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Valuation Approaches

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>>: You know, it says OK, from a business valuation process. What have we done to get to a point where now we can apply approaches? We've done our discovery. We've conducted the site visit. Behind the scenes, the appraisers worked with historic learnings, looked at normalization adjustments. Now, Jesse, I think as we get into it, what's the next step now? You know, as you've checked in, where do we go from here?

>>: Yeah. So, like, we have - as you see here there's three we'll call generally accepted approaches to valuations, and now these are all basically described by - there's various different sources of professional standards out there, but they all generally come back to the same - these same approaches and underlying methodologies that we've seen time and again in our engagements. OK? And so if we get into them, actually, Marc, on the next slide for a second -

>>: So Jesse, can I interrupt for one second for a quick question commercial break?

>>: Always.

>>: There's - there was an excellent question that came through, and I think it's a great time before we get into approaches, because it talks about - the question was, you know, to what extent, what is the scope of a lawyer's role in the diligence and valuation? And for instance, how do you

respond to, you know, a client, whether sophisticated or not, who says, I really don't want the attorney to be involved. I want the attorney to be minimally involved in the diligence process, and two, appears to be overpaying based on the knowledge - the lawyer's knowledge of the market, but nonetheless wishes to proceed. Do you simply, as an attorney, write a written advice about advising the client to engage valuation consultants? So I think there's a lot in this question. And, you know, from the perspective of - Jesse, I'll say as us as evaluators working with attorneys, controlling clients is critical. You know, I don't think that when a client comes to you, and when they try and minimize representation through the process, they're really cutting themselves short. You know, we always welcome the attorneys being knowledgeable in the process, understanding the company, because the client, whether you are - the clients are going to advocate for a certain position they want. Attorneys can then advocate for the client, and the experts are supposed to have an independent opinion, and there has to be common ground on all this. Knowledge and involvement is critical. And in order for the attorneys to advise clients and work with their experts, that intervention needs to be consistent throughout the process. So when they say we only want you to be minimally involved, I think it's an oversight. You have to stress the importance of bringing on a professional, the ability to do due diligence and communicating that this is not an inexpensive endeavor. You know, how many times does a client want something on the quick-and-dirty, but the valuation of the company is critical to an estate, the valuation is critical to a divorce? You know, it could be the largest asset, and trying to cut corners at the end of the day could be devastating. So that was, I thought, an excellent question, and hopefully I answered it properly.

>>: I think so. But I think at the end of the day, I got to underscore, we actually need your assistance, even though it's an independent analysis, because most of the time we need information. You folks are the facilitators in many, many instances, unless we have the ability to work directly with a business owner client.

>>: And, you know, Jesse, I think the only other thing I thought of, too, as you were answering that part of the question is, one is, you know, whether you're doing gift in estate, whether you're doing shareholder dispute or

whether you're doing divorce. I think it's always critical to remember discovery issues. You know, if you're going to have an expert that's going to be testifying, do you really want your client communicating directly with an expert where all that information may be discoverable, versus client-attorney confidential information that can take place with communications between clients, attorneys and experts all in the same room? So protecting information, and I think we always appreciate when clients don't directly circumvent the attorneys keeping them out of the loop. So I think that's important. A great question, again. For everyone who is participating in this webinar, we have a three-hour webinar to cover a lot of information. We welcome questions. We want to make this interactive and make it so you get the most out of this. Jesse, sorry for the brief interruption, and as we move into stage three of the valuation, Jesse, why don't you take us now into what you were talking about, the valuation approaches and methods?

>>: Of course, and no problem, Marc. The questions are awesome, and it's a crying shame we can't, like, get live voices on here, because it would just make it even better. But all right. So as I was saying earlier, you know, in stage three, we've got three broad approaches to value, and it's not really three things, because, you know, oftentimes there's, like, a subset of various methodologies that fall under each that will be really quite commonly seen, you know, in many engagements. You know, sometimes you'll see some more than others, granted, you know, but to give, like, a really - to give a quick overview here, you know, on the left side of this slide, you have your asset approach, and you know, oftentimes the question is, is there this, like, sort of healthy base of assets to fall back on, you know, regardless of, say, the ability to value the company off of, you know, earnings or, like, a multiplier effect of earnings, is really, what's there regardless of all the difficult math of some of our other valuation approaches? Now, you know, we have here - the asset approach really goes back to a balance sheet. You know, as of your valuation date, you know, can we make certain, you know, adjustments at the end of the day? Right? And that might be, you know, assets that don't really have value, but they're sitting there, you know, regardless because of, say, accounting convention or some kind of a tax requirement. So like, you know, a classic example could be you have the cost of issuing debt or obtaining a loan is sort of put into a balance on your balance sheet, but there's not really a

future value to that, right? The money's already been spent. You might find things like that and sort of write them off out of the asset approach. Or, you know, one of the things that I think - and actually, it's on this slide, too, not just the prior one - what happens if you do have, say, appraisals, right? So you could have a business with - it's not the most common thing, but, like, you could have a piece of real estate on the balance sheet of an operating company. And oftentimes they're separate entities, but if you have it in the same space, you know, look, there's a balance for that real estate on the books, you know, more - you know, almost - in almost every instance. But it might have zero reflection of market value. You might actually have a market indication through a, say, competent real estate appraisal - right? - to just go ahead now and true up these assets. Or, you know, somewhat less frequent, at least in our own practice, is you come across every now and then there's enough equipment, machinery, trucks, things of that nature that you also go out and get some appraisals from time to time if you think it's going to be material. And that can also be sort of reflected in this asset valuation. You know, it's interesting. We have both the view of assets and liabilities. On the liabilities side, a big one the last couple of years has been if you have a triple P Paycheck Protection Program loan sitting on a balance sheet, you know, in many, many instances, those have been forgiven. Right? Now, look, there are certainly exceptions, but if you've still got a loan hanging out there on the balance sheet, it's very important to look into whether or not that money is actually going to be repaid. You know, it's interesting. Sometimes you have trouble getting this information in document production, but especially with larger size loans, this is really easy information to find in a publicly available forum. And it literally - you start with a Google search and you end on the SBA's website, and ability to look up loans, I think it's 150K or more, are super easy to find. I think you can technically find smaller ones as well. But - so we can be adjusting all sides of the equation, but at the end of the day, you really to get a better sense of sort of a snapshot in time, you know, of what the financial position of the firm looks like, and what does that now mean? You know, is this going to be a standalone indication of value for our appraisal, you know, or is it - you know, in some instances it's like that minimum hurdle, right? We're saying, well, that's great, folks, but there's actually some goodwill to this business, too, that kind of builds up and beyond that. Actually Marc, unless you want to add anything here, takes us to our next couple of purchase. So now when you go to - you know, next we had income and market approaches to value. And essentially, you know, just to take a step back from this slide here, you know, both are going to require some kind of an assessment of what the performance of the business is going to be. And so that could be like earnings or cash flow or even revenue in some instances. Right? But what it's going to do is - essentially the implication is that - is all that good stuff perpetuates. And there's almost like a multiplier effect to being able to continue to perform into the future. And so, you know, if we start - let's dig in for a second to the income approach. Now, the income approach effectively says we're going to take, you know, future earnings or future cash flows, and we're actually going to convert that future stream of benefits of owning the business into a present value amount as of our valuation date, whatever it may be. Now there's a couple different variations of this, and you'll see on the slides there's a discounted cash flow, and there's also something called a capitalization of earnings, which is sometimes also called capitalization of cash flow. There's a sense to which we're conceptually doing similar things, right? We're taking the future and putting it into a present value amount today. The capitalization of cash flow or earnings is a little bit more of a simplified picture. It says in the course of a year we can perform or produce X, and if that is stable, OK, you know, and oftentimes stable is like that performance, that dollar of cash flow is going to grow 3% a year into perpetuity, essentially. You know, there's sort of a short form equation that says what the present value of that is, but it usually pivots on the idea that we are already at a stable point in this business and we are in that steady state. The discounted cash flow methodology is a variation of that idea. And where I gave the example earlier of a dollar of earnings or cash flow growing at 3% a year. What happens when we know or could reasonably predict that in the next two or three years, you know, that dollar is going to be 50 cents next year, two bucks the year after that, and then it's going to be stable? You need a slightly more complicated equation to say, well, we're not at the stability point. We're going to present value all the noise in the short term, and then we're going to present value sort of a stable company, you know, as it would be where, let's say, two, three, four or five years out, depending on when stability occurs. Again, it's all the same in a way, but one has to handle the idea of short term volatility as opposed to stability.

>>: And I think, Jesse, that's a great segue into doing some illustrations, because, you know, when you - as you talked about the income approach versus an asset approach, we're looking into this intangible value because the company is expected to be profitable into the future and the return or value of the company is more going to be based on future profitability than the tangible earnings that it has today. You know, I think if I could just take one step back too is when you talked about the asset approach, reiterating that that's more commonly seen with like real estate holding companies, investment companies that don't have an operating active business. Here where you have future profits based on a process, whether it's human capital in a consulting business or equipment through a manufacturing or heavy equipment and construction, this income approach goes into future profitability. And what we're - what we want to do here is really simplify what Jesse was talking about of capitalization of earnings. And what this slide is trying to represent is a road map, that the capitalization of earnings is two factors. So if you start in the top right and we're talking an income approach and we're talking a capitalization of earnings, one, we need expected future profitability. Now, that expected future profitability is then measured against a multiple, and that multiple is risk. So let's take it in two facets, and for the purposes of today's presentation, it's conceptual, just to have a basis of when you're talking an income approach, know two components. Profitability. If we're doing it, what is our normalized expected after-tax profit or after-tax cash flow? That went back to the illustration of we went from a company that had a 1% operating margin to 24 to 26%. That's normalized. That's what's expected. Jesse articulated that when we look at profitability, then we have to know what to expect it. If our normalized profits represent a base or basis of what is going to be expected in the future, we can use a capitalization approach. If there's short term volatility that is expected because the company is struggling to get through COVID, the company had an amazing boom during COVID that's going to slow down in a year, we might look to discount it. All of these factors are going to be - we need to analyze and communicate it to you and your client as to was a capitalization versus discounting method used and what type of profitability did you expect. Then, how does one build up a multiple? Well, the multiple is really two components. The first component starts with the technical term, the discount rate. The discount

rate is the risk associated with creating that profit. And what the far right here I'm kind of circling with my cursor represents is when experts create that discount rate, there's sources of information to create it. And what I've displayed here is what's known as a build-up method. And it's really an additive way of accumulating risk to then apply to a privately held company that your valuing. And when you see factors here, it's really built to show that the further down you go, the more risk there is. So by way of example, just so I can explain it, if you think about risk and investments, if you're investing in a 20-year Treasury, you know, you might get a 2% return. There's very little risk, you know the time period and you're pretty sure you're going to get your principal back. But if you invested in the S&P 500, especially with the volatility in the markets today, there's additive risk factors that - and again, these rates of incremental risk are public data. It's measured, it's reported, it's tracked. So if I was investing in the S&P 500, my risk factor not jumps to eight, but jumps to 10. It's additive. It's 2% plus the 8%. And finally, when you get into the highest risky publicly traded companies, in this illustration, you're at 16%, because you've added on three layers of risk. And then finally, be aware in appraisals, there's a subjective additional risk called company-specific risk premium. And those are factors that add a layer of being a privately-held company within management, as Jesse indicated, could have a high concentration in customers with a lot of turnover, could be dependent on a few key salespeople, or in today you might run into supply risks. So those might be additive risk. And then here that builds up to accumulated discount rate. And if you're using a capitalization method, then you're taking the discount rate and putting it into one capitalization rate by blending out long term growth. And I am going to show an illustration later of capitalizing versus discount. But this is, I think, an important slide, illustratively, that it starts with a simple equation and breaks into two compartments of profitability being your earnings and the risk associated with it. That's kind of a big takeaway here. When you think about capitalizing versus discounting, this is just illustratively been - here was my income, my after-tax profit. We had our discount rate, which we showed back on the other slide, it was 21%. If you subtract long term growth, you get 18%. Now, when we deal with business owners and sometimes attorneys, they say, well, what's my multiple of earnings? A multiple of the earnings is no different than a capitalization rate, because if you take one divided by your capitalization rate, you get a multiple. So by way of illustration, technically by a capitalization of earnings, you take your after-tax earnings of 285, you divide it by your capitalization rate, you're going to get - oh, I'm sorry. I missed one step. The capitalization rate technically is the current year. You need to go out one year. It's - again, this could be a nuance of critiquing, but if you take the 293 divided by the 18%, you get a value of 1.6 million. It's the same as taking the 293 times 5.5. So again, illustratively, we have one expected earnings stream, we have linear growth into the future, gets you to a present value. Now, Jesse made the point to say that basically, valuation under an income approach is representative of future earnings. The last thing I wanted to illustrate here is discounting in a stabilized period. You know, in a business valuation, you should never see a capitalization and a discounted cash flow. Because by using a capitalization of earnings, you are seeing that an expert says, I think we have stabilized expected profit, and we're going to apply linear growth by a one multiple analysis. Well, discounting here, if you have long term growth of 3%, you start with your 285 in year one. The next year, the 3% growth is 293. If you take 3% growth into the future, all the way out till, say, the year 2036 and beyond, you'll notice that we can take our discount rate - letter B here - and turn it into a present value factor. This basically goes back to fifth grade math when you used to have present values tables in the back of your books. And if you simply take that profitability that's expected in that year and look at the present value factor that corresponds to the period, multiply it out year by year by year by year - think about that. In the year 2036, in linear growth, the company is expected to do $444,000. In today's terms, that's $28,000. And if we add all of these years together, you roughly get $1.6 million. So this is again trying to illustrate discounting versus capitalizing. And the importance of this type of slide is that capitalization of earnings is representative when you feel like you've stabilized profit and you can count on linear growth. And I think - Jesse, that segues into why, then, would someone select discounting - a discounted cash flow method - versus a capitalization of earnings?

>>: Yeah. So - like, at the end of the day, it's all about what's going to happen and when. OK? So much of our analyses are founded on what happened in a backward-looking state. You know, what happened the last three years? Five years? Etc. You know, where are we today? What

happens when we - you know, as Mark showed earlier, the process of normalizing those past earnings, right? But then, really, where we have to connect this to, at the very least, the short term. What now? What's actually going to happen? Right? Are there present factors in front of the business that we're looking at that really are going to drive, you know, whether the future is stable or whether the future actually needs to be a little bit more carefully charted out? So. You know, as I think we might have brought up previously, you know, what happens if, you know, a week before your valuation date you lost that customer who was 40% of the business? We're not stable right now. Right? We're going to have to figure out, you know - all right. Earnings next year are not going to be anywhere near what they were this year. But then you're also going to have, you know - look reactively, like, is there a business plan to recover as well? Right? Are we looking at something in, like, you know, the shape of a dip going forward? And then we're going to kind of work real hard. You know, and we have the sort of business set up to recover, you know, whether it be partially or fully or even emerge stronger after that short-term dip. But, you know, there has to be - you know, there has to be some kind of a foundation, you know, for why we need to explicitly project the future a year at a time until we're back to normal versus just saying, here we are presently. You know, we're going to assume we're going to grow linear for the next, you know, 20, 30, you know, essentially perpetuity. You know, things like, you know, COVID, for example, really brought into the spotlight - especially in - you think about whether you can do, you know, the complication of a discounted cash flow model versus a capitalization of cash flow. You know, in a simplistic form, sometimes it feels a little bit venue specific, right? You know, some venues - so, like, let's take certain divorce arenas, for example - might be more interested to see the simplicity of a capitalization model as opposed to the complexity of a DCF. Well, was COVID throw that whole concept out the window in a way where now you have a major issue that, you know, in some instances really creates a deep hole for a business to climb out of, at least in the short term, to the next few years. Or in some instances as Mark said earlier, it's actually accelerated the pace of business for some firms. Right? If you think of what are we on right now, for example? We are on Zoom. How many people were on Zoom before COVID versus how many people are on it now? You certainly - you know, there's a wide diversity of how businesses reacted to COVID. But - and that said, some actually are able to stay stable through it. But every now and then, an issue will come along. And it's going to drive - you know, it may very well start to drive the selection of what's the correct model as to how it impacts how we see the future as stable versus, I don't know, say all over the place. But sometimes it's all over the place, and sometimes there are just a little bit of wrinkles that need to be sort of taken into account.

>>: And Jesse, I think that segues into - speaking of COVID - just another illustration. You know, the power of discounting and why we use it. And what we wanted to do is not get into the depths of putting together a discounted cash flow model, but showing why discounting and the impact versus capitalizing. If you had a company that 2017 through 2019 was kind of growing in a linear fashion - and also its operating profits were moving linear. You know, then you get to a valuation date. Let's move forward that - now you're coming in and you're in March of 2021. We're thinking we have to value this. And you've gotten some financial statements. Well, what would be the impact to customer orders? You know, back in 2020 here in Massachusetts, we had a shelter in place order. You know, we did not know how long we weren't going to be able to go to the workforce. Amazing - I bet you how many people forget there were days, depending on where you lived, on when you could go to the supermarket. No one was going to a movie theater. No one was going to restaurants. The world was really turned upside down. And when you think about it from a valuation standpoint, what would happen in the first quarter where a company saw a dramatic shift? And then you're sitting here valuing this company, you know, towards the end of 2020. And you say, well, what happens if we develop scenarios? And you're working with three different analyses of a company that might project through the end of 2020 a loss of $3 million. It might have a loss a little north of half a million dollars. Or it could be slightly profitable. And where would they end up at the end of the day? Well, that volatility can't be reflected in a capitalization of earnings. And why is that? Because in a capitalization of earnings, we would have expected streamline profitability. Right? We would have said at the end of the year, we have $1,000,060, that we would expect that profitability to move linear into the future. Our capitalization of earnings could not impact short term volatility - right? - in the next three years. And that's a danger.

Because what does discounting allow us to do? Well, discounting allows an expert to account for short-term volatility before you have stabilization. And the main point here is we've already seen how discounting works. You're taking three years of volatility. You're present valuing that back to the future. The one thing that we have not illustrated yet is in a discounted cash flow model - the final year when you get to stabilization is called the terminal year. And essentially, that terminal year is a capitalization of the earnings into perpetuity, but it's three years out. So again, it's discounted back. And then you arrive at accumulated value. You have a short term discount period - '20 to '22 - which is $1,000,002. And then you have your present value of your terminal year to get to a value of the company. Now for the essence of time today you have three different scenarios. I'm just going to illustrate what that looks like. Your capitalization of cash flow could not have taken into volatility. And again, we did this on a very short timeframe, but we show scenario A, B and C, which is your discounted cash flow before you get to linear growth. And in all respect, when you put this together, why is using a discounted cash flow more appropriate in volatility? Well, if you think about it, the end result would have been had you used the capitalization of earnings, the value of the company would have been $6.2 million. The ability to use a discounted cash flow gives you a narrow range of value. Now, with that being said, you know, I think that what this shows is the ability and power of using future profitability is - the question comes into play is, how do you deal with projections? And as attorneys, you can see that being involved in the valuation process and - whether you have an educated spouse on the business or an uneducated shareholder on the business, you have to see what's going on in the second step and see what's going on. Is - does the company create projections? Or can you sit here today and work with an expert of fundamentally putting projections together with the company to get them to agree on what the short-term outlook can look like? What we're going to do now is - it's 11:34. Why don't - Jesse, why don't we just walk through quickly just some common definitions. And then once we wrap up the common definitions, we'll take a ten-minute break.

>>: Sure. Yeah, that would be perfect. So, look, there are differing levels of earnings that we can look at. And that, you know, whereas Mark was just talking about cash flow-based models, you could conceivably do models

off of, like, net income and other factors of profitability. So if you think about what we know - like at the peak, and it's actually not at the chart, like, gross. The business derives revenue, right? And then it pays, you know, various expenses, whether it costs money to, like, build a product or deliver a service directly, you know, things of that nature. Paying to keep the lights on, right? Paying your rents, your utilities, you know, buying office supplies. You eventually - you get to Mark's first item, this item on the slide, this EBITDA, which people probably can sometimes hear - you know, especially in, like, the investment world, is kind of a really grossed up way of looking at profitability. And it's sort of like a core operating profit metric after you pay all your expenses, but it's not before you account for, you know, things like the cost of depreciating fixed assets - right? - and reinvesting into that type of stuff. You know, it doesn't account for things like, you know, interest and taxes. You know, interest is a financing issue. You know, taxes, you know, different companies are involved in different tax structures. So, you know, for comparability, sometimes we start with this EBITDA metric. You know, from there, you know, it's a slightly, you know, it's sort of a small walk to say go to an operating profit. OK? And that's sort of becomes inclusive of, yes, we have to depreciate the equipment as well. Right? And so now, we're at a level of earnings that's - you know, in concept, it's net of reinvesting in your, like, plant and equipment or your fixed assets, you know, those things of a longer-term nature. Now, usually operating profit is before, you know, various junk. So like Mark has listed on this slide, you know, gains and losses on non-operational items. You know, selling equipment - like, let's say the business owns a truck. You know, but they dispose of it. You know, and they might actually get a little bit of money for something, you know, that's fully depreciated. Like, that gain's not really an ordinary gain necessarily. You know, unless, for some reason, you're in the business of selling, like, a used truck. And then loan forgiveness is a big one. It's - we were talking about paycheck protection earlier. You know, often kicks out a big income number, but it's not usually sort of in your core operational earning figures. We also have net income here on the slide. So - and this is a little bit tricky, right? Because it's going to be, as we know, somewhat entity specific. You know, some firms' net income is net of entity level income taxes. And so that would be in a C-Corp situation primarily. And then, you know, we mentioned pass through entities, because, for the most part - except, you know, oftentimes there's, like, some small state income taxes that get baked into a pass through - by and large, you really don't have income taxation on the books, except for some few and generally not the most material exceptions at a state level. Now the sort of next step in this net income does not always equate to cash flow. All right? So just because you generate income doesn't necessarily mean you can extract it from the business. And you typically - you know, there are a few typical things that we'll differentiate here. So that's, you know, working capital. You know, can sometimes be a big investment for a business. Right? And because working capital typically includes things like, you know, accounts receivables, right? Like, you generated those earnings, but you didn't collect them yet. Or inventories, or, you know, sometimes even like a lush cash reserve in the business just to sort of keep things going. You know, it's not atypical that a cash flow could be less than earnings for that reason. You know, similarly, there could be differences between, you know, what you're expected to invest in fixed assets every year. Like we could go take some cash and go buy, you know, a new backhoe or new computers. Those figures are oftentimes going to be different from the - what's related to this is the depreciation expenses that were already in the number, you know, based on your historical, you know, investment in your fixed assets. So sometimes you're tweaking cash flow versus earnings in that area as well. And of course, we could have issues relating to - depending on how we run the models, you know, whether or not debts come into play. Right? So if we have to pay a balloon payment next year, you know, and we're modeling from the perspective of an equity owner, you know, you're going to see a major drain on your cash flow next year if you have to make that balloon payment and that refinance. So there could be a large divide, sometimes there's small divide. Sometimes there are reasons why the difference between earnings and the sort of cash flow that's actually available, you know, could sometimes be quite large. Now all of this stuff is going to relate to our next topic that we're going to get into after the break. In a way, you know, different - some metrics can be used in multiple applications. So this was discussed in an income context. Some of this stuff could carry forward into the next stage as well.

>>: And then what we'll do, Jesse, is we're going to pick up after the break, starting with a market approach to deal with some of these metrics in

terminology that come into using a market methodology. So we are going to take a 10-minute break now. Again, we welcome - I have a few questions in the queue that we will get to when we start out. And please send in some more and we'll see everyone in 10 minutes at 11:50. Hello, everyone, and welcome back. As we come closer to the end of today's seminar, again, we thank you for being here today and we welcome your questions. Before we start in with a market approach, I am going to throw out two questions that we got. The first question said that if you are conducting a valuation date going back to a date of, say, for example, 2019, can you, as a business valuation appraiser, look at financial data of actual results for the year 2020 and 2021? A great question, and the answer is that falls under our subsequent event standards. So we're not allowed to compare actual results in our financial model if you're using a valuation date of 2019. That's not to say that if the company historically has done projections and as of the valuation date, the company had prepared projections for '20 and '21, those may be usable. The second question said, in a small business, do you typically see corporations or companies that actually have projections into the future? And again, another a great question is most small businesses have trouble projecting more than one year in advance. And then really, the follow-on question is, what do you do if you have volatility due to the current economic climate? That's when you go back to the business owner using the site visit, making inquiries, and then the appraiser may be able to build short term projection scenarios based on that information that becomes the source of, say, a discounted cash flow. Thank you for those questions. Jesse, I will turn it now back over to you to go into the market approach.

>>: All right. Thank you, Marc. All right. So before the questions, we had gone through the first two broad approaches to value, asset and income approach. Now, as a transition, the income and the market approach definitely contain some similarity in concept. And I think we touched on this earlier. You essentially need some kind of an assumption of, say, an ongoing level of performance, you know, call it future benefits, earnings, whatever we're calling this performance issue that's going to continue into the future. And where from an income methodology, you know, we had capitalization rates and discount rates and things of that nature that Marc walked us through, on the market side of things, instead, we have a market

multiple, essentially, right? So do we have comparable businesses that tell us that the value should be five times EBITDA or five times operating income or something of that nature or two times revenue? So while the terminology is a little bit different, like there's a similarity in that it's still extrapolating - and maybe extrapolating is not the right term, but, but value of future performance, you know. And so if I'm going to earn a dollar next year, it's probably worth a lot more than a dollar if I can earn it, you know, year in, year out, right? And hence the multiplier effect or the capitalization effect in the prior methodology. Now the ability to use a market approach is really going to be on the basis of, first of all, do we have data, right? But second of all, if we have data, is it comparable data? So let's - if we take a giant step back for a second, first of all, what are the market methodologies that we have at our disposal? You know, on the one hand, we can compare potentially to publicly-traded companies, if we can find a reasonably comparable set of public companies to compare to the private business that we are appraising. Second, do we have data from the deal markets, right? Do we have M&A transactions where - in a similar sense, are the companies that are being bought and sold - are they similar to our business that we're evaluating? And, you know, look, similar is almost like a term of logic in a way, like can we drill into the industry, right? And then when we drill into the industry, can we find businesses that - you know, look, within any given industry, the actual business, you know, or allegedly comparable businesses that we're looking at could have a wide range of diversity in what they actually do or what their actual specialties are. And so it's not even necessarily about finding companies in the same industry sometimes, right? You have to almost drill down further, and if you can, find like strong basis of comparisons. You know, are they similarly situated from the perspective of scale? You know, if we've got a business with five employees, it might be a little weird if we're comparing it to businesses with thousands of employees. Geography could come into play. You know, we've got a business valuation local to Massachusetts and yet we have comparable companies in Japan. Might be problematic. And by might - well, might was definitely not the right word there. It's a little - it would be a little strange. So logically, whatever gets put together, we're trying to find a sample that actually makes sense, and one - you know, I like to think that somebody with a straight face and understanding the facts and circumstances and doesn't necessarily have like the brain of a financial person, you know, doesn't have that skill set, would still believe you, you know, when you make these comparisons, I think is important. Now, the thing I didn't mention earlier, but I think we might have touched upon earlier in this presentation is there's another iteration of the market approach where, you know, if the company itself had transactions in its own shares or, you know, maybe acquired, you know, a very large business segment, you know, a year or two ago, like there are ways of using internal transactions or market data as well in certain instances to also putting an indication on the business you're appraising today. The caveat I want to throw in is there's - made my reference to comparing a Massachusetts business to something in Japan, for example. You know, many other things that, at least in our own practice, public company comparisons are not particularly typical, you know, when you're looking at small, privately-held businesses. Right? Like, it's hard to take a business that, you know, is, say, a lady who fixes computers for a living and then say you found Apple stock and you use it as a basis of comparison, it starts to look a little bit absurd. The fact of the matter is, you know, on scale and in diversity differences alone, you know, it's sometimes difficult to use the public market, depending on what we're looking at here from a private perspective.

>>: And I think, Jesse, that's - you know, you're hitting the nail on the head, which is the big caution flag. Right? If you're reading a valuation report and looking at someone who applied a market method, you know, make sure there is an understanding of comparability that makes sense to you as attorneys. If it doesn't make sense, it probably shouldn't have been used. And also, make sure that you have an adequate sample size.

>>: Yeah, and I just want to go back to - like, one of my - you know, an interesting thing to bring up. You know what it's like when other analysts make some of the more absurd comparisons, where you take a business of small scale that you're evaluating, you know, and if you could somehow put the the elements of scale on a bar chart next to each other, I've got comparable company A, B, C, and then you see your own company and it's a speck and you can't see it on the chart. That's always a fun one. Just, you know, things that a third grader could understand is these five things are not like this other one thing we're trying to compare them to. You know,

some other comparability issues that we haven't gotten into yet, but it sort of speaks to the bottom of this chart in a two-step process. Look, the - especially when you get into like the deal market, you then starts to get into like consistencies is of the data, right? Or inconsistencies of the data. Do I have stock transactions? - right? - when I look at M&A deals? Do I have a bunch of asset transactions? Do I know what is actually bought and sold in those asset transactions? Do I have a sample that doesn't make sense when you put all these things together, because none of them mean the same thing from a valuation perspective with differing structures? So why this speaks to the two-step process is, look, at the end of the day, we need to assess comparability. We need to get a bunch of data points - you know, probably not one or two, probably as many as we can within reason. OK? And from that, we're going to start to make comparisons. You know, look, we need a numerator and denominator. On top, you know, we're going to have the valuation of, say, the M&A deals or the public companies. On the denominator, we're going to have, you know, revenue or EBITDA or operating profit, whatever might be a reasonable metric to the situation, and there's probably some grey area there, where you're now going to have a data set that says, oh, well, the median multiple of operating profit, of value over operating profit, could be five or six or seven, you know, and then we're going to have to apply that - right? - to our own situation in our own appraisal. You know, and you defend things like, well, why are we using the median and not, you know, something discounted off that or the 75th percentile? So, look, it's a little bit of a delicate process. Sometimes it even falls apart at comparability or, like, availability of, like, actual useful data at the end of the day and when you get into, as I said earlier, like, areas of absurdity. But, you know, essentially in a nutshell, we're aiming to make comparisons between market data and between private, you know, enterprise that has no market. And you want to be able to try to do that with a straight face into the process, build out sort of this multiplier effect to value the business. If you wanted to add anything to that, Marc, before we move on?

>>: No, I think that's spot on from a market approach.