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Company Specific Risk



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What CSR Is

- CSR is the piece of the discount rate that captures what makes this business more or less risky than the market data behind the other components
- Unlike the risk-free rate, equity risk premium, size premium, and industry risk premium, CSR isn't drawn from observable market data, it's analyst judgment
- Because it's judgment rather than data, CSR draws more scrutiny than any other line in the discount rate

CSR Swings Value

- A discount rate is a denominator, so a one- or two-point swing in CSR can move the valuation conclusion by a significant percentage
- In shareholder disputes and matrimonial matters, CSR is often the single most contested line item in the report
- Attorneys who understand CSR are better equipped to prepare their own expert and cross-examine the opposing one

Common CSF Cited Factors

- Customer or supplier concentration and key person dependence
- Volatile historical earnings
- Pending litigation, regulatory exposure, or contract risk specific to the company
- Competitive position, barriers to entry, and reliability of financial statements
- The test: can the expert point to something in the record that supports each factor?

Two Traps to Avoid

- Double counting: a risk already reflected in cash flow projections, size premium, or industry risk premium should not also appear in the CSR. An expert who discounts cash flows for customer concentration, then adds a CSR for the same risk, has counted it twice
- The unsupported "plug": a CSR that looks like the number needed to reach a predetermined conclusion, not the output of actual analysis, is the most common point of attack

Ask Your Expert

- What specific factors make up this CSR number, and is there evidence in the record for each one?
- Is any of this risk already reflected in the cash flow projections or another discount rate component?
- Would another qualified analyst, given the same facts, likely land in the same range?
- What happens to the valuation if this number is cut in half? Is that swing explainable and defensible?

Questions?

*Have a specific accounting
or valuation question about
your case? Call me.*



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