



Cost of Capital: Workbook and Technical Supplement

By Shannon P. Pratt, Roger J. Grabowski

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Praise for Fourth Edition of Cost of Capital Workbook and Technical Supplement

"Pratt and Grabowski went the extra mile to supplement their magnum opus by providing this Workbook and Technical Supplement. As a finance professor for many years, I know from experience that students and teachers really value supplements to textbooks. It allows the teacher to help the student to review and apply what was presented in the text, and the PowerPoints are a great service to teachers in course preparation. The website provides various worksheets that show the inner workings of the models. I enthusiastically recommend the *Workbook and Technical Supplement* to finance professors and teachers and their students.

—**Daniel L. McConaughy**, PhD, ASA, Professor of Finance, California State University, Northridge, Valuation Services, Crowe Horwath LLP

"The *Workbook and Technical Supplement* provides a detailed tutorial on understanding and executing the theoretical concepts explained in the Fourth Edition. This supplement is three books in one. Part One is a step-by-step tutorial on estimating certain key components of the cost of equity capital. Part Two provides a bridge between the theory and some practical applications, such as estimating the cost of capital for real property. Parts Three and Four allow the readers to test their comprehension of the concepts and identify areas for a review. It is almost as good as having Professors Pratt and Grabowski looking over your shoulder to ensure that one is both comprehending and correctly implementing the complex concepts.."

—**Ashok Abbott**, PhD, Associate Professor of Finance, College of Business & Economics, West Virginia University

"This text provides the most comprehensive coverage of cost of capital issues that I have seen to date. Messrs. Pratt and Grabowski have created a very accessible and lucid treatment of what most would consider an opaque subject. The *Fourth Edition* is especially important for its new topics as well as expanded coverage of concepts from earlier editions. Of particular interest is the review of the extreme market conditions during the 2008–2009 crisis and the effect that the

unprecedented volatility had on traditional cost of capital models. For years, Pratt and Grabowski's research has informed the business valuation curriculum of the American Society of Appraisers. This book will be added to our reading list, and thousands of students worldwide will benefit from the state-of-the-art content of the *Fourth Edition* and the companion *Workbook and Technical Supplement*. Furthermore, *Cost of Capital, Fourth Edition* should be a mandatory part of every valuation practitioner's library. If you buy this book, you can expect it to become well worn and remain on your desk within arm's length until the publication of the *Fifth Edition*."

—**John Barton**, ASA, CPA, Chairman, Business Valuation Committee, ASA

"Cost of capital is so much more complex than it used to be. With so many additional considerations regarding each variable of the cost of capital formula, this book is a must for anyone that needs to understand or develop a discount rate. Even the most experienced practitioner will benefit from the outstanding work of Pratt and Grabowski. This book has to become part of your library."

—**Gary R. Trugman**, CPA/ABV, MCBA, ASA, MVS, President, Trugman Valuation Associates, Inc.

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Editorial Review

From the Publisher

Cost of capital refers to the cost of borrowing money for the purpose of raising funds and the effect of that acquired debt on shareholder's or owner's equity. This book develops a more defined method of calculating the true cost of capital with regard to equity valuation.

From the Inside Flap

Cost of capital estimation has long been recognized as one of the most critical elements in business valuation, capital budgeting, feasibility studies, and corporate finance decisions. It is also the most difficult procedure to perform and assess. In the second edition of *Cost of Capital: Estimation and Applications*, renowned author and valuation expert Shannon Pratt addresses the most controversial issues and thorny problems in estimating the cost of capital. In a clear, concise, and easily understandable manner, he tackles all of the problems in calculating rates of return and offers sensible, well-thought-out solutions that apply to small business and midsize companies, as well as to multibillion-dollar corporations.

Dr. Pratt lays out the basic tools that anyone can use immediately when estimating cost of capital or reviewing someone else's estimate. He presents basic theory and explains how it is used in valuation of businesses and business assets, as well as in capital expenditure decision making, and he provides clear explanations for each of the mathematical formulas used. Citing comprehensive sources of information, Dr. Pratt also offers clear and complete definitions of all common terminology used in cost of capital estimation. He points out the errors that are common to the process, and gives practical advice on how to avoid them when making an estimation and how to identify them in other people's work. The revised and expanded Second Edition offers several new features, including:

- * A new chapter covering cost of capital in Economic Value Added (EVA)
- * A new chapter on reconciling cost of capital in the income approach with valuation multiples in the market approach
- * An expanded chapter on "Handling the Discount for Marketability," including sources of restricted stock and pre-IPO studies
- * Expanded coverage of cost of capital in the courts
- * New exhibits to reflect the new 10a and 10b breakdowns of Ibbotson Associates' 10th decile

Generously supplemented with tables, graphical diagrams, and step-by-step examples, *Cost of Capital* is an indispensable resource for business appraisers, valuation professionals, and consultants attached to accounting firms, as well as corporate finance executives, investment bankers, venture capitalists, private equity firm executives, and others who must make important decisions based on their understanding of cost of capital estimations.

From the Back Cover

An authoritative text on cost of capital for both the nonprofessional and the valuation expert-now revised and expanded

In endeavoring to practice sound corporate finance, there is perhaps nothing so critical, nor slippery, as cost of capital estimation. The second edition of *Cost of Capital: Estimation and Applications* combines a state-of-the-art treatise on cost of capital estimation with an accessible introduction for the nonprofessional.

This comprehensive yet usable guide begins with an exposition of basic concepts understandable to the lay person and proceeds gradually from simple applications to the more complex procedures commonly found in the marketplace. New features of the revised and expanded Second Edition include chapters on Economic Value Added (EVA) and reconciling cost of capital in the income approach with valuation multiples in the market approach, as well as expanded coverage of cost of capital in the courts and handling discounts for marketability. Cost of Capital remains an incomparable resource for all parties interested in effective business valuation.

Users Review

From reader reviews:

Terry Tyrrell:

Have you spare time to get a day? What do you do when you have a lot more or little spare time? Sure, you can choose the suitable activity for spend your time. Any person spent all their spare time to take a go walking, shopping, or went to often the Mall. How about open as well as read a book allowed Cost of Capital: Workbook and Technical Supplement? Maybe it is to become best activity for you. You know beside you can spend your time along with your favorite's book, you can more intelligent than before. Do you agree with the opinion or you have other opinion?

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