

# INTERNATIONAL VALUATION GLOSSARY – BUSINESS VALUATION

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## PURPOSE

Business valuation providers and users benefit from common understanding of terms with clearly established meanings and consistent application throughout the profession. To this end the following societies and organizations have worked collaboratively to compile definitions for the terms included in this Glossary:

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

This Glossary updates the International Glossary of Business Valuation Terms originally published in 2001.

## SCOPE

This Glossary was developed as part of ongoing efforts to harmonize definitions for terms used in business valuation. It is intended to be a reference tool to facilitate communication within the business valuation profession and with relevant stakeholders and users. **This Glossary is designed to be helpful, but neither authoritative nor prescriptive.**

To that end, the Glossary aims to provide a common understanding of technical terms used within the various sub-practice areas of business valuation, and for those operating in different markets. Users of valuation services are encouraged to familiarize themselves with the appropriate context, as not all terms are applicable to every use.

It is acknowledged that terms used in different markets may vary. **If any term in this glossary conflicts with a published governmental, judicial, or accounting authority, precedence should be given to the use and interpretation of terms as they appear in applicable published authoritative guidance, given the purpose of the valuation.**

Given that the definition for some terms in this Glossary may differ slightly based on the purpose of the valuation and jurisdiction, business valuation professionals<sup>1</sup> should ensure they are using and disclosing the most appropriate definition for the circumstances of the engagement.

Furthermore, organizations such as valuation professional organizations (VPOs), accounting regulatory bodies, tax authorities, and courts may have somewhat different definitions and interpretations. Users are also encouraged to refer to valuation texts and other relevant documents for more information and application guidance on specific terms.

If the business valuation professional believes that one or more of these terms needs to be used in a manner that materially departs from this glossary, it is recommended that the term be defined as

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<sup>1</sup> The term "business valuation professionals" is intended to be a generic term to refer to individuals that provide business valuation services, regardless of their jurisdiction or the professional organization to which they belong. Synonymous terms include valuers, valutors, analysts, appraisers, etc. Business valuation professionals may include an individual or group of individuals. Generally, business valuation professionals possess the necessary qualifications, ability, and experience to undertake a valuation engagement. In some jurisdictions, licensing is required in order to provide business valuation services.

used within that valuation engagement. The use of the appropriate definition relies on the professional judgement of the business valuation professional.

In determining the terms to be included in this Glossary, the following items were excluded:

- terms that are defined in a common dictionary.
- generally understood or commonly used business, finance, and accounting terms or terms used in other disciplines.
- practice terminology or performance frameworks.
- terms specific to a particular 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 when 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 valuation and accounting standards were considered in the development of this Glossary, such as International Valuation Standards (IVS), International Financial Reporting Standards (IFRS), United States Generally Accepted Accounting Principles (US GAAP), Uniform Standards of Professional Appraisal Practice (USPAP), and Statement on Standards for Valuation Services (SSVS). While it is acknowledged that US GAAP and IFRS define certain terms related to financial reporting valuation, this Glossary does not include all such terms.

## **CONSIDERATIONS AND LIMITATIONS**

The definitions provided herein are current as of the date of publication. As they are subject to change, this Glossary is intended to be updated periodically. This Glossary uses "see also" to refer to terms that are related, but not synonymous. Synonymous terms are cross-referenced with "also known as." Contrary terms are cross-referenced using "contrast with."

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- Institute of Valuers and Appraisers, Singapore (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

**Adjusted Net Asset Value Method** — a method within the **Asset Approach** whereby a business' assets and liabilities (including off-balance sheet assets, **Intangible Assets**, and contingent assets and/or liabilities) are adjusted to market values or another appropriate **Standard of Value**. Also known as adjusted book value method or asset accumulation method.

**Adjusted Present Value (APV)** — a technique typically used to estimate the value of a levered business as the sum of the value of an unlevered business (i.e., 100% equity financed) and the value of the tax benefits associated with debt financing.

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

**Asset Approach** — a general manner of estimating the value of a business using one or more methods based on a summation of the value of the assets, net of liabilities, where each has been valued using either the market, income, or cost approach. Also known as asset-based approach. See also **Cost Approach**.

**Attrition** — the annual percentage rate of loss (or churn) of an existing asset such as a customer relationship **Intangible Asset**.

## B

**Backsolve Method** — a method within the **Market Approach** whereby the total **Equity Value** (or the value of a specific equity class) of a business is implied from a recent transaction in the business' securities.

**Basis of Value** — also known as **Standard of Value**.

**Beta** — a measure of the relative risk (or sensitivity) of an individual security versus the risk of a market portfolio. See also **Capital Asset Pricing Model**, **Systematic Risk**, **Unsystematic Risk**, **Levered Beta**, and **Unlevered Beta**.

**Binominal Lattice Model** — a model typically used to estimate the value of an asset or investment that employs a binomial tree to show the different paths the price of an underlying asset, such as a security, might take over the security's life.

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

**Build-up Model** — a model in which the expected return for a security (or portfolio of securities) is measured by a **Risk-Free Rate** plus premiums for **Systematic Risk** (e.g., **Equity Risk Premium**, size premium and industry risk premium) and **Unsystematic Risk** (e.g., **Company-Specific Risk Premium**). See also **Capital Asset Pricing Model**.

## C

**Capital Asset Pricing Model (CAPM)** — a single factor asset pricing model that measures the expected return for a security (or portfolio of securities) as the sum of a **Risk-Free Rate** plus a risk premium. The risk premium is equal to the **Systematic Risk** (measured by **Beta**) of the security (or portfolio of securities) multiplied by the risk premium of holding the overall market portfolio. The CAPM is often modified or extended for other risk factors, such as size, country risk, and **Company-Specific Risk**. See also **Build-up Model**.

**Capital Structure** — the composition of the **Invested Capital** of a business, including debt and **Debt Equivalents**, equity, and **Hybrid Securities**. See also **Simple Capital Structure** and **Complex Capital Structure**.

**Capitalization of Earnings Method** — a form of the **Capitalization of Economic Income Method**.

**Capitalization of Economic Income Method** — a method within the **Income Approach** whereby expected **Economic Income** for a representative single period is converted to value through division by a **Capitalization Rate**. Also known as the capitalization method or direct capitalization method.

**Capitalization Rate** — a divisor (usually expressed as a percentage) used to convert into value the expected **Economic Income** of a normalized single period. The Capitalization Rate is generally calculated as a **Discount Rate** less a long-term growth rate.

**Cash Flow** — cash inflows or outflows that are generated over a period by an asset, business, or investment; often supplemented by a qualifier in the given valuation context (e.g., discretionary or operating). See also **Net Cash Flow to Equity** and **Net Cash Flow to Invested Capital**.

**Company-Specific Risk Premium** — an adjustment to the cost of equity to account for **Company-Specific Risk**. Also known as alpha.

**Company-Specific Risk** — the risk that is unique to a specific investment in a business, in excess of the **Equity Risk Premium**, size risk, and/or country risk (e.g., significant customer concentration, business dependence on key person(s), or lack of product diversification). Also known as **Unsystematic Risk**.

**Complex Capital Structure** — a **Capital Structure** that includes debt and equity securities with different economic and control rights. Contrast with **Simple Capital Structure**.

**Contributory Asset Charge** — an economic charge for **Contributory Assets** applied in the **Multi-Period Excess Earnings Method**. See also **Contributory Assets**, **Excess Earnings Method**, and **Multi-Period Excess Earnings Method**.

**Contributory Assets** — assets (e.g., working capital, machinery and equipment, trademarks, assembled workforce) that are used in conjunction with the subject **Intangible Asset** in the realization of prospective cash flows associated with the **Intangible Asset** being valued. See also **Multi-Period Excess Earnings Method** and **Contributory Asset Charge**.

**Control** — a level of ownership having sufficient rights (e.g., voting) to direct the management, policies, and disposition of a business.

**Control Premium** — an amount or percentage by which the pro rata value of a **Controlling Interest** exceeds the pro rata value of a **Noncontrolling Interest** in a business, to reflect the anticipated economic benefits of **Control**. Also known as acquisition premium.

**Controlling Interest** — an ownership interest in a business that conveys the economic benefits of **Control** to the holder(s) of such interest.

**Cost Approach** — a general manner of estimating the value of an asset, investment, or (in limited circumstances) a business using one or more methods that reflect the economic principle that a buyer will generally pay no more for an asset than the cost to obtain another asset of equal utility, whether by purchase or by construction. The approach considers the current replacement or reproduction cost and the physical deterioration and all other relevant forms of obsolescence. 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 considering the risk of the investment. See also **Weighted Average Cost of Capital**.

**Cost Savings Method** — a method within the **Income Approach** whereby the value of an **Intangible Asset** is estimated based on an expected future benefit stream of the asset in terms of the future expenses that are avoided (or reduced) by owning the asset.

**Current Value Method** — a procedure to allocate 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 **Valuation Date**, without considering the option-like payoffs of the equity interests. Contrast with **Probability-Weighted Expected Return Method** and **Option Pricing Method**.

## D

**Debt Equivalents** — a debt-like financial obligation or other non-equity claim resulting from the signing of a short- or long-term contract (e.g., operating leases, unfunded pension liabilities, asset retirement obligations, contingent liabilities). See also **Capital Structure** and **Hybrid Securities**.

**Discount for Lack of Control** — an amount or percentage deducted from the pro rata amount of 100% of the entity's **Equity Value** (when determined on a **Controlling Interest** basis) to reflect the absence of some or all of the economic benefits of **Control**.

**Discount for Lack of Liquidity** — an amount or percentage applied to the value of an ownership interest to reflect a relative lack of **Liquidity**.

**Discount for Lack of Marketability** — an amount or percentage applied to the value of an ownership interest to reflect a relative lack of **Marketability**.

**Discount for Lack of Voting Rights** — an amount or percentage applied to the per share value of a voting share to reflect an absence of voting rights.

**Discount Rate** — a **Rate of Return** used to convert **Economic Income** into present value.

**Discounted Cash Flow (DCF) Method** — a form of the **Discounted Economic Income Method** based on **Cash Flow**.

**Discounted Economic Income Method** — a method within the **Income Approach** whereby the present value of expected **Economic Income** is calculated using a **Discount Rate**.

**Distributor Method** — a variation of the **Multi-Period Excess Earnings Method** that relies upon market-based distributor data or other market inputs to value customer relationship **Intangible Assets**. Sometimes referred to as the disaggregated method.

## E

**Economic Income** — monetary inflows or outflows resulting from business activities (e.g., **Cash Flows**, EBITDA, net income).

**Economic Obsolescence** — a form of depreciation or loss in value or usefulness of an asset caused by factors external to the asset, especially factors related to changes in demand for products or services produced by the asset. See also **Functional Obsolescence** and **Physical Obsolescence**.

**Effective Date** — see also **Valuation Date**, **Measurement Date**, or date of value.

**End of Period Discounting** — a convention used when discounting **Economic Income** to present value that reflects such income being generated at the end of each respective period. Contrast with **Mid-Period Discounting**.

**Enterprise Value** — the **Market Value of Invested Capital**, typically adjusted to remove all or a portion of cash and cash equivalents, and other **Nonoperating Assets**. See also **Market Value of Invested Capital** and **Invested Capital**.

**Equity Instrument** — a contract that creates a residual interest in a business' assets after deducting its liabilities.

**Equity Risk Premium** — the incremental return that investors expect to receive from an investment in public equity securities over that of a risk-free security. It is generally calculated as the difference between the expected rate of return on the overall market and the return on a risk-free instrument. Also known as market risk premium, or equity market risk premium.

**Equity Value** — the value of a business to its equity holders. Equity Value is generally calculated as the **Market Value of Invested Capital** less the market value of any debt and **Debt Equivalents**, **Hybrid Securities**, and other non-equity claims.

**ESG** — environmental, social, and governance factors that impact a business or asset and its financial performance and operations (e.g., the impact of sustainability and ethical practices).

**Excess Earnings** — the amount of expected **Cash Flow** that exceeds the economic charge for the use of the **Contributory Assets** used to generate such cash flow.

**Excess Earnings Method** — a method of estimating the value of a business, determined as the sum of (i) the value of the selected **Tangible Asset** base, and (ii) the value of all of the **Intangible Assets** (including goodwill) derived by capitalizing **Excess Earnings**. Sometimes referred to as the capitalized excess earnings method.

**Expected Cash Flow** — the probability-weighted average of the various possible scenarios of a subject business' **Cash Flows**.

**Expected Present Value Technique** — a present value technique using the **Expected Cash Flow** of an asset, business, or investment.



## F

**Fair Market Value** — a **Standard of Value** considered to represent 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, each acting at arms-length in an open and unrestricted market, when neither is under compulsion to buy or to sell and when both have reasonable knowledge of relevant facts. See also **Market Value**.

**Fair Value** — a **Standard of Value** for which there are different definitions, depending on the context and purpose. Fair Value is typically defined or imposed by a third party (e.g., by law, regulation, contract, or financial reporting standard-setting bodies). The most commonly used definition for financial reporting purposes is under IFRS and US GAAP, which define Fair Value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**Fairness Opinion** — an opinion as to whether the consideration proposed to be paid or received in a transaction is fair from a financial point of view to the party paying or receiving such consideration.

**Forced Liquidation Value** — a form of **Liquidation Value** in which an asset or assets are presumed to be sold with less than a reasonable period of market exposure. Contrast with **Orderly Liquidation Value**.

**Functional Obsolescence** — a form of depreciation in which the loss in value or usefulness of an asset is caused by inefficiencies or inadequacies of the asset itself, when compared to a more efficient or less costly newly developed asset. See also **Economic Obsolescence, Physical Obsolescence, Replacement Cost Method, and Replacement Cost New**.

## G

**Going Concern** — an ongoing operating business enterprise.

**Going Concern Value** — a **Premise of Value** that assumes the business is an ongoing commercial enterprise with a reasonable expectation of future earning power.

**Goodwill** — an **Intangible Asset** which represents any future economic benefit arising from a business or a group of assets which is not individually identified or separately recognized. Goodwill can arise as a result of name, reputation, customer loyalty, location, products, and similar factors not separately identified. In the context of a business combination, goodwill is measured as the difference between (A) the aggregate of (i) the value of the consideration transferred (generally at **Fair Value**), (ii) the amount of any noncontrolling interest, and (iii) in a business combination achieved in stages, the acquisition-date **Fair Value** of the acquirer's previously held equity interest in the acquiree, and (B) the net of the acquisition-date amounts of the **Identifiable Assets** acquired and the liabilities as assumed.

**Greenfield Method** — a method used to estimate the value of certain **Intangible Assets** (e.g., franchise agreements or broadcast spectrum) based on the discounted cash flows of a hypothetical start-up business. The **Greenfield Method** assumes that the subject asset is the only asset of the business at the **Valuation Date** and that investments are made during the start-up period to purchase, build, or rent the other assets required to assemble the business. See also **Contributory Assets, Excess Earnings Method, and Multi-Period Excess Earnings Method**.

**Guideline Public Company Method** — a method within the **Market Approach** whereby the value of a business is estimated by application of **Multiples** derived from market prices of securities of publicly traded companies that are engaged in the same or similar lines of business as the subject business.

**Guideline Transaction Method** — a method within the **Market Approach** whereby the value of a business is estimated by application of **Multiples** derived from one or more transactions of **Controlling Interests** in companies engaged in the same or similar lines of business as the subject business. Sometimes known as guideline merger and acquisition method.

## H

**Hybrid Securities** — a component of a company's **Capital Structure** that cannot be classified purely as debt or equity, as it may have characteristics of both (e.g., convertible debt, convertible preferred stock, employee stock options).

## I

**Identifiable Intangible Asset** — in a financial reporting context, an **Intangible Asset** is identifiable if it meets certain contractual and/or separability criteria as defined by a relevant standard (e.g., IFRS 3 or ASC 805).

**Income Approach** — a general manner of estimating the value of an asset, business, or investment using one or more methods that convert expected **Economic Income** into a present amount.

**Intangible Asset** — an asset that lacks physical substance and derives value from the economic properties that grant rights and/or **Economic Income** to its owner (e.g., patents, copyrights, trademarks, or customer relationships). See also **Identifiable Intangible Asset**.

**Intellectual Property** — a legal concept that refers to creations of the mind that are derived from intellectual or creative effort for which exclusive or fractional rights are recognized (e.g., trademarks, trade names, trade secrets, patents, copyright, design rights, and proprietary information). Intellectual property rights generally give the owner the right to prohibit others from using the property without permission.

**Internal Rate of Return** — the **Discount Rate** which equates the present value of expected net cash flows to the initial investment (cost).

**Intrinsic Value** — the value that an investor considers, on the basis of 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, **Intrinsic Value** is the difference between the exercise (strike) price of an option and the market price of the underlying security.

**Invested Capital** — the sum of a business' equity, debt and **Debt Equivalents, Hybrid Securities**, and other non-equity claims. See also **Enterprise Value** and **Market Value of Invested Capital**.

**Investment Risk** — the uncertainty of realizing **Economic Income** as expected (with respect to amount and/or timing).

**Investment Value** — a **Standard of Value** considered to represent the value of an asset or business to a particular owner or prospective owner for individual investment or operational objectives. Also known as 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 upon which the business is highly dependent.

## L

**Levered Beta** — a measure of **Beta** reflecting a **Capital Structure** that includes debt. Also known as equity beta. Contrast with **Unlevered Beta**.

**Liquidation Value** — the amount, net of relevant costs (e.g., preparation and disposal), that would be realized if the business is terminated, and the assets are sold. See also **Orderly Liquidation Value** and **Forced Liquidation Value**.

**Liquidity** — the ability to quickly or readily convert an asset, business, or investment to cash at minimal cost. See also **Marketability**.

## M

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

**Market Capitalization** — the sum, at market values, of a business' **Market Capitalization of Equity** and interest-bearing debt.

**Market Capitalization of Equity** — the aggregate **Equity Value** of a publicly-traded company, calculated as the product of its market price and the number of equity securities outstanding.

**Market Value** — a **Standard of Value** considered to represent 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. See also **Fair Market Value**.

**Market Value of Invested Capital** — the sum, at market value, of a business' equity, debt and **Debt Equivalents, Hybrid Securities**, and non-equity claims.

**Marketability** — the ability to quickly or readily convert an asset, business, or investment to cash at minimal cost that reflects the capability and ease of transfer or salability of that property. Marketability is affected by, among other things, the particular market in which the asset is expected to transact and the characteristics of the asset. See also **Liquidity**.

**Measurement Date** — also known as **Valuation Date, Effective Date**, or date of value.

**Mid-Period Discounting** — a convention used in the **Discounted Economic Income Method** that reflects **Economic Income** being generated at a mid-period, approximating the effect of **Economic Income** being generated throughout the period. Contrast with **End of Period Discounting**.

**Monte Carlo Method** — a statistical technique that samples randomly from a probability-distribution in order to produce different possible outcomes that simulate the various sources of uncertainty that affect the value of a subject asset, business, or investment.

**Multi-Period Excess Earnings Method** — a method of estimating the value of the primary income-generating **Intangible Asset** within a group of assets, by calculating the **Cash Flow** attributable to that asset after deducting **Contributory Asset Charges**. See also **Excess Earnings Method**.

**Multiple** — a ratio calculated as the value of a business or security divided by **Economic Income** or a non-financial metric. Also known as market multiple, pricing multiple, or valuation ratio.

## N

**Net Asset Value** — the difference between a business' total assets and liabilities restated at a particular **Standard of Value** rather than accounting book values.

**Net Book Value** — the difference between a business' total assets and liabilities at accounting book values (synonymous with book equity). With respect to a specific asset, this is the original capitalized cost less accumulated amortization, depreciation, depletion, allowances, or impairment.

**Net Cash Flow to Equity** — **Cash Flow** available to equity holders after funding business operations, paying taxes, making necessary capital investments, and servicing debt and **Debt Equivalents, Hybrid Securities**, and non-equity claims. See also **Net Cash Flow to Invested Capital**. Sometimes referred to as free cash flow to equity.

**Net Cash Flow to Invested Capital** — **Cash Flow** available to all security holders after funding business operations, paying taxes, and making necessary capital investments. See also **Net Cash Flow to Equity**. Sometimes referred to as free cash flow to invested capital or free cash flow to the firm.

**Net Present Value** — the value, as of a specified date, of future cash inflows less cash outflows (including the cost of initial investment) calculated using a **Discount Rate**.

**Nominal Cash Flows** — **Cash Flows** that include the effects of inflation. Contrast with **Real Cash Flows**.

**Nominal Rate of Return** — a **Rate of Return** that includes the effect of inflation. Contrast with **Real Rate of Return**.

**Noncontrolling Interest** — an ownership interest that lacks **Control** of the business. Also known as minority interest or minority shareholding.

**Nonoperating Assets** — assets (or liabilities) not necessary to support the ongoing operations of a business. Sometimes referred to as redundant or surplus assets.

**Normalized Earnings** — **Economic Income** adjusted for extraordinary, nonrecurring, noneconomic, or other unusual items in order to eliminate anomalies and facilitate comparisons.

**Normalizing Adjustments** — adjustments to a business' financial statements for **Nonoperating Assets** and liabilities, and/or for extraordinary, nonrecurring, noneconomic, or other unusual items in order to eliminate anomalies and facilitate comparisons.

## O

**Option Pricing Method** — a forward-looking technique used to allocate value between various equity classes with different economic rights, assuming various future outcomes. The Option Pricing Method considers the current **Equity Value** and then allocates that value to the various equity classes considering a continuous distribution of outcomes, rather than focusing on distinct future scenarios.

**Orderly Liquidation Value** — a form of **Liquidation Value** in which the asset or assets are presumed to be sold over a reasonable period of market exposure to maximize expected return. Contrast with **Forced Liquidation Value**.

## P

**Physical Obsolescence** — a form of depreciation where the loss in value or usefulness of an asset is due to the decrease or expiry in its life from wear and tear, deterioration, exposure to various elements, physical stresses, and similar factors. See also **Economic Obsolescence**, and **Functional Obsolescence**.

**Portfolio** — an assemblage of various assets, investments, or liabilities.

**Portfolio Discount** — an amount or percentage deducted from the value of a business to reflect its ownership of dissimilar operations or assets in a combination that might not be attractive to a potential buyer. Also known as conglomerate discount.

**Post-Money Value** — a business' implied aggregate value immediately following its most recent round of financing. Contrast with **Pre-Money Value**.

**Premise of Value** — an assumption regarding the circumstances that may be applicable to the subject valuation. See also **Going Concern Value** and **Liquidation Value**.

**Pre-Money Value** — a business' implied aggregate value immediately preceding its most recent round of financing. Contrast with **Post-Money Value**.

**Present Value** — the value, as of a specified date, of expected **Economic Income**, calculated using a **Discount Rate**. See also **Net Present Value**.

**Price** — the monetary or other consideration asked, offered, or paid for an asset, which may be different from the value.

**Prior Transaction Method** — a method within the **Market Approach** that uses previous transactions involving the subject business as an indicator of value. Also known as subject company transaction method or recent transaction method.

**Probability-Weighted Expected Return Method (PWERM)** — a scenario-based technique used to estimate the value of an equity interest based on the probability-weighted present value of various discrete future outcomes for the business (i.e., initial public offering, sale, dissolution, or continued operation until a later exit date).

**Purchase Price Allocation** — a term commonly used to describe the process of allocating the price paid in a business combination among the assets acquired and liabilities assumed of the target business, using a variety of methods.

## R

**Rate of Return** — an amount, expressed as a percentage of the amount of the investment, of anticipated or realized **Economic Income** and/or change in value of an investment.

**Real Cash Flows** — **Cash Flows** that exclude the effect of inflation over time. Contrast with **Nominal Cash Flows**.

**Real Rate of Return** — a **Rate of Return** that does not include the effect of inflation. Contrast with **Nominal Rate of Return**.

**Relief from Royalty Method** — a method that estimates the value of an **Intangible Asset** by reference to the present value of the hypothetical royalty payments that are avoided by owning the asset as compared with licensing it from a third party. Also known as royalty savings method. See also **Royalty**.

**Replacement Cost Method** — a method under the **Cost Approach** that estimates the value of an asset by calculating the cost, as of the **Valuation Date**, to recreate the functionality or utility of a similar asset. See also **Cost Approach**, and **Replacement Cost New**.

**Replacement Cost New** — the cost, as of the **Valuation Date**, of an identical new asset or a new asset having the equivalent utility to the subject asset. Also known as reproduction cost new.

**Report Date** — the date of issuance of a **Valuation** report. Contrast with **Valuation Date**.

**Required Rate of Return** — the minimum **Rate of Return** acceptable by investors before they will commit money to an investment, given its level of risk.

**Risk Premium** — a **Rate of Return** added to a base rate (e.g., a **Risk-Free Rate**) to reflect the incremental risk of an asset, business, or investment (e.g., **Equity Risk Premium**, **Unsystematic Risk** premium, country risk premium, or size premium).

**Risk-Free Rate** — a **Rate of Return** available in the market on an investment perceived as free of default risk.

**Royalty** — a payment (hypothetical or actual) made for the use of an asset, especially an **Intangible Asset** or a natural resource. See also **Relief from Royalty Method**.

## S

**Salvage Value** — the value of an asset at the end of its economic life given the purpose for which the asset was created. The asset may still have value for an alternative use or for recycling.

**Scenario Analysis** — the technique of modelling multiple scenarios of possible future **Economic Income** to derive expected value. See also **Monte Carlo Method**, **Option Pricing Method**, and **Probability-Weighted Expected Return Method (PWERM)**.

**Simple Capital Structure** — a **Capital Structure** that includes a single equity class and may include debt or debt-like preferred securities. Contrast with **Complex Capital Structure**.



**Standalone Value** — the value of an asset, business, or investment estimated without considerations of potential **Synergies**.

**Standard of Value** — the definition of value used in a valuation (e.g., **Fair Market Value**, **Market Value**, **Fair Value**, or **Investment Value**). The **Standard of Value** affects the methods, inputs, and assumptions used by the business valuation professional. Also known as **Basis of Value**.

**Synergies** — the concept that the performance and value of two assets or businesses combined will be greater than the sum of the separate individual parts, resulting from the expectation of economies of scale or post-acquisition benefits.

**Synergistic Value** — the expected value resulting from a combination of two or more assets or businesses, which is greater than the sum of the separate individual parts.

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

## T

**Tangible Asset** — an asset that has physical form and derives value from its physical properties or tangible nature (e.g., real estate, property, plant, equipment). Contrast with **Intangible Asset**.

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

**Tax Depreciation Benefit** — the present value of income tax savings resulting from the tax deduction generated by the depreciation of a **Tangible Asset**.

**Terminal Value** — an estimate of the value of **Economic Income** of a business beyond the discrete forecast period in the **Discounted Economic Income Method**. Also known as residual value or continuing value.

## U

**Unlevered Beta** — a measure of **Beta** reflecting a capital structure without debt. Also known as asset beta. Contrast with **Levered Beta**.

**Unlevered Cost of Capital** — the expected **Rate of Return** that the market requires in order to attract funds to a particular investment, assuming an unlevered **Capital Structure**. See also **Weighted Average Cost of Capital**.

**Unsystematic Risk** — risk specific to an individual security that can be eliminated through diversification. Also known as idiosyncratic risk or diversifiable risk. Contrast with **Systematic Risk**.

## V

**Valuation** — the act or process of developing an opinion or conclusion of value at a **Valuation Date** using a **Premise of Value**, a **Standard of Value**, and one or more **Valuation Approaches**. Also known as **Appraisal**.

**Valuation Approach** — a general manner of estimating a value that uses one or more specific **Valuation Methods**. See also **Cost Approach**, **Asset Approach**, **Income Approach**, and **Market Approach**.

**Valuation Date** — the specific point in time at which the conclusion of value applies. Also known as **Effective Date**, **Measurement Date**, or date of value. Contrast with **Report Date**.

**Valuation Method** — within a **Valuation Approach**, a methodology used to estimate value (e.g., **Discounted Cash Flow Method** under the **Income Approach**).

**Valuation Model** — a tool used by business valuation professionals to estimate the value of an asset, business, or investment consisting of a series of calculations involving the application of **Valuation Methods** and the business valuation professional's informed judgement.

**Value in Exchange** — the value of an asset or liability if sold in the open market. Contrast with **Value in Use**.

**Value in Use** — the value of an asset, business, or investment in its current or continued use. Also known as value in continued use, or existing use value. Contrast with **Value in Exchange**.

## W

**Waterfall** — the contractual allocations of **Cash Flows**, commonly resulting from a liquidity event (e.g., merger, acquisition, initial public offering), to the various ownership classes (e.g., debt, preferred equity, common equity) in a business, reflecting the economic rights of each class.

**Weighted Average Cost of Capital (WACC)** — a measure of a business' overall **Cost of Capital** in which the expected **Rate of Return** on each component of capital (e.g., debt, equity) is weighted at market value based upon its relative proportion of the **Capital Structure**.

**With and Without Method** — a method used to estimate the value of an asset by comparing a scenario in which the business uses the asset and another scenario in which the business does not use the asset, all other factors held constant. Also known as premium profits method.

**Working Capital** — the amount of current assets minus current liabilities held in a business for its day-to-day operational needs. Also known as debt-free net working capital when all or a portion of cash and the current portion of interest-bearing debt is excluded.