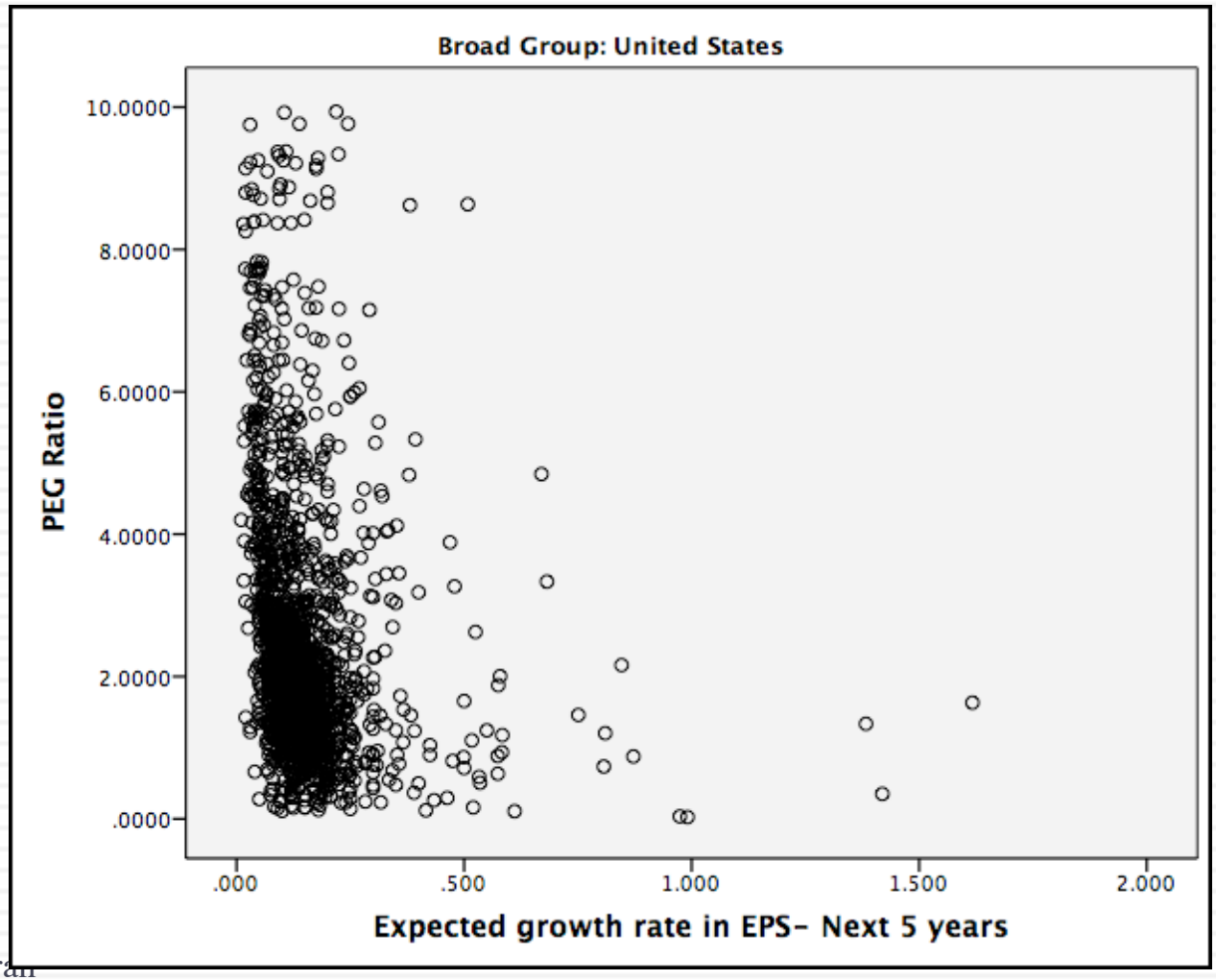
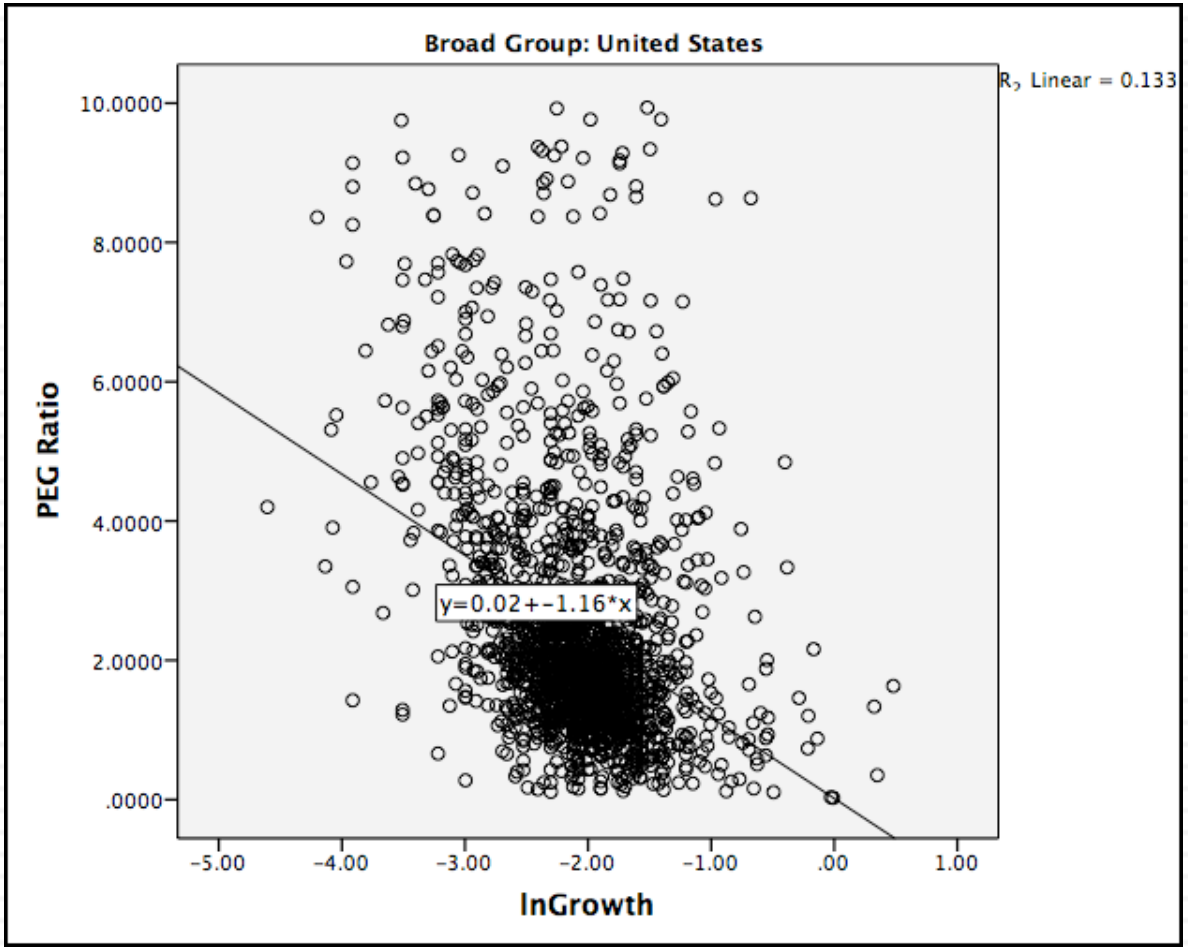
II. PEG Ratio versus the market
PEG versus Growth – January 2015



PEG versus ln(Expected Growth) – January 2014



PEG Ratio Regression - US stocks January 2015

Model Summary[a]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.694[b]	.482	.480	120.2276

a. Broad Group = United States

b. Predictors: (Constant), lnGrowth, Beta, Payout ratio

Coefficients[a,b,c]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.169	.217		-5.397	.000
	Beta	-.227	.103	-.057	-2.206	.028
	Payout ratio	2.178	.160	.361	13.590	.000
	lnGrowth	-1.204	.070	-.434	-17.099	.000

a. Broad Group = United States

b. Dependent Variable: PEG Ratio

c. Weighted Least Squares Regression - Weighted by Market Cap (in US $)

Negative intercepts…and problem forecasts..

- When the intercept in a multiples regression is negative, there is the possibility that forecasted values can be negative as well. One way (albeit imperfect) is to re-run the regression without an intercept.

Coefficients[a,b,c,d]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	Beta	-.625	.073	-.243	-8.550	.000
	Payout ratio	1.981	.158	.334	12.519	.000
	lnGrowth	-.911	.045	-.834	-20.082	.000

a. Broad Group = United States
b. Dependent Variable: PEG Ratio
c. Linear Regression through the Origin
d. Weighted Least Squares Regression - Weighted by Market Cap (in US $)

PE ratio regressions across markets

Region	Regression – January 2015	R^2
US	PE = 6.48 + 98.58 g_{EPS} + 16.77 Payout - 3.25 Beta	35.5%
Europe	PE = 19.32 + 43.89 g_{EPS} + 5.14 Payout - 4.45 Beta	17.4%
Japan	PE = 7.85+ 32.48 g_{EPS} + 31.32 Payout - 1.165 Beta	25.2%
Emerging Markets	PE = 10.90 + 57.47 g_{EPS} + 7.62 Payout - 2.36 Beta	27.0%
Global	PE = 12.49 + 56.89 g_{EPS} + 10.40 Payout - 3.10 Beta	23.3%

g_{EPS}=Expected Growth: Expected growth in EPS or Net Income: Next 5 years
Beta: Regression or Bottom up Beta
Payout ratio: Dividends/ Net income from most recent year. Set to zero, if net income < 0

III. Price to Book Ratio
Fundamentals hold in every market: - January 2014

Region	Regression – January 2013	R^2
US	PBV= 0.61 + 10.24 g_{EPS} - 1.31 Beta + 1.33 Payout + 12.92 ROE	62.0%
Europe	PBV = 0.49 + 4.51 g_{EPS} - 0.50 Beta + 11.11 ROE +1.43 Payout	49.4%
Japan	PBV= 1.49 + 2.55 g_{EPS} - 0.63 Beta + 0.34 Payout + 6.52 ROE	24.4%
Emerging Markets	PBV=4.94 g_{EPS} - 0.41 Beta + 1.36 Payout + 10.34 ROE	46.6%
Global	PBV= 0.42 + 5.00 g_{EPS} - 0.61 Beta + 1.29 Payout + 11.83 ROE	52.2%

g_{EPS}=Expected Growth: Expected growth in EPS/ Net Income: Next 5 years
Beta: Regression or Bottom up Beta
Payout ratio: Dividends/ Net income from most recent year. Set to zero, if net income < 0
ROE: Net Income/ Book value of equity in most recent year.

IV. EV/EBITDA – January 2015

Region	Regression – January 2011	R squared
United States	EV/EBITDA= 19.09 + 9.59 g - 5.00 DFR - 16.67 Tax Rate	3.8%
Europe	EV/EBITDA= 14.99 + 5.86 g - 1.64 DFR - 14.93 Tax Rate	6.5%
Japan	EV/EBITDA= 11.49 + 0.99 g - 6.37 DFR - 9.95 Tax Rate	7.0%
Emerging Markets	EV/EBITDA= 23.44 + 6.27 g - 10.29 DFR - 16.82 Tax Rate	2.9%
Global	EV/EBITDA= 19.12 + 6.35 g - 3.92 DFR - 18.04 Tax Rate	3.6%

g = Expected Revenue Growth: Expected growth in revenues: Near term (2 or 5 years)
DFR = Debt Ratio : Total Debt/ (Total Debt + Market value of equity)
Tax Rate: Effective tax rate in most recent year

V. EV/Sales Regressions across markets…

Region	Regression – January 2011	R Squared
United States	EV/Sales = 1.17 + 1.40 g+ 6.35Operating Margin + 5.26 DFR- 0.10 Tax rate	17.2%
Europe	EV/Sales = 1.15 + 0.75 g+ 8.11 Operating Margin + 3.15 DFR- 2.69 Tax rate	19.2%
Japan	EV/Sales = 0.13 - 0.12 g+ 7.38 Operating Margin +2.82 DFR- 0.28 Tax rate	18.7%
Emerging Markets	EV/Sales = 2.82 + 0.80 g+ 5.19 Operating Margin + 0.71 DFR- 3.13 Tax rate	10.3%
Global	EV/Sales =1.92+ 0.74 g+ 6.24 Op. Margin + 2.72 DFR- 2.16 Tax rate	11.7%

g =Expected Revenue Growth: Expected growth in revenues: Near term (2 or 5 years)
ERP: ERP for country in which company is incorporated
Tax Rate: Effective tax rate in most recent year
Operating Margin: Operating Income/ Sales

Relative Valuation: Some closing propositions

- Proposition 1: In a relative valuation, all that you are concluding is that a stock is under or over valued, relative to your comparable group.
  - Your relative valuation judgment can be right and your stock can be hopelessly over valued at the same time.
- Proposition 2: In asset valuation, there are no similar assets. Every asset is unique.
  - If you do not control for fundamental differences in risk, cash flows and growth across firms when comparing how they are priced, your valuation conclusions will reflect your flawed judgments rather than market misvaluations.
- Bottom line: Relative valuation is pricing, not valuation.

Choosing Between the Multiples

- As presented in this section, there are dozens of multiples that can be potentially used to value an individual firm.
- In addition, relative valuation can be relative to a sector (or comparable firms) or to the entire market (using the regressions, for instance)
- Since there can be only one final estimate of value, there are three choices at this stage:
  - Use a simple average of the valuations obtained using a number of different multiples
  - Use a weighted average of the valuations obtained using a nmber of different multiples
  - Choose one of the multiples and base your valuation on that multiple

Picking one Multiple

- This is usually the best way to approach this issue. While a range of values can be obtained from a number of multiples, the "best estimate" value is obtained using one multiple.
- The multiple that is used can be chosen in one of two ways:
  - Use the multiple that best fits your objective. Thus, if you want the company to be undervalued, you pick the multiple that yields the highest value.
  - Use the multiple that has the highest R-squared in the sector when regressed against fundamentals. Thus, if you have tried PE, PBV, PS, etc. and run regressions of these multiples against fundamentals, use the multiple that works best at explaining differences across firms in that sector.
  - Use the multiple that seems to make the most sense for that sector, given how value is measured and created.

A More Intuitive Approach

- Managers in every sector tend to focus on specific variables when analyzing strategy and performance. The multiple used will generally reflect this focus. Consider three examples.
  - In retailing: The focus is usually on same store sales (turnover) and profit margins. Not surprisingly, the revenue multiple is most common in this sector.
  - In financial services: The emphasis is usually on return on equity. Book Equity is often viewed as a scarce resource, since capital ratios are based upon it. Price to book ratios dominate.
  - In technology: Growth is usually the dominant theme. PEG ratios were invented in this sector.

Conventional usage…

Sector	Multiple Used	Rationale
Cyclical Manufacturing	PE, Relative PE	Often with normalized earnings
Growth firms	PEG ratio	Big differences in growth rates
Young growth firms w/ losses	Revenue Multiples	What choice do you have?
Infrastructure	EV/EBITDA	Early losses, big DA
REIT	P/CFE (where CFE = Net income + Depreciation)	Big depreciation charges on real estate
Financial Services	Price/ Book equity	Marked to market?
Retailing	Revenue multiples	Margins equalize sooner or later

Relative versus Intrinsic Value

- If you do intrinsic value right, you will bring in a company's risk, cash flow and growth characteristics into the inputs, preserve internal consistency and derive intrinsic value. If you do relative value right, you will find the right set of comparables, control well for differences in risk, cash flow and growth characteristics. Assume you value the same company doing both DCF and relative valuation correctly, should you get the same value?
  - Yes
  - No
- If not, how would you explain the difference?
- If the numbers are different, which value would you use?
  - Intrinsic value
  - Relative value
  - A composite of the two values
  - The higher of the two values
  - The lower of the two values
  - Depends on what my valuation "mission" is.

Reviewing: The Four Steps to Understanding Multiples

- Define the multiple
  - Check for consistency
  - Make sure that they are estimated uniformly
- Describe the multiple
  - Multiples have skewed distributions: The averages are seldom good indicators of typical multiples
  - Check for bias, if the multiple cannot be estimated
- Analyze the multiple
  - Identify the companion variable that drives the multiple
  - Examine the nature of the relationship
- Apply the multiple

A DETOUR: ASSET BASED VALUATION

Value assets, not cash flows?

What is asset based valuation?

- In intrinsic valuation, you value a business based upon the cash flows you expect that business to generate over time.
- In relative valuation, you value a business based upon how similar businesses are priced.
- In asset based valuation, you value a business by valuing its individual assets. These individual assets can be tangible or intangible.

Why would you do asset based valuation?

- Liquidation: If you are liquidating a business by selling its assets piece meal, rather than as a composite business, you would like to estimate what you will get from each asset or asset class individually.
- Accounting mission: As both US and international accounting standards have turned to "fair value" accounting, accountants have been called upon to redo balance sheet to reflect the assets at their fair rather than book value.
- Sum of the parts: If a business is made up of individual divisions or assets, you may want to value these parts individually for one of two groups:
  - Potential acquirers may want to do this, as a precursor to restructuring the business.
  - Investors may be interested because a business that is selling for less than the sum of its parts may be "cheap".

How do you do asset based valuation?

- Intrinsic value: Estimate the expected cash flows on each asset or asset class, discount back at a risk adjusted discount rate and arrive at an intrinsic value for each asset.
- Relative value: Look for similar assets that have sold in the recent past and estimate a value for each asset in the business.
- Accounting value: You could use the book value of the asset as a proxy for the estimated value of the asset.

When is asset-based valuation easiest to do?

- Separable assets: If a company is a collection of separable assets (a set of real estate holdings, a holding company of different independent businesses), asset-based valuation is easier to do. If the assets are interrelated or difficult to separate, asset-based valuation becomes problematic. Thus, while real estate or a long term licensing/franchising contract may be easily valued, brand name (which cuts across assets) is more difficult to value separately.
- Stand alone earnings/ cash flows: An asset is much simpler to value if you can trace its earnings/cash flows to it. It is much more difficult to value when the business generates earnings, but the role of individual assets in generating these earnings cannot be isolated.
- Active market for similar assets: If you plan to do a relative valuation, it is easier if you can find an active market for "similar" assets which you can draw on for transactions prices.

I. Liquidation Valuation

- In liquidation valuation, you are trying to assess how much you would get from selling the assets of the business today, rather than the business as a going concern.
- Consequently, it makes more sense to price those assets (i.e., do relative valuation) than it is to value them (do intrinsic valuation). For assets that are separable and traded (example: real estate), pricing is easy to do. For assets that are not, you often see book value used either as a proxy for liquidation value or as a basis for estimating liquidation value.
- To the extent that the liquidation is urgent, you may attach a discount to the estimated value.

II. Accounting Valuation: Glimmers from FAS 157

- The ubiquitous "market participant": Through FAS 157, accountants are asked to attach values to assets/liabilities that market participants would have been willing to pay/ receive.
- Tilt towards relative value: "The definition focuses on the price that would be received to sell the asset or paid to transfer the liability (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price)." The hierarchy puts "market prices", if available for an asset, at the top with intrinsic value being accepted only if market prices are not accessible.
- Split mission: While accounting fair value is titled towards relative valuation, accountants are also required to back their relative valuations with intrinsic valuations. Often, this leads to reverse engineering, where accountants arrive at values first and develop valuations later.

III. Sum of the parts valuation

- You can value a company in pieces, using either relative or intrinsic valuation. Which one you use will depend on who you are and your motives for doing the sum of the parts valuation.
- If you are long term, passive investor in the company, your intent may be to find market mistakes that you hope will get corrected over time. If that is the case, you should do an intrinsic valuation of the individual assets.
- If you are an activist investor that plans to acquire the company or push for change, you should be more focused on relative valuation, since your intent is to get the company to split up and gain the increase in value.

Let's try this
United Technologies: Raw Data - 2009

Division	*Business*	*Revenues*	*EBITDA*	*Pre-tax Operating Income*	*Capital Expenditures*	*Depreciation*	*Total Assets*
Carrier	Refrigeration systems	$14,944	$1,510	$1,316	$191	$194	$10,810
Pratt & Whitney	Defense	$12,965	$2,490	$2,122	$412	$368	$9,650
Otis	Construction	$12,949	$2,680	$2,477	$150	$203	$7,731
UTC Fire & Security	Security	$6,462	$780	$542	$95	$238	$10,022
Hamilton Sundstrand	Manufacturing	$6,207	$1,277	$1,099	$141	$178	$8,648
Sikorsky	Aircraft	$5,368	$540	$478	$165	$62	$3,985

The company also had corporate expenses, unallocated to the divisions of $408 million in the most recent year.

United Technologies: Relative Valuation Median Multiples

Division	*Business*	*EBITDA*	*EV/EBITDA for sector*	*Value of Business*
Carrier	Refrigeration systems	$1,510	5.25	$7,928
Pratt & Whitney	Defense	$2,490	8.00	$19,920
Otis	Construction	$2,680	6.00	$16,080
UTC Fire & Security	Security	$780	7.50	$5,850
Hamilton Sundstrand	Industrial Products	$1,277	5.50	$7,024
Sikorsky	Aircraft	$540	9.00	$4,860
Sum of the parts value for business =				$61,661

United Technologies: Relative Valuation Plus Scaling variable & Choice of Multiples

Division	Business	Revenues	EBITDA	Operating Income	Capital Invested
Carrier	Refrigeration systems	$14,944	$1,510	$1,316	$6,014
Pratt & Whitney	Defense	$12,965	$2,490	$2,122	$5,369
Otis	Construction	$12,949	$2,680	$2,477	$4,301
UTC Fire & Security	Security	$6,462	$780	$542	$5,575
Hamilton Sundstrand	Industrial Products	$6,207	$1,277	$1,099	$4,811
Sikorsky	Aircraft	$5,368	$540	$478	$2,217
Total		$58,895	$9,277	$8,034	$28,287

Business	Best Multiple	Regression	R^2
Refrigeration systems	EV/EBITDA	EV/EBITDA = 5.35 – 3.55 Tax Rate + 14.17 ROC	42%
Defense	EV/Revenues	EV/Revenues = 0.85 + 7.32 Pre-tax Operating Margin	47%
Construction	EV/EBITDA	EV/EBITDA = 3.17 – 2.87 Tax Rate + 14.66 ROC	36%
Security	EV/Capital	EV/ Capital = 0.55 + 8.22 ROC	55%
Industrial Products	EV/Revenues	EV/Revenues = 0.51 + 6.13 Pre-tax Operating Margin	48%
Aircraft	EV/Capital	EV/ Capital = 0.65 + 6.98 ROC	40%

United Technologies: Relative Valuation Sum of the Parts value

Division	Scaling Variable	Current value for scaling variable	ROC	Operating Margin	Tax Rate	Predicted Multiple	Estimated Value
Carrier	EBITDA	$1,510	13.57%	8.81%	38%	5.35 – 3.55 (.38) + 14.17 (.1357) =5.92	$8,944.47
Pratt & Whitney	Revenues	$12,965	24.51%	16.37%	38%	0.85 + 7.32 (.1637) =2.05	$26,553.29
Otis	EBITDA	$2,680	35.71%	19.13%	38%	3.17 – 2.87 (.38)+14.66 (.3571) =7.31	$19,601.70
UTC Fire & Security	Capital	$5,575	6.03%	8.39%	38%	0.55 + 8.22 (.0603) =1.05	$5,828.76
Hamilton Sundstrand	Revenues	$6,207	14.16%	17.71%	38%	0.51 + 6.13 (.1771) =1.59	$9,902.44
Sikorsky	Capital	$2,217	13.37%	8.90%	38%	0.65 + 6.98 (.1337) =1.58	$3,509.61
Sum of the parts value for operating assets =							$74,230.37

United Technologies: DCF parts valuation
Cost of capital, by business

Division	Unlevered Beta	Debt/Equity Ratio	Levered beta	Cost of equity	After-tax cost of debt	Debt to Capital	Cost of capital
Carrier	0.83	30.44%	0.97	9.32%	2.95%	23.33%	7.84%
Pratt & Whitney	0.81	30.44%	0.95	9.17%	2.95%	23.33%	7.72%
Otis	1.19	30.44%	1.39	12.07%	2.95%	23.33%	9.94%
UTC Fire & Security	0.65	30.44%	0.76	7.95%	2.95%	23.33%	6.78%
Hamilton Sundstrand	1.04	30.44%	1.22	10.93%	2.95%	23.33%	9.06%
Sikorsky	1.17	30.44%	1.37	11.92%	2.95%	23.33%	9.82%

United Technologies: DCF valuation Fundamentals, by business

Division	*Total Assets*	*Capital Invested*	*Cap Ex*	*Allocated Reinvestment*	*Operating income after taxes*	*Return on capital*	*Reinvestment Rate*
Carrier	$10,810	$6,014	$191	$353	$816	13.57%	43.28%
Pratt & Whitney	$9,650	$5,369	$412	$762	$1,316	24.51%	57.90%
Otis	$7,731	$4,301	$150	$277	$1,536	35.71%	18.06%
UTC Fire & Security	$10,022	$5,575	$95	$176	$336	6.03%	52.27%
Hamilton Sundstrand	$8,648	$4,811	$141	$261	$681	14.16%	38.26%
Sikorsky	$3,985	$2,217	$165	$305	$296	13.37%	102.95%

United Technologies, DCF valuation Growth Choices

Division	Cost of capital	*Return on capital*	*Reinvestment Rate*	*Expected growth*	*Length of growth period*	*Stable growth rate*	*Stable ROC*
Carrier	7.84%	13.57%	43.28%	5.87%	5	3%	7.84%
Pratt & Whitney	7.72%	24.51%	57.90%	14.19%	5	3%	12.00%
Otis	9.94%	35.71%	18.06%	6.45%	5	3%	14.00%
UTC Fire & Security	6.78%	6.03%	52.27%	3.15%	0	3%	6.78%
Hamilton Sundstrand	9.06%	14.16%	38.26%	5.42%	5	3%	9.06%
Sikorsky	9.82%	13.37%	102.95%	13.76%	5	3%	9.82%

United Technologies, DCF valuation
Values of the parts

Business	*Cost of capital*	*PV of FCFF*	*PV of Terminal Value*	*Value of Operating Assets*
Carrier	7.84%	$2,190	$9,498	$11,688
Pratt & Whitney	7.72%	$3,310	$27,989	$31,299
Otis	9.94%	$5,717	$14,798	$20,515
UTC Fire & Security	6.78%	$0	$4,953	$4,953
Hamilton Sundstrand	9.06%	$1,902	$6,343	$8,245
Sikorsky	9.82%	-$49	$3,598	$3,550
Sum				*$80,250*

United Technologies, DCF valuation
Sum of the Parts

Value of the parts = $80,250

Value of corporate expenses

$$= \frac{\text{Corporate Expenses}_{\text{Current}}(1-t)(1+g)}{(\text{Cost of capital}_{\text{Company}} - g)} = \frac{408(1-.38)(1.03)}{(.0868-.03)} = \$\ 4{,}587$$

Value of operating assets (sum of parts DCF) = $75,663

Value of operating assets (sum of parts RV) = $74,230

Value of operating assets (company DCF) = $71,410

Enterprise value (based on market prices) = $52,261

PRIVATE COMPANY VALUATION

Aswath Damodaran

Process of Valuing Private Companies

- The process of valuing private companies is not different from the process of valuing public companies. You estimate cash flows, attach a discount rate based upon the riskiness of the cash flows and compute a present value. As with public companies, you can either value
  - The entire business, by discounting cash flows to the firm at the cost of capital.
  - The equity in the business, by discounting cashflows to equity at the cost of equity.
- When valuing private companies, you face two standard problems:
  - There is not market value for either debt or equity
  - The financial statements for private firms are likely to go back fewer years, have less detail and have more holes in them.

1. No Market Value?

- Market values as inputs: Since neither the debt nor equity of a private business is traded, any inputs that require them cannot be estimated.
  1. Debt ratios for going from unlevered to levered betas and for computing cost of capital.
  2. Market prices to compute the value of options and warrants granted to employees.
- Market value as output: When valuing publicly traded firms, the market value operates as a measure of reasonableness. In private company valuation, the value stands alone.
- Market price based risk measures, such as beta and bond ratings, will not be available for private businesses.

2. Cash Flow Estimation Issues

- Shorter history: Private firms often have been around for much shorter time periods than most publicly traded firms. There is therefore less historical information available on them.
- Different Accounting Standards: The accounting statements for private firms are often based upon different accounting standards than public firms, which operate under much tighter constraints on what to report and when to report.
- Intermingling of personal and business expenses: In the case of private firms, some personal expenses may be reported as business expenses.
- Separating "Salaries" from "Dividends": It is difficult to tell where salaries end and dividends begin in a private firm, since they both end up with the owner.

Private Company Valuation: Motive matters

- You can value a private company for
  - 'Show' valuations
    - Curiosity: How much is my business really worth?
    - Legal purposes: Estate tax and divorce court
  - Transaction valuations
    - Sale or prospective sale to another individual or private entity.
    - Sale of one partner's interest to another
    - Sale to a publicly traded firm
  - As prelude to setting the offering price in an initial public offering
- You can value a division or divisions of a publicly traded firm
  - As prelude to a spin off
  - For sale to another entity
  - To do a sum-of-the-parts valuation to determine whether a firm will be worth more broken up or if it is being efficiently run.

Private company valuations: Four broad scenarios

- Private to private transactions: You can value a private business for sale by one individual to another.
- Private to public transactions: You can value a private firm for sale to a publicly traded firm.
- Private to IPO: You can value a private firm for an initial public offering.
- Private to VC to Public: You can value a private firm that is expected to raise venture capital along the way on its path to going public.

I. Private to Private transaction

- In private to private transactions, a private business is sold by one individual to another. There are three key issues that we need to confront in such transactions:
  - Neither the buyer nor the seller is diversified. Consequently, risk and return models that focus on just the risk that cannot be diversified away will seriously under estimate the discount rates.
  - The investment is illiquid. Consequently, the buyer of the business will have to factor in an "illiquidity discount" to estimate the value of the business.
  - Key person value: There may be a significant personal component to the value. In other words, the revenues and operating profit of the business reflect not just the potential of the business but the presence of the current owner.

An example: Valuing a restaurant

- Assume that you have been asked to value a upscale French restaurant for sale by the owner (who also happens to be the chef). Both the restaurant and the chef are well regarded, and business has been good for the last 3 years.
- The potential buyer is a former investment banker, who tired of the rat race, has decide to cash out all of his savings and use the entire amount to invest in the restaurant.
- You have access to the financial statements for the last 3 years for the restaurant. In the most recent year, the restaurant reported $ 1.2 million in revenues and $ 400,000 in pre-tax operating profit . While the firm has no conventional debt outstanding, it has a lease commitment of $120,000 each year for the next 12 years.

Past income statements…

	3 years ago	2 years ago	Last year	
Revenues	$800	$1,100	$1,200	Operating at full capacity
- Operating lease expense	$120	$120	$120	(12 years left on the lease)
- Wages	$180	$200	$200	(Owner/chef does not draw salary)
- Material	$200	$275	$300	(25% of revenues)
- Other operating expenses	$120	$165	$180	(15% of revenues)
Operating income	$180	$340	$400	
- Taxes	$72	$136	$160	(40% tax rate)
Net Income	$108	$204	$240	

All numbers are in thousands

Step 1: Estimating discount rates

- Conventional risk and return models in finance are built on the presumption that the marginal investors in the company are diversified and that they therefore care only about the risk that cannot be diversified. That risk is measured with a beta or betas, usually estimated by looking at past prices or returns.
- In this valuation, both assumptions are likely to be violated:
  - As a private business, this restaurant has no market prices or returns to use in estimation.
  - The buyer is not diversified. In fact, he will have his entire wealth tied up in the restaurant after the purchase.

No market price, no problem… Use bottom-up betas to get the unlevered beta

- The average unlevered beta across 75 publicly traded restaurants in the US is 0.86.
- A caveat: Most of the publicly traded restaurants on this list are fast-food chains (McDonald's, Burger King) or mass restaurants (Applebee's, TGIF…) There is an argument to be made that the beta for an upscale restaurant is more likely to be reflect high-end specialty retailers than it is restaurants. The unlevered beta for 45 high-end retailers is 1.18.