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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") Discussion 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 discussion draft on "The Measurement and Application of Market Participant Acquisition Premiums." This is an important endeavor. We believe the discussion 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 Discussion Draft.

1. *Page 11, Line 68*—Some discussion of the benefits of control from an investor's perspective may be appropriate. From an investor's perspective, control provides an investor the ability to market an entity. This can be an important consideration (and value enhancement) in the event investor specific factors might drive a desire for a liquidity event. These investor specific factors could include financial needs of the investor, alternative investment opportunities, and desire to terminate an investment among others. (*See also Page 12, Line 106*.)

2. *Page 11, Line 82*—Further clarification of the term "controlling interest" may be appropriate. Specifically, whether the controlling interest reflects equity only or equity plus debt. Most analysts likely believe a controlling interest reflects equity only, whereas, the discussion draft suggests a controlling interest can also be measured at the TIC level and, hence, includes debt and equity.

3. *Page 12, Line 110*—The concept of marketing period is frequently addressed in real estate appraisals for different property types. Business valuation appraisals and the valuation literature in general have a limited discussion of the concept of a marketing period. Some discussion of this concept in the document would likely reduce misunderstanding of this concept.

4. *Page 12, Line 112*—The sentence on net proceeds is correct although it seems "tacked-on" to the paragraph which covers a range of areas. Expanding the discussion slightly as a new paragraph may be appropriate.

5. *Page 15, Line 177*—Several of the factors are related and/or seem to be somewhat overlapping. Reorganization of the 18 points into specific areas may be appropriate. A possible regrouping follows:

   a. Entity control and operations—Factors 1, 2, 3, 4, 5, 6, 13, 14, 15, 16 and 17.
   b. Entity liquidity—Factors 8, 9, 10, 11 and 12.

6. *Page 16, Lines 218 and/or 226*—One key area of improvement would be the elimination of a competitor which could allow for improved revenues and margins due to a reduction of competition.

7. *Page 18, Question*—The inclusion of size premiums in acquisitions is an area with differing views. To the extent that many MP buyers are competing for an attractive asset, they may bid the cost of capital down from the theoretically correct cost of the seller towards their (generally lower) cost of capital. While appraisal practice frequently incorporates size premiums, our experience with transaction presentations and documents prepared by investment banking firms and Management prepared documents suggests less frequent inclusion of size premiums in cost of capital estimates. As valuation is a process of reflecting market thinking, the exclusion of size premiums can be justified in certain circumstances.

8. *Page 20, Lines 320–324*—The paragraph could be expanded to include an indication that the MPAP could be reduced as investors anticipate a possible acquisition of a firm and the stock price is bid up as a result. For acquired firms, the measurement of the premium would be impacted by the increase in transaction activity and the time until an acquisition. The first acquisition in an industry might have a higher MPAP, whereas, subsequent acquisitions could have lower MPAP as the foundation has increased due to the expectation of a transaction.

9. *Page 21, Line 342*—Suggest deletion of the reference to venture capital. VC is sometimes viewed as a subset of private equity. Also, acquisitions by VC firms are generally much less frequent than those by PE firms.

10. *Page 21, Line 346*—Suggest inclusion of conglomerate buyers within financial buyers section as conglomerate buyers are a subset as correctly noted.

11. *Page 22, Line 374*—A large buyer making a strategic acquisition for a relatively small immaterial price but with the potential for significant strategic benefit and real option value could potentially be more willing to overpay, hence, leading to a larger MPAP.

12. *Page 23, Question*—Inclusion of an example to illustrate the concept of information asymmetry would assist readers in better understanding this topic.

13. *Page 25, Line 510*—Change "closed" to "completed" to reduce potential for misinterpretation. Closed could potentially be interpreted as closely held or non-public by some readers.

14. *Page 27, Line 555*—The document should remind readers that debt should be included at its fair value rather than its face value. Some calculations of MPAP may be skewed if debt is incorrectly included at a face value amount. Adding this language at this or a later point(s) in the document should be assessed.

15. *Page 28, Line 574*—The paragraph discusses MPAP and then notes that private companies don't have a readily measurable Foundation Price and, hence, transaction multiples should be used. As noted elsewhere, either use of transaction multiples or specific valuation synergies are preferable methods. Standing on its own, the paragraph seems to suggest that for private companies a control premium can't be measured, so, multiples can be developed. Minor revisions could reduce this concern.

16. *Page 28, Line 579*—While discussed here and elsewhere, expansion of the concept of use of multiples from guideline transactions rather than control premiums from GT which are "tacked-on" to public trading multiples would be merited. The document correctly notes this concern but expansion of the discussion may be relevant. The time mismatch between GPC multiples at a valuation date and a MPAP from a different date is challenging. The potential for transaction activity to "bid up" stock prices and lead to a smaller MPAP is also an area of concern.

17. *Page 29, Line 607*—A brief addition to note that pre-existing relationships are discussed in the accounting literature and may require specific valuation would be beneficial to readers.

18. *Page 29, Line 611*—May want to use sub-bullets for the factors discussed in this paragraph. This will help readers more clearly focus on these factors.

19. *Page 29, Line 617*—Suggest deletion of the word “Occasionally”.

20. *Page 30, Question*—The document could include a discussion of post announcement stock price performance of the acquiring company. This stock price change could provide evidence that the market agrees / disagrees with Management’s pricing of the synergies associated with an acquisition target.

21. *Page 32, Line 701*—Negative control premiums may occur when the market is pricing minority shares above the fair value of a controlling interest. This may be indicative that the market is speculative at times for certain firms and that prices may not reflect the intrinsic or investment value of a firm. This can occur in situations where supply and demand for shares are not in balance. This could raise questions about the accuracy of market pricing at specific points in time. Some discussion at an appropriate point in the document indicating that the document is premised on the efficient markets hypothesis may be in order.

22. *Page 36, Line 844*—The language “may often be” could be changed to “should”. An addition that if the entry price exceeds the exit price suggests that the buyer overpaid and did not pay fair value could be added. Some note on the lack of detailed transparency of data on strategic competitors and the inability to assess the investment value of other MP buyers could be added. This language should be weighed against existing concerns by appraisers on the perceived difficulties in developing market participant estimates. Language noting the buyer management is typically best positioned to identify these synergies should be considered.

23. *Page 41, Question*—No concerns noted. Inclusion of an example may help readers better understand key topics in this section.

24. *Page 42, Line 1057*—Should “will” be changed to “may”?

25. *Page 42, Line 1067*—Should "through a valuation model" be added after "measured directly" to enhance clarity?

26. *Page 42, Line 1068*—Delete word "corresponding".

27. *Page 43, Table*—In last row "Revenue" should be changed to "EBITDA".

28. *Page 44, Table 1*—Consider adding some reference that debt is at fair value.

29. *Page 44, Table 2*—Should the second column of figures have "Control" added above the words "Fair Value"?

30. *Page 45, Line 1135*—Consider changing "comparable" to guideline.

31. *Page 48, Line 1177*—A discussion of using fair value of debt may be appropriate to include in this paragraph.

32. *Page 48, Line 1194*—Companies within an industry may have different strategies which will lead to different profit margins and asset turnover levels. The comments about margin expansion for Company H may be correct but it would not be unreasonable to see a range of operating margins.

33. *Page 48, Line 1194*—May wish to remind readers that analysis should likely include financial performance over a period of more than one year to confirm reasonableness of assumptions.

Thank you for the opportunity to provide these comments.

Sincerely,
GLOBALVIEW ADVISORS LLC

Raymond Rath

Raymond Rath, ASA, CFA
Managing Director