



## Separate Website Component - Dictionary

### Dictionary of Valuation Terms

**Adjusted net book value:** The amount by which the fair market value of the tangible and identifiable intangible assets (where these are separately quantifiable) of a business, determined on the basis of their value in continued use (adjusted for income tax considerations where appropriate), exceeds the fair market value of the liabilities of the business. When used in the context of risk measurement, this amount often is referred to as tangible asset backing.

**Appraisal remedy:** See Dissent right.

**Base rate of return:** An unlevered return on equity that reflects the starting point for establishing a discount rate or capitalization rate pursuant to an en bloc equity investment.

**Benchmark analysis:** The comparison of an indicated performance measure of a business to a standard, expected, or average measure.

**Capital asset pricing model (CAPM):** A theoretical comparative risk model that relates risk and return.

**Capital-intensive business:** A business requiring significant capital investment, with resultant comparatively low labour cost per unit of output relative to capital investment per unit of production.

**Capitalization rate:** The rate of return (usually expressed as a percentage) that is used to convert a point estimate of cash flow into value. The inverse of the capitalization rate is referred to as the multiple. Alternately, a divisor used to convert a uniform (or constant) stream of cash flow to a capital amount, or value.

**Capitalized cash flow:** The present value of a perpetuity determined by dividing a point estimate of cash flow (normally discretionary cash flow) by a capitalization rate, or multiplying (discretionary) cash flow by a multiple.

**Depreciated replacement value:** A term used by real estate and equipment appraisers to describe the amount determined by estimating the replacement cost (new) of buildings and equipment less an amount for depreciation and obsolescence to equate the replacement cost (new) to the depreciated assets being appraised.

**Discount for illiquidity:** The amount by which the en bloc value of a business or rateable value of an interest therein is reduced in recognition of the expectation that a ready market for the disposition of said interest does not exist. Synonymous with marketability discount.

**Discount for non-control:** The amount by which an interest in a business is reduced from its rateable portion of en bloc value in recognition of the inability to unilaterally control the business.

**Discount rate:** A rate of return used to convert a monetary sum, payable or receivable in the future, into present value. Alternately, a rate of return used to convert a series of future anticipated cash flow to a present value.

**Discretionary cash flow:** Cash flow from operations less income taxes thereon, net trade working capital requirements, and sustaining capital reinvestment (and growth capital where growth capital is included in a forecast) net of the related income tax shield. Normally, discretionary cash flow is determined prior to debt servicing costs and after income tax.

**Dissent right:** Where provided in the incorporating statute of a company, a statutory right enabling a minority shareholder in specified circumstances to cause the corporation in which he or she beneficially owns shares to purchase his or her shareholding at fair value. Synonymous with appraisal remedy.

**EBIT:** Earnings before interest and taxes.

**EBIT-DA:** Earnings before interest, taxes, depreciation and amortization. A measure of the operating cash flows of a business before changes in net working capital.

**Economies of scale:** The decreases in combined operating expenses and/or increases in combined revenues that result following the merging of two or more business operations.

**En bloc value:** The value of the assets or ownership interests of a business viewed as a whole.

**Enterprise value:** The total value of a business including both its interest bearing debt and equity components.

**Fair market value:** The highest price available in an open and unrestricted market between informed and prudent parties, acting at arm's length and under no compulsion to act, expressed in terms of cash.

**Fair value:** In Canada, a value term commonly used in connection with minority shareholder dissent and oppression remedy rights, describing the basis upon which the acquisition price for the minority shares is to be determined.

**Financial leverage:** The use of interest bearing debt or other fixed payment financial obligations in the capital structure of a business.

**Financial synergies:** That portion of total post-acquisition synergies relating to the benefits associated with a more efficient capital structure or lower cost financing.

**Going concern:** A business enterprise that is both conducting operations at a given date, and has every reasonable expectation of doing so for the foreseeable future after that date.

**Going concern value:** The present value of all future benefits expected to accrue from ownership, where a business operation is expected to continue to operate (usually) indefinitely into the future.

**Internal rate of return (IRR):** That discount rate which reduces to equality the present value of expected cash outflows to the present value of expected cash inflows. Stated in the context of a return on invested equity, an internal rate of return is the aggregate after tax return on levered equity expected over the life of the investment.

**Intrinsic value :** A notional market value, based upon rates of return required by investors given economic and business conditions existing at the valuation date, without consideration of possible synergies or economies of scale that might accrue in differing degrees to arm's-length purchasers. Synonymous with stand-alone value.

**Liquidation value:** The net amount of money, if any, available to equity owners following a voluntary liquidation, a reorganization of a business pursuant either to a proposal to creditors, or a liquidation of a business pursuant to a receivership or other proceeding under The Bankruptcy Act (forced liquidation).

**Minority discount:** The reduction from the pro rata portion of the en bloc value of the assets or ownership interests of a business as a whole to reflect the disadvantages of owning a minority shareholding.

**Minority shareholding:** Any shareholding in either a public company or a privately-held company that is not a control shareholding.

**Multiple (as in 'price/earnings multiple')**: The reciprocal of a capitalization rate.

**Net book value:** With respect to individual assets or liabilities, the capitalized cost, or otherwise determined book value, of an asset or liability less accumulated depreciation or amortization as it appears on the books of account of the enterprise. With respect to a business enterprise, the difference between total assets (net of depreciation and amortization), and total liabilities of an enterprise as they appear on the balance sheet. *In the context of a business enterprise, 'net book value' is synonymous with the terms 'net worth' and 'shareholders' equity'.*

**Nominal rate of return:** A discount rate that includes both an inflation component and a 'real rate of return', as contrasted with a 'real rate of return', which does not include an inflation component.

**Non-competition agreement:** An agreement made between two parties pursuant to which one of the parties agrees not to compete with the other party for a specified period of time, usually within a specified geographic area and usually within identified parameters of product or service.

**Notional market:** A term used to describe circumstances where it is necessary to determine fair market value, fair value, or some other value in the absence of open market negotiations.

**Open market:** A term used to describe the market in which arm's length, negotiated transactions take place.

**Oppression remedy:** Where provided in the incorporating statute of a company, a statutory right enabling a minority shareholder to claim that the corporation in which he or she is a shareholder has acted in a manner he or she believes contrary to the best interest of his or her shareholding.

**Price:** The consideration paid in a negotiated open market transaction involving the purchase and sale of an asset.

**Price earnings ratio:** The reciprocal of the capitalization rate, commonly referred to as the multiple.

**Primary offering:** The offering for sale of treasury share capital. A primary offering results in the proceeds accruing to the issuer with a simultaneous dilution of the percentage ownership interest of pre-offering business owners.

**Public company:** A company whose equity shares and/or issued debt are traded on an established stock exchange or in an over-the-counter market.

**Rateable value:** That portion of the en bloc value represented by each ownership percentage. Synonymous with pro-rata value.

**Rate of return:** An amount of income realized or expected on an investment, expressed as a percentage of that investment – see 'Capitalization rate' and 'Discount rate'.

**Rate of return on levered (invested) equity:** The rate of return that results when an annual actual or expected (after tax) operating result is divided by shareholder's equity at a given point in time, expressed as a percentage. In this context, the term 'operating result' can mean net income or discretionary cash flow.

**Real rate of return:** A discount rate, or capitalization rate, that excludes consideration of inflation, as contrasted with a nominal rate of return, which includes both an inflation component and a real rate of return.

**Redundant assets:** Assets excess to (and which therefore do not influence) the going concern value of the operating assets of a business. Redundant assets sometimes are referred to as non-operating assets.

**Secondary offering:** The offering of previously issued share capital for sale by the present owner.

**Security analysis:** The analysis of the publicly traded securities of a business based on financial models and utilizing publicly available market data.

**Shareholder's equity:** The aggregation of a company's paid-in capital, retained earnings, and contributed, appraisal and other surpluses. Alternately, the result obtained when the net book value of all liabilities of a company are subtracted from the book value of all that company's assets – see 'Net book value'.

**Stand-alone value:** The value of a business interest determined without reference to prices that might be paid by purchasers who perceive post-acquisition net economic value-added. Synonymous with intrinsic value.

**Strategic advantage:** In the context of purchaser perceived post-acquisition net economic value-added, those things that it is believed will result in short-term risk reduction, or possible economies of scale that are not immediately available but may be realized over the long term.

**Sustaining capital reinvestment:** The capital outlay required each year to maintain operations at existing levels.

**Synergies:** The economies of scale and/or strategic advantages that a prospective purchaser of a business interest perceives may accrue from its acquisition. Synergies are sometimes is referred to as 'economies of scale' or as 'post-acquisition value added'.

**Tangible Asset Backing:** The amount by which the fair market value of the tangible and identifiable intangible assets (where these are separately quantifiable) of a business, determined on the basis of their value in continued use (adjusted for income tax considerations where appropriate), exceeds the fair market value of the liabilities of the business – see *Adjusted Net Book Value*.

**Threshold rate of return:** A benchmark predetermined rate of return on equity (or discount rate) criteria that is applied to a projected cash flow (generally discretionary cash flow) that includes both inflation and a real rate of return, where financial leverage and debt servicing costs are excluded, and where purchaser perceived net economic value-added (generally) is taken into account. Typically a 'Threshold rate of return' is an 'after-tax' rate, but with appropriate adjustments can be applied as a 'pre-tax' rate. *Synonymous with hurdle rate.*

**Unlevered rate of return on equity:** A discount rate, or capitalization rate, that assumes a debt-free capital structure for a given business.

**Value:** A return or equivalent in goods, services, or money for something exchanged.

**Value in exchange:** The worth of an asset, or pool of assets, if sold in the open market.

**Value in use:** The value of the tangible assets of an operating business, viewed individually but as part of a pool of assets in a specific use. Value in use is determined referable to the contribution of that asset pool to the ongoing business.

**Value to owner:** The value of an asset to the owner of it. The term 'value to owner' can be used to describe either owner-perceived economic advantage, non-economic advantage, or a combination of both. Viewed solely in an economic context value to the owner may be equal to, or greater than, fair market value. It is never less than fair market value. Where value to the owner is greater than fair market value, the increment over fair market value often is attributable to personal goodwill.

**Weighted average cost of capital (WACC):** A rate of return determined as the weighted average of the after-tax cost of debt and levered equity. WACC assumes an ability to deduct interest expense when calculating taxable income and can be used either as a discount rate (inclusive or exclusive of inflation) or a capitalization rate.

**Working capital:** The amount by which current assets exceed current liabilities. Working capital incorporates all assets and liabilities of a current nature, contrasted with net trade working capital that reflects only those current assets and liabilities arising from the operations of the business.