Globalview Advisors

Financial Valuation and Advisory Services

Irvine • Los Angeles • Boston • London

19900 MacArthur Boulevard, Suite 810
Irvine, California 92612
T: 949.475.2800 F: 949.475.2580
www.globalviewadvisors.com

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Via email: staci@appraisalfoundation.org

Working Group 3—The Measurement and Application of
Market Participant Acquisition Premiums
c/o Ms. Staci Steward
The Appraisal Foundation
1155 15th Street NW, Suite 1111
Washington, DC 20005

Re: Market Participant Acquisition Premium ("MPAP") Exposure Draft
Comments from Globalview Advisors LLC

Dear Ms. Steward:

The valuation professionals at Globalview Advisors LLC appreciate the efforts of The Appraisal Foundation and its staff, the members of the working group and subject matter expert group and others participating in the development of the exposure draft on "*The Measurement and Application of Market Participant Acquisition Premiums*". This is an important endeavor. We believe the exposure draft meaningfully advances the understanding of this often misunderstood topic and that divergence in practice in developing valuations and the resulting valuation estimates will be reduced.

Globalview Advisors is pleased to provide comments on the MPAP Exposure Draft.

1. *General* – The addition of a table that discusses the possible inclusion or exclusion of an MPAP with related explanations / justifications for each of the Guideline Transaction Method, Guideline Public Company Method, Discounted Cash Flow Method and Adjusted Book Value Method may be helpful to users of the guide.

2. *Page 11, Line 55*—The ability to control the timing of a liquidity event is also one of the potential incremental benefits. It might make sense to add "including the ability to control the timing of a liquidity event" or otherwise discuss incremental cash flows vs. control based aspects.

3. *Page 11, Line 61*—Conceptually, the value of non-controlling interests relative to controlling interests is influenced by possible incremental cash flows for a controlling interest and disproportionate returns that could reduce the value of an NCI. The value impact of disproportionate returns could cover a very wide range. With a wide range of NCI values due to disproportionate returns, control premiums measured from NCI could differ. Factors leading to different NCI values could include differing state legal rights for

NCI by size, swing vote or other factors. Some discussion here or elsewhere in the Guide might be helpful to readers.

4. *Page 12, Line 92*—The sentence raises the question of when it would be appropriate to apply a lack of marketability discount to a controlling interest. Some discussion might be merited.

5. *Page 12, Line 100*- As written, this sentence could suggest that the marketing period for a non-controlling interest is not time-consuming. In many cases, it would be much easier to sell a controlling interest compared to a non-controlling interest. Some additional discussion might be helpful to readers.

6. *Page 13, Line 117*—Consider discussion of private companies with PE/VC backing that are focused on a short to intermediate term liquidity event as compared to private companies with less likelihood for a liquidity event. The likelihood of disproportionate returns as a result of non-market expenses would be higher for the second "group" of private companies.

7. *Page 13, Footnote*—Spelling of "Foundation".

8. *Page 13, Footnote*—Suggest "situations where" rather than "where".

9. *Page 14, Line 144*—Suggest revision. This sentence could be interpreted to mean that even though benefits exist because they are hard to measure, measurement isn't necessary.

10. *Page 14, Line 167*—Bullet 2 "Electing members to the Board" should probably be the first bullet. This ability leads to the ability to accomplish many of the other control benefits.

11. *Page 14, Line 167*—The list could be reworked with several groupings and possible sub-points beneath each. The attributes would seem to fall into four broad areas: 1) Governance, 2) Liquidity, 3) Strategic and 4) Operational.

12. *Page 18, Line 279*—Might want to further elaborate on ". . . select a point within the range taking into account the accounting standards requiring the valuation".

13. *Page 18, Line 284*—An example of the calibration effort might be helpful.

14. *Page 20, Line 330*—Rather than "favorable terms" why not simply "higher price".

15. *Page 20, Line 334*—Initially, this sentence appears reasonable. Replacing the word "generally" with "frequently" might be in order unless there is proof of the assertion.

16. *Page 22, Line 418*—Suggest revision - the "information" isn't the buyer specific synergy rather it is the strategic or operational change available to the specific buyer.

17. *Page 23, Line 426*—"Existence and magnitude of most information asymmetries is difficult to support". Is this sentence trying to say information asymmetries exist but are hard to measure OR that information asymmetries don't exist? May wish to clarify.

18. *Page 23, Line 437*—Might specify "tax, risk or other goals" rather than just "goals".

19. *Page 23, Line 441*—The sentence is technically correct. However, the best comparison would likely be that of invested capital on a controlling interest basis with earnings and other normalization adjustments rather than invested capital on a non-controlling interest basis where earnings may be reduced due to excess compensation or other non-market payments occurring as a result of the actions of the control group.

20. *Page 25, Line 516*—While the difficulty has increased, the market data on purchase prices used previously did not incorporate the expected value of all of the purchase consideration paid to the seller(s). Given this, the prior transaction multiples were understated. May wish to reword slightly as the benefits from increased accuracy of multiples would seem to offset any increased efforts required.

21. *Page 28, Line 575*—Some discussion of calculation of the TIC Foundation might be in order. Items such as use of face or fair value of debt, treatment of debt included in current liabilities, deferred revenue and other possible adjustments may be helpful to readers.

22. *Page 29, Line 588*—Later in the document, the use of MPAPs as a percentage applied to a GPC multiple compared to the actual multiple(s) from the transaction(s) is discussed. A brief reference at this point might be helpful as this is an important point.

23. *Page 29, Line 596*—Suggest addition of a specific reference to market participant synergies.

24. *Page 31, Line 662*—Suggest "period of time" rather than "window".

25. *Page 31, Line 666*—May want to mention comparison of average premiums to calculated value of market participant synergies.

26. *Page 32, Line 691*—FV and FMV assume a transaction, so, an MPAP is relevant. Presumably, there would be expense synergies in almost all cases, so, some degree of MPAP would seem to be appropriate.

27. *Page 32, Line 724*—We agree with the statement that negative MPAP should not be considered. There have been instances where firms were acquired at prices below the trading prices. These transactions have involved firms with limited stock floats where the stock price was believed to be above the intrinsic value of shares. Given situations like the above, it may be appropriate to replace "would be" with "would typically be".

28. *Page 33, Line 750*—Very important concept. Note our prior comment to consider stating this earlier in the guide.

29. *Page 37, Line 898*—The statement "best use of the assets" should be expanded to clarify that this refers to the underlying assets of the business enterprise.

30. *Page 38, Line 916*—Changing statement from "are in no case relevant" to "are not relevant" may reduce potential for reader uncertainty.

31. *Page 38, Line 923*—"The defining boundaries of the asset ae delineated . . ." is a bit hard to follow. Suggest revision to simplify language.

32. *Page 40, Line 1018*—This statement seems to address whether incremental economic benefits are received by the business enterprise and shared ratably among the shareholders or whether the control group receives a disproportionately high share of the incremental benefits. Presumably, the NCI would benefit proportionately from any revenue and expense synergies. May wish to expand to clarify. There is also the issue of increased returns to the control group and resulting reduced returns (pro rata basis) to the NCI. Discussion of this issue here or elsewhere may be helpful to readers.

33. *Page 41, Footnote*—What if the decrement to the value of the non-controlling interest is the result of disproportionate returns? In this case, presumably, returns would be shifted from the NCI to the control group. There is agreement among appraisers that disproportionate returns to a control group are not included in the fair value of the control position.

34. *Page 44, Line 1089*—The high multiple would indicate more effort to support and the low MPAP suggests less effort to support. As written, the sentence suggests that both of these require greater effort to support.

35. *Page 46, Table*—The row "Selected Multiple" includes items that are margins and not multiples.

36. *Page 47, Table* – The table provides MPAPs on a total invested capital and an equity basis. Although the individual transactions vary markedly, the Median and Average figures closely approximate one another. This could lead users to conclude that the differences in TIC and equity MPAPs aren't meaningful. Suggest revision of the transaction set so that the medians and average differ more markedly between the TIC and equity MPAPs.

37. *Page 47, Table*- Inclusion of First and Third Quartile figures might be helpful in keeping people from simply gather data and using a median or average of the data. Inclusion of additional transactions beyond the three presented would be helpful. Without more data, inclusion of quartile indications with such a small data set doesn't seem appropriate.

38. *Page 52, Table*—Suggest adding a percentage indication of the amount by which fair value exceeds carry value.

Thank you for the opportunity to provide these comments.

Sincerely,
GLOBALVIEW ADVISORS LLC

Raymond Rath

Raymond Rath, ASA, CFA
Managing Director