



**FAIRWAY**  
HEALTHCARE PARTNERS

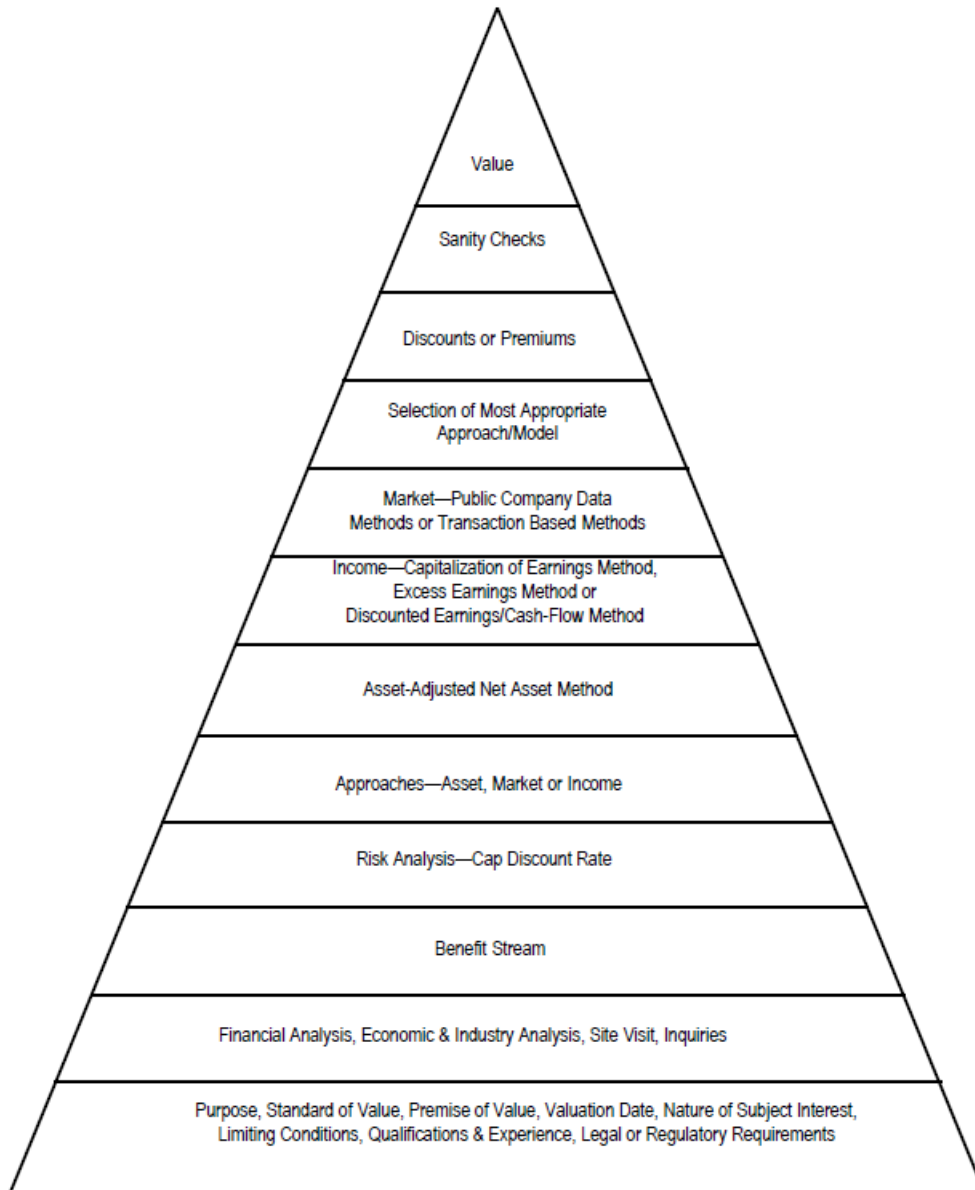
# Valuation 101

Fundamentals, Theory, & Methods

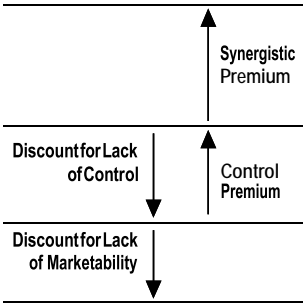
**Presented by Brian Pender, CVA**



# The Valuation Process



# 10 Valuation Tips to know

<p><b>1) Build from the bottom of the pyramid</b></p>	<p><b>2) Value = Benefits Stream / Risk</b></p>
<p><b>3) Normalization Adjustments</b></p> <ul style="list-style-type: none"> <li>• Compensation, Travel, Meals, Autos, old inventory, bad AR, and more.</li> </ul>	<p><b>4) Asset Approach</b></p> <ul style="list-style-type: none"> <li>• Holding Companies</li> <li>• Liquidations</li> </ul>
<p><b>5) Income Approach</b></p> <ul style="list-style-type: none"> <li>• Discounted Cash Flow (Future)</li> <li>• Capitalization of Earning (Historical)</li> </ul>	<p><b>6) Market Approach</b></p> <ul style="list-style-type: none"> <li>• Guideline Public Company</li> <li>• Comparable Private Transactions</li> </ul>
<p><b>7) Levels of Value</b></p> 	<p><b>8) Levels of Risk</b></p> <p><b>ORDER OF INVESTMENT RISK</b></p> <p><u>Higher Degree of Risk</u></p> <ul style="list-style-type: none"> <li>Venture Capital Investments</li> <li>Small Common Stock</li> <li>Blue Chip Common Stock</li> <li>Preferred Stocks</li> <li>"C" Rated Corporate Bonds</li> <li>"B" Rated Corporate Bonds</li> <li>"A" Rated Corporate Bonds</li> <li>U.S. Treasury Obligations</li> </ul> <p><u>Lower Degree of Risk</u></p>
<p><b>9) Discounts</b></p> <ul style="list-style-type: none"> <li>• Discount for lack of control</li> <li>• Discount for lack of marketability</li> <li>• Others include: Key person, lack of information, restrictive legal terms, liquidation discount, etc.</li> </ul>	<p><b>10) Sanity Checks</b></p> <ul style="list-style-type: none"> <li>• Are the income &amp; market approaches close?</li> <li>• Could this deal be financed?</li> <li>• What is the projected payback period?</li> </ul>

