.**

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. See also **Acquisition Premium** and **Market Participant Acquisition Premium.**

Cost Approach — a general way of determining a value indication of an asset(s) by quantifying the amount of money required to replace the future service capability of that asset. See also **Asset Approach.**

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

Cost Savings Method — a form of the income approach that directly measures an expected future benefit stream of an asset in terms of the future after-tax costs, which are avoided (or reduced) as a result of owning the asset.

Credit Risk — the risk that one party to a contract will cause a financial loss for the other party by failing to discharge an obligation.

Currency Risk — the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Current Value Method – a method which allocates the **Equity Value** to the various equity interests (or **Enterprise Value** to the various debt and equity interests) in a **Business** as though the **Business** were to be sold on the measurement date, without considering the option-like payoffs of the share classes. Contrast with **Probability-Weighted Expected Return Method** and **Option Pricing Method.**

Customer-related Intangible Assets — customer-related assets include customer lists, order or production backlog, customer contracts and related relationships, and non-contractual customer relationships.

D

Date of Valuation — also known as **Valuation Date; Measurement Date; Appraisal Date.**

Debt – Debt is typically (i) all interest-bearing debt (long-term and short-term) or (ii) long-term interest-bearing debt. When the term is used, it should be supplemented by a specific definition in the given valuation context. Depending on the context, debt may also include capital leases, underfunded pension obligations, and certain forms of preferred equity instruments.

Defensive Intangible Asset — an intangible asset which an entity does not intend to actively use, but rather intends to hold (lock up) the asset to prevent other parties from obtaining access to it. An example of this may be a patent.

Depreciated Replacement Cost — a method under the cost approach that indicates value by calculating the current replacement cost of an asset less deductions for external physical, functional and economic obsolescence. See also **Cost Approach; Economic Obsolescence; Functional Obsolescence; Obsolescence.** See also **Replacement Cost New.**

Direct Sales Comparison Method — a valuation method in which the asset being valued is compared to transactions of similar assets in order to arrive at a value. See also **Merger and Acquisition Method; Market Approach.**

Discount for Lack of Control — an amount or percentage applied to the pro rata share of value of 100% of the equity interest of an entity (when calculated on a controlling interest basis) to reflect the absence of some or all of the powers of control. Also known as **Minority Discount.**

Discount for Lack of Liquidity — an amount or percentage applied to the value of an ownership interest to reflect the relative inability to quickly convert an investment to cash.

Discount for Lack of Marketability — an amount or percentage applied to the value of an ownership interest to reflect the relative absence of marketability. See also **Marketability.**

Discount for Lack of Voting Rights — an amount or percentage applied to 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 expected economic benefits into present value.

Discount Rate Adjustment Technique — this present value technique uses a single, most likely set of cash flows, discounted at a risk-adjusted rate which reflects the risk of eventually receiving those cash flows in the amounts projected.

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.**

Distributor Method — a variation of the **Multi-Period Excess Earnings Method** that may be appropriate when the nature of the relationship between an entity and its customers is similar to that of a distribution company and its customers. Specifically, the Distributor Method is appropriate when the customer-related activities and the value added for the entity by those activities are similar to the value added by distributors.

E

Economic Benefits — inflows such as revenues, net income, net cash flows, EBITDA, asset growth/appreciation, etc.

Economic Life — the period of time over which an asset is expected to generate economic benefits.

Economic Obsolescence — a loss of utility caused by factors external to the asset, especially factors related to changes in demand for products or services produced by the asset, that results in a loss of value. See also **External Obsolescence; Functional Obsolescence; Obsolescence; Physical Obsolescence.**

Effective Date — see also **Valuation Date; Appraisal Date; Measurement Date.** The Effective Date can also mean the date at which a standard becomes effective.

En bloc Value — the entire value of a **Business.** See also **Enterprise Value; Equity Value; Market Value of Invested Capital.**

End of Period Discounting — a convention used in the **Discounted Future Earnings Method** that reflects economic benefits being generated at the end of a stated period of time. Contrast with **Mid-Period Discounting.**

Enterprise — also known as **Business Enterprise.**

Enterprise Value — the total value of the equity in a **Business** plus the value of its debt or debt-related liabilities, minus any cash or cash equivalents available to meet those liabilities. Generally excludes non-operating assets/liabilities of the business. See also **Market Value of Invested Capital;** and **Invested Capital.**

Equity — the interest in an asset after deduction of all liabilities.

Equity Net Cash Flows — those cash flows available for distribution to equity holders 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).

Equitable Value — the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties.

Equity Instrument — any contract that creates a residual interest in the assets of an entity after deducting all of its liabilities.

Equity Value — the value of a **Business** to all of its equity holders.

Excess Earnings — that amount of expected economic benefits that exceeds an estimated 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 **Intangible Assets** derived by capitalizing excess earnings and b) the value of the selected tangible asset base. Also frequently used to value **Intangible Assets**. See also **Multi-Period Excess Earnings Method.**

Exit Price — the price that would be received to sell an asset or paid to transfer a liability.

Expected Cash Flow — the probability-weighted average of a set of possible future cash flows.

Expected Present Value Technique — uses a set of cash flows that represents the probability weighted average of various cash flow scenarios.

External Obsolescence — a loss of utility caused by economic or locational factors external to the asset that results in a loss of value. See also **Economic Obsolescence; Functional Obsolescence; Obsolescence; Physical Obsolescence.**

Evidential Skepticism — the concept that **Valuation Professionals** must exercise due professional care by regularly questioning and critiquing information and data with an appropriate level of skepticism. The level of skepticism should be based on the potential for bias within the

information and data (for example, multiple sources of external corroboration versus a management-generated estimate with no external corroborating support).

F

Fair Market Value — the (highest) 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. This term may vary based on the jurisdiction or the valuation purpose. **Valuation Professionals** must ensure they are using the most appropriate definition for the circumstances of the engagement. See also **Market Value.**

Fair Value — a basis of value defined or imposed by a third party (e.g. by law, regulation, contract or financial reporting governing bodies) to value an asset. This term may vary based on the jurisdiction or the valuation purpose. **Valuation Professionals** must ensure they are using and disclosing the most appropriate definition for the circumstances of the engagement. For financial reporting purposes, Fair Value is defined by International Financial Reporting Standards (IFRS) and United States Generally Accepted Accounting Principles (US GAAP), or other local accounting standards.

Fairness Opinion — an opinion as to whether or not the consideration paid or received in a transaction is fair from a financial point of view to the party paying or receiving such consideration.

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

Forced Liquidation Value — liquidation value, at which the asset or assets are sold where a proper marketing period is not possible. See also **Orderly Liquidation Value.**

Free Cash Flow — also known as **Net Cash Flow.**

Free Cash Flows to Equity — cash flows available to pay out to equity owners after funding operations of the business, making necessary capital investments, paying interest on debt and debt financing. See also **Free Cash Flows to the Firm; Invested Capital Net Cash Flows.**

Free Cash Flows to the Firm — cash flows available to pay out to equity holders and debt investors after funding operations of the **Business Enterprise** and making necessary capital investments. See also **Free Cash Flows to Equity.**

Functional Obsolescence — a loss in value due to lower utility resulting from inefficiencies in the asset compared to a replacement asset. See also **Economic Obsolescence; External Obsolescence; Obsolescence; Physical Obsolescence.**

G

Going Concern — an ongoing operating **Business Enterprise.**

Going Concern Assumption — the assumption that a **Business** will maintain its activities into the foreseeable future.

Going Concern Value — the value of an operating **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. From an accounting perspective, goodwill represents the excess of the purchase price of an acquired company over the value of the net **Identifiable Tangible Assets** and **Intangible Assets** acquired**.**

Greenfield Method — a **Discounted Cash Flow Method** of valuing an asset. This method develops projections of future capital investments, operating expenses and revenues and discounts these to present value. See also **Contributory Assets; Excess Earnings Method; Multi-Period Excess Earnings Method.**

Guideline Transaction Method — a method within the **Market Approach** whereby pricing multiples are derived from transactions between unrelated parties of controlling interests in companies engaged in the same or similar lines of business, in order to establish a value. Also known as **Merger and Acquisition Method.**

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

H

Highest and Best Use — the use, from a market participant perspective, that would produce the highest value for an asset. The use must be physically possible, legally permissible and financially feasible.

Hurdle Rate of Return — a minimum rate of return required on an investment.

Hybrid Method — a combination of scenario-based methods such as **Probability Weighted Expected Return Method (PWERM)** and the **Option Pricing Method (OPM).** The Hybrid Method uses probability-weighted scenarios, but with an OPM to estimate the allocation of value in one or more of the scenarios.

I

Identifiable Intangible Assets — an intangible asset is identifiable if it meets certain contractual and/or separability criteria, as defined by a relevant standard (e.g. IFRS or US GAAP). The definition of this term may differ in different jurisdictions. Contrast with **Non-identifiable Intangible Assets.**

Impairment — a loss in the value of an asset typically due to unexpected declines in expected future economic benefits from the asset. Impairment is often associated with reductions of certain asset values in a financial reporting context.

Income Approach — a general way of determining a value indication of an asset, **Business** or investment using one or more methods that convert expected economic benefits into a single amount.

Intangible Assets — non-physical assets that grant rights and privileges and provide value to the owner (e.g. marketing, customer, artistic, contract and technology-related). See also **Identifiable Intangible Assets** and **Non-identifiable Intangible Assets.**

Intellectual Property — a legal concept that refers to creations of the mind that are derived from intellectual or creative effort for which exclusive rights are recognized. Intellectual property rights are negative rights in that they give the owner the right to prohibit others from using the property without permission. Intellectual property can be categorized as registered or unregistered, and includes, but is not limited to: trademarks, trade names, patents, copyright, design rights, and confidential information.

Interest Rate Risk — the risk of changes in a hedged item's value or cash flows attributable to changes in the designated benchmark interest rate.

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.

Internal Valuation Professional — a **Valuation Professional** who is employed by the owner or manager of an asset.

Intrinsic Value — the value that an investor considers, on the basis of an evaluation or available facts, to be the "true", "real" or fundamental 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.

Invested Capital —the combined value of equity and debt capital raised by a firm, inclusive of capital leases. See also **Enterprise Value.**

Invested Capital Net Cash Flows — those cash flows available to distribute to equity holders (in the form of dividends) and interest-bearing debt investors (in the form of principal and interest) after funding operations of the **Business Enterprise** and making necessary capital investments.

Investment Method — a valuation method under the **Income Approach** that capitalizes expected future income as a basis for estimating value.

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

Investment Value —the value of an asset to a particular owner or prospective owner for individual investment or operational objectives. In some jurisdictions, the term used is **Value to the Owner.**

K

Key Person Discount — an amount or percentage deducted from the value of an operating **Business** to reflect the reduction in value resulting from the actual or potential loss of a key person.

L

Levered Beta — the **Beta** reflecting a capital structure that includes debt.

Levered Cost of Equity — a **Discount Rate** or **Capitalization Rate** that reflects the cost of equity capital to a **Business,** taking into account both operating risk and financial risk.

Liquidation — the process of converting assets into cash and settling obligations with creditors in anticipation of the entity ceasing all activities.

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", which should be disclosed.

Liquidity — the ability to convert an asset, **Business,** or investment to cash very quickly, at minimal cost, and with a high degree of certainty of realizing the anticipated amount of proceeds.

M

Majority Control — the degree of control provided by a **Majority Interest.**

Majority Interest — an ownership interest greater than 50% of the voting interest in a **Business Enterprise.**

Market Approach — a general way of estimating a value of an asset, **Business** or investment by using one or more methods that compare the subject to other assets, businesses or investments that have been sold or for which price information is available.

Market Capitalization of Equity — the aggregate equity value of a company, calculated as the share price of a publicly traded security multiplied by the number of shares outstanding.

Market Capitalization of Invested Capital — the market capitalization of all equity plus the market value of the interest-bearing debt component of invested capital.

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

Market Participants — the whole body of individuals, companies, or other entities involved in actual transactions or contemplating entering into a transaction for a particular type of asset. This is a central concept of accounting standards such as IFRS and US GAAP.

Market Participant Acquisition Premium — the difference between: (1) the pro rata fair value of the subject controlling interest; and (2) its foundation. Foundation is measured with respect to the current stewardship of the enterprise. In other words, the foundation contemplates that the prerogatives of control will continue to reside with the existing controlling shareholder or group of shareholders. Market Participant Acquisition Premium generally does not include the effect of **Synergies** from a particular buyer unless there are sufficient number or market participants that may benefit from similar **Synergies.** See also **Control Premium.**

Market Risk — risk that affects an entire market and not just specific participants or assets. Market Risk cannot be diversified. In the context of financial instruments, the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market Risk comprises the following: (i) interest rate risk, (ii) currency risk, and (iii) other price risk. See also **Business Risk; Financial Risk; Systematic Risk; Unsystematic Risk.**

Market Value — the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently, and without compulsion. Users of this glossary should note that Market Value does not reflect attributes of an asset that are of value to a specific owner or purchaser that are not available to other buyers in the market. Note - there are multiple definitions of this term. See also **Fair Market Value.** Contrast with **Synergistic Value.**

Market Value of Invested Capital — the sum, at market value, of all equity and interest-bearing debt in a **Business Enterprise.** This term may vary based on the jurisdiction or the valuation purpose. **Valuation Professionals** must ensure they are using the most appropriate definition for the circumstances of the engagement.

Marketability — the ability and ease of marketing and transferring, or the salability of an asset, **Business,** or investment. Marketability is also affected by the depth and breadth of market participants, the desirability of the interest and the availability of an organized market of buyers and sellers through which the interest may be offered for sale.

Marketability Discount — also known as **Discount for Lack of Marketability.**

Measurement Date — also known as **Valuation Date; Effective Date; Appraisal Date.**

Merger and Acquisition Method — also known as **Guideline Transaction Method.**

Mid-Period Discounting — a convention used in the **Discounted Future Earnings Method t**hat reflects economic benefits being generated at a mid-period, approximating the effect of economic benefits being generated evenly throughout the period. Contrast with **End of Period Discounting.**

Minority Discount — also known as **Discount for Lack of Control.**

Minority Interest or Minority Shareholding — as also known as **Non-Controlling Interest.**

Monte Carlo Method — a statistical technique used to sample randomly from a probability-distribution, to produce different possible outcomes in order to simulate the various sources of uncertainty that affect the value of an instrument, asset, portfolio or investment in question.

Most Advantageous Market — the market that maximizes the amount that would be received to sell the asset or minimizes the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs.

Multi-Period Excess Earnings Method — a multi-period variation of the **Excess Earnings Method.**

Multiple — also known as **Valuation Multiple.**

N

Net Asset Value — the difference between assets and liabilities, all taken at current market values instead of accounting book values.

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 also **Equity Net Cash Flows; Invested Capital Net Cash Flows.**

Net Present Value — the value, as of a specified date, of cash inflows less all cash outflows over a period of time, calculated using an appropriate **Discount Rate.**

Net Realizable Value — the net proceeds obtainable upon the sale of an asset, after providing for all costs of disposition, including taxes.

Net Tangible Asset Value — the value of a **Business Enterprise's** tangible assets (excluding non-operating assets) minus the value of its liabilities.

Nominal Cash Flows — the actual amount of money in a particular/local currency that a **Business Enterprise** expects to receive or pay, including the effects of inflation.

Nominal Rate of Return — a rate of return that includes both a **Real Rate of Return** and an inflation component. Certain definitions state that a **Nominal Rate of Return** also excludes expenses such as taxes and investment fees. Contrast with **Real Rate of Return.**

Non-Controlling Interest — also known as **Minority Interest or Minority Shareholding.**

Non-identifiable Intangible Assets — those **Intangible Assets** that cannot be readily segregated from the operations of a **Business Enterprise** that is a going concern. Examples include deferred charges and **Goodwill.** Contrast with **Identifiable Intangible Assets.**

Non-Operating Assets — assets not necessary to ongoing operations of a **Business Enterprise.** Also known as **Redundant Assets** or surplus assets/liabilities.

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

Normalized Financial Statements — financial statements adjusted for non-operating assets and liabilities and/or for extraordinary, nonrecurring, noneconomic, or other unusual items to eliminate anomalies and/or facilitate comparisons.

Notional Market Valuation — the determination of an estimate of value in the absence of an **Open Market Transaction.**

O

Open Market Transaction — the purchase and sale of an asset, **Business,** or interest therein, as negotiated between parties acting independently of each other following an appropriate period of market exposure. Contrast with **Notional Market Valuation.**

Option Pricing Method — a forward-looking valuation method used to allocate value between various classes of equity, assuming various future outcomes. The Option Pricing Method considers the current **Equity Value** and then allocates that value to the various classes of equity considering a continuous distribution of outcomes, rather than focusing on distinct future scenarios. This method typically uses the Black-Scholes option pricing model to price the various call options.

Orderly Liquidation Value — Liquidation Value at which the asset or assets are sold over a reasonable period of time to maximize proceeds received. See also **Forced Liquidation Value.**

P

Physical Obsolescence — a loss of utility due to the physical deterioration of the asset or its components resulting from its age and normal usage that results in a loss of value.

Portfolio — an assemblage of various assets or liabilities held or managed by a single entity.

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.

Postmoney Value — an **Enterprise's** value immediately following its most recent round of financing. See also **Premoney Value.**

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 or liquidation).

Premium for Forcible Taking — also referred to as a "forcing out premium" or "strategic purchase premium," it represents a premium over the **Fair Value** of an equity interest awarded by the courts where a shareholder has been forced out of a company following a **Business Combination.** This term may vary based on jurisdiction.

Premium Profits Method — also known as **With and Without Method.**

Premoney Value — an **Enterprise's** value immediately preceding its most recent round of financing. See also **Postmoney Value.**

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 — the consideration paid, expressed in terms of cash equivalents, in an actual transaction involving the purchase and sale of an asset, **Business** or investment.

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

Principal Market — the market with the greatest volume and level of activity for the asset or liability.

Pro Rata Value — also known as **Ratable Value.**

Probability-weighted expected return method (PWERM) — a scenario-based method for valuing equity interests through an analysis of future values for the **Enterprise**, assuming various, discrete, future outcomes. Under PWERM, value is estimated based on the probability-weighted present value of various future outcomes for the business (i.e. initial public offering, sale, dissolution, or continued operation until a later exit date).

Professional Judgement — refers to the process of making informed and reasonable decisions that are based on the cumulative experiences of the **Valuation Professional.** This is a skill that requires competence in valuations and results in decisions that reflect best practices of the valuation profession. Users of this glossary should note that there may be local requirements in their jurisdiction dealing with independence, objectivity and other matters, which are also required in order to apply professional judgement.

Professional Skepticism — an attitude that includes a questioning mind and critical assessment of valuation evidence. The **Valuation Professional** uses the knowledge, skill, and ability called for by the valuation profession to diligently perform, in good faith and with integrity, the gathering and objective evaluation of evidence. Professional skepticism requires that the **Valuation Professional** has an attitude that emphasizes **Evidential Skepticism** and **Self-Skepticism.**

Prospective Financial Information — any financial information about the future. The information may be presented as complete financial statements or limited to one or more elements, items, or accounts. Prospective Financial Information includes forecasts.

Purchase Price Allocation — the allocation of the price paid for a **Business** among the assets acquired. The standards governing purchase price allocation are established by financial reporting, tax or other authorities. See also **Business Combination.**

R

Ratable Value — the portion of the **En bloc Value** represented by each ownership percentage. Also known as **Pro Rata Value.**

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

Real Cash Flows — nominal cash flows adjusted to exclude the effect of price changes/inflation over time.

Real Rate of Return — an amount of income realized or expected on an investment, expressed as a percentage of that investment. A Real Rate of Return does not include an inflation component.

Redundant Assets — also known as **Non-Operating Assets.**

Relief from Royalty Method — a method that estimates the value of an intangible asset by reference to the value of the hypothetical royalty payments that are saved through owning the asset, as compared with licensing it from a third party. Also known as **Royalty Savings Method.** See also **Royalty.**

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

Report — a document that communicates the conclusion of a **Valuation** or an **Appraisal** and relevant associated matters to its intended recipient.

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

Reproduction Cost New — the current cost of an identical new asset.

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. See also **Terminal Value.**

Retrospective Valuation — a **Valuation** that is performed after the as-of date of the **Valuation** and that is not considered to be a contemporaneous **Valuation**.

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

Return on Investment — see also **Return on Invested Capital** and **Return on Equity.**

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

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 the risk of a **Business** or specific asset of a **Business**.

Royalty — a payment made for the use of an asset, especially an intangible asset or a natural resource. See also **Relief from Royalty Method.**

Royalty Savings Method — also known as **Relief from Royalty Method.**

S

Salvage Value — the value of an asset at the end of its economic life for the purpose it was made. The asset may still have value for an alternative use or for recycling. See also **Residual Value.**

Self-Skepticism — the concept that a **Valuation Professional** must regularly monitor their client-based presuppositions that could detract from applying skepticism as a result of comfort level or familiarity with the client, industry, or both.

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.

Standalone Value — the value of a business interest determined without reference to prices that might be paid by purchasers who perceive post-acquisition **Synergies.** Also known as **Intrinsic Value.**

Standard of Value — a statement of the fundamental measurement assumptions of a valuation. A Standard of Value is also the definition of value being used (e.g. **Fair Market Value, Market Value, Fair Value, Investment Value).** Also known as **Basis of Value.**

Summation Method — a valuation method that provides an indication of the value of an entire asset by the addition of the separate values of its component parts. Also known as **Sum of the Parts Method.** See also **Asset Approach.**

Sustainability — the consideration of matters such as (but not restricted to) environment and climate change, health and well-being and corporate responsibility that can or do impact on the valuation of an asset. In broad terms it is a desire to carry out activities without depleting resources or having harmful impacts.

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

Synergies — used mostly in the context of mergers and acquisitions, the concept that the combined value and performance of two (or more) businesses will be greater than the sum of the separate

individual parts. In the context of developing prospective financial information, synergies refer to the difference between the assumptions used to estimate cash flows that are unique to a **Business Enterprise** and the assumptions that would be used by synergistic buyers.

Synergistic Value — the result of a combination of two or more assets or interests where the combined value is more than the sum of the separate values.

Systematic Risk — the risk that is common to all risky securities and cannot be eliminated through diversification. Also known as **Market Risk.** Contrast with **Unsystematic Risk.** See also **Beta.**

Systemic Risk — the risk of damage to a system arising from the failure or collapse of a component element of that system. See also: **Business Risk; Financial Risk; Market Risk; Systematic Risk; Unsystematic Risk.**

T

Tangible Assets — physical assets (e.g. cash, accounts receivable, inventory, property, plant and equipment, etc.) Contrast with **Intangible Assets.**

Tax Amortization Benefit — the present value of income tax savings resulting from the tax deduction generated by the amortization of an **Intangible Asset**.

Technical Obsolescence — also known as **Technological Obsolescence.** See also **Functional Obsolescence.**

Technology-related Intangible Assets — broadly defined as **Intangible Assets** that create proprietary knowledge and processes. This proprietary knowledge or process may be either developed by, or purchased by, the business owner/operator. Some examples of Intangible Assets typically included in this category are: patents/patent applications, patentable inventions, trade secrets, know-how, proprietary processes, proprietary product recipes or formulae, confidential information, copyrights on technical materials such as computer software, technical manuals, and automated databases.

Terminal Value — also known as **Residual Value.**

Transaction Method — also known as **Merger and Acquisition Method.**

U

Unit of Account — the level at which an asset or a liability is aggregated or disaggregated for financial reporting purposes.

Unlevered Beta — the **Beta** reflecting a capital structure without debt.

Unlevered Cost of Equity — a **Discount Rate** or **Capitalization Rate** that assumes a debt-free capital structure.

Unobservable Inputs — inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.

Unsystematic Risk — the risk specific to an individual security that can be minimized through diversification. Also known as idiosyncratic risk. See also **Company Specific Risk Adjustment.**

V

Valuation — the act or process of determining the value of an asset, **Business,** or investment. Also known as **Appraisal.**

Valuation Approach — a general way of determining a value indication of an asset, **Business, Business Enterprise**, or investment using one or more **Valuation Methods.**

Valuation Date — the specific point in time at which the **Valuation Professional's** conclusion of value applies. The valuation date should also include the time at which it applies if the value of the type of asset can change materially in the course of a single day. Also known as **Effective Date; Appraisal Date; Measurement Date.**

Valuation Inputs — data and other information that is used in a valuation engagement. Inputs may be actual or estimated.

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

Valuation Model — a tool used by **Valuation Professionals** to estimate the value of an asset, consisting of a series of calculations involving the application of valuation techniques/methods and the informed judgement of the **Valuation Professional.**

Valuation Multiple — any multiplier used to convert into value the expected economic benefits of a single period. Also known as **Multiple.** The Valuation Multiple is the inverse of a **Capitalization Rate.** See also **Capitalization Factor.**

Valuation Procedure — the act, manner, and technique of performing the steps of a **Valuation 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.

Valuation Professional — an individual recognized as possessing the competencies, experience and qualifications to perform valuations in a competent manner. A Valuation Professional may be external or internal. This term may differ based on jurisdiction. Also known as valuation specialist, valuation analyst, valuer, valuator or appraiser.

Value in (Continued) Use — the value of the assets of an operating business viewed as a pool of assets in a specific use. Value in use is determined by reference to the contribution of that asset pool to the ongoing business. Under IFRS, Value in Use is the present value of the future cash flows

expected to be derived from an asset or cash-generating unit. This term may vary based on the jurisdiction or the valuation purpose. **Valuation Professionals** must ensure they are using the most appropriate definition for the circumstances of the engagement.

Value in Exchange — the worth of an asset or pool of assets if sold in the open market.

Value to the Owner — also known as **Investment Value.**

Voting Control — legal control of a **Business Enterprise.**

W

Waterfall — the contractual allocations of cash flows returned to the various instruments in an enterprise or to the limited and general partners in a fund, reflecting the seniority of each claim.

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.

With and Without Method — a method that indicates the value of an intangible asset by comparing an estimate of the profits or cash flows that would be earned by a business using the asset with those that would be earned by a business that does not use the asset. See also **Premium Profits Method.**

Working Capital — the amount of capital held in a business for its day-to-day operational needs, often estimated as the amount by which current assets exceed current liabilities.