

HOW TO CALCULATE THE PEDI



DLOM COMPONENTS

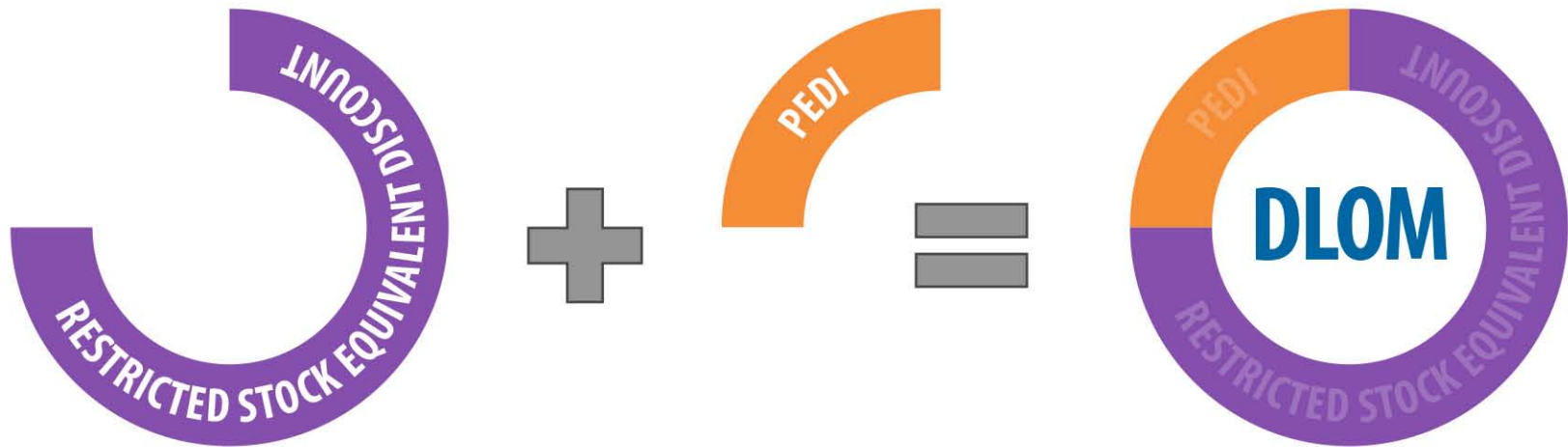
WHY APPLY A PEDI?

The subject company is not a public company issuing restricted stock, which is the basis for the RSED. Instead, it is a private company, which is more illiquid in nature.

HOW DO YOU DETERMINE THE PEDI?

You need to look at the differences in discounts between larger block and smaller block transactions. Specifically, we compare the RSED of the largest block transactions with the average and median RSED indications from the entire database. This is the basis for the PEDI.

DLOM COMPONENTS



The sum of the **Restricted Stock Equivalent Discount** and the **Private Equity Discount Increment** equals the DLOM for shares in a privately held business.

DLOM COMPONENTS

Method #1: Analysis of Data Download Count 213

Lack of Marketability Analysis: Restricted Stock Equivalent Discount

Valuation Parameters	Subject Company	Data	Indication	Weight
	Traits	Quartile/Grouping	Median	
Total Assets (\$)	10,000,000	3Q	30.5%	1.00
Total Revenues (\$)	15,000,000	2Q	17.8%	1.00
EBITDA (\$)	(5,000,000)	3Q	39.1%	1.00
Net Income/ (Loss) (\$)	(6,000,000)	3Q	23.5%	1.00
Net Profit Margin	-40.0%	3Q	25.7%	1.00
Equity (Book Value) (\$)	5,000,000	2Q	18.6%	1.00
Enterprise Value (\$)	30,000,000	3Q	23.0%	1.00
Market-to-Book Value (1)	5.0x	3Q	14.8%	1.00
Custom Field #1	SIC 7371	N/A	24.2%	1.00
Custom Field #2		N/A		0.00
Indicated Restricted Stock Equivalent Discount (RSED)			<u>24.1%</u>	
Concluded Restricted Stock Equivalent Discount (RSED)			<u>24.1%</u>	

Consider median indications from other custom searches (e.g., other SIC Codes)

Notes:

(1) Use market value of equity (on a marketable minority basis), as determined from your valuation, and divide by book value of equity from the subject company financial statements

DLOM COMPONENTS

Method #2: Analysis of Entire Database **Count** 2274

Lack of Marketability Analysis: Restricted Stock Equivalent Discount

<u>Valuation Parameters</u>	<u>Subject Company Traits</u>	<u>Data Quartile/Grouping</u>	<u>Indication Median</u>	<u>Weight</u>
Total Assets (\$)	10,000,000	3Q	23.3%	1.00
Total Revenues (\$)	15,000,000	2Q	15.3%	1.00
EBITDA (\$)	(5,000,000)	3Q	23.5%	1.00
Net Income/ (Loss) (\$)	(6,000,000)	2Q	24.3%	1.00
Net Profit Margin	-40.0%	4Q	19.4%	1.00
Equity (Book Value) (\$)	5,000,000	3Q	24.6%	1.00
Enterprise Value (\$)	30,000,000	4Q	23.9%	1.00
Market-to-Book Value	5.0x	2Q	18.7%	1.00
Custom Field #1	SIC 7371	N/A	24.2%	1.00
Custom Field #2	-	N/A		0.00
Indicated Restricted Stock Equivalent Discount (RSED)			21.9%	
Concluded Restricted Stock Equivalent Discount (RSED)			21.9%	

Consider median indications from other custom searches (e.g., other SIC Codes)

DLOM COMPONENTS

Reconciliation of Methods

		Weight
Concluded Restricted Stock Equivalent Discount (RSED) - Data Download	24.1%	1.00
Concluded Restricted Stock Equivalent Discount (RSED) - Entire Database	21.9%	1.00
Indicated Restricted Stock Equivalent Discount (RSED)	23.0%	
Concluded Restricted Stock Equivalent Discount (RSED)	<u>23.0%</u>	

Based upon your analysis of risk parameters, you have concluded an RSED

Next Step – Calculate a PEDI

Ready | Data | Statistics | RSED | **PEDI** | Discount Conclusion | DownloadCalculations | DLOM CALCULATION | Version | 100%

DLOM COMPONENTS

UNDERSTANDING THE ADDITIVE AND MULTIPLICATIVE COMPONENTS OF THE PEDI CALCULATION

	BLOCK SIZE (<i>Qtrs. to Sell</i>)			
	>35	>30	>25	All
Mean	31%	29%	29%	22%
Median	28%	25%	25%	19%

(Please refer to color coded numbers below)

	INCREMENT	
	Multiplicative	Additive
Mean	1.3x - 1.4x	7 - 9%
Median	1.3x - 1.5x	6 - 9%

(Please refer to color coded numbers below)

The additive PEDI is calculated by subtracting the average or median all-block discount estimates from the equivalent large-block discount estimates.

- $31\% - 22\% = 9\%$
- $29\% - 22\% = 7\%$
- $25\% - 19\% = 6\%$
- $28\% - 19\% = 9\%$

The multiplicative PEDI comes from dividing the large-block discount estimates by the average or median all-block discount estimates.

- $(31\% / 22\%) = 1.4x$
- $(29\% / 22\%) = 1.3x$
- $(25\% / 19\%) = 1.3x$
- $(28\% / 19\%) = 1.5x$

The average or median for all transactions is used as “base discount” since the entire data-set is used when determining the RSED.

DLOM COMPONENTS

Lack of Marketability Analysis: Private Equity Discount Increment

Multiplicative			
Additive	= AVERAGE (((1.3 x RSED) - RSED), ((6.0% + RSED) - RSED))	= AVERAGE (((1.5 x RSED) - RSED), ((6.0% + RSED) - RSED))	6.0%
	= AVERAGE (((1.3 x RSED) - RSED), ((9.0% + RSED) - RSED))	= AVERAGE (((1.5 x RSED) - RSED), ((9.0% + RSED) - RSED))	9.0%
	1.3x	1.5x	

On an additive basis, the PEDI is 6% to 9% greater than the RSED

On a multiplicative basis, the PEDI is 1.3 to 1.5 times greater than the RSED

Concluded RSED: 23.0%

Start with the concluded RSED which is pulled from the previous page

Multiplicative			
Additive	6.5%	8.8%	6%
	8.0%	10.3%	9%
	1.3x	1.5x	

The results matrix, based upon the concluded RSED and the multiplicative and additive factors, displays a range of PEDI indicators

Indicated Private Equity Discount Increment (PEDI): 8.4%

Concluded Private Equity Discount Increment (PEDI): 8.4%

Concluded PEDI

DLOM COMPONENTS

Lack of Marketability Analysis: Private Equity Discount Increment

Additive		Multiplicative		Additive		Multiplicative	
= AVERAGE (((1.3 x RSED) - RSED), ((6.0% + RSED) - RSED))	= AVERAGE (((1.5 x RSED) - RSED), ((6.0% + RSED) - RSED))	= AVERAGE (((1.3 x 23%) - 23%), ((6.0% + 23%) - 23%))	= AVERAGE (((1.5 x 23%) - 23%), ((6.0% + 23%) - 23%))	= AVERAGE (((1.3 x 23%) - 23%), ((9.0% + 23%) - 23%))	= AVERAGE (((1.5 x 23%) - 23%), ((9.0% + 23%) - 23%))	6.0%	6.0%
= AVERAGE (((1.3 x RSED) - RSED), ((9.0% + RSED) - RSED))	= AVERAGE (((1.5 x RSED) - RSED), ((9.0% + RSED) - RSED))	= AVERAGE (((1.3 x 23%) - 23%), ((9.0% + 23%) - 23%))	= AVERAGE (((1.5 x 23%) - 23%), ((9.0% + 23%) - 23%))	= AVERAGE (((1.3 x 23%) - 23%), ((9.0% + 23%) - 23%))	= AVERAGE (((1.5 x 23%) - 23%), ((9.0% + 23%) - 23%))	9.0%	9.0%
1.3x	1.5x	1.3x	1.5x	1.3x	1.5x		
Concluded RSED		23.0%	Concluded RSED		23.0%		
Additive		Multiplicative		Additive		Multiplicative	
6.5%	8.8%	6%	6.5%	8.8%	6%		
8.0%	10.3%	9%	8.0%	10.3%	9%		
1.3x	1.5x		1.3x	1.5x			
Indicated Private Equity Discount Increment (PEDI)		<u>8.4%</u>	Indicated Private Equity Discount Increment (PEDI)		<u>8.4%</u>		
Concluded Private Equity Discount Increment (PEDI)		<u>8.4%</u>	Concluded Private Equity Discount Increment (PEDI)		<u>8.4%</u>		

Consider both multiplicative and additive relationships as either relationship may skew the concluded DLOM discount, particularly if the RSED conclusion is very small or very large. The toolkit applies various combinations of low to high ranges for each relationship.

CONCLUDED DLOM



The sum of the **Restricted Stock Equivalent Discount** and the **Private Equity Discount Increment** equals the DLOM for shares in a privately held business.