

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.