Bridge Finance's Theoretical and Applied Valuation Gap Using Transaction Level Equilibrium

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ABSTRACT

Finance's theoretical and applied valuation gap is the manifestation of flaws occurring on both sides of the gap. Analyzing the valuation gap at a lower transaction level provides a unique equilibrium perspective. A valuation's transaction equilibrium is indicated by the presence of an equity statement. With today's three prospective financial statements, the absence of prospective equity statements attests to the existence of imbalanced transactions. Imbalanced prospective transactions place subjectivity in a valuation beyond its assumptions. Resolving the subjectivity in a valuation other than in its assumptions, enhances valuations while bridging the theoretical and applied valuation gap.

I. INTRODUCTION

This discussion examines valuation architectures, corroborating valuation analytics, comparative valuation metrics, and variance reporting. The discussion focuses on the redesign and enhancement to process steps four through seven of wealth formation's eight steps:

1. Initiate an investment opportunity with informal and formal probability algorithms from predictive financial risk modeling
2. Define investment assumptions and their amounts based on informal and formal probability algorithms
3. Finalize an investment assumption set by selecting the level of a risk neutralizing equity return relative to the predictive algorithms.
4. Generate an investment's valuation using the investment's assumptions and a valuation architecture
5. Produce the valuation's prospective financial statements and corroborating analytics
6. Make the 'go/no go' equity deployment investment decision using the investments assumptions, valuation, corroborating analytics, financial statements, and a comparative valuation metric
7. Perform actual versus expected variance analysis
8. Use the variance analysis to evaluate equity return's risk neutralization relative to the predictive algorithms

An investment opportunity's assumption set and a valuation architecture combine to generate a valuation. A valuation architecture consists of three essential elements: concept, structure, and method. Within the architecture, the valuation method organizes the investment's assumptions for the valuation structure, which then calculates the valuation in accordance with the valuation concept. When a valuation architecture produces a representative valuation, the result becomes useful in an economic setting. However, because current architecture elements of structure and method involve a degree of subjectivity, determining whether a valuation's financial statements are truly representative remains subjective as well. The subjectivity in valuation architectures maintain finance's theoretical and applied valuation gap.

An alternative valuation architecture combines discounted cash flow's time value of money concept with EBITDA's reciprocal triad structure to close finance's valuation gap. The cornerstone

of the alternative valuation architecture is its lack of subjectivity. Accounting does not remove a valuation architecture's subjectivity, but it does verify its presence or absence. Similarly, accounting does not unify accrual and cash valuation perspectives; rather, it provides the prospective equity statements that verify whether finance's competing valuation perspectives are unified within a valuation architecture. In addition, accounting does not match the sought equity return imbedded in capital cost with the equity return demonstrated in financial statements, but it does provide the equity statement verifying the equity returns match. The elimination of subjectivity in a valuation architecture serves to acknowledge the ability to implement valuation variance, feedback, analytic, and reconciling mechanisms. The proposed alternative valuation architecture establishes these beneficial mechanisms across all levels of economic activity for comparison with and among both historical results and prospective valuations. While accounting aids generating these mechanisms, the mechanisms' finance and economic analyses and interpretations drive subsequent discussion and courses of action.

The alternative valuation architecture's subjectivity removal coincides with a comparative valuation metric discussion. The necessitated elimination of capital cost's IRR and NPV as comparative valuation metrics is a historic turning point in investment valuations. Viable financial statements generate the replacement comparative metric's deployed equity efficiency focus.

Economic activity levels are discussed within the broad range of asset to economy. Although, for investment valuations, the transaction activity level is the most fundamental economic activity level. Transactions accumulate into assets, assets accumulate to organizations, industries and finally economies. This discussion expands the lower range of economic activity levels to include transaction activity level analysis. Analyzing prospective valuations at the transaction level offers a unique equilibrium touchstone where accounting transaction debit entries should equal credit entries. The touchstone enables a common ground to articulate valuation differences. Without this articulating common ground, academic and private sector valuation architectures have diverged over the past 25-30 years.

The predictive financial model ladders of empirical research have a new wall to lean against. The wall has an equilibrium transaction foundation. The wall consists of an objective

valuation architecture; operating within the wall are subjective assumptions to create valuations. The wall provides affirming viable prospective financial statements, corroborating analytics, and objective feedback mechanisms. The new wall represents a valuation architecture's transition from a social science where biases exist (where debits don't equal credits) to a formal deductive science (where debits do equal credits). An investment opportunity's architecture whose debits equal credits is analogous to 1 minus 1 = 0. The enablement of debits equaling credits—leading to matching EBITDA and DCF reciprocal valuations—produces significant valuation comfort.

When prospective debits equal credits, the prospective financial statements used to make 'go/no go' investment decisions are as viable as the investment's assumptions. When debits don't equal credits, creating an investment valuation places additional subjectivity in an investment beyond just the assumptions. This additional valuation subjectivity causes the subsequent financial statements portrayal to not properly reflect the investment's assumptions and valuation in an investment decision.

The allure of wealth formation drives marketplaces toward greater efficiency. Empirical studies are typically conducted to try and understand the marketplace's ever-changing facets of risk and reward. However, occasionally, a discussion reveals a mechanical valuation enhancement, directly impacting 'go/no go' investment decisions. An example of a mechanical valuation enhancement was presented in Bierman and Smidt's (1960) book *The Capital Budgeting Decision*. The book was a stepping stone for the adoption of discounted cash flow valuations. This discussion set out to be a straightforward pathway to improve valuation mechanics. However, the initial focus has transitioned into addressing latent valuation issues.

Prospective financial statements generate the comparative valuation metrics used in 'go/no go' wealth formation decisions. Recent changes in investment opportunities are creating valuation flaws. Misleading financial statements are an outcome of the flaws, causing comparative valuation metrics to produce suboptimal wealth formation decisions.

A symptom of the flaws are prospective financial statement's debit entries do not equal credit entries. Debits not equaling credits creates an inability to compile a prospective equity

statement[1], which is the fourth of four Primary Statements Framework accounting statements. The Primary Statements Framework states equity statements are constructed from two unmodified lines of the second and third primary accounting statements. However, owing to the discounted cash flow flaw, prospective equity statements are not currently being constructed from the two lines—prospective financial statement debits are not equal to their credits. The absence of equity statements becomes more striking when recognizing a similar absence of prospective accounting trial balances.

The alternative valuation architecture's remedy for the discounted cash flow flaw procures affirming prospective equity statements, trial balances, and corroborating analytics; corroborating analytics verify whether an investment's financial statement portrayal is representative of the investment's assumptions and valuation. Combining the alternative valuation architecture with corroborating analytics and a new comparative valuation metric generally enhances wealth formation decisions. More specifically, combining the alternative architecture and the new comparative metric join micro- and macroeconomic valuations, foster selection of active versus passive investments, and power entrepreneurial startup valuations while bridging the theoretical and applied valuation gap in finance.

The challenging aspect of wealth formation involves valuing and comparing complex investment choices. These choices are moving in different directions and forming wealth in different ways. This discussion employs basic accounting to enable the rethinking of the valuing, presentation, corroboration, comparison, and decisions of wealth formation choices.

II. RECOURSE FOR A DISCOUNTED CASH FLOW FLAW

Business school curriculum calls for students to take an A101 accounting class. A prominent A101 topic is accounting debit entries should equal credit entries. Accounting A101 classes also cover the Primary Statements Framework. Adherence to the Primary Statements Framework provides accounting and financial statement debit entries to equal credit entries. For

[1] Within this discussion's context, a prospective equity statement's entries are limited to net income, the investment owner's equity issuances, and cash dividends.

those who have never taken an A101 class or have forgotten the Primary Statements Framework, this discussion describes the framework and the framework's benefits.

The term 'accounting statements' describes statements presenting balance sheet accounts at a historical point in time and past operating results over a period of time. The term 'financial statements' describes historical and prospective statements used to formulate possible courses of action. Within the same setting, historical 'accounting statements' can quickly and seamlessly transition into 'financial statements'. Both accounting and financial primary statements contain the same core balance sheet, income, cash flow, and equity statements.

However, limited meaningful recognition is placed on the universal absence of equity statements in today's three prospective financial statements. Responses to the question of why prospective equity statements are never prepared indicate prospective equity statements are considered unnecessary[2]. Responses in practice to the follow-up question of why prospective equity statements are labeled unnecessary yields nuances of, '*Well, you see, everyone knows prospective equity statements are unnecessary–no one ever prepares them'*. Responses in academia to the follow-up question of why prospective equity statements are labelled unnecessary yields insight of, *'Prospective equity statements are redundant and inherently subjective and thus, unnecessary'*.

It is quite puzzling why prospective equity statements are labeled unnecessary. The label contradicts the statement's dedicated validating purpose. As detailed in historical accounting trial balances, income statements transcend the period between a beginning and ending balance sheet. Validating this transition are six figurative handshakes between the beginning and ending equity account balances of three different statements: the trial balance, balance sheet, and equity statement. The handshakes affirm the beginning to ending balance sheet transition is accomplished with debits equaling credits. The role of prospective equity statements possess the same validating handshakes of historical statements. Additionally, the role of a prospective equity statement includes calculating corroborating analytics and the new comparative valuation metric.

[2] Author's decades long experience found in practice and academia.

An investment opportunity's operating performance is operating revenues, less operating expenses. Operating performance's operating expenses exclude interest expense, income taxes, depreciation and amortization. The excluded expenses are distinguished as post asset expenses. Thus, operating performance is generated on an operation based pre-asset basis. The top-down operating performance and the bottom-up EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) formula represent the same pre-asset generated amount. Accordingly, the operating performance term and the EBITDA term are used interchangeably throughout the discussion.

In the late 1990's, discounted cash flow valuations began being negatively impacted by investors' acceptance of increasing degrees of deferred upside operating performance converging with the widening debt fueled point spread of equity return[3] and capital cost[4]. Until recently, discounted cash flow's negative impact was unquantifiable. The negative impact was only deduced by the subjective practice used to reach 'go/no go' investment decisions.

Subjectivity plays a role in determining investment assumptions. Varying assumptions and their probability in various financial scenarios is imperative for determining an assumption's sensitivity to valuation outcomes. However, subjectivity should not extend to the valuation architecture within which investment assumptions operate. As an indication of the current valuation architecture subjectivity, investment decisions require creating and weighing various valuations from different valuation architectures to reach 'go/no go' investment decisions. Current valuation decisions inject investment valuations with bias (Mukhlynina and Nyborg 2019). A recent practitioner survey found that most respondents subjectively weighed traditional discounted cash flow and EBITDA valuations to reach 'go/no go' investment decisions (Mukhlynina and Nyborg 2019). The practical intent of subjectively weighing various valuations is to instill investment decision-makers with a level of comfort derived from no single incorrect valuation

[3] Equity return is after-tax in the discussion unless otherwise noted. The term equity return denotes a relative percentage unless otherwise noted.

[4] Capital cost refers to equity and debt's traditional weighted average capital cost (WACC). Capital cost is pre-tax in the discussion unless otherwise noted.

result being used. Rather, subjectively weighing multiple incorrect valuations provides a correct valuation answer.

This discussion proposes removal of a valuation architecture's subjectivity eliminates the predominant practice of subjectively weighing various investment valuations to reach investment decisions. Adhering a valuation architecture to the Primary Statements Framework's principle of debits are to equal credits verifies removal of a valuation architecture's subjectivity. Adhering to the Primary Statements Framework also addresses the trial and error IRR hurdle rate comparative metric and IRR and NPV conflicting valuations. The Primary Statements Framework is described in detail in Section IX.

III. UNIFYING ACCRUAL AND CASH VALUATION PERSPECTIVES

The unification of the accrual and cash valuation perspectives invokes an unprecedented level of adherence to the time value of money wealth formation concept. Unifying accrual and cash combines competing valuation approaches; it mitigates an investment's possibility of manipulative cash transaction timing and questionable accrual and deferral accounting estimates driving net income[5]. Unifying accrual and cash have been hypothesized and debated (Lundholm and O'Keefe 2001), (Penman 2001); however, an investment's prospective accrual and cash unification is yet to be placed within a well-defined verification.

This discussion proposes that the unification of accrual and cash valuation perspectives is achieved when the cash equity return of an investment's equity statement matches a time value accrual equity return. The new accrual equity return's time value calculation divides an investment's net income present value by its outstanding equity present value. The net income and outstanding equity's time value influence uses the cash equity return. Matching accrual and cash equity return's verification of the unification of accrual and cash valuation perspectives comprises a significant benchmark for adherence to the time value of money wealth formation concept. Matching accrual and cash equity returns is one of an investment's corroborating analytics.

[5] Accounting's definition of 'net income' and the nonqualified finance definition of 'earnings' both convey the same bottom-line income statement meaning. The terms are used interchangeably throughout the discussion.

An example of accrual versus cash valuation issues is the net plant versus the external financing balances of an investment. Both items are initiated with the same depreciable asset value[6]. During an investment opportunity's time frame the depreciation expense and principle finance reduction deliver different financial statement timing recognition. A cash balancing mechanism, demonstrated in Section XII, provide the differing balances and timing recognition with a counter compensating effect. The cash balancing mechanism supports the unification of accrual and cash perspectives.

In addition, maintaining a consistent equity/debt capital structure and thus, capital cost for an investment requires setting a prospective equity statement's cash dividends and equity injections towards meeting that goal. As net income is the source for net equity cash flow, arranging for net income's injections and dividends of cash needs an equity based time value influence to accommodate the period-to-period capital structure goal.

Whether indirectly for accrual and cash timing issues or directly through cash dividends and equity injections, using matching accrual and cash equity returns facilitate the time value influence required to transverse net income's cash within a prospective equity statement.

A valuation concept, structure and method join with an investment's assumptions to generate an investment's valuation. Designing a valuation architecture capable of matching accrual and cash equity returns begins with exploring the current valuation structures and methods. Investment valuation structures and methods are grouped into two basic architectures: iterative sigma and reciprocal peer triad. The traditional IRR and NPV valuation methods of discounted cash flow and their variations fall under the iterative sigma architecture. EBITDA valuations use the time value (non-explicit) reciprocal peer triad valuation architecture, as do other market-based 'peer and plug' triad based ratios (e.g. Price/Earnings).

The theoretical strength of the iterative sigma valuation approach is its recognition of the time value of the money concept through its discounting of cash flows, but the recent investment opportunity changes generate a flaw in iterative sigma's execution of discounting cash flows. The

[6] For simplicity reasons, working capital requirements are considered to be zero. As a result, initial external financing is equal to initial asset value.

strength of the reciprocal peer triad valuation approach is its straightforward and reciprocal but opaque interaction among investment components. A ubiquitous shortcoming of both architectures is their lack of comprehensive feedback or reconciling mechanisms. This lack of mechanisms is owed to the subjectivity in their valuation architectures.

Desirable characteristics for an alternative valuation architecture includes adhering investments to the Primary Statement Framework, combining the strengths of the iterative sigma and reciprocal peer triad valuation architectures, addressing their shortcomings, and unifying accrual and cash perspectives.

Another desirable valuation architecture characteristic is calculating an investment's valuation so that the investment's equal accrual and cash equity returns match the equity return assumption embedded in the investment's capital cost. The compelling treble equity return standard's three matching equity returns produce viable prospective financial statements. The three-way link is a formidable and persuasive alternative valuation architecture's corroborating analytic.

To achieve these desirable valuation characteristics, an alternative valuation architecture needs to possess a reciprocal valuation structure.

IV. A RECIPROCAL VALUATION STRUCTURE AND A NEW COMPARATIVE INVESTMENT METRIC

Capital cost captures an investment's risk profile. Additionally, capital cost acts as a valuation metric for comparing wealth potential in the context of attracting external capital. Capital cost's paradox unfolds as the disparate risk profile valuation role and comparative metric function are applied in valuations.

When an investment's capital cost is given, it currently discounts operating performance to a risk-neutral valuation. The risk-neutral valuation describes investors' indifference between receiving operating performance's discounted present value lump sum or electing to receive the nominal stream of operating performance over the course of the investment's time frame. Investors purchase investment assets at either the operating performance's risk-neutral valuation or a lower purchase price, if possible. Generally, the lower the investment's perceived risk, the lower the

equity return, the lower the capital cost, and the greater present value operating performance[7]. A greater operating performance present value is favorable in deciding 'go' investment decisions. Subsequently, the investor's purchased assets generate the nominal stream of operating performance. If everything goes according to plan, the nominal stream of operating performance earns investors their requested equity return.

Regarding a different type of investment opportunity where asset value and operating performance are given assumptions, capital cost becomes the solved investment component. Solving an investment's capital cost places capital cost in an external communicative function. The external communicative function is a comparative wealth formation metric. The higher the solved capital cost, the higher the wealth potential.

Passive investments usually have readily available contractual beginning and ending asset values and contractual operating performance thus, passive investment decisions necessitate solving capital cost. The passive contractual provisions designate passive investments as exhibiting a low risk profile. Non-contractual operating performance investments are active investments with risk profiles greater than passive investments.

When capital cost is the solved component and capital cost's comparative valuation metric is used, the competing investments are required to have approximately equal risk profiles to permit an investment choice. Thus, owing to a passive investment's unequal risk profile with active investments and the passive contractual arrangement requiring the use of capital cost's comparative metric, currently, no direct means exist to objectively compare active versus passive investments. Given active versus passive investment's role in influencing an economy's inflation, the lack of a direct means to compare active versus passive investments is a significant valuation issue.

Reiterating, when an investment opportunity's capital cost is a given assumption, capital cost has a risk profile role. A lower capital cost (perceived risk) raises the present value of operating performance and moves an investment toward a 'go' investment decision. However, an

[7] An investment opportunity's operating performance is assumed to generally increase over time and produce a positive present value within a reasonable range of discount rates.

investment with a given asset value and operating performance solves capital cost. Solving a capital cost investment decision uses capital cost's comparative metric function where higher capital cost (wealth formation) moves an investment toward 'go' investment decisions. Capital cost's risk profile role and comparative metric function, moving in opposite 'go' directions, appear incompatible and are precluded from jointly residing in a reciprocal valuation structure.

A reciprocal valuation structure is a pivotal wealth formation issue. A time value of money based reciprocal valuation structure continually creates valuations whose financial statement debits are equal to credits. This reciprocal valuation structure enables a valuation architecture to adhere to the Primary Statements Framework. A reciprocal valuation structure is described as when an investment's given assumptions and solved valuation impartially reciprocate. Within a reciprocal homogenizing triad[8] (RHT) valuation structure and method, a former solved amount can rotate into an assumption status and the newly designated solved valuation is calculated as the same amount as it previously was as a given assumption.

The combined presence of capital cost's disparate risk profile role and comparative metric function, moving in opposite 'go' directions, prevents a discounted cash flow reciprocal valuation structure from existing today.

Thus, achieving a reciprocal valuation structure requires replacing capital cost's either risk profile role or comparative metric function. To that end, capital cost's comparative metric function's requirement of approximately equal risk profiles is restrictive. Additionally, from a sequential valuation perspective, replacing the late occurring comparative metric function is more straightforward than replacing the earlier occurring risk profile role. Therefore, considering its restrictive equal risk profile requirement and its late valuation sequencing, capital cost's comparative metric function should be the one replaced.

Replacement of capital cost's comparative metric function involves leveraging prospective equity statements. The new comparative valuation metric captures an equity statement's present value of earnings to deployed equity (EDE). An equity statement's present value of earnings is

[8] The RHT basic valuation components are the previously mentioned asset value, capital cost and operating performance (homogenized).

calculated by discounting earnings using the investment's unified accrual and cash equity return. As the new comparative valuation metric for 'go/no go' investment decisions, the EDE signals an investment's capability to provide earnings relative to deployed equity. The comparative EDE metric brings deployed equity efficiency to deciding wealth formation choices.

A passive investment's EDE can be streamlined as the present value of its equity return. Demonstrating EDE as a passive equity return's present value casts EDE in the same comparative metric genre as capital cost's traditional IRR and NPV valuation metrics. Section XII, Exhibit A, Example 3 demonstrates a passive EDE as a present value of equity return.

The comparative EDE metric allows business professionals to transition from selecting the highest solved capital cost among investments of equal risk profiles to selecting the highest EDE regardless of risk profiles, such as between active and passive investments. For active investments solving equity return, selecting the highest EDE occurs after determining whether the investment's solved equity return represents the correct risk profile. An active investment solved equity return that is too low or too high requires either reevaluating the investment's assumptions or reciprocally solving another assumption after providing equity return as a given assumption.

Assets, organizations, industries, and economies are hierarchical groupings of economic activity levels. A strength of the new comparative EDE metric is the metric's applicability to the full range of economic activity levels, regardless of their risk profile levels. Another strength is the metric's indifference to which reciprocal valuation component an investment opportunity is solving. An EDE metric uniqueness is its combination of both accrual and cash elements.

An investment's solved RHT valuation and its assumptions produce viable financial statements that adhere to the Primary Statements Framework's principle of transaction debits are to equal credits. The RHT valuation structure signals the necessity of eliminating capital cost's comparative metric function, inclusive of the trial and error IRR hurdle rate comparative metric. The replacement EDE comparative metric boosts wealth formation choices as the metric operates as a single level playing field for comparing the entire valuation spectrum. The comparative EDE metric opens up a new valuation chapter for comparing wealth formation choices, particularly between active and passive investments.

V. ACTIVE AND PASSIVE INVESTMENTS

The main inflation lever at a central bank's disposal is altering its inter-bank rates. A central bank may increase its inter-bank interest rate to encourage passive over active investments. When investors select passive over active investments, an economy's employment and consumer demand slow and cool inflation. Anticipating stable inflation, central banks lower their inter-bank rates to encourage active investment.

When a central bank raises inter-bank rates rate it indirectly raises its baseline target risk profile into an agent for cooling inflation. From an investor's perspective, higher inter-bank rates increase investment debt cost and create higher passive EDE. Increases in debt cost and higher passive EDE create passive wealth formation opportunities.

Managerial Involvement

Managerial involvement of an investment opportunity is an investment owner's influence on an investment's operating performance and asset value outcomes after a 'go' investment decision. Active investments do not typically have readily attainable contractual operating performance, whereas passive investments do. The lack of readily attainable contractual operating performance follows the managerial involvement in actively managing operating performance, particularly employment. Active investments normally generate employment opportunities, whereas passive investments usually do not directly generate employment opportunities. Active investments that generate employment opportunities induce managerial involvement by initiating and maintaining employment. In addition, active investments are often depreciable assets that require varying degrees of management and maintenance. Passive investments are typically composed of non-depreciable assets.

Joining Micro- and Macroeconomic Valuations

The relationship between active/passive valuations and micro-/macroeconomic valuations manifests through managerial involvement. Active investment opportunities orient towards microeconomic decisions, whereas passive investment opportunities orient towards macroeconomic decisions.

RHT valuations remain reciprocal regardless of whether the valuation's operating performance or asset value are from that of a single asset or on the scale of an economy. This is indicative of joining micro- and macroeconomic valuations. Examples are the active/ microeconomic valuation of a depreciable income producing asset versus the passive/ macroeconomic valuation of a physical commodity or a sovereign entity's debt instrument.

EBITDA exists at each of the ascending hierarchy of economic activity levels, ranging from micro- to macroeconomics. Similarly, each level of economic activity has enterprise values[9] (EV). An EBITDA Multiple (or just Multiple) is EV divided by EBITDA. Therefore, Multiples exist at each economic activity level. The powerful strength of a Multiple is its standing as a succinct communicative platform of market based economic influence. To peer inside an opaque Multiple and expose a Multiple's assumptions by default strengthens investment decision comfort, particularly when peering inside accommodates the range of micro (active) to macro (passive) investment decisions. Section VII discusses peering inside Multiples in greater detail.

Finite Managerial Capacity and Equity Return

Managerial involvement executes the due diligence contemplated in an investment's equity return. Within the initial time frame of a selected investment opportunity, the selected investment changes an investment owner's capacity to successfully orchestrate the next investment's due diligence. Attracting, developing, and retaining management personnel has a direct influence on managerial involvement's due diligence capacity and thus, risk neutralizing equity return levels.

Concerning active versus passive investments, with all else being equal, a passive investment 'go' decision causes a subsequent investment's equity return to rise less than selecting an active investment. The reasoning is that passive 'go' decisions reflect a lower consumption of managerial capacity versus selecting an active investment.

Similarly, a small active investment 'go' decision tends to reflect lower consumption of managerial capacity than large active investments. As a result, a small active investment causes the need for subsequent equity return to rise less than a large active 'go' decision.

[9] EV = equity marketplace value + total debt – cash and cash equivalents.

Approving capital budgeting expenditures on whether prospective investments meet incrementally rising equity returns seems less subjective than the traditional competition of investment opportunities within an arbitrarily set budget ceiling.

Does the process of determining the next investment's equity return strengthen an investment owner's assessment of managerial capacity and in turn help maximize their wealth formation?

Does replacing capital cost's comparative metric function broaden the focus on its risk profile role?

VI. EBITDA MULTIPLES

Two major valuation developments recently converged to create the discounted cash flow flaw. As a response to the flaw, EBITDA valuations draw themselves into the investment valuation spotlight. First, approximately 40-45 years ago, investments' equity return and capital cost point spreads began to widen owing to debt's increasing role in investments. Second, approximately 25-30 years ago, during the dawn of the dot.com era, investors' acceptable degree of deferred upside operating performance began increasing. The convergence of the two create flaws in discounted cash flow valuations. However, iterative sigma's discounted cash flow valuation method has remained unchanged since the convergence. With no forthcoming changes to discounted cash flow's method and no sign of abating point spreads or levels of deferred upside operating performance, EBITDA valuations will continue to supplement the discounted cash flow flaw.

It does not matter whether one's valuation perspective is with EBITDA's bottom-up or operating performance's top-down approach, they both arrive at the same amount. The top down and bottom up perspectives represent the same purposeful monetary measure, an asset's return 'on' and return 'of' amount. The 'EBIT'[10] portion of EBITDA represents the return 'on' portion of external equity and debt financing. The 'DA' portion of EBITDA represents a return 'of' of the adjoining asset. An investment's return 'on' and return 'of' and home/auto payments are similar in nature. They both contain a return 'on' interest and a return 'of' principal element.

[10] Income taxes are associated with return 'on' earnings due to earning's lack of tax deductibility.

Throughout the discussion, the term return 'on and of' refers to an amount. The slightly modified term of return 'on & of' refers to an investment's capital cost, number of periods (nper), and the spreadsheet PMT(capital cost, nper, -1) function. PMT's return 'on & of' is a relative figure; it is relative to the other two basic valuation components amounts of asset value and operating performance.

Currently, no opportunity exists to observe, catalogue, analyze, or question a Multiple's individual assumptions. What is little understood today is EBITDA Multiples are composed of an investment's return 'on & of' component and an operating performance/EBITDA growth assumption. A recently developed formula peers inside and bifurcates Multiples between the return component and the growth assumption.

Calculating a Multiple captures a peer group's[11] economic influence. The overall expectation is a peer group's market based economic influence proportionally duplicates for prospective investment opportunities. Applying a peer group Multiple to a prospective investment's period one operating performance/EBITDA creates the prospective investment's market based valuation.

Several conflicting views try describing what EBITDA is and is not. They confuse the nature of EBITDA. It is critical to understand how pre-asset operating performance/EBITDA is generated (operating revenue less operating expense or EBITDA's bottom up formula) and clearly distinguish the generation from the purposeful return 'on and of' post-asset application of operating performance/EBITDA. Section XII's examples of operating performance/EBITDA in primary financial statements illustrates the application of return 'on and of'.

VII. PEERING INSIDE

Describing the time value of money concept's valuation structure and differentiating EBITDA valuations begins the process of peering inside EBITDA Multiples. The time value of money's three basic valuation components are *asset value*, capital cost's *return 'on & of',* and *operating performance* for depreciating assets. Non-depreciating assets use capital cost as their

[11] An EBITDA peer group is a collective of either an asset, assets, organizations, or industries similar to the economic activity level contemplated in an investment opportunity.

return 'on'. Owing to the flaw in the discounted cash flow valuation approach, discounted cash flow reciprocal component interaction only exists in investment opportunities with non-varying *operating performance*, predominantly in passive investment opportunities and personal home and auto financing.

The reciprocal EBITDA triad is composed of *asset value,* a single period one EBITDA, and a peer group Multiple. The EBITDA triad has one, but significant, difference from the time value of money's three basic valuation components. The EBITDA valuation triad infers an operating performance element in the EBITDA Multiple.

Discounted cash flow's traditional iterative sigma valuation approach uses IRR and NPV approaches to discount cash flows. The iterative sigma valuation approach conveys future operating performance growth expectation using individual *operating performances*. However, EBITDA's period one operating performance sets no growth expectation. To compensate, the EBITDA Multiple calculation infers operating performance growth in the Multiple.

Therefore, the first step in peering inside an EBITDA Multiple is determining the Multiple's inherent presumption of operating performance growth. However, no one knows how to definitely delineate a peer group Multiple's growth. This leaves investment opportunities to fashion their own EBITDA growth assumption, aside from the unknown Multiple's growth assumption. Being unable to gauge an investment's fashioned operating performance growth relative to the Multiple's growth is a valuation problem. Definitely delineating a peer group growth rate entails utilizing a recently developed formula to peer inside a Multiple. Removing the operating performance growth assumption from a Multiple results in a Net Multiple. Fractionally inverting Net Multiples produces an investment's *return 'on & of*'. A *return 'on & of*', a number of periods, and the spreadsheet RATE(nper, *return 'on & of',* -1) function generates an investment's capital cost. A Multiple's capital cost assumptions are the same assumptions as traditional capital cost: equity return, capital structure split (adding to 100 percent), income tax rate, and debt cost. An investment's number of periods is derived from the asset in the 'DA' of EBITDA.

Peering inside an EBITDA Multiple can derive the peer group's equity return. A peer group Multiple's equity return is a starting point for an investment's equity return. In addition to managerial capacity adjustments, a peer group's equity return can be further tailored to meet the circumstances of an investment. A non-inclusive list of adjustments include adjustments up, for things such as a greater degree of deferred upside operating performance than the peer group, or adjustments down, for special market insight, technological innovation, or intellectual property.

Reciprocally, an investment starting with capital cost, the number of periods, and the spreadsheet PMT(capital cost, nper, -1) function generates an investment's *return 'on & of'* component. Inverting a *return 'on & of'* produces a Net Multiple. Placing an operating performance growth into a Net Multiple produces the traditional Gross EBITDA Multiple.

Peering inside and analyzing peer group Multiples allow customizing a peer group's Multiple for not only managerial capacity, equity return, and EBITDA growth, but for other assumptions such as an investment's incremental debt cost and debt weighting versus the peer group's embedded debt cost and debt weighting.

Upon transferring the growth effect from a Multiple to the *operating performance* component, the former period one operating performance transforms into an *operating performance proxy*. The non-varying *proxy* is equivalent to a PMT amount that combines return 'on' interest and return 'of' principal. A dominant feature of the *operating performance proxy* calculation is the time value homogenizing influence on the *proxy*. Operating performance, in practice and academia, currently uses only capital cost as a time value influence. Recognizing the need for a homogenized *operating performance proxy* and the creation of the *proxy* using equity return rather than capital cost resolves the root problem of why an investment's prospective financial statement debits do not equal credits.

Section XII's Exhibit A, Examples 1 and 2 illustrate the bifurcating Multiple formula and the reciprocal influence among Gross Multiples, Net Multiples, and capital cost assumptions. Section XII's Exhibit A, Example 1 demonstrates the equation for calculating *operating performance proxies.*

Calculating prospective equity statements and corroborating analytics, unifying accrual and cash valuation perspectives, matching a capital cost's sought risk profile with an equity statement's demonstrated accrual and cash equity returns, using the new EDE comparative metric, peering inside EBITDA Multiples, and homogenizing *operating performance proxies* fosters active versus passive investment decisions and powers entrepreneurial startup valuations.

VIII. INVESTMENT VARIANCE REPORTING

Prospective financial statements are communicative tools to analyze investment opportunities and initially set investor wealth formation expectations. Acting as follow-up feedback to initial investor expectations is variance reporting. Variance reporting reconciles the differences between an investment's subsequent historical and original prospective financial statements. Investor expectation confidence is fluid and usually accumulates over time or dissipates quickly. Minimizing the need for and the effective communication of investment variance reporting favorably influences investor confidence.

Consider, in an unlikely event, an investment's actual results match its initial prospective assumptions. As everything went according to plan, would one not expect the investment's earlier prospective statements to match its historical financial statements? Assuring a difference in the statements is the historical accounting statement debits equal credits and the prospective statement debits do not equal credits. Today's prospective three statement starting point represents financial statements that are not fully viable. With inevitable actual variances, one cannot entirely distinguish between a business related actionable variance and a variance propagated by a non-viable financial statement starting point. This unfavorably impacts investor confidence and raises equity return.

Preferably, in the unlikely event of an investment's actual results matching its initial prospective assumptions, subsequent historical financial statements will match initial prospective financial statements. This only occurs if the prospective financial statement's debits equal credits.

When debits equal credits prospective financial statements become viable and feedback variance reporting is absent nonbusiness related issues.

IX. ACCOUNTING'S PRIMARY STATEMENTS FRAMEWORK ROLE

Historical accounting statements begin as a pool of transactions and accounting journal entries. An investment opportunity's prospective valuation and assumptions simulate prospective transactions and journal entries. The simulation of prospective transactions and journal entries reveals no reason why prospective financial statements cannot adhere to the same Primary Statements Framework as historical statements.

Primary Statements Framework

Along with the current lack of validating equity statements, the corresponding lack of prospective trial balances cause a conflict with the Primary Statements Framework.

Primary Statements Framework–Hierarchical Sequence

1. Information gathering systems capture transaction and journal entries of debits and credits.
2. At given reporting time intervals, trial balances are compiled from the entries of the information gathering system; when trial balances mechanically balance[12], debit entries equal credit entries.
3. The first three of the four primary accounting statements (balance sheet, income and cash flow statements) are compiled from the trial balance.
4. The net income and equity cash flow lines procure the equity statement; the equity statement integrates and provides structural validation of the first three primary statements; beginning and ending balances of the trial balance's equity account match the beginning and ending balances of the equity statement and the balance sheet's equity account, generating six affirming handshakes.
5. Managerial analysis determines whether the statements represent fairly the financial position and results of operations; at managerial sign-off, the trial balance[13] and the financial statements are released and the trial balance income accounts are closed to the equity account to end the current reporting time interval and prepare for the start of the next.

Four-column trial balance structure: hierarchical #2. Typical trial balances are composed of four columns. The first and fourth trial balance column lists the beginning and ending

[12] In the event of a trial balance not balancing, sound accounting practice dictates the error is pursued until rectified.

[13] The term 'trial' in trial balance continues after managerial sign-off as trial balances provide a continuing reference point in the event the accounting books are reopened.

balance sheet, revenue, and expense accounts. The second trial balance column captures the revenue and expense activity of the income statement. The third column closes out the second column income activity to the equity account. To ensure (+) debits equal (-) credits, the trial balance's four columns add to zero at the beginning balance sheet (column one), during the income statement activity period (column two), during the closing entries of the income statement activity (column three), and at the ending balance sheet (column four). The period ending balance sheet is the next period's beginning balance sheet. An investment's final ending balance sheet adds vertically down and horizontally across to zero.

First three of four primary statements: hierarchical #3. The first three primary statements are sourced from the trial balance (t). The three primary statements are as follows: balance sheet statements (b) capture their account balances at a point in time; the beginning and ending balance sheet points of time are the beginning and ending time frame of the income statement (i); income statements (i) capture an economic activity level's revenue and expenses to generate net income (ni) over its (i) time frame; cash flow statements (c) present cash activity in balance sheet (b) accounts over the income statement (i) time frame; a cash flow statement (c) line item includes equity issuances and dividend activity (ea).

The fourth primary statement: hierarchical #4. An equity statement (e) is sourced from income's (i) net income (ni) and cash flow's (c) equity activity (ea) lines. The beginning and ending balances of the equity statement (e) are integrated with the equity accounts of the balance sheet (b) and the trial balance (t).

Closing income revenue and expense accounts: hierarchical #5. Whether the balance sheet , income , cash flow , and equity statements represent fairly the financial position (b) and results of operations (i), (c), is determined by managerial analysis. At managerial sign-off, the trial balance and statements are released and the trial balance's column two of income revenue and expense accounts is closed out to the equity account using column three. The account close out signifies the end of the current reporting time interval and preparation for the start of the next.

Prospective Primary Statements Framework's Role

Subjective risk surrounds an investment's assumptions. Equity return and capital cost neutralize the risk attributable to an investment's assumptions. However, equity return and capital cost do not neutralize the structure and method risk with which a valuation architecture uses to generate a valuation. A valuation architecture's adherence to the Primary Statements Framework eliminates structure and method valuation risk.

Although Multiples are widely used, no one is identifying and quantifying the assumptions operating within a Multiple. Without adherence to the Primary Statements Framework, the start of peering inside a Multiple indefensibly deteriorates into such a subjective array of assumptions that the initial effort quickly leads to halting further effort. Remembering outcomes of previous attempts of peering inside Multiples leads to deeming future attempts as 'not worth the effort'[14].

The latitude afforded by not possessing the ability to peer inside a Multiple contrasts with the necessity of reaching investment 'go/no go' decisions. Unable to deem investment 'go/no go' decisions 'not worth the effort' creates the consequential necessity of qualifying them arbitrarily. The 'go/no go' qualification of reaching an investment decision is the aforementioned practice of subjectively weighing multiple incorrect valuations to arrive at a valuation answer.

Accounting's historical Primary Statements Framework has proven useful over time[15], and incorporating the Primary Statements Framework in prospective investment opportunities could compel investors' decision comfort to unaccustomed levels.

X. THE RHT STRUCTURE'S CORROBORATING ANALYTICS

Recent changes in investment valuations bring the need for corroborating analytics to the forefront. An investment's failed corroborating analytics, owing to a flaw in the investment's valuation, verify the investment's financial statements do not properly represent the investment's assumptions. Failed corroborating analytics indicate comparative valuation metrics produce suboptimal wealth formation decisions. As verification to resolving flawed valuations, corroborating analytics demonstrate:

[14] Author's observations in valuation practice.

[15] Luca Pacioli published a general treatise on double entry accounting in 1494, in Florence Italy. Although he did not invent double entry accounting, his clear explanations and standardization of accounting practices, of which a substantial number are in use today, earn him the Father of Accounting designation. *Wikipedia.com*

1. matching prospective accrual and cash equity returns verify the unification of accrual and cash valuation perspectives; the unification of accrual and cash valuation perspectives benchmark an unprecedented adherence to the time value of money concept.
2. the equity return risk profile embedded in an investment's capital cost matches the investment's accrual and cash equity returns; matching a capital cost's equity return with its accrual and cash equity returns aligns the sought risk neutralization of an investment with its demonstrated risk neutralization—the treble equity return standard; the trial and error IRR hurdle rate comparative metric is eliminated.
3. equity cash flow's present value, discounting using equity return, matches deployed equity; the possibility of past conflicting IRR and NPV outcomes no longer exists.
4. capital cost equity/debt capital structure split is the same for each period of the prospective financial statements; a demonstrated capital structure affirms a period-to-period capital cost calculation and validates the ratable decline of equity and debt financing.
5. zero-ending, self-balancing prospective equity statement's cumulative debits equal credits and highlights the final handshake between ending balances of the equity statement, trial balance, and balance sheet.

An investment's assumptions, in conjunction with a valuation architecture's concept, structure, method, valuation and corroborating analytics, form a prospective financial conveyance. A finalizing valuation question becomes whether the investment's equity return is commensurate of that financial conveyance. If not, what investment assumptions need to change, including equity return itself, to align the risk binding of an investment's valuation with its assumptions. Giving further comfort to effectuating an investment's risk alignment is the alternative valuation architecture's ability to impartially reciprocate between an assumption and a solved valuation status. At this point, EDE is poised to facilitate comparing wealth formation choices.

XI. THE INTERACTION OF TWO RHT BASIC VALUATION COMPONENTS

Two RHT basic valuation components, while reciprocally generating the third RHT component, are also generating an investment valuation, trial balances, four primary accounting statements, corroborating analytics, and a comparative valuation metric. It is initially difficult to understand how the multiple-period interworking necessary for adherence to Section IX's Primary Statements Framework can be incorporated into just two RHT components. Additionally, it is

difficult to understand how all the underlying relationships necessary for Section X's corroborating analytics can be incorporated into the same two RHT components.

The business world's current opinions on investment valuation sophistication are unparalleled in history. The overall expectation is that the state of investment practice and academic teachings will not change or be even seriously questioned in the foreseeable future even though substantial differences exist between theoretical and applied valuations.

Questioning the valuation status quo begins by appreciating the economic activity equilibrium found in quantifying prospective marketplace transactions with debits equaling credits. Central to this transaction appreciation is recognizing the prospective equity statement's transition from a previously unavailable status to a future of constant availability.

Adherence to the Primary Statements Framework, to generate the always-available equity statement, is a significant leap forward. The RHT architecture's prowess of encapsulating the exponential aspect of the time value of money concept into two basic reciprocal valuation components should not be overlooked. The discussion up to this point, along with the next section's examples, provide the support necessary to begin jointly questioning both current valuation architectures.

The next section's examples illustrate the never-to-always equity statement transition.

XII. EXAMPLES OF THE RHT VALUATION ARCHITECTURE

Exhibit A, Example 1

Example 1, Schedule a, is an EBITDA triad valuation composed of a depreciable $1,400 *asset value*, Line [119]. *Asset value* is calculated by multiplying a given 14.0 EBITDA Gross Multiple, Line [101], times a given initial $100 EBITDA period one operating performance, Line [125]. The three EBITDA valuation components of *asset value*, period one operating performance, and Gross Multiple form a traditional EBITDA reciprocal peer triad valuation.

Example 1, Schedule a, is an RHT valuation. The RHT valuation is composed of a depreciable $1,400 *asset value*, Line [119], which is the same as EBITDA's example. The *asset value* is calculated by dividing a $131 *operating performance proxy* by a 0.093 *return 'on & of'*, Line [107]. Dissimilar to the $100 initial EBITDA, the $131 RHT *operating performance proxy*

includes $31 of operating performance growth effect. The three RHT components of $1,400 *asset value,* 0.093 *return 'on & of'*, and $131 *operating performance proxy*, form the RHT's basic valuation components.

Equation (1) represents the valuation method of the RHT valuation structure for calculating a homogenized *operating performance proxy*.

Equation (1)

i. Operating Performance Proxy = PMT( ) * NPV( )

ii. Oper Perform Proxy = PMT(equity return, nper, -1) * NPV(equity return, oper perform 1, 2, . . .)

iii. $131 = PMT(8.5%, 19, -1) * NPV(8.5%,[125]:[125])

In Equation (1) the $131 RHT non-varying *operating performance proxy* is similar to that of a common numerator. Common numerators act inversely, but similar to the need for common denominators. Before adding numerical fractions, a common denominator is required. Similarly, before calculating and adding the time value impacts of operating performance the time value effect needs an appropriate *common numerator* for each period.

Previously, minimal traditional value misrepresentations occurred when minimal period to period variations were present in operating performance. Minimally varying operating performance had a common numerator effect on investment opportunities without using a *proxy*. During this time, the dedicated validating purpose of prospective equity statements was appropriately assumed to be unnecessary. Similarly, minimal traditional valuation misrepresentations occurred when minimal differences existed between capital cost and equity return. The IRR and NPV's single-rate iterative sigma valuation approaches worked significantly better before the divergence of capital cost and equity return converged with deferred upside operating performance.

Peering inside an EBITDA Multiple

The first step in peering inside a Gross EBITDA Multiple is to separate the inherent growth assumption of operating performance out of the Gross Multiple to form a Net Multiple. The 1.306

Gross/Net Multiple Factor, Line [105][16] separates inherent growth from the 14.0 Gross Multiple to form the 10.7 Net Multiple, Line [106]. The 1.306 Gross/Net Multiple Factor uses a given 3.8 percent operating performance growth rate, Line [104], a nper of 19, and an equity return risk profile of 8.5 percent[17], Line [118], to generate the 10.7 Net Multiple, Line [106].

Example 1 combines a 2.0 percent baseline target (stable inflation), Line [102], with a given 1.8 percent growth other than inflation, Line [103], to calculate a 3.8 percent operating performance growth, Line [104]. The 3.8 percent is Exhibit A's illustrative operating performance growth placeholder.

Later examples, reflecting changes in the inflation assumption, do not change the operating performance growth assumption. This growth simplification assumes the baseline target inflation is an approximation inclusive of the short-term increased inflation time frames. This may or may not be the case in actual events.

Inverting the 10.7 Net Multiple produces capital cost's 0.093 *return 'on & of'* basic valuation component, Line [107]. Placing the 19 nper and the 0.093 *return 'on & of'* in the iterative electronic spreadsheet RATE(19, 0.093, -1) function generates a 6.5 percent capital cost, Line [108]. Removing 3.2 percent of weighted debt cost, Line [113], from the 6.5 percent of capital cost results in a weighted 3.4 percent equity return, Line [114]. Grossing the weighted equity return with its weighting generates an 11.2 percent equity return, pre-tax, Line [116]. Reducing equity return for income taxes provides an 8.5 percent equity return risk profile, Line [118].

The 3.2 percent weighted debt cost, Line [113], is calculated from a 70 percent debt weighting, Line [109], and a 4.5 percent debt cost, Line [112]. A 2.0 percent baseline target debt cost, Line [110], and a debt-issuing institution's 2.5 percent commercial margin, Line [111], add to the 4.5 percent debt cost.

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[16] The Line [105][ref] formula, continuing after the spreadsheet PMT( ) function portion, is the standard PV formula of a growing annuity. The standard PV formula of a growing annuity is not yet available as a pre-programmed spreadsheet function.

[17] Calculating the Gross/Net Multiple Factor requires an iterative polynomial interaction where equity return is both an assumption, Line [105], and an outcome, Line [118]. The Gross/Net Factor's iterative solving is similar to the RATE( ) spreadsheet function's iterative process.

The 8.5 percent equity return, 70 percent debt capital structure, 4.5 percent debt cost, 24 percent income tax rate, 3.8 percent EBITDA growth, and 19 nper [18, 19, 20] attempt to reflect Example 1's economic influence found in the 14.0 Multiple, Lines [101]–[118].

Example 1's prospective primary financial statements are presented in Lines [119]–[140]. The $1,400 *asset value* depreciates over the 19-nper asset useful life, Lines [119]–[121]. Outstanding equity and debt decline in a ratable manner, Line [124]. The 6.5 percent capital cost, Line [108], drives the ratable decline in equity and debt.

The balance sheet recognizes the differences between net *asset value*, Line [121], and outstanding equity and debt, Line [124], through a cash balance, Line [122]. The cash balance, Line [122] and the income statement's cash return, Line [128], compensate for the depreciation and external financing timing recognition differences. The need for a balancing mechanism for accrual and cash's differing timing recognition has been identified and theorized but a time value verification of a balancing mechanism has been lacking. Matching Lines [141] and [142] verify the cash balancing mechanism is supporting the matching of accrual and cash equity returns and the unification of accrual and cash perspectives.

The $100 initial operating performance increases by the 3.8 percent growth assumption, Line [104], for each period, Line [125]. The depreciation, debt, and cash items on the balance sheet reflect income and expense activities in Lines [126], [127], and [128][21]. Income taxes are calculated on Line [129]. The cash flow statement, Lines [131]–[136], reflects period over period cash activity changes in balance sheet accounts. The equity statement, Lines [137]–[140], is

[18] Exhibit A's four Examples and Exhibit B's Example each have 19 investment periods. Addressing investment opportunity period length less than a depreciable asset's useful life is necessary to create the required common investment period length for comparing investment opportunities. RHT bridges address investment opportunity period length that are less than the depreciable asset's useful life; however, RHT bridges are beyond the scope of this initial discussion.

[19] The 19 periods assumption approximates the S&P 500 asset average useful life in 2024.

[20] For presentation brevity, Exhibit A, Schedule a, Columns 11-16 of 19 are not presented. The data contained in Schedule a, Columns 11-16 is available in the Example's following trial balances, Schedule b.

[21] For illustrative simplicity purposes cash return is designated equity return in the Exhibits. In practice, the return for cash is user designated. However, a user designated cash return other than equity return requires an RHT bridge to maintain the RHT valuation structure. RHT bridges are beyond the scope of this initial discussion.

constructed on the unmodified ending line of the income statement, Line [130], and the unmodified equity line of the cash flow statement, Line [136]. The equity statement self-balances to zero, Line [140][19].

In Exhibit A, Example 1's trial balances are presented on Schedule b, Lines [151]–[194] and confirm adherence to Section IX's Primary Statements Framework. Example 1's Lines [141]–[144], confirm adherence to Section X's corroborating analytics. Example 1's treble equity return standard is demonstrated on Lines [118], [141], and [142].

Exhibit A, Example 2

In Exhibit A, Example 2 presents an active depreciating asset investment opportunity initiated during increased inflation. Example 2's trial balances are presented on Schedule b, Lines [251]–[294] and confirm adherence to Section IX's Primary Statements Framework. Example 2, Lines [239]–[242], confirms adherence to Section X's corroborating analytics. Example 2's treble equity return standard is demonstrated on Lines [201], [239], and [240].

Increased inflation may induce a central bank to cool inflation through raising its inter-bank rates to drive higher debt cost. Recognizing Example 2's increased inflation is a 7.4 percent debt cost, Line [209], compared to Example 1's 4.5 percent debt cost, Line [112]. The 2.9 percent higher debt cost reflects Example 2's 4.9 percent inflation agent, Line [207], versus Example 1's 2.0 percent stable inflation, Line [102]. For interpretive simplicity reasons, the 2.9 percent increase in debt cost matches the 2.9 percent rise in inflation.

Example 1's given 14.0 Gross Multiple, Line [101], changes to Example 2's solved 12.0 Gross Multiple, Line [216]. The lower *asset value* ($1,204 versus $1,400) reflects Example 2's higher debt cost. Typically, during increased inflation, solving a lower active investment value works toward a 'no go' investment decision from a seller's perspective.

Example 2's equity return risk profile, Line [201], remains at Example 1's 8.5 percent, Line [118]. Matching Example 2's equity return with Example 1 assumes a central bank's inter-bank rate influence on an equity return risk profile is minimal. Maintaining an investment's equity return between stable and increased inflation periods may or may not match actual events.

The EDE of Example 2's active investment with increased inflation is 600, Line [243].

Exhibit A, Example 3

In Exhibit A, Example 3 presents a non-depreciating, passive investment opportunity initiated during increased inflation with contractual *operating performance* and contractual beginning and ending *asset values*. Example 3's trial balances are presented in Schedule b, Lines [351]–[394] and confirm adherence to Section IX's Primary Statements Framework. Example 3, Lines [326]–[329], confirm the adherence to Section X's corroborating analytics. Example 3's treble equity return standard is demonstrated on Lines [303], [326], and [327].

Example 3's 4.9 percent passive solved equity return, Lines [303], [326] and [327], represents a central bank's agent for cooling inflation. The 2.9 percent higher equity return than stable inflation promotes passive over active investments through higher passive EDE. Example 3's passive 4.9 percent equity return, Line [303] and Example 2's active 4.9 percent base debt cost, Line [207], are equal for illustrative purposes and may not be equal in actual events.

From a wealth formation perspective, business professionals find themselves with an indifferent decision choosing between the investments Example 3's passive 600 EDE, Line [330], and Example 2's active 600 EDE, Line [243].

As mentioned, streamlining Example 3's EDE passive investment as a present value, Line [331][ref], casts the passive EDE in the same comparative metric genre as the traditional IRR and IRR metrics. Example 3's streamlined 600 passive EDE remains comparable to Example 2's more complicated (non-contractual operating performance and depreciable asset) 600 active EDE.

Examples 2 and 3's net income present value is the same $217, Lines [240][mid-page] and [327][mid-page], and initially deployed equity is the same $361, Lines [237] and [324][22]. Therefore, they both have the same 600 EDE. With that noted, Example 3's 4.9 percent equity return is lower than Example 2's 8.5 percent equity return, Line [239]. Example 3's lower equity return risk profile accommodates a higher equity outstanding present value of $4,386, Line [327][mid-page], compared to Example 2's $2,546 equity outstanding present value, Line

[22] Examples 2 and 3's presentation of equal $361 deployed equity serves an illustrative purpose. In actual events, deployed equity may differ between active and passive investment opportunities. Differing deployed equity may still generate the same EDE.

[240][mid page]. Thus, the differences in equity outstanding support the difference between the passive and active equity return risk profiles within the context of equal EDE wealth potential.

Streamlining a passive EDE as the present value of equity return and explaining equity return risk profile differences from an equity outstanding perspective further demonstrate the viability of EDE's replacement of capital cost's comparative metric function.

Exhibit A, Example 4

In Exhibit A, Example 4 presents an active depreciating asset investment opportunity during stable inflation. Example 4's trial balances are presented in Schedule b, Lines [451]–[494] and confirm adherence to Section IX's Primary Statements Framework. Example 4, Lines [437]–[440], confirm adherence to Section X's corroborating analytics. Example 4's treble equity return standard is demonstrated on Lines [402], [437], and [438].

Example 4's RHT valuation structure's basic valuation components are a $131 *operating performance proxy*, Line [401], a 0.093 *return 'on & of'*, Line [413], and a $1,400 *asset value*, Line [414]. The non-varying $131 *operating performance proxy*, Line [401], homogenizes varying given operating performance, Line [421], at an 8.5 percent equity return risk profile, Line [402], using Equation (1).

The operating performance of Example 4 differ from the first three Examples in Exhibit A. Example 4's first six operating performances are negative. Initial negative operating performance is sometimes observed in investments, particularly among entrepreneurial startups.

A shortcoming of current EBITDA valuations is that EBITDA needs to be a satisfactory number before applying a peer group Multiple and forming a valuation. In the case of deeming an initial EBITDA unsatisfactory, business professionals surmise whether the investment's overall strength is sufficient to classify the investment as viable. An unsatisfactory EBITDA of a deemed viable investment receives non-transparent arbitrary amounts of operating performance transfers until a subjective satisfactory initial EBITDA appears. The transfer of operating performance to period one, from later upside periods, typically does not have a formal time value mechanism thus, the transfer raises a possible conflict with the time value of money concept. The RHT architecture

addresses Example 4's negative operating performance in a straightforward, transparent, formal time value manner.

Equity injections based on future net income

Prospective equity statements begin and end with zero, indicating an investment's encapsulating finite time frame, Line [436][19]. A zero-ending equity statement demonstrates a nominal equity statement unification of accrual net income and cash, in addition to the previously discussed accrual and cash time value unification. The nominal unification demonstrates net income as the source of net equity cash flow's initial deployed equity, subsequently injected equity, and cash dividends over the course of the investment time frame. An investment owner's initial deployment of equity establishes the investment opportunity and creates the promise of future net income and dividends. With an investment's promise of future net income, the matching treble equity returns provide the time value influence for moving cash injections to earlier periods.

Owing to the initial negative operating performance, Example 4's equity shortfall of $254, Line [432][1] is injected by the investment owner. The equity injection occurs as a 'loan' at 8.5 percent, Lines [402], [437], and [438]. The investor is repaid the $254 from cash dividends in the deferred operating performance upside periods. The treble equity returns contemplate neutralizing varying operating performance's correlated net income risk, a $266 net income loss, Line [426][1], the related cash equity injections and subsequent dividend repayments.

Period one's $254 equity injection maintains a 30 percent equity capital structure weighting, Line [405]. The 30 percent is an element of Example 4's 6.5 percent capital cost, Line [412]. Example 4 continues to use additional cash equity injections up to period eight to maintain the 30 percent equity capital structure. Similarly, an investment's cash dividends are also based on maintaining the 30 percent equity capital structure. Failure to maintain the 30 percent equity capital structure each period, Line [440], invalidates the 6.5 percent capital cost, Line [412], the 0.093 *return 'on & of'*, Line [413], and the $1,400 *asset value*, Line [414].

Exhibit B: –Solving the RHT Operating Performance Component, Lines [501]–[507]

Up to this point the discussion has focused on solving the RHT basic valuation components of either *asset value* or capital cost*'s return 'on & of'*. When *asset value* and capital cost*'s return*

'on & of' are given RHT basic valuation components, the RHT structure can also reciprocally solve an investment's *operating performance proxy*. Going beyond solving the *operating performance proxy* is solving a period one operating performance. Solving a period one operating performance requires an additional operating performance percent to period one assumption for each period.

Exhibit B uses Exhibit A, Example 4's $1,400 *asset value*, Line [414], for Line [501] and Example 4's 0.093 *return 'on & of'*, Line [413], for Line [502]. Additionally, Exhibit B uses Exhibit A, Example 4's operating performance, Line [421], for providing the additional operating performance percent to period one assumptions, Line [506]. Using the operating performance percent to period one assumptions, the 8.5 percent Example 4 equity return, Line [402], and Equation (1) generates the (0.560) *proxy to period one factor*, Line [504].

Exhibit B solves a ($233) period one operating performance, Line [505] using the $131 *operating performance proxy*, Line [503] and the (0.560) *proxy to period one factor*, Line [504]. The calculated operating performance of Line [507] correspondingly match the given operating performance of Example 4's operating performance, Line [421].

The RHT Structure Versus the DCF Approach: A Reconciliation of Proxies

Table 1 demonstrates how Example 4's capital cost and equity return point spread and deferred upside operating performance generate a $397, 28 percent, Lines [c] and [d], valuation difference between the $1,400 RHT and the $1,797 traditional discounted cash flow valuation. Table 1's valuation difference illustrates the traditional discounted cash flow's previously mentioned flaw in investment valuations. Table 1's 6.5 percent single capital cost, Line [412], in Line [a], and the two discount rates in Line [b] of 8.5 percent equity return, Line [402], and 6.5 percent capital cost, Line [412], signify the functional difference between the traditional discounted cash flow approach and the RHT valuation method.

Table 1's $131 equity return generated *operating performance proxy*, Line [f], facilitates a reciprocal RHT interaction as presented in Exhibit A, Example 4. However, with a $168 capital

cost generated operating performance proxy, Line [e], a $37 operating performance time value distortion, Line [g], fuels the $397 discounted cash flow valuation flaw, Line [i] [23].

TABLE 1
RHT AND TRADITIONAL DCF VALUATION:
A RECONCILIATION
EXHIBIT A, EXAMPLE 4

			ref
VALUATION DIFFERENCE:			
[a]	Traditional discounted cash flow valuation PV of operating performance at capital cost	$1,797	NPV([412],[421]:[421])
[b]	RHT valuation *Operating performance proxy* (Equation 1) divided by capital cost's *return 'on & of'*	1,400	PMT([402],19, -1)*NPV([402],[421]:[421]) /PMT([412], 19, -1)
[c]	Traditional DCF & RHT valuation difference	$397	[a]–[b]
[d]	Percent Difference	28%	[c]/[b]
VALUATION RECONCILIATION:			
[e]	A traditional DCF Operating Perform Proxy	$168	PMT([412],19,-1)*NPV([412],[421]:[421])
[f]	RHT Operating Performance Proxy	131	PMT([402],19,-1)*NPV([402],[421]:[421])
[g]	Traditional DCF and RHT Proxy Difference	$37	[e]–[f]
[h]	Return 'On & Of'	0. 093	PMT([412], 19, -1)
[i]	Traditional DCF & RHT valuation difference	$397	[g]/[h] & [c]

From a practical implementation perspective, it is important to recognize how the spreadsheet calculation overhead for the RHT method, Table 1, Line [b][ref], compares to a traditional discounted cash flow valuation, Line [a][ref]. The incremental Equation (1) RHT method spreadsheet calculation overhead is minimal and straightforward for replacing discounted cash flow's iterative sigma and EBITDA's reciprocal peer triad valuation architectures.

[23] In Exhibit A, Example 4's 70% debt capital structure, Line [410], creates a 200 point difference between the 8.5% equity return, Line [402] and the 6.5% capital cost, Line [412]. An Example 4 investment changing to a 40% debt capital structure creates a zero difference between capital cost and equity return. The formula for calculating the 40% is 24% /(1 - 4.5%*(1-24%) / 8.5%) where 24% is the income tax rate, 4.5% is the debt cost and 8.5% is the equity return. *Observation*: an Example 4 investment changing to a debt capital structure less than 40% will generate a traditional discounted cash flow valuation less than the RHT valuation.

XIII.EXHIBIT C: EBITDA MULTIPLE ASSUMPTION SENSITIVITY SCENARIOS

Now that adhering investments to the Primary Statements Framework helps establish a pragmatic reciprocal valuation structure, the feasibility of peering inside a Multiple for its assumptions' sensitivity feedback is now 'worth the effort'.

Arguably, the top three dynamic investment opportunity assumptions are operating performance growth, equity return, and *asset value*. Although not as subjective as an operating performance growth or equity return assumption, the changes to asset life can also have a significant impact on investment valuations. Usually, raising the operating performance growth assumption increases the need to raise equity return's risk neutralization. Raising both the growth assumption and equity return risk profile produce a countering influence on *asset value*.

Understandably, moving the growth assumption and equity return risk profile in opposite directions has an impact on *asset value*. From an Exhibit A sensitivity perspective, lowering Example 1's risk profile of 8.5 percent equity return, Line [118], to a given 6.5 percent equity return, Exhibit C, Line [608], scenarios [i] and [ii], increases the EBITDA Multiple to 15.2, Exhibit C, Line [601], scenario [i]. Additionally, increasing Example 1's operating performance growth from 3.8 percent to 9.2 percent, Line [602], scenario [ii], generates a 24.0 EBITDA Multiple, Line [601], scenario [ii]. The 9.2 percent operating performance growth is facilitated by increasing Example 1's 1.8 percent assumption of growth other than inflation, Line [103], to 7.2 percent, Line [609][ii]. The assumption sensitivity of lowering equity return and increasing operating performance growth increases Multiples, *asset values*, and 'go' investment decisions, all other items being equal.

Does a particularly high or low delineated operating performance growth level with a commensurate equity return create measurable feedback insight into a given Multiple's possible overvaluation or undervaluation of the *asset value* in an economic activity level?

XIV. EXHIBIT D: RECONCILING RHT AND EBITDA VALUATIONS

Exhibit D, Schedule a, Examples 1 and 2 reconcile the outcomes of their two EDEs. Both Example's valuations use RHT solutions to allow meaningful business related assumption

reconciliation. The business related feedback from reconciling Examples 1 and 2 is not possible if the Examples were not both using an RHT valuation architecture.

Exhibit D's Example 1 uses Exhibit A, Example 4's assumptions and 581 EDE, Line [703]. As included in Exhibit A's Example 4, the assumption for operating performance is an individual operating performance assumption for each period.

Exhibit D's Example 2 uses Exhibit C, Scenario [ii]'s assumptions and 491 EDE, Line [706]. The financial statements and corroborating analytics for Exhibit C, Scenario [ii] are shown in Exhibit D, Schedule b, Lines, [751]-[793]. Exhibit C, Scenario [ii]'s assumption for operating performance includes an EBITDA 9.2% growth rate, Line [764] embedded in the EBITDA 24.0 Multiple, Line [766] and a $100 first period EBITDA, Line [774].

Example D1's EDE is 90 points, Line [707] more favorable than D2's EDE. The favorable point difference is attributable to two offsetting items. Although the net income variance is 206 points[24], Line [708], negative to D1, the favorable deployed equity variance is a more than an offsetting at 296 points, Line [709][25].

Further detail is shown in Lines [711]-[722]. The higher operating performance of D2, Line [711], is mostly offset by lower depreciation, Line [712], and interest expense, Line [713], of D1, leaving a D1 net income PV shortfall of ($109), Line [716]. The ($109) shortfall drives the (206) point EDE net income PV variance, Line [718].

Delving deeper into explanations is possible by associating variances with differences in equity return risk profiles.

XV. ACADEMIC VALUATION RESEARCH MODELS

Academic valuation research models adhere to the iterative sigma valuation approach. The five predominant academic models are DDM (Dividend Discount), DCF (Discounted Cash Flow), ECM (Earnings Capitalization), RIM (Residual Income) and OJM (Abnormal Earning Growth).

[24] The EDE net income and deployed equity variances utilize a novel price and quantity variance analysis where the price and quantity difference is measured to the average of the other.

[25] For illustrative simplicity reasons the incremental $300 deployed equity, Line [719], is assumed to be sourced from a cost free equity issuance.

As iterative sigma models, existing valuation research models possess the same flaw of discounted cash flow as discussed earlier. No academic reciprocal triad research models exist.

Below is an excerpt (Huefner and Rueenaufer 2021) recognizing the current models.

> Footnote 26: We do not formally derive the different models in this paper, because that has been done extensively in other contributions to the literature. For formal derivations of the DDM, see Gordon & Shapiro (1956) and Gordon (1959). For the DCF, see Rappaport (1986) and Penman (2015). For (variations of) the ECM, see Fairfield (1994) and Penman (1996). For the RIM, see Edwards & Bell (1961), Peasnell (1982) and Ohlson (1995). For the OJM, see Ohlson & Juettner-Nauroth (2005). For the OHJO, see Ohlson & Johannesson (2016). For contributions that perform comparative derivations of multiple models, see Penman & Sougiannis (1998), Christensen & Feltham (2009), Easton (2009), Heinrichs et al. (2013) and Penman (2015).

Academic's asset ownership models are active/microeconomic. However, academic valuation models consider their investments passive/macroeconomic. Valuation models in academic research address the passive/macroeconomic need of readily available future valuations by oversimplifying asset reinvestment. This oversimplification goes to the point where it appears to be a future contractual arrangement. Oversimplifying the modeling of asset reinvestment runs counter to the managerial involvement of active investment opportunities.

The reinvestment oversimplification of academia's models is apparent when their accumulative nominal dividend payout ratio never exceeds 100%. Accumulative nominal dividend payout ratios never exceeding 100% indicate initial deployed equity is never returned to investors. Without returning initial deployed equity to investors, investors are ill-equipped to definitively analyze an investment opportunity. The RHT valuation architecture's accumulative nominal dividend payout ratio always exceed 100% to indicate the return of initial deployed equity to investors.[26] RHT's modeled return of initial deployed equity allows a complete analysis of an investment opportunity and foregoes the need for the additional reinvestment modeling complexity and its subsequent errant oversimplification.

[26] An investment opportunity's prospective equity statements ending in zero is an indication initial deployed equity is returned to investors. See equity statement zero ending corroborating analytics.

XVI. SUMMARY AND REFLECTION

Summary

The discussion covers a wide range of investment valuation structures, methods, topics, issues, and implications. Table 2 and the condensed summary aid comparing the alternative and today's valuation architectures.

Table 2: COMPARING ARCHITECTURES & METRICS:	Current	This Discussion
Valuation Architecture:		
Concepts	Time Value of Money	Time Value of Money
Structures	Iterative Sigma & Reciprocal Peer Triad	Reciprocal Homogenizing Triad (RHT)
Infrastructures:		
Three Reciprocal Basic Valuation Components: *asset value, wacc return 'on & of', & operating performance proxy*	No	Yes
Accounting's Primary Statements Framework	No	Yes
Corroborating Analytics	No	Yes
Treble Equity Return Standard	No	Yes
Methods	DCF's IRR & NPV, EBITDA	PMT( )*NPV( ) homogenizing operating performance proxy
Comparative Metrics	Weigh IRR/NPV and EBITDA	EDE

A Condensed Summary of the Discussion:

1. Investment opportunities' prospective financial statements generate comparative valuation metrics used in deciding wealth formation's 'go/no go' investment decisions.
2. Today's investment assumptions and their flawed valuations form misleading prospective financial statements and subsequent suboptimal investment decisions.
   a. Owing to the debt fueled widening of equity return and capital cost point spreads converging with investment owners' acceptance of greater deferred upside operating performance, the discounted cash flow valuation approach generates flaws in valuations.
   b. Owing to a Multiple's opaqueness, the unmeasurable difference between an investment's fashioned and the peer group equity return and operating performance growth, the incremental versus imbedded peer group debt cost and capital structure and, any initial unsatisfactory EBITDA, the EBITDA valuation approach generates flaws in valuations.
   c. In practice today, multiple flawed valuations are subjectively weighed to form an investment's flawed valuation, misleading financial statements, failed corroborating analytics and suboptimal comparative metrics and investment decisions.
3. Misleading financial statements correspond with the current inability to construct prospective equity statements, accounting trial balances, and objective feedback mechanisms.
   a. Historical and prospective equity statements are constructed from an income statement's net income and a cash flow statement's equity cash flow lines.
   b. The equity statement's validating handshakes affirm an investment's debits equal credits.
   c. A universal absence of prospective equity statements is evident in an investment's prospective financial statements, deducing that debits do not equal credits.
4. An alternative valuation architecture resolves valuation flaws using the reciprocal valuation structure's components of *asset value*, capital cost's *return 'on & of'*, and an equity return homogenized *operating performance proxy* to generate investment valuations.
   a. Matching accrual and cash equity returns verify unification of accrual and cash valuation perspectives; unification of accrual and cash valuation perspectives benchmark an unprecedented adherence to the time value of money concept.
   b. The alternative architecture's valuations and financial statements are validated when they create an investments' trial balances, equity statements, the treble equity return standard, and other corroborating analytics, deducing that debits equal credits.

c. The alternative architecture combines the strength of existing valuation architectures and addresses their shortcomings while bridging the theoretical and applied valuation gap in finance.

5. The alternative reciprocal valuation architecture necessitates a new earnings to deployed equity comparative metric for deciding wealth formation's 'go/no go' investment decisions; the metric brings a deployed equity efficiency to wealth formation.
6. The RHT alternative valuation architecture combined with the EDE comparative valuation metric enhance the entire investment opportunity valuation spectrum. In particular, active versus passive investment decisions and entrepreneurial startup valuations are enhanced.

Reflection

> The bookkeeping implications of such couples of items were discovered by accountants long ago and are the basis of their double entry bookkeeping, though its economic significance has been largely overlooked. One important significance is that this double entry prevents double counting–Fisher, Irving, 1930, The Theory of Interest as Determined by Impatience to Spend Income and Opportunity to Invest It.

XVII. CONCLUSIONS

An investment opportunity's financial statements generate comparative valuation metrics to decide wealth formation's 'go/no go' investment decisions. Flaws in investment opportunity valuations create misleading financial statements. The flaws are evident by an investment's inability to procure prospective trial balances and equity statements. The universal lack of prospective trial balances and equity statements indicates prospective debits do not equal credits. The root problem of debits not equaling credits is caused by the traditional individual discounting of varying operating performances with capital cost. Resolving debits not equaling credits elicits designing an alternative valuation architecture. The alternative architecture's valuation method homogenizes a non-varying *operating performance proxy* with equity return. The *proxy* subsequently combines with capital cost's *return 'on & of'* and *asset value* to form a reciprocal triad valuation structure. The financial statement debits of a reciprocal valuation structure's valuation equal its credits.

Capital cost's three previous uses are either eliminated, revised or upgraded. Capital cost's comparative valuation metric function is eliminated; capital cost's role of homogenizing an *operating performance proxy* is revised to use equity return alone; capital cost's risk profile role is unchanged but upgraded into the *return 'on & of'* basic valuation component.

The discussion contemplates three areas of risk surrounding the time value of money concept. First, the discussion proposes eliminating a valuation architecture's subjective structural risk by adhering prospective financial statements to the Primary Statements Framework. Second, the discussion proposes neutralizing varying operating performance risk by creating a homogenized *operating performance proxy* as a basic valuation component. The *proxy's* homogenizing time value influence is the matched capital cost, accrual, and cash equity returns of the treble equity return standard. Lastly, the discussion proposes neutralizing the general business risk of generating *operating performance proxies* using capital cost's *return 'on & of'* (RORO) within a reciprocal valuation structure. Beyond addressing these risks, the discussion introduces the financial statement verification of corroborating analytics and creates a new earnings to deployed equity efficiency metric for deciding 'go/no go' investment decisions.

In general, the RHT architecture and more specifically, its unification of accrual and cash valuation perspectives benchmark an unprecedented level of adherence to the time value of money wealth formation concept. The RHT infrastructure of reciprocal valuation components, the Primary Statements Framework, and the corroborating analytics coalesce into the alternative valuation architecture. The alternative architecture, combined with the comparative EDE metric create viable financial roadmaps that enhance investment decisions, better maximizes wealth formation, and increases marketplace efficiency.

One valuation aspect revealed in the discussion is the significance of the asset life assumption on investment opportunity valuations. The asset life significance is largely unexplored. The RHT valuation architecture is the key means to explore this research.

For prospective investment collectives of non-mutually exclusive investment opportunities, when the collective's individual equity returns and capital costs align each investment's valuation

and assumptions and the collective's EDE exceeds other collectives, that investment collective should receive a 'go' investment decision.

The examples in the discussion portray an overly simplified, but fundamentally sound and conceptually coherent reciprocal valuation architecture. The breadth and depth of the alternative valuation architecture envelops the current valuation architecture's strengths and addresses their shortcomings.

A proclaimed 'high risk, high reward' investment opportunity now has distinct complementary measures. Equity return and capital cost neutralize 'high risk' and the new EDE comparative metric measures 'high reward' while accounting's Primary Statements Framework addresses valuation structure risks in the background. The valuation clarity with which the measures bring to investment opportunities is significant.

Within the context of bridging the theoretical and applied valuation gap, the RHT alternative valuation architecture's attractiveness becomes pronounced.

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PEER INSIDE AN EBITDA MULTIPLE DURING STABLE INFLATION — Exhibit A

Example 1, Schedule a — Lines [101]–[144]

	A GROSS MULTIPLE'S EQUITY RETURN:																
[101]	Gross Multiple	[ref] [G]				14.0											
[102]	Baseline Target - (Stable Inflation)	[G]		2.0%													
[103]	Growth Other Than Inflation	[G]		1.8%													
[104]	Operating Perform Growth	SUM([102]:[103])			3.8%												
[105]	Gross/Net Multiple Factor	PMT(8.5%,19,-1) * (1-(1+3.8%)^19/(1+8.5%)^19)/(8.5%-3.8%)				1.306											
[106]	Net Multiple	[101]/[105]					10.7										
[107]	Return 'On & Of' (RORO)	1/[106]					0.093										
[108]	Capital Cost	RATE(19, [107], -1)						6.5%									
[109]	Debt Weighting	[G]					70%										
[110]	Debt Cost - Baseline Target	[102]				2.0%											
[111]	Commercial Margin	[G]				2.5%											
[112]	Debt Cost	SUM([110]:[111])					4.5%										
[113]	Weighted Debt Cost	[109]*[112]						3.2%									
[114]	Weighted Equity return	[108]–[113]							3.4%								
[115]	Equity Weighting	1-[109]							30%								
[116]	Equity return - pre-tax	[114]/[115]								11.2%							
[117]	Income Tax rate	[G]								24%							
[118]	Equity return	[116]*(1-[117])] & [141]									8.5%						
	PRIMARY ACCOUNTING STATEMENTS:																
	BALANCE SHEET		0	1	2	3	4	5	6	7	8	9	10	17	18	19	
[119]	Asset Value	[101]*[125]	$1,400	$1,400	$1,400	$1,400	$1,400	$1,400	$1,400	$1,400	$1,400	$1,400	$1,400	$1,400	$1,400	$0	
[120]	Accumulated Depreciation	[120]+[126]		(74)	(147)	(221)	(295)	(368)	(442)	(516)	(589)	(663)	(737)	(1,253)	(1,326)	0	
[121]	Net Asset	SUM([119]:[120])	1,400	1,326	1,253	1,179	1,105	1,032	958	884	811	737	663	147	74	0	
[122]	Cash	[124]–[121]		34	66	95	121	144	164	180	193	201	205	90	49	0	
[123]	Assets	SUM([121]:[122])	$1,400	$1,361	$1,319	$1,274	$1,227	$1,176	$1,122	$1,064	$1,003	$938	$869	$238	$123	$0	
[124]	Equity & Debt	[124]*(1+[108])-PMT([108], 19,-[119])	$1,400	$1,361	$1,319	$1,274	$1,227	$1,176	$1,122	$1,064	$1,003	$938	$869	$238	$123	$0	
	INCOME STATEMENT																
[125]	Oper Performance $131 proxy	[G] and then [125]*(1+3.8%)		$100	$104	$108	$112	$116	$120	$125	$130	$135	$140	$182	$189	$196	
[126]	Depreciation	-$1,400/19		(74)	(74)	(74)	(74)	(74)	(74)	(74)	(74)	(74)	(74)	(74)	(74)	(74)	
[127]	Interest Expense	-[124]*70%*4.5%		(44)	(43)	(42)	(40)	(39)	(37)	(35)	(34)	(32)	(30)	(11)	(7)	(4)	
[128]	Cash Return	[122]*8.5%		0	3	6	8	10	12	14	15	16	17	11	8	4	
[129]	Income Tax	-SUM([125]:[128])*24%		4	2	0	(1)	(3)	(5)	(7)	(9)	(11)	(13)	(26)	(28)	(30)	
[130]	Net Income	SUM([125]:[129])		($13)	($7)	($1)	$5	$11	$17	$23	$29	$35	$41	$82	$87	$93	
	CASH FLOW STATEMENT																
[131]	Net Income	[130]		($13)	($7)	($1)	$5	$11	$17	$23	$29	$35	$41	$82	$87	$93	
[132]	Add Back: Depreciation	-[126]		74	74	74	74	74	74	74	74	74	74	74	74	74	
[133]	Cash	[122]–[122]		(34)	(32)	(29)	(26)	(23)	(20)	(16)	(12)	(8)	(4)	34	41	49	
[134]	Debt Issuance/(Repurchase)	([124]–[124])*70%	$980	(28)	(29)	(31)	(33)	(35)	(38)	(40)	(43)	(46)	(49)	(76)	(81)	(86)	
[135]	Asset Purchase	-[119]	(1,400)														
[136]	Equity (Deploy/Inject)/Dividend	SUM([131]:[135])	($420)	($2)	$5	$12	$19	$26	$33	$40	$47	$54	$62	$114	$122	$130	
	EQUITY STATEMENT																
[137]	Beginning Equity	[140]		$420	$408	$396	$382	$368	$353	$337	$319	$301	$281	$104	$71	$37	
[138]	Net Income	[130]		(13)	(7)	(1)	5	11	17	23	29	35	41	82	87	93	
[139]	Equity Deploy/Inject/(Dividend)	-[136]	$420	2	(5)	(12)	(19)	(26)	(33)	(40)	(47)	(54)	(62)	(114)	(122)	(130)	
[140]	Ending Equity	SUM([137]:[139])	$420	$408	$396	$382	$368	$353	$337	$319	$301	$281	$261	$71	$37	$0	
	CORROBORATING ANALYTICS:																
[141]	Equity Return - discounted cash flow		8.5%	IRR([139]:[139])													
[142]	Equity Return - accrual net income		8.5%	Net Income PV $244 divided by Equity Outstand PV $2,869					$244	NPV([141],[130]:[130])		$2,869	NPV([141],[137]:[137])				
[143]	Equity Present Value - discounted cash flow		$420	-NPV([141],[139]:[139])													
[144]	Equity Capital Structure	[140]/[124]	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%		

PEER INSIDE AN EBITDA MULTIPLE DURING STABLE INFLATION – TRIAL BALANCES

Exhibit A

Example 1, Schedule b

Lines [151]–[194]

Example 1 Trial balances 0 - 5		ref	0	Activity	Close	1	Activity	Close	2	Activity	Close	3	Activity	Close	4	Activity	Close	5
[151]	Asset Value	[101]*[156]	1,400			1,400			1,400			1,400			1,400			1,400
[152]	Accumulated Depreciation	[152]+[157]		(74)		(74)	(74)		(147)	(74)		(221)	(74)		(295)	(74)		(368)
[153]	Cash	-SUM([151]:[152],[154]:[160])		34		34	32		66	29		95	26		121	23		144
[154]	Debt	[124] * [109]	(980)	28		(952)	29		(923)	31		(892)	33		(859)	35		(823)
[155]	Equit	[124] * [115]	(420)	(2)	13	(408)	5	7	(396)	12	1	(382)	19	(5)	(368)	26	(11)	(353)
[156]	Operating Perform	[G] and then [156]*(1+3.8%)		(100)	100	0	(104)	104	0	(108)	108	0	(112)	112	0	(116)	116	0
[157]	Depreciation	[151]/19		74	(74)	0	74	(74)	0	74	(74)	0	74	(74)	0	74	(74)	0
[158]	Interest Expense	-[154]*4.5%		44	(44)	0	43	(43)	0	42	(42)	0	40	(40)	0	39	(39)	0
[159]	Cash Return	-[153]*8.5%		0	0	0	(3)	3	0	(6)	6	0	(8)	8	0	(10)	10	0
[160]	Income Tax	-SUM([156]:[159])*24%		(4)	4	0	(2)	2	0	(0)	0	0	1	(1)	0	3	(3)	0
[161]	Total	SUM([151]:[160])	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Example 1 Trial balances 6 – 10		ref	5	Activity	Close	6	Activity	Close	7	Activity	Close	8	Activity	Close	9	Activity	Close	10
[162]	Asset Value	[151]	1,400			1,400			1,400			1,400			1,400			1,400
[163]	Accumulated Depreciation	[163]+[168]	(368)	(74)		(442)	(74)		(516)	(74)		(589)	(74)		(663)	(74)		(737)
[164]	Cash	-SUM([162]:[163],[165]:[171])	144	20		164	16		180	12		193	8		201	4		205
[165]	Debt	[124] * [109]	(823)	38		(785)	40		(745)	43		(702)	46		(657)	49		(608)
[166]	Equit	[124] * [115]	(353)	33	(17)	(337)	40	(23)	(319)	47	(29)	(301)	54	(35)	(281)	62	(41)	(261)
[167]	Operating Performance	[167]*(1+3.8%)	0	(120)	120	0	(125)	125	0	(130)	130	0	(135)	135	0	(140)	140	0
[168]	Depreciation	[151]/19	0	74	(74)	0	74	(74)	0	74	(74)	0	74	(74)	0	74	(74)	0
[169]	Interest Expense	-[165]*4.5%	0	37	(37)	0	35	(35)	0	34	(34)	0	32	(32)	0	30	(30)	0
[170]	Cash Return	-[164]*8.5%	0	(12)	12	0	(14)	14	0	(15)	15	0	(16)	16	0	(17)	17	0
[171]	Income Tax	-SUM([167]:[170])*24%	0	5	(5)	0	7	(7)	0	9	(9)	0	11	(11)	0	13	(13)	0
[172]	Total	SUM([162]:[171])	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Example 1 Trial balances 11 – 15		ref	10	Activity	Close	11	Activity	Close	12	Activity	Close	13	Activity	Close	14	Activity	Close	15
[173]	Asset Value	[151]	1,400			1,400			1,400			1,400			1,400			1,400
[174]	Accumulated Depreciation	[174]+[179]	(737)	(74)		(811)	(74)		(884)	(74)		(958)	(74)		(1,032)	(74)		(1,105)
[175]	Cash	-SUM([173]:[174],[176]:[182])	205	(0)		205	(5)		200	(10)		190	(16)		174	(22)		152
[176]	Debt	[124] * [109]	(608)	52		(556)	55		(501)	59		(442)	63		(380)	67		(313)
[177]	Equit	[124] * [115]	(261)	69	(47)	(238)	76	(53)	(215)	84	(59)	(190)	91	(64)	(163)	99	(70)	(134)
[178]	Operating Performance	[178]*(1+3.8%)	0	(145)	145	0	(151)	151	0	(156)	156	0	(162)	162	0	(169)	169	0
[179]	Depreciation	[151]/19	0	74	(74)	0	74	(74)	0	74	(74)	0	74	(74)	0	74	(74)	0
[180]	Interest Expense	-[176]*4.5%	0	27	(27)	0	25	(25)	0	23	(23)	0	20	(20)	0	17	(17)	0
[181]	Cash Return	-[175]*8.5%	0	(17)	17	0	(17)	17	0	(17)	17	0	(16)	16	0	(15)	15	0
[182]	Income Tax	-SUM([178]:[181])*24%	0	15	(15)	0	17	(17)	0	19	(19)	0	21	(21)	0	22	(22)	0
[183]	Total	SUM([173]:[182])	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Example 1 Trial balances 16 - 19		ref	15	Activity	Close	16	Activity	Close	17	Activity	Close	18	Activity	Close	19
[184]	Asset Value	[151]	1,400			1,400			1,400			1,400		(1,400)	0
[185]	Accumulated Depreciation	[185]+[190]	(1,105)	(74)		(1,179)	(74)		(1,253)	(74)		(1,326)	(74)	1,400	0
[186]	Cash	-SUM([184]:[185],[187]:[193])	152	(28)		125	(34)		90	(41)		49	(49)		0
[187]	Debt	[124] * [109]	(313)	71		(242)	76		(166)	81		(86)	86		0
[188]	Equit	[124] * [115]	(134)	106	(76)	(104)	114	(82)	(71)	122	(87)	(37)	130	(93)	0
[189]	Operating Performance	[189]*(1+3.8%)	0	(175)	175	0	(182)	182	0	(189)	189	0	(196)	196	0
[190]	Depreciation	[151]/19	0	74	(74)	0	74	(74)	0	74	(74)	0	74	(74)	0
[191]	Interest Expense	-[187]*4.5%	0	14	(14)	0	11	(11)	0	7	(7)	0	4	(4)	0
[192]	Cash Return	-[186]*8.5%	0	(13)	13	0	(11)	11	0	(8)	8	0	(4)	4	0
[193]	Income Tax	-SUM([189]:[192])*24%	0	24	(24)	0	26	(26)	0	28	(28)	0	30	(30)	0
[194]	Total	SUM([184]:[193])	0	0	0	0	0	0	0	0	0	0	0	0	0

all transactions occur at period end

CREATE AN ACTIVE INVESTMENT EDE DURING INCREASED INFLATION

Exhibit A

Example 2, Schedule a

Lines [201]–[243]

		ref															
	GROSS MULTIPLE CALCULATION:																
[201]	Equity return (Example 1)	[118]	8.5%														
[202]	Income Tax rate	[G]	24%														
[203]	Equity return - pre-tax	[201]/(1-[202])		11.2%													
[204]	Equity Weighting	1-[206]		30%													
[205]	Weighted Equity return	[203]*[204]			3.4%												
[206]	Debt Weighting (Example 1)	[109]		70%													
[207]	Inflation Agent (Increased Inflation)	[303]	4.9%														
[208]	Commercial Margin (Example 1)	[111]	2.5%														
[209]	Debt Cost	SUM([207]:[208])		7.4%													
[210]	Weighted Debt	[206]*[209]			5.2%												
[211]	Capital Cost (Increased Inflation)	SUM([205]:[210])				8.6%											
[212]	Return 'On & Of' (RORO)	PMT([211],19,-1)				0.108											
[213]	Net Multiple	1/[212]					9.2										
[214]	Operating Performance Growth (Example 1)	[104]				3.8%											
[215]	Gross/Net Multiple Factor (Example 1)	[105]					1.306										
[216]	Gross Multiple (Increased Inflation)	[213]*[215] going to [217]						12.0									
	PRIMARY ACCOUNTING STATEMENTS:																
	BALANCE SHEET		0	1	2	3	4	5	6	7	8	9	10	17	18	19	
[217]	Asset Value	[216]*[223]	$1,204	$1,204	$1,204	$1,204	$1,204	$1,204	$1,204	$1,204	$1,204	$1,204	$1,204	$1,204	$1,204	$0	
[218]	Accumulated Depreciation	[218]+[224]		(63)	(127)	(190)	(253)	(317)	(380)	(444)	(507)	(570)	(634)	(1,077)	(1,140)	0	
[219]	Net Asset	SUM([217]:[218])	1,204	1,140	1,077	1,014	950	887	824	760	697	634	570	127	63	0	
[220]	Cash	[222]–[219]		36	70	101	129	154	177	195	210	220	226	104	57	0	
[221]	Assets	SUM([219]:[220])	$1,204	$1,176	$1,147	$1,115	$1,080	$1,042	$1,000	$955	$907	$854	$797	$231	$120	$0	
[222]	Equity & Debt	[222]*(1+[211])-PMT([211],19,-[217])	$1,204	$1,176	$1,147	$1,115	$1,080	$1,042	$1,000	$955	$907	$854	$797	$231	$120	$0	
	INCOME STATEMENT																
[223]	Oper Performance	[G] and then [223]*(1+3.8%)		$100	$104	$108	$112	$116	$120	$125	$130	$135	$140	$182	$189	$196	
[224]	Depreciation	-1204/ 19		(63)	(63)	(63)	(63)	(63)	(63)	(63)	(63)	(63)	(63)	(63)	(63)	(63)	
[225]	Interest Expense	-[222]*70%*7.4%		(63)	(61)	(60)	(58)	(56)	(54)	(52)	(50)	(47)	(44)	(17)	(12)	(6)	
[226]	Cash Return	[220]*8.5%		0	3	6	9	11	13	15	17	18	19	12	9	5	
[227]	Income Tax	-SUM([223]:[226])*24%		6	4	2	0	(2)	(4)	(6)	(8)	(10)	(12)	(27)	(30)	(32)	
[228]	Net Income	SUM([223]:[227])		($20)	($13)	($7)	($1)	$6	$12	$19	$25	$32	$39	$86	$92	$99	
	CASH FLOW STATEMENT																
[229]	Net Income	[228]		($20)	($13)	($7)	($1)	$6	$12	$19	$25	$32	$39	$86	$92	$99	
[230]	Add Back: Depreciation	-[224]		63	63	63	63	63	63	63	63	63	63	63	63	63	
[231]	Cash	[220]–[220]		(36)	(34)	(31)	(28)	(25)	(22)	(19)	(15)	(11)	(6)	39	47	57	
[232]	Debt Issuance/(Repurchase)	([222]–[222])*70%	$843	(19)	(21)	(23)	(25)	(27)	(29)	(31)	(34)	(37)	(40)	(71)	(78)	(84)	
[233]	Asset Purchase	-[217]	(1,204)														
[234]	Equity (Deploy/Inject)/Dividend	SUM([229]:[233])	($361)	($12)	($5)	$3	$10	$17	$25	$32	$40	$48	$56	$116	$126	$135	
	EQUITY STATEMENT																
[235]	Beginning Equity	[238]		$361	$353	$344	$334	$324	$312	$300	$287	$272	$256	$100	$69	$36	
[236]	Net Income	[228]		(20)	(13)	(7)	(1)	6	12	19	25	32	39	86	92	99	
[237]	Equity Deploy/Inject/(Dividend)	-[234]	$361	12	5	(3)	(10)	(17)	(25)	(32)	(40)	(48)	(56)	(116)	(126)	(135)	
[238]	Ending Equity	SUM([235]:[237])	$361	$353	$344	$334	$324	$312	$300	$287	$272	$256	$239	$69	$36	$0	
	CORROBORATING ANALYTICS:																
[239]	Equity Return - discounted cash flow		8.5%	IRR([237]:[237])													
[240]	Equity Return - accrual net income		8.5%	Net Income PV $217 divided by Equity Outstand PV $2,546					$217	NPV([239],[228]:[228])		$2,546	NPV([239],[235]:[235])				
[241]	Equity Present Value - discounted cash flow		$361	-NPV([239],[237]:[237])													
[242]	Equity Capital Structure	[238]/[222]	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%		
[243]	**EDE (EARNINGS to DEPLOYED EQUITY)**		600	NPV([239],[236]:[236])/[237] * 1000													

CREATE AN ACTIVE INVESTMENT EDE DURING INCREASED INFLATION – TRIAL BALANCES

Exhibit A

Example 2, Schedule b

Lines [251]–[294]

Example 2 Trial balances 0 - 5		ref	0	Activity	Close	1	Activity	Close	2	Activity	Close	3	Activity	Close	4	Activity	Close	5
[251]	Asset Value	[201]*[256]	1,204			1,204			1,204			1,204			1,204			1,204
[252]	Accumulated Depreciation	[252]+[257]		(63)		(63)	(63)		(127)	(63)		(190)	(63)		(253)	(63)		(317)
[253]	Cash	-SUM([251]:[252],[254]:[260])		36		36	34		70	31		101	28		129	25		154
[254]	Debt	[222] * [206]	(843)	19		(824)	21		(803)	23		(780)	25		(756)	27		(729)
[255]	Equit	[222] * [204]	(361)	(12)	20	(353)	(5)	13	(344)	3	7	(334)	10	1	(324)	17	(6)	(312)
[256]	Operating Perform	[G] and then [256]*(1+3.8%)		(100)	100	0	(104)	104	0	(108)	108	0	(112)	112	0	(116)	116	0
[257]	Depreciation	[251]/19		63	(63)	0	63	(63)	0	63	(63)	0	63	(63)	0	63	(63)	0
[258]	Interest Expense	-[254]*4.5%		63	(63)	0	61	(61)	0	60	(60)	0	58	(58)	0	56	(56)	0
[259]	Cash Return	-[253]*8.5%		0	0	0	(3)	3	0	(6)	6	0	(9)	9	0	(11)	11	0
[260]	Income Tax	-SUM([256]:[259])*24%		(6)	6	0	(4)	4	0	(2)	2	0	(0)	0	0	2	(2)	0
[261]	Total	SUM([251]:[260])	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Example 2 Trial balances 6 – 10		ref	5	Activity	Close	6	Activity	Close	7	Activity	Close	8	Activity	Close	9	Activity	Close	10
[262]	Asset Value	[251]	1,204			1,204			1,204			1,204			1,204			1,204
[263]	Accumulated Depreciation	[263]+[268]	(317)	(63)		(380)	(63)		(444)	(63)		(507)	(63)		(570)	(63)		(634)
[264]	Cash	-SUM([262]:[263],[265]:[271])	154	22		177	19		195	15		210	11		220	6		226
[265]	Debt	[222] * [206]	(729)	29		(700)	31		(669)	34		(635)	37		(598)	40		(558)
[266]	Equit	[222] * [204]	(312)	25	(12)	(300)	32	(19)	(287)	40	(25)	(272)	48	(32)	(256)	56	(39)	(239)
[267]	Operating Performance	[267]*(1+3.8%)	0	(120)	120	0	(125)	125	0	(130)	130	0	(135)	135	0	(140)	140	0
[268]	Depreciation	[251]/19	0	63	(63)	0	63	(63)	0	63	(63)	0	63	(63)	0	63	(63)	0
[269]	Interest Expense	-[265]*4.5%	0	54	(54)	0	52	(52)	0	50	(50)	0	47	(47)	0	44	(44)	0
[270]	Cash Return	-[264]*8.5%	0	(13)	13	0	(15)	15	0	(17)	17	0	(18)	18	0	(19)	19	0
[271]	Income Tax	-SUM([267]:[270])*24%	0	4	(4)	0	6	(6)	0	8	(8)	0	10	(10)	0	12	(12)	0
[272]	Total	SUM([262]:[271])	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Example 2 Trial balances 11 – 15		ref	10	Activity	Close	11	Activity	Close	12	Activity	Close	13	Activity	Close	14	Activity	Close	15
[273]	Asset Value	[251]	1,204			1,204			1,204			1,204			1,204			1,204
[274]	Accumulated Depreciation	[274]+[279]	(634)	(63)		(697)	(63)		(760)	(63)		(824)	(63)		(887)	(63)		(950)
[275]	Cash	-SUM([273]:[274],[276]:[282])	226	1		227	(4)		223	(10)		213	(16)		197	(23)		174
[276]	Debt	[222] * [206]	(558)	44		(514)	47		(467)	51		(415)	56		(360)	61		(299)
[277]	Equit	[222] * [204]	(239)	64	(45)	(220)	72	(52)	(200)	81	(59)	(178)	89	(65)	(154)	98	(72)	(128)
[278]	Operating Performance	[278]*(1+3.8%)	0	(145)	145	0	(151)	151	0	(156)	156	0	(162)	162	0	(169)	169	0
[279]	Depreciation	[251]/19	0	63	(63)	0	63	(63)	0	63	(63)	0	63	(63)	0	63	(63)	0
[280]	Interest Expense	-[276]*4.5%	0	41	(41)	0	38	(38)	0	35	(35)	0	31	(31)	0	27	(27)	0
[281]	Cash Return	-[275]*8.5%	0	(19)	19	0	(19)	19	0	(19)	19	0	(18)	18	0	(17)	17	0
[282]	Income Tax	-SUM([278]:[281])*24%	0	14	(14)	0	17	(17)	0	19	(19)	0	21	(21)	0	23	(23)	0
[283]	Total	SUM([273]:[282])	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Example 2 Trial balances 16 - 19		ref	15	Activity	Close	16	Activity	Close	17	Activity	Close	18	Activity	Close	19
[284]	Asset Value	[251]	1,204			1,204			1,204			1,204		(1,204)	0
[285]	Accumulated Depreciation	[285]+[290]	(950)	(63)		(1,014)	(63)		(1,077)	(63)		(1,140)	(63)	1,204	0
[286]	Cash	-SUM([284]:[285],[287]:[293])	174	(31)		143	(39)		104	(47)		57	(57)		0
[287]	Debt	[222] * [206]	(299)	66		(233)	71		(162)	78		(84)	84		0
[288]	Equit	[222] * [204]	(128)	107	(79)	(100)	116	(86)	(69)	126	(92)	(36)	135	(99)	0
[289]	Operating Performance	[289]*(1+3.8%)	0	(175)	175	0	(182)	182	0	(189)	189	0	(196)	196	0
[290]	Depreciation	[251]/19	0	63	(63)	0	63	(63)	0	63	(63)	0	63	(63)	0
[291]	Interest Expense	-[287]*4.5%	0	22	(22)	0	17	(17)	0	12	(12)	0	6	(6)	0
[292]	Cash Return	-[286]*8.5%	0	(15)	15	0	(12)	12	0	(9)	9	0	(5)	5	0
[293]	Income Tax	-SUM([289]:[292])*24%	0	25	(25)	0	27	(27)	0	30	(30)	0	32	(32)	0
[294]	Total	SUM([284]:[293])	0	0	0	0	0	0	0	0	0	0	0	0	0

all transactions occur at period end

CREATE A PASSIVE INVESTMENT EDE DURING INCREASED INFLATION

Exhibit A

Example 3, Schedule a

Lines [301]–[331]

		ref														
	OPERATING PERFORMANCE:															
[301]	Passive Operating Performance	[G]	$18													
[302]	Asset Value (beginning and ending)	[G]	361													
[303]	Equity Return 'On' (inflation agent)	[301]/[302]		4.9%												
	PRIMARY ACCOUNTING STATEMENTS:															
	BALANCE SHEET		0	1	2	3	4	5	6	7	8	9	10	17	18	19
[304]	Passive Investment	[302]	$361	$361	$361	$361	$361	$361	$361	$361	$361	$361	$361	$361	$361	$0
[305]	Accumulated Depreciation	[N/A]		0	0	0	0	0	0	0	0	0	0	0	0	0
[306]	Net Asset	SUM([304]:[305])	361	361	361	361	361	361	361	361	361	361	361	361	361	0
[307]	Cash	[309]-[306]		0	0	0	0	0	0	0	0	0	0	0	0	0
[308]	Assets	SUM([306]:[307])	$361	$361	$361	$361	$361	$361	$361	$361	$361	$361	$361	$361	$361	$0
[309]	Equity	[302]	$361	$361	$361	$361	$361	$361	$361	$361	$361	$361	$361	$361	$361	$0
	INCOME STATEMENT															
[310]	Operating Performance	[301]		$18	$18	$18	$18	$18	$18	$18	$18	$18	$18	$18	$18	$18
[311]	Depreciation	[N/A]		0	0	0	0	0	0	0	0	0	0	0	0	0
[312]	Interest Expense	[N/A]		0	0	0	0	0	0	0	0	0	0	0	0	0
[313]	Cash Return	[N/A]		0	0	0	0	0	0	0	0	0	0	0	0	0
[314]	Income Tax	[N/A]		0	0	0	0	0	0	0	0	0	0	0	0	0
[315]	Net Income	SUM([310]:[314])		$18	$18	$18	$18	$18	$18	$18	$18	$18	$18	$18	$18	$18
	CASH FLOW STATEMENT															
[316]	Net Income	[315]		$18	$18	$18	$18	$18	$18	$18	$18	$18	$18	$18	$18	$18
[317]	Add Back: Depreciation	-[311]		0	0	0	0	0	0	0	0	0	0	0	0	0
[318]	Cash	[307]-[307]		0	0	0	0	0	0	0	0	0	0	0	0	0
[319]	Debt Issuance/(Repurchase)	[N/A]	$0	0	0	0	0	0	0	0	0	0	0	0	0	0
[320]	Asset Purchase/Sale	- +[302]	(361)													361
[321]	Equity (Deploy)/Dividend	SUM([316]:[320])	($361)	$18	$18	$18	$18	$18	$18	$18	$18	$18	$18	$18	$18	$379
	EQUITY STATEMENT															
[322]	Beginning Equity	[325]		$361	$361	$361	$361	$361	$361	$361	$361	$361	$361	$361	$361	$361
[323]	Net Income	[315]		18	18	18	18	18	18	18	18	18	18	18	18	18
[324]	Equity Deploy/(Dividend)	-[321]	$361	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(379)
[325]	Ending Equity	SUM([322]:[324])	$361	$361	$361	$361	$361	$361	$361	$361	$361	$361	$361	$361	$361	$0

	CORROBORATING ANALYTICS:															
[326]	Equity Return - discounted cash flow		4.9%	IRR([324]:[324])												
[327]	Equity Return - accrual net income		4.9%	Net Income PV $217 divided by Equity Outstand PV $4,386							$217	NPV([326],[315]:[315])	$4,386	NPV([326],[322]:[322])		
[328]	Equity Present Value - discounted cash flow		$361	-NPV([326],[324]:[324])												
[329]	Equity Capital Structure	[325]/[309]	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
[330]	**EDE (EARNINGS to DEPLOYED EQUITY)**		600	NPV([326],[323]:[323])/[324] * 1000												
[331]	**EDE AS A PRESENT VALUE OF EQUITY RETURN**		600	PV(4.9%, 19, -4.9%, 0) * 1000 = 4.940761418%												

CREATE A PASSIVE INVESTMENT EDE DURING INCREASED INFLATION – TRIAL BALANCES

Exhibit A

Example 3, Schedule b

Lines [351]–[394]

Example 3 Trial balances 0 - 5		ref	0	Activity	Close	1	Activity	Close	2	Activity	Close	3	Activity	Close	4	Activity	Close	5
[351]	Asset Value	[237]	361			361			361			361			361			361
[352]	Accumulated Depreciation	[N/A]		0		0	0		0	0		0	0		0	0		0
[353]	Cash	-SUM([351]:[352],[354]:[360])		0		0	0		0	0		0	0		0	0		0
[354]	Debt	[N/A]	0	0		0	0		0	0		0	0		0	0		0
[355]	Equity	[237]	(361)	18	(18)	(361)	18	(18)	(361)	18	(18)	(361)	18	(18)	(361)	18	(18)	(361)
[356]	Operating Perform	[301]		(18)	18	0	(18)	18	0	(18)	18	0	(18)	18	0	(18)	18	0
[357]	Depreciation	[N/A]		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
[358]	Interest Expense	[N/A]		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
[359]	Cash Return	[N/A]		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
[360]	Income Tax	[N/A]		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
[361]	Total	SUM([351]:[360])	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Example 3 Trial balances 6 – 10		ref	5	Activity	Close	6	Activity	Close	7	Activity	Close	8	Activity	Close	9	Activity	Close	10
[362]	Asset Value	[237]	361			361			361			361			361			361
[363]	Accumulated Depreciation	[N/A]	0	0		0	0		0	0		0	0		0	0		0
[364]	Cash	-SUM([362]:[363],[365]:[371])	0	0		0	0		0	0		0	0		0	0		0
[365]	Debt	[N/A]	0	0		0	0		0	0		0	0		0	0		0
[366]	Equity	[237]	(361)	18	(18)	(361)	18	(18)	(361)	18	(18)	(361)	18	(18)	(361)	18	(18)	(361)
[367]	Operating Perform	[301]	0	(18)	18	0	(18)	18	0	(18)	18	0	(18)	18	0	(18)	18	0
[368]	Depreciation	[N/A]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
[369]	Interest Expense	[N/A]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
[370]	Cash Return	[N/A]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
[371]	Income Tax	[N/A]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
[372]	Total	SUM([362]:[371])	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Example 3 Trial balances 11 – 15		ref	10	Activity	Close	11	Activity	Close	12	Activity	Close	13	Activity	Close	14	Activity	Close	15
[373]	Asset Value	[237]	361			361			361			361			361			361
[374]	Accumulated Depreciation	[N/A]	0	0		0	0		0	0		0	0		0	0		0
[375]	Cash	-SUM([373]:[374],[376]:[382])	0	0		0	0		0	0		0	0		0	0		0
[376]	Debt	[N/A]	0	0		0	0		0	0		0	0		0	0		0
[377]	Equit	[237]	(361)	18	(18)	(361)	18	(18)	(361)	18	(18)	(361)	18	(18)	(361)	18	(18)	(361)
[378]	Operating Perform	[301]	0	(18)	18	0	(18)	18	0	(18)	18	0	(18)	18	0	(18)	18	0
[379]	Depreciation	[N/A]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
[380]	Interest Expense	[N/A]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
[381]	Cash Return	[N/A]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
[382]	Income Tax	[N/A]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
[383]	Total	SUM([373]:[382])	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Example 3 Trial balances 16 - 19		ref	15	Activity	Close	16	Activity	Close	17	Activity	Close	18	Activity	Close	19
[384]	Asset Value	[237]	361			361			361			361		(361)	0
[385]	Accumulated Depreciation	[N/A]	0	0		0	0		0	0		0	0	0	0
[386]	Cash	-SUM([384]:[385],[387]:[393])	0	0		0	0		0	0		0	(361)	361	0
[387]	Debt	[N/A]	0	0		0	0		0	0		0	0		0
[388]	Equit	[237]	(361)	18	(18)	(361)	18	(18)	(361)	18	(18)	(361)	379	(18)	0
[389]	Operating Perform	[301]	0	(18)	18	0	(18)	18	0	(18)	18	0	(18)	18	0
[390]	Depreciation	[N/A]	0	0	0	0	0	0	0	0	0	0	0	0	0
[391]	Interest Expense	[N/A]	0	0	0	0	0	0	0	0	0	0	0	0	0
[392]	Cash Return	[N/A]	0	0	0	0	0	0	0	0	0	0	0	0	0
[393]	Income Tax	[N/A]	0	0	0	0	0	0	0	0	0	0	0	0	0
[394]	Total	SUM([384]:[393])	0	0	0	0	0	0	0	0	0	0	0	0	0

all transactions occur at period end

ACTIVE INITIAL NEGATIVE OPERATING PERFORMANCE DURING STABLE INFLATION — Exhibit A

Example 4, Schedule a — Lines [401]–[441]

		ref															
	INVESTMENT VALUATION:																
[401]	Oper Perform Proxy	PMT(8.5%,19,-1)*NPV(8.5%,[421]:[421])					$131										
[402]	Equity return	[G]	8.5%														
[403]	Income Tax rate	[G]	24%														
[404]	Equity return - pre-tax	[402]/(1-[403])		11.2%													
[405]	Equity Weighting	1-[410]		30%													
[406]	Weighted Equity return	[404]*[405]			3.4%												
[407]	Baseline Target - (Debt Cost)	[G]	2.0%														
[408]	Commercial Margin	[G]	2.5%														
[409]	Debt Cost	SUM([407]:[408])		4.5%													
[410]	Debt Weighting	[G]		70%													
[411]	Weighted Debt Cost	[409]*[410]			3.2%												
[412]	Capital Cost	SUM([406]:[411])				6.5%											
[413]	Return 'On & Of' (RORO)	PMT([412], 19, -1)					0.093										
[414]	Asset Value	[401]/[413]						$1,400									

	PRIMARY ACCOUNTING STATEMENTS:																
	BALANCE SHEET		0	1	2	3	4	5	6	7	8	9	10	17	18	19	
[415]	Asset Value	[414]	$1,400	$1,400	$1,400	$1,400	$1,400	$1,400	$1,400	$1,400	$1,400	$1,400	$1,400	$1,400	$1,400	$0	
[416]	Accumulated Depreciation	[416]+[422]		(74)	(147)	(221)	(295)	(368)	(442)	(516)	(589)	(663)	(737)	(1,253)	(1,326)	0	
[417]	Net Asset	SUM([416]:[417])	1,400	1,326	1,253	1,179	1,105	1,032	958	884	811	737	663	147	74	0	
[418]	Cash	[420]–[417]		34	66	95	121	144	164	180	193	201	205	90	49	0	
[419]	Assets	SUM([417]:[418])	$1,400	$1,361	$1,319	$1,274	$1,227	$1,176	$1,122	$1,064	$1,003	$938	$869	$238	$123	$0	
[420]	Equity & Debt	[420]*(1+[412])-PMT([412], 19,-[414])	$1,400	$1,361	$1,319	$1,274	$1,227	$1,176	$1,122	$1,064	$1,003	$938	$869	$238	$123	$0	
	INCOME STATEMENT																
[421]	Operating Performance $131 proxy	[G]		($233)	($204)	($171)	($134)	($93)	($48)	$118	$(67)	$121	$190	$944	$1,105	$1,283	
[422]	Depreciation	-[415]/19		(74)	(74)	(74)	(74)	(74)	(74)	(74)	(74)	(74)	(74)	(74)	(74)	(74)	
[423]	Interest Expense	-[420]*70%*4.5%		(44)	(43)	(42)	(40)	(39)	(37)	(35)	(34)	(32)	(30)	(11)	(7)	(4)	
[424]	Cash Return	[418]*8.5%		0	3	6	8	10	12	14	15	16	17	11	8	4	
[425]	Income Tax	-SUM([421]:[424])*24%		85	77	68	58	47	35	(6)	38	(8)	(25)	(210)	(249)	(293)	
[426]	Net Income	SUM([421]:[425])		($266)	($240)	($212)	($182)	($148)	($111)	$17	$(120)	$24	$79	$660	$782	$917	
	CASH FLOW STATEMENT																
[427]	Net Income	[426]		($266)	($240)	($212)	($182)	($148)	($111)	$17	$(120)	$24	$79	$660	$782	$917	
[428]	Add Back: Depreciation	-[422]		74	74	74	74	74	74	74	74	74	74	74	74	74	
[429]	Cash	[418]–[418]		(34)	(32)	(29)	(26)	(23)	(20)	(16)	(12)	(8)	(4)	34	41	49	
[430]	Debt Issuance/(Repurchase)	([420]–[420])*70%	980	(28)	(29)	(31)	(33)	(35)	(38)	(40)	(43)	(46)	(49)	(76)	(81)	(86)	
[431]	Asset Purchase	-[415]	(1,400)														
[432]	Equity (Deploy/Inject)/Dividend	SUM([427]:[431])	($420)	($254)	($228)	($199)	($167)	($133)	($95)	$35	$(102)	$44	$99	$692	$816	$954	
	EQUITY STATEMENT																
[433]	Beginning Equity	[436]		$420	$408	$396	$382	$368	$353	$337	$319	$301	$281	$104	$71	$37	
[434]	Net Income	[426]		(266)	(240)	(212)	(182)	(148)	(111)	17	(120)	24	79	660	782	917	
[435]	Equity Deploy/Inject/(Dividend)	-[432]	$420	254	228	199	167	133	95	(35)	102	(44)	(99)	(692)	(816)	(954)	
[436]	Ending Equity	SUM([433]:[435])	$420	$408	$396	$382	$368	$353	$337	$319	$301	$281	$261	$71	$37	$0	

	CORROBORATING ANALYTICS:																
[437]	Equity Return - discounted cash flow		8.5%	IRR([435]:[435])													
[438]	Equity Return - accrual net income		8.5%	Net Income PV $244 divided by Equity Outstand PV $2,869				$244	NPV([437],[426]:[426])			$2,869	NPV([437],[434]:[434])				
[439]	Equity Present Value - discounted cash flow		$420	-NPV([437],[435]:[435])													
[440]	Equity Capital Structure	[436]/[420]	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%		
[441]	Balance Sheet Ending Equity	[420]*(1-[410])	$420	$408	$396	$382	$368	$353	$337	$319	$301	$281	$261	$71	$37	$0	

ACTIVE INITIAL NEGATIVE OPERATING PERFORMANCE DURING STABLE INFLATION – TRIAL BALANCES

Exhibit A

Example 4, Schedule b

Lines [451]–[494]

Example 4 Trial balances 0 - 5		ref	0	Activity	Close	1	Activity	Close	2	Activity	Close	3	Activity	Close	4	Activity	Close	5
[451]	Asset Value	[414]	1,400			1,400			1,400			1,400			1,400			1,400
[452]	Accumulated Depreciation	[452]+[457]		(74)		(74)	(74)		(147)	(74)		(221)	(74)		(295)	(74)		(368)
[453]	Cash	-SUM([451]:[452],[454]:[460])		34		34	32		66	29		95	26		121	23		144
[454]	Debt	[420] * [410]	(980)	28		(952)	29		(923)	31		(892)	33		(859)	35		(823)
[455]	Equit	[420] * [404]	(420)	(254)	266	(408)	(228)	240	(396)	(199)	212	(382)	(167)	182	(368)	(133)	148	(353)
[456]	Operating Performance	[G]		233	(233)	0	204	(204)	0	171	(171)	0	134	(134)	0	93	(93)	0
[457]	Depreciation	[451]/19		74	(74)	0	74	(74)	0	74	(74)	0	74	(74)	0	74	(74)	0
[458]	Interest Expense	-[454]*4.5%		44	(44)	0	43	(43)	0	42	(42)	0	40	(40)	0	39	(39)	0
[459]	Cash Return	-[453]*8.5%		0	0	0	(3)	3	0	(6)	6	0	(8)	8	0	(10)	10	0
[460]	Income Tax	-SUM([456]:[459])*24%		(85)	85	0	(77)	77	0	(68)	68	0	(58)	58	0	(47)	47	0
[461]	Total	SUM([451]:[460])	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Example 4 Trial balances 6 – 10		ref	5	Activity	Close	6	Activity	Close	7	Activity	Close	8	Activity	Close	9	Activity	Close	10
[462]	Asset Value	[414]	1,400			1,400			1,400			1,400			1,400			1,400
[463]	Accumulated Depreciation	[463]+[468]	(368)	(74)		(442)	(74)		(516)	(74)		(589)	(74)		(663)	(74)		(737)
[464]	Cash	-SUM([462]:[463],[465]:[471])	144	20		164	16		180	12		193	8		201	4		205
[465]	Debt	[420] * [410]	(823)	38		(785)	40		(745)	43		(702)	46		(657)	49		(608)
[466]	Equit	[420] * [404]	(353)	(95)	111	(337)	35	(17)	(319)	(102)	120	(301)	44	(24)	(281)	99	(79)	(261)
[467]	Operating Performance	[G]	0	48	(48)	0	(118)	118	0	67	(67)	0	(121)	121	0	(190)	190	0
[468]	Depreciation	[451]/19	0	74	(74)	0	74	(74)	0	74	(74)	0	74	(74)	0	74	(74)	0
[469]	Interest Expense	-[465]*4.5%	0	37	(37)	0	35	(35)	0	34	(34)	0	32	(32)	0	30	(30)	0
[470]	Cash Return	-[464]*8.5%	0	(12)	12	0	(14)	14	0	(15)	15	0	(16)	16	0	(17)	17	0
[471]	Income Tax	-SUM([467]:[470])*24%	0	(35)	35	0	6	(6)	0	(38)	38	0	8	(8)	0	25	(25)	0
[472]	Total	SUM([462]:[471])	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Example 4 Trial balances 11 – 15		ref	10	Activity	Close	11	Activity	Close	12	Activity	Close	13	Activity	Close	14	Activity	Close	15
[473]	Asset Value	[414]	1,400			1,400			1,400			1,400			1,400			1,400
[474]	Accumulated Depreciation	[474]+[479]	(737)	(74)		(811)	(74)		(884)	(74)		(958)	(74)		(1,032)	(74)		(1,105)
[475]	Cash	-SUM([473]:[474],[476]:[482])	205	(0)		205	(5)		200	(10)		190	(16)		174	(22)		152
[476]	Debt	[420] * [410]	(608)	52		(556)	55		(501)	59		(442)	63		(380)	67		(313)
[477]	Equit	[420] * [404]	(261)	161	(139)	(238)	229	(205)	(215)	304	(279)	(190)	387	(360)	(163)	478	(450)	(134)
[478]	Operating Performance	[G]	0	(266)	266	0	(352)	352	0	(447)	447	0	(552)	552	0	(669)	669	0
[479]	Depreciation	[451]/19	0	74	(74)	0	74	(74)	0	74	(74)	0	74	(74)	0	74	(74)	0
[480]	Interest Expense	-[476]*4.5%	0	27	(27)	0	25	(25)	0	23	(23)	0	20	(20)	0	17	(17)	0
[481]	Cash Return	-[475]*8.5%	0	(17)	17	0	(17)	17	0	(17)	17	0	(16)	16	0	(15)	15	0
[482]	Income Tax	-SUM([478]:[481])*24%	0	44	(44)	0	65	(65)	0	89	(89)	0	115	(115)	0	143	(143)	0
[483]	Total	SUM([473]:[482])	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Example 4 Trial balances 16 - 19		ref	15	Activity	Close	16	Activity	Close	17	Activity	Close	18	Activity	Close	19	
[484]	Asset Value	[414]	1,400			1,400			1,400			1,400		(1,400)	0	
[485]	Accumulated Depreciation	[485]+[490]	(1,105)	(74)		(1,179)	(74)		(1,253)	(74)		(1,326)	(74)	1,400	0	
[486]	Cash	-SUM([484]:[485],[487]:[493])	152	(28)		125	(34)		90	(41)		49	(49)		0	
[487]	Debt	[420] * [410]	(313)	71		(242)	76		(166)	81		(86)	86		0	
[488]	Equit	[420] * [404]	(134)	580	(549)	(104)	692	(660)	(71)	816	(782)	(37)	954	(917)	0	
[489]	Operating Performance	[G]	0	(799)	799	0	(944)	944	0	(1,105)	1,105	0	(1,283)	1,283	0	
[490]	Depreciation	[451]/19	0	74	(74)	0	74	(74)	0	74	(74)	0	74	(74)	0	
[491]	Interest Expense	-[487]*4.5%	0	14	(14)	0	11	(11)	0	7	(7)	0	4	(4)	0	
[492]	Cash Return	-[486]*8.5%	0	(13)	13	0	(11)	11	0	(8)	8	0	(4)	4	0	
[493]	Income Tax	-SUM([489]:[492])*24%	0	175	(175)	0	210	(210)	0	249	(249)	0	293	(293)	0	
[494]	Total	SUM([484]:[493])	0	0	0	0	0	0	0	0	0	0	0	0	0	all transactions occur at period end

VALUATION SOLVING THE OPERATING PERFORMANCE BASIC VALUATION COMPONENT

Exhibit B

Solving an Operating Performance Proxy and Period One

Lines [501]–[507]

		ref			
[501]	Asset Value [414]	[G]	$1,400		
[502]	Return 'On & Of' [413]	[G]	0.093		
[503]	Oper Performance proxy	[501]*[502]		$131	
[504]	Proxy to Period One Factor	Equation 1		(0.560)	
[505]	Period One Oper Perform	[503]/[504]			($233)

Equation 1: PMT(8.5%, 19, -1)*NPV(8.5%, [506]:[506])

			1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
[506]	Operating Perform to Period One	[G]	100%	87%	73%	57%	40%	21%	-51%	29%	-52%	-81%	-114%	-151%	-191%	-237%	-287%	-343%	-405%	-474%	-550%

Cross Check with Exhibit A, Example 4, Line [421]:

[507]	Operating Performance	[505]*[506]	($233)	($204)	($171)	($134)	($93)	($48)	$118	($67)	$121	$190	$266	$352	$447	$552	$669	$799	$944	$1,105	$1,283

all transactions occur at period end

EBITDA Multiple Sensitivity Scenarios

Exhibit C
Lines [601]–[614]

		ref	Exhibit A Examples 1	Exhibit A Examples 2	Sensitivity Scenarios C [i]	Sensitivity Scenarios C [ii]
[601]	EBITDA Multiple	[606]*[607]	14.0	12.0	15.2	24.0
[602]	Operating Performance Growth	[609]+[610]	3.8%	3.8% (1)	3.8%	9.2%
[603]	Debt Cost	[610]+[611]	4.5%	7.4%	4.5%	4.5%
[604]	Capital Cost	[Note 2]	6.5%	8.6%	5.7%	5.7%
[605]	Return 'On & Of'	PMT([604],[614], -1)	0.093	0.108	0.088	0.088
[606]	Net Multiple	1/[605]	10.7	9.2	11.4	11.4
[607]	Gross/Net Multiple Factor	[Note 3]	1.306	1.306	1.332	2.104
[608]	Equity Return Risk Profile	[118] & [G]	8.5%	8.5%	6.5%	6.5%
[609]	Growth Other Than Inflation	[103] & [G]	1.8%	1.8%	1.8%	7.2%
[610]	Inflation	[102], [207] & [G]	2.0%	4.9%	2.0%	2.0%
[611]	Commercial Debt Margin	[111] & [G]	2.5%	2.5%	2.5%	2.5%
[612]	Income Tax	[117] & [G]	24%	24%	24%	24%
[613]	Debt Capital Structure	[109] & [G]	70%	70%	70%	70%
[614]	Investment Period Length (npr)	[G]	19	19	19	19

Note 1: Exhibit A, Example 1

Note 2: [608]/(1-[612])*(1-[613])+[603]*[613]

Note 3: PMT([608],[614],-1) * (1-(1+[602])^[614]/(1+[608])^[614])/([608]-[602])

all transactions occur at period end

AN EDE DIFFERENCE RECONCILIATION

Exhibit D

Example 1 versus 2

Schedule a

Lines [701]-[723]

					EDE Difference
	EDE DIFFERENCE:				
[701]	Net Income PV – Example 1	[438]	$244		
[702]	Equity Deployed – Example 1	[435]	$420		
[703]	EDE - Example 1	[701]/[702]		581	
[704]	Net Income PV – Example 2	[790]	$353		
[705]	Equity Deployed – Example 2	[791]	$720		
[706]	EDE - Example 2	[704]/[705]		491	
[707]	Exhibit D, Examples 1 & 2 EDE Difference	[703]-[706]			90
	EDE EXPLANATION:				
[708]	EDE Net Income Variance	([701]-[704])*AVERAGE(1/[702],1/[705])		(206)	
[709]	EDE Deployed Equity Var	AVERAGE([701],[704])*(1/[702]-1/[705])		296	
[710]	Exhibit D, Examples 1 & 2 EDE Difference	SUM([708]:[709])			90

EDE DETAIL EXPLANATION:

			Example 1	Example 2	Example 1- 2		
[711]	Operating Performance	PV[421] & [774]	$1,209	$2,259	($1,050)		
[712]	Depreciation	PV[422] & [775]	(682)	(1,356)	674		
[713]	Interest Expense	PV[423] & [776]	(301)	(571)	270		
[714]	Cash Return	PV[424] & [777]	96	134	(38)		
[715]	Income Tax	PV[425] & [778]	(78)	(113)	35		
[716]	Net Income PV	SUM([711]:[715])	$244	$353	($109)		
			[701]	[704]			
[717]	Equity Deployed	AVERAGE(1/[719],1/[719])			0.00188		
[718]	EDE Net Income Variance	[716]*[717]				(206)	
[719]	Equity Deployed		$420	$720	($300)		
			[702]	[705]			
[720]	Equity Deployed Variance	1/[719]-1/[719]			0.00099		
[721]	Net Income PV	AVERAGE([716],[716])			299		
[722]	EDE Equity Deployed Var	[720]*[721]				296	
[723]	Exhibit D, Examples 1 & 2 EDE Difference	SUM([718]:[722])					90

AN EDE DIFFERENCE RECONCILIATION — Exhibit D

Example 2, Exhibit C, Scenario [ii]

Schedule b — Lines [751]–[792]

	GROSS MULTIPLE CALCULATION:	ref															
[751]	Equity Return (Exhibit C, Scenario [ii])	[608]	6.5%														
[752]	Income Tax rate	[612]	24%														
[753]	Equity Return pre-tax	[751]/(1-[752])		8.6%													
[754]	Equity Weighting	1-[613]		30%													
[755]	Weighted Equity Return	[753]*[754]			2.6%												
[756]	Debt Weighting	[613]		70%													
[757]	Baseline Debt (Baseline Target)	[610]	2.0%														
[758]	Commercial Margin	[611]	2.5%														
[759]	Debt rate	SUM([757]:[758])		4.5%													
[760]	Weighted Debt Cost	[756]*[759]			3.2%												
[761]	Capital Cost	SUM([755]:[760])				5.7%											
[762]	Return 'On & Of' (RORO)	PMT([761],19,-1)				0.088											
[763]	Net Multiple	1/[762]					11.4										
[764]	Operating Performance Growth	[602]				9.2%											
[765]	Gross/Net Multiple Factor	[607]					2.104										
[766]	Gross Multiple	[763]*[765] going to [767]						24.0									
	PRIMARY ACCOUNTING STATEMENTS:																
	BALANCE SHEET		0	1	2	3	4	5	6	7	8	9	10	17	18	19	
[767]	Asset Value	[766]*[773]	$2,400	$2,400	$2,400	$2,400	$2,400	$2,400	$2,400	$2,400	$2,400	$2,400	$2,400	$2,400	$2,400	$0	
[768]	Accumulated Depreciation	[768]-[780]		(126)	(253)	(379)	(505)	(632)	(758)	(884)	(1,011)	(1,137)	(1,263)	(2,147)	(2,274)	0	
[769]	Net Asset	SUM([767]:[768])	2,400	2,274	2,147	2,021	1,895	1,768	1,642	1,516	1,389	1,263	1,137	253	126	0	
[770]	Cash	[772]-[769]		53	102	147	187	222	251	276	294	306	312	135	73	0	
[771]	Assets	SUM([769]:[770])	$2,400	$2,327	$2,250	$2,168	$2,081	$1,990	$1,894	$1,791	$1,684	$1,569	$1,449	$387	$199	$0	
[772]	Equity & Debt	[772]*(1+[761])-PMT([761],19,-[772])	$2,400	$2,327	$2,250	$2,168	$2,081	$1,990	$1,894	$1,791	$1,684	$1,569	$1,449	$387	$199	$0	
	INCOME STATEMENT																
[773]	Oper Performance	[G] & then [773]*(1+9.2%)		$100	$109	$119	$130	$142	$155	$170	$185	$202	$221	$410	$448	$489	
[774]	Depreciation	-[767]/19		(126)	(126)	(126)	(126)	(126)	(126)	(126)	(126)	(126)	(126)	(126)	(126)	(126)	
[775]	Interest Expense	-[772]*70%*4.5%		(76)	(73)	(71)	(68)	(66)	(63)	(60)	(56)	(53)	(49)	(18)	(12)	(6)	
[776]	Cash Return	[770]*[751]		0	3	7	10	12	14	16	18	19	20	12	9	5	
[777]	Income Tax	-SUM([773]:[776])*24%		25	21	17	13	9	5	0	(5)	(10)	(16)	(67)	(77)	(87)	
[778]	Net Income	SUM([773]:[777])		($77)	($66)	($54)	($42)	($28)	($15)	$0	$16	$32	$49	$211	$241	$274	
	CASH FLOW STATEMENT																
[779]	Net Income	[778]		($77)	($66)	($54)	($42)	($28)	($15)	$0	$16	$32	$49	$211	$241	$274	
[780]	Add Back: Depreciation	-[774]		126	126	126	126	126	126	126	126	126	126	126	126	126	
[781]	Cash	[770]-[770]		(53)	(49)	(45)	(40)	(35)	(30)	(24)	(18)	(12)	(6)	52	62	73	
[782]	Debt Issuance/(Repurchase)	[767]*[756]	1,680	(51)	(54)	(57)	(60)	(64)	(68)	(71)	(76)	(80)	(84)	(125)	(132)	(139)	
[783]	Asset Purchase	-[767]	(2,400)														
[784]	Equity (Deploy/Inject)/Dividend	SUM([779]:[783])	($720)	($55)	($43)	($30)	($16)	($1)	$14	$31	$48	$66	$86	$264	$297	$333	
	EQUITY STATEMENT																
[785]	Beginning Equity	[788]		$720	$698	$675	$650	$624	$597	$568	$537	$505	$471	$170	$116	$60	
[786]	Net Income	[778]		(77)	(66)	(54)	(42)	(28)	(15)	0	16	32	49	211	241	274	
[787]	Equity Deploy/Inject/(Dividend)	-[784]	$720	55	43	30	16	1	(14)	(31)	(48)	(66)	(86)	(264)	(297)	(333)	
[788]	Ending Equity	SUM[785]:[787])	$720	$698	$675	$650	$624	$597	$568	$537	$505	$471	$435	$116	$60	$0	
	CORROBORATING ANALYTICS:																
[789]	Equity Return - discounted cash flow		6.5%	IRR[787]:[787]) & [751]													
[790]	Equity Return - accrual net income		6.5%	Net Income PV $353 divided by Equity Outstand PV $5,437					$353	NPV[739],[728]:[728])		$5,437	NPV[739],[735]:[735])				
[791]	Equity Present Value - discounted cash flow		$720	-NPV[789],[787]:[787])													
[792]	Equity Capital Structure	[788]/[772]	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%		

all transactions occur at period end