

## MEMORANDUM

TO: VALUATION COMMITTEE  
FROM: ABC  
SUBJECT: XYZ, LLC 06/30/2018 VALUATION  
DATE: 08/21/2018

### Investment

XYZ holds a XX% interest in ABC Class A Units.

XYZ (or "the Company") owns XX% of XYZ which owns XX% of XYZ, which is the operating entity.

The valuation exercise is directed at determining the value of the securities held by ABC.

### Details of Inputs by FASB 157 Level

<u>Input</u>	<u>FASB 157 Level</u>
Discounted Cash Flow Analysis	3
Comparable Company Trading Analysis	2
Comparable Company Transaction Analysis	2

The discounted cash flow ("DCF") analysis is considered FAS157 Input Level 3 because it is unobservable for the investment. The DCF methodology reflects our own assumptions regarding the assumptions market participants would use in pricing the investment. By contrast, the comparable company analyses used, both trading and transaction, are considered FAS157 Input Level 2 as these valuation methodologies are based on observable market values. The overall valuation is determined using a weighted average of the DCF analysis and the comparable company analyses; therefore the overall FAS157 Input Level is 3.

### Overview

In determining the value of ABC's ownership of XYZ, a comprehensive valuation analysis was performed. The valuation analysis includes:

- Discounted cash flow analysis;
- Comparable company trading analysis; and
- Comparable company transaction analysis

The valuation methodologies, explained in further detail below, produce equity values ranging from \$XXM (using the comparable company trading analysis) to \$XXM (using the discounted cash flow analysis). The equity values resulting from each respective valuation methodology are then weighted according to the current perceived relative validity of each analysis. The DCF analysis is afforded a XX% weighting among the three valuation analyses, as it is believed that this analysis most accurately captures the Company's value and long-term profitability potential. Two different comparable company valuation analyses are also employed, the comparable company trading analysis (assigned XX% weighting) and the comparable company transaction analysis (assigned XX% weighting). The comparable company trading analysis consists of comparable public companies in industries relevant to XYZ which have similar product categories, end-markets, distribution channels, growth rates and/or comparable fundamentals driving these businesses. The comparable company transaction analysis consists of acquisitions that are relevant to XYZ based on the same set of criteria used in the comparable company trading analysis. The companies in either comparable company analysis are only somewhat comparable to XYZ due to difference in size, product mix and distribution channel mix. As such, the comparable company analyses are individually given less weighting than the DCF analysis.

## Request and Guidelines Provided

- Create a template for a periodic valuation memorandum with an explanation of the methodology at each step

## Methodology and Final Deliverable

- Classified the valuation methodologies used for the analysis – discounted cash flow and comparable company trading/transaction analyses
- Carried out the individual valuation exercise for the portfolio company and calculated the corresponding Equity Value
- Summarized key findings in a presentable document, which included valuation calculations, key assumptions, and flagging key considerations wherever necessary

Presented a summary of key findings including valuation calculations and key assumptions while flagging key considerations wherever necessary