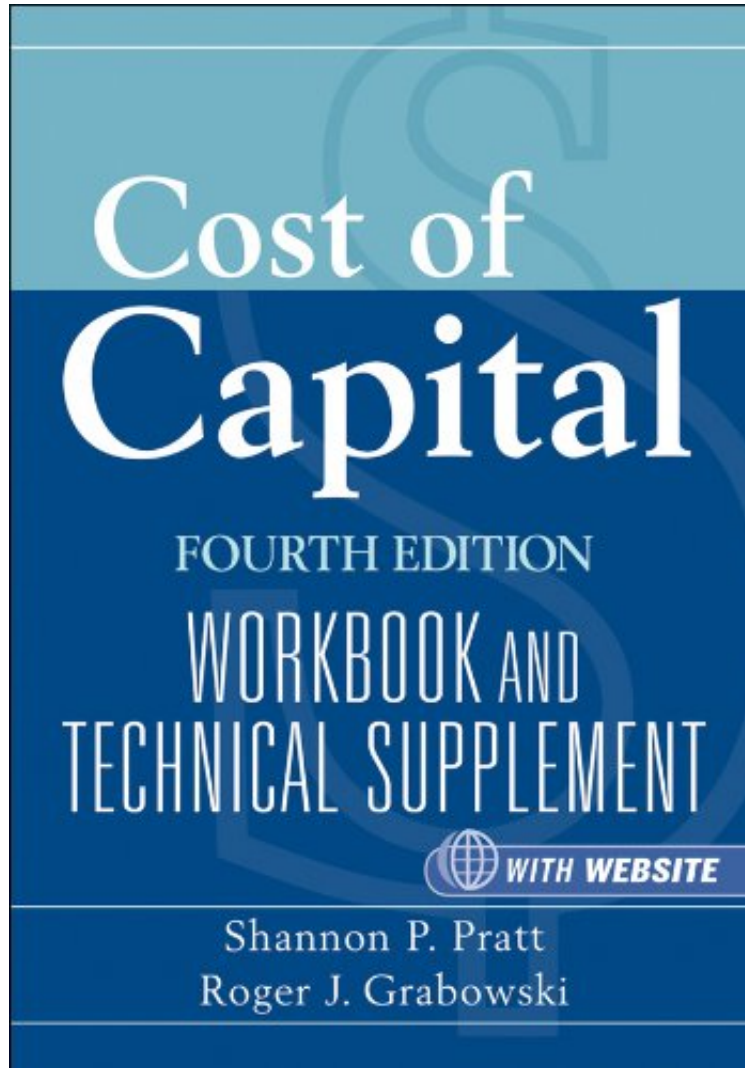


Cost of Capital: Workbook and Technical Supplement

Shannon P. Pratt, Roger J. Grabowski
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From the Publisher Cost of capital refers to the cost of borrowing money for the purpose of raising funds and the effect of that acquired debt on shareholder's or owner's equity. This book develops a more defined method of calculating the true cost of capital with regard to equity valuation. From the Inside Flap Cost of capital estimation has long been recognized as one of the most critical elements in business valuation, capital budgeting, feasibility studies, and corporate finance decisions. It is also the most difficult procedure to perform and assess. In the second edition of *Cost of Capital: Estimation and Applications*, renowned author and valuation expert Shannon Pratt addresses the most controversial issues and thorny problems in estimating the cost of capital. In a clear, concise, and easily understandable manner, he tackles all of the problems in calculating rates of return and offers sensible, well-thought-out solutions that apply to small business and midsize companies, as well as to multibillion-dollar corporations. Dr. Pratt lays out the basic tools that anyone can use immediately when estimating cost of capital or reviewing someone else's estimate. He presents basic theory and explains how it is used in valuation of businesses and business assets, as well as in capital expenditure decision making, and he provides clear explanations for each of the mathematical formulas used. Citing comprehensive sources of information, Dr. Pratt also offers clear and complete definitions of all common terminology used in cost of capital estimation. He points out the errors that are common to the process, and gives practical advice on how to avoid them when making an estimation and how to identify them in other people's work. The revised and expanded Second Edition offers several new features, including: * A new chapter covering cost of capital in Economic Value Added (EVA) * A new chapter on reconciling cost of capital in the income approach with valuation multiples in the market approach * An expanded chapter on "Handling the Discount for Marketability," including sources of restricted stock and pre-IPO studies * Expanded coverage of cost of capital in the courts * New exhibits to reflect the new 10a and 10b breakdowns of Ibbotson Associates' 10th decile Generously supplemented with tables, graphical diagrams, and step-by-step examples, *Cost of Capital* is an indispensable resource for business appraisers, valuation professionals, and consultants attached to accounting firms, as well as corporate finance executives, investment bankers, venture capitalists, private equity firm executives, and others who must make important decisions based on their understanding of cost of capital estimations. From the Back Cover An authoritative text on cost of capital for both the nonprofessional and the valuation expert—now revised and expanded In endeavoring to practice sound corporate finance, there is perhaps nothing so critical, nor slippery, as cost of capital estimation. The second edition of *Cost of Capital: Estimation and Applications* combines a state-of-the-art treatise on cost of capital estimation with an accessible introduction for the nonprofessional. This comprehensive yet usable guide begins with an exposition of basic concepts understandable to the lay person and proceeds gradually from simple applications to the more complex procedures commonly found in the marketplace. New features of the revised and expanded Second Edition include chapters on Economic Value Added (EVA) and reconciling cost of capital in the income approach with valuation multiples in the market approach, as well as expanded coverage of cost of capital in the courts and handling discounts for marketability. *Cost of Capital* remains an incomparable resource for all parties interested in effective business valuation.