



Third Quartile Volatility for Early Stage Private Companies

We all know private companies are generally more volatile than their publicly traded counterparts. That assumption almost always holds true, except in the case of some thinly traded public companies. So how can we reconcile using volatility calculations derived from public comparables? Well, in an audit review from the Big 4 they recommended we use third quartile volatility for our calculation of a protective put (DLOM), and our OPM calculation.

For clarification, Third Quartile is the 75th percentile of all outcomes, and can be calculated in Excel using the QUARTILE function. The outcome is higher than the median, and serves as better representation of the cash flow volatility that we would expect from an early stage company, as compared with mature publicly traded counterparts.

