Glossary of Terms

Adjusted Book Value. The book value (equity) of a company after adjusting the values of assets and liabilities to reflect estimated market values rather than depreciated tax values and removing non-operating assets and liabilities from the balance sheet.

Adjusted Earnings. The earnings of a business after adjustment for one-time or extraordinary expenses, excess owner compensation, and discretionary expenses or other expenses that are not essential for the successful ongoing operation of the business.

Asset Approach. A way of estimating the value of a business ownership interest using one or more methods based on the value of the Adjusted Book Value of the company.

Asset Sale. A form of acquisition whereby a selling entity agrees to sell all or certain assets and liabilities of a company to a purchaser. The corporate entity is not transferred.

Base Year. The Company's current fiscal year. Since complete financial statements are not available for the current year, sales and income are projected based on the expectations of management.

Blue Sky. Any intangible portion of a price above the maximum goodwill that can be reasonably supported through the application of established valuation methodology.

Book Value. The value, net of depreciation, at which an asset appears on a company's balance sheet.

Capital Structure. The mix of invested equity and debt financing of a business enterprise.

Capitalization Factor or Rate. Any multiple or divisor used to convert anticipated economic benefits over time into a present economic value.

Capitalizing Net Income. Determining the value of a Company by dividing annual adjusted income by the capitalization rate (required ROI).

Cash Flow. The amount by which the total cash coming into a business from all sources exceeds the total cash going out.

Cash Flow Statement. An analysis of all the changes that affect the cash account during an accounting period. These changes may be shown as either sources or uses of cash.

Deal Structure. The combination of types of payment by which the purchase of a business is accomplished. It can include cash, notes, stock, consulting agreements, earnout provisions, and covenants not to compete.
The sale can take the form of an asset sale or a stock sale. See those definitions.

Discount Rate. A rate of return used to calculate the present value of a stream of payments.

Discretionary Earnings. Earnings of a business enterprise prior to these expenses:

- Income taxes
- Non-operating income & expenses
- Non-recurring income & expenses
- Depreciation and amortization
- Interest expense or income
- A single owner's total compensation and benefits.

Earnout. The portion of the purchase price that is contingent on future performance of the business. It is payable to the sellers after certain predefined levels of sales or income are achieved in the year(s) after acquisition.

Enterprise Value. The total value of the stock of the business, plus the face value of all interest-bearing debt owed by the business.

Fair Market Value. The estimated price at which an asset or service would pass from a willing seller to a willing buyer, assuming that both buyer and seller are acting rationally, 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. It is also presumed that the price is not affected by special or creative financing or sales concessions granted by anyone associated with the sale.

Fixed Interest Rate. An interest rate which does not fluctuate over the term of the loan.

Free Cash Flow. Cash available for distribution to owners after taxes but before the effects of financing. Calculated as net income, plus depreciation and amortization, plus interest expense, less required capital expenditures and changes in working capital.

Going Concern Value. The gross value of a company as an operating business. This value may exceed or be at a discount from the liquidation value. 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. The amount by which the price paid for a company exceeds the company's estimated net worth at market value of the underlying tangible assets and liabilities. Goodwill is a result of name, reputation, customer loyalty, location, products, etc.

Income (Income Based) Approach. General way of determining the value of a business, business ownership interest, security, or intangible asset using one or more methods that calculate the present value of anticipated future income.

Intrinsic Value. An analytical judgment of value based on the perceived characteristics inherent in the investment as distinguished from the current market price.

Investment Value. The value to a particular investor based on individual investment requirements and expectations.

Liquidation or Liquidating Value. The estimated value, net of liabilities, of a company based on the market value of its assets.

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

Net Book Value. With respect to a business enterprise, the difference between total assets (net of 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 Flow. Cash available for distribution after taxes and after the effects of financing. Calculated as net income plus depreciation less expenditures required for working capital and capital items.

Present Value. The value today of a future payment, or stream of payments, discounted at some appropriate compound interest (discount) rate.

Pro Forma Financial Statements. Hypothetical financial statements. Financial statements as they would appear if some event, such as increased sales or production had occurred or were to occur. Also used to make projections for future years.**Projection.** Prospective financial statements which present an entity's expected financial position, results of operation and changes in financial position, based upon one or more hypothetical assumptions.

Recasting. Financial recasting eliminates from the historical financial presentation, items such as excessive and discretionary expenses and nonrecurring revenues and expenses, since they reflect the financing decision of the current owner and may not represent financing preferences of a new owner. Recasting provides an economic view of the company, and allows meaningful comparisons with other investment opportunities.

Recast Book Value. See also Adjusted Book Value. The value of a balance sheet item(s) (asset, liability, or equity) after recasting adjustments have been made.

Residual Value. The estimated market value of an asset at the end of the period being considered.

Return on Investment (ROI). The rate of return at which the sum of the discounted future cash flows plus the discounted future residual value equals the initial cash outlay.

Stock Sale. A form of acquisition whereby all or a portion of the stock in a corporation is sold to the purchaser.

Transaction Value. Total of all consideration passed at any time between the Buyer and Seller for an ownership interest in a business enterprise and may include but is not limited to all remuneration for tangible and intangible assets such as: furniture, equipment, supplies, inventory, working capital, non-competition agreements, customer lists, employment and/or consultation agreements, franchise fees, assumed liabilities, stock options or redemptions, real estate, leases, royalties, earn-outs, and future considerations.

Valuation Approach. A general way of determining a value indication of a business, business ownership interest, security, or intangible asset using one or more valuation methods. There are three Approaches generally used to value a business: Asset Approach, Income Approach, and Market Approach.

Variable Interest Rate. An interest rate that adjusts periodically to a predefined margin above or below an index rate. A commonly used index is the bank prime rate.

Valuation Method. Within a Valuation Approach, a specific way to determine value.

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

Working Capital. The excess of current assets over current liabilities.