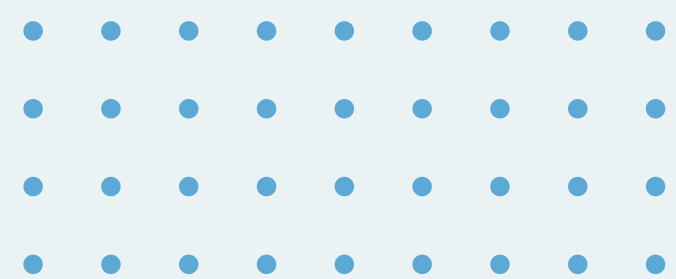


BUSINESS VALUATION GUIDE

APV : PERSONAL SERVICE AND GLOBAL SCOPE

READY TO SERVE YOU IN PHNOM PENH, CAMBODIA, ACROSS
SOUTHEAST ASIA, AND INTERNATIONALLY



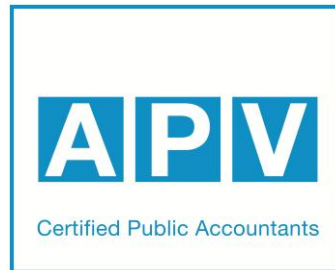
A member of
mgiworldwide

The logo for mgiworldwide, featuring the text 'mgiworldwide' in a teal, sans-serif font. To the right of the text is a graphic element consisting of three curved lines of increasing length, each ending in a small blue dot.



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Firm Profile

Company background

Incorporation date: January 22, 2007

Address: #26B-95A-95B, Street 320,
Sangkat Boeung Keng III, Khan Boeung
Keng Kang, Phnom Penh, Cambodia.

Contact Information:

Email: cveasna@apvcambodia.com

Mobile: +855 78 666 001

Phone: +855 23 238 818

Industry Focus

Real Estate/Property

Education

Entertainment

Social Enterprise & Not-for-profit

Agribusiness

Food & Beverage

Manufacturing

Logistics

Travel & Tourism

Health Care

Management Profile

Chann Veasna

FCPA (Aust.) & CPA (KH)

Managing Partner/Chairman

20+ Years of Experience



Maria Isabelita

Doctor of Education & CPA (ASEAN)

Audit Partner

20+ Years of Experience



Preap Navy

MBA & ASA (CPA Australia)

Partner/CFO

20+ Years of Experience

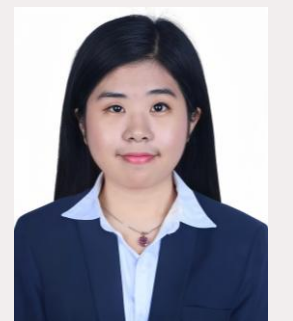


Than Sonida

MBA & ASA (CPA Australia)

Senior Manager

10+ Years of Experience



Lim Keaheang

MBA (US)

Senior Manager

20+ Years of Experience



Sim Rangsey

MBA(US)

Manager

10+ Years of Experience



Business Valuation Guide

Whether you're selling your small business, planning an acquisition, or need to determine fair market value for partnership agreements, this comprehensive guide provides practical, actionable guidance for understanding and conducting business valuations. Learn the three fundamental approaches, avoid common pitfalls, and master the essential steps that ensure accurate, defensible results.

Understanding Business Worth: The Three Fundamental Approaches

Asset Approach	Market Approach	Income Approach
Views the business as a collection of assets and liabilities. Based on the economic principle of substitution: What would it cost to create another business producing the same benefits?	Relies on marketplace data from similar business sales. Based on the principle of competition: What are comparable businesses selling for?	Focuses on the business's money-making potential. Based on expectation: What economic benefits will this investment provide, and when?
Challenges include identifying all assets (especially intangible ones not on balance sheets) and determining fair market values.	Establishes fair market value through willing buyer-seller transactions with full knowledge and no compulsion.	Uses capitalization or discounting methods to translate future earnings into present value.

Business value is fundamentally an expected selling price that varies based on who's determining it and under what circumstances. A well-planned marketing campaign will yield different results than a forced liquidation sale.

Three Fundamental Approaches



Asset Approach

Basis: Net asset value adjusted to market

Formula: FMV Assets – FMV Liabilities

Best for: Asset-intensive businesses



Market Approach

Basis: Comparable company transactions

Formula: Multiple × Earnings Metric

Best for: Businesses with peers



Income Approach

Basis: Expected future cash flows

Formula: PV of projected earnings

Best for: Growth-oriented firms

Key Comparison Criteria

 Historical Focus

 Market Evidence

 Future Potential

Core Formula

NAV = FMV Assets – FMV Liabilities

NAV = Net Asset Value

FMV = Fair Market Value

All assets and liabilities are adjusted to current market value

Key Principles

- ✓ Book values rarely reflect true market value
- ✓ All assets must be identified, including intangible assets
- ✓ May require professional appraisals
- ✓ Sets the "floor value" for most businesses

Adjustment Process Flowchart

Valuing an asset or company

Income approach
Future cash flow forecasts

Market approach
Public company comparables
Prior transactions

Cost approach
Cost to build
Replacement cost

Common Adjustments

- ↑ Inventory at replacement cost
- ↑ Property at appraised value
- ↓ Receivables for collectability

Best For

-  Retail businesses
-  Manufacturing firms
-  Real estate holdings

03

Asset Approach: Building Blocks of Value

Economic Principle

Based on substitution - what would it cost to recreate this business with identical economic benefits?

Key Challenge

Many crucial assets like proprietary processes, customer relationships, and internally developed products don't appear on balance sheets.

Best Applications

Asset-rich companies, allocation of purchase price in asset deals, and businesses with substantial tangible assets.

The asset approach requires careful consideration of which assets and liabilities to include, choosing appropriate valuation standards, and determining individual asset values. Remember that a business's most valuable assets - its unique products, services, and operational methods - may not be recorded on traditional cost-basis balance sheets, yet could be worth more than all recorded assets combined.



Asset Approach

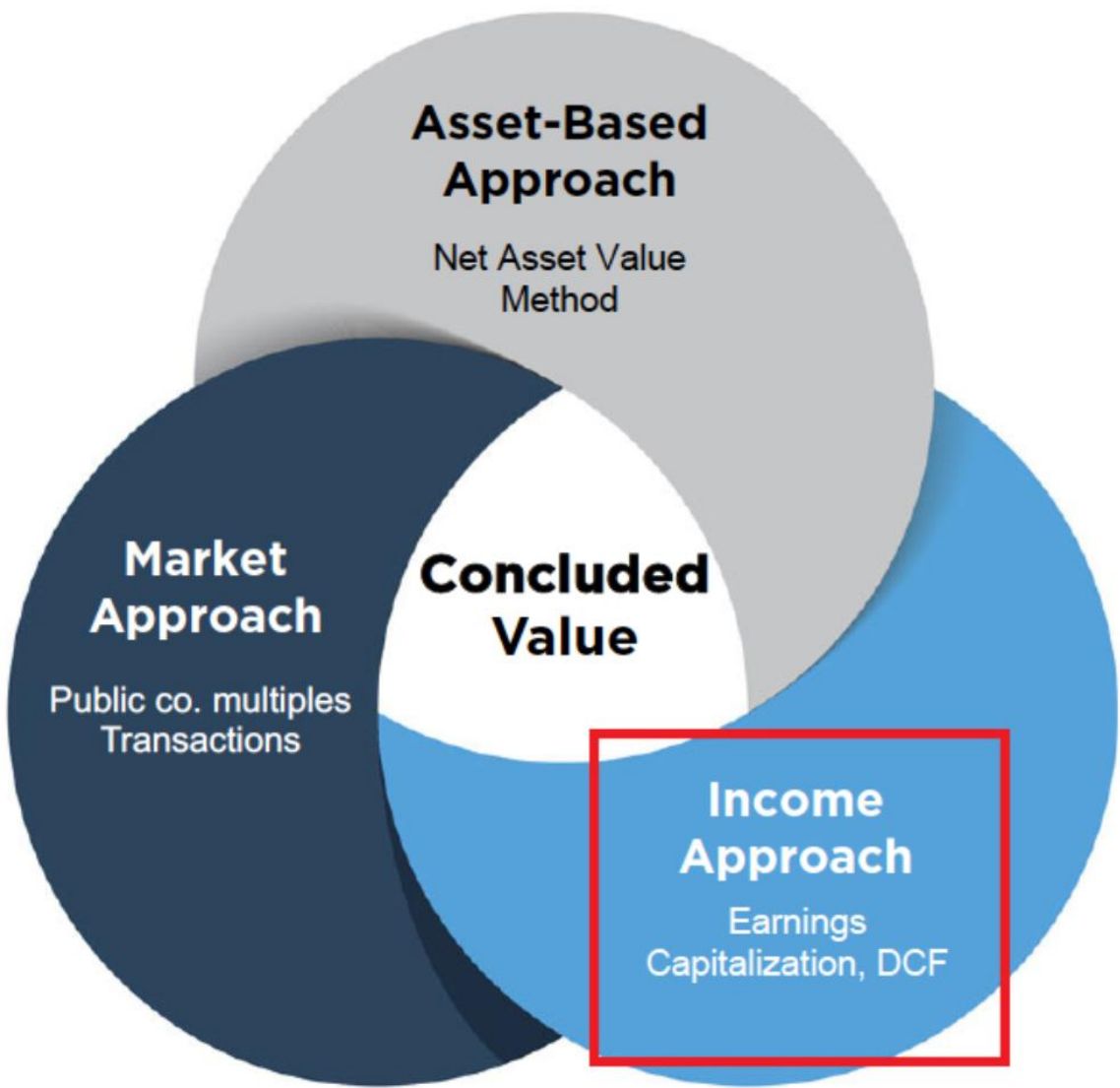
Case Example: Small Retail Store

Business Profile

Business Type:	Independent Fashion Retailer
Annual Revenue:	\$850,000
Years in Operation:	7 years
Valuation Trigger:	Owner retirement & sale

Balance Sheet Adjustments

Asset Category	Book Value	Adjustment	FMV
Cash & Equivalents	\$45,000	\$0	\$45,000
Inventory	\$120,000	+\$45,000	\$165,000
Fixtures & Equipment	\$60,000	+\$20,000	\$80,000
Accounts Receivable	\$25,000	-\$5,000	\$20,000
Leasehold Improvements	\$30,000	\$0	\$30,000
Total Assets	\$280,000	+\$60,000	\$340,000



Liability Adjustments

Liability	Book Value	FMV
Accounts Payable	\$35,000	\$35,000
Bank Loan	\$30,000	\$30,000
Total Liabilities	\$65,000	\$65,000

Net Asset Value Calculation

FMV of Total Assets	\$340,000
FMV of Total Liabilities	\$65,000
Net Asset Value	\$275,000

i This represents the "floor value" of the business based on adjusted tangible assets only.



Market Approach: Learning From the Marketplace

01

Identify Comparable Transactions

Find similar businesses that have sold recently in arms-length transactions between knowledgeable parties.

02

Analyze Market Data

Review pricing multiples, terms, and conditions to understand what buyers are willing to pay.

03

Apply Market Intelligence

Use the "going rate" to support your offer or asking price with solid market evidence.

The market approach relies on the economic principle of competition - similar businesses should command similar prices. This method is intuitive and provides compelling evidence for negotiations. Fair market value represents the price a willing buyer would pay and a willing seller would accept, both parties acting with full knowledge and without compulsion to transact.

Market Approach

Methodology & Framework

Core Process

- 1

Identify Comparables

Find businesses of similar size, industry, and geography that have been recently sold
- 2

Select Multiples

Choose appropriate valuation ratios based on industry standards
- 3

Apply to Subject Business

Multiply the selected ratio by the corresponding financial metric

Common Multiples

Revenue-Based

📈 Price/Revenue

Best for: Service businesses, stable sales

Earnings-Based

💰 Price/EBITDA

Best for: Established operations

Industry-Specific

👥 Value per Customer

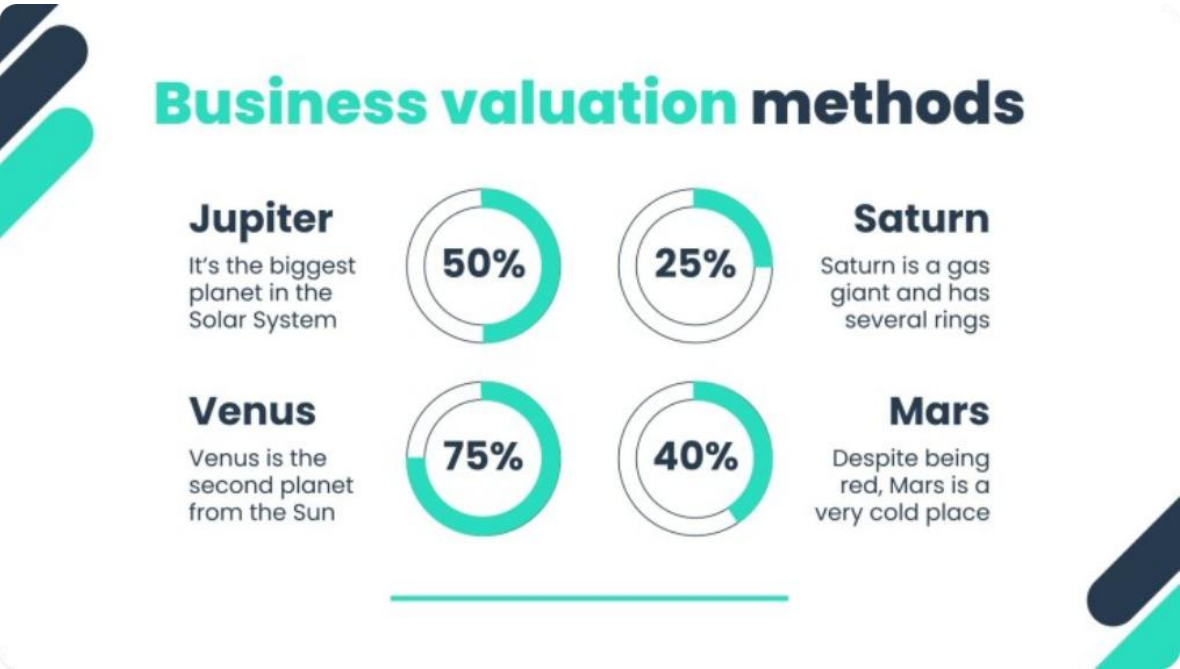
Best for: Subscription businesses

Hybrid

⚖️ Enterprise Value/Revenue

Best for: Different debt levels

Market Multiple Calculation



Key Formula

Value = Multiple × Financial Metric

Example: If comparable businesses sell for 0.8× annual revenue, and your business has \$1M revenue, estimated value = \$800k

Advantages

- ✓ Based on actual transactions
- ✓ Simple to understand & apply
- ✓ Current market conditions reflected

Challenges

- ❗ Finding truly comparable sales
- ❗ Data availability limitations
- ❗ Unique aspects may be overlooked

Data Sources

- 📁 BizBuySell

📁 DealStats

📁 Equidam

📁 PeerComps

Market Approach

Case Example: Professional Services Firm

Business Profile

Business Type:

Digital Marketing Agency

Annual Revenue:

\$2,400,000

EBITDA:

\$420,000 (17.5% margin)

Staff:

18 employees

Notable:

75% recurring revenue, low turnover

Comparable Dataset

Company	Revenue	EBITDA	Multiple
Agency A	\$1.8M	\$360K	6.3×
Agency B	\$3.2M	\$480K	7.2×
Agency C	\$2.1M	\$315K	6.8×
Agency D	\$2.7M	\$432K	7.0×
Agency E	\$1.9M	\$342K	6.5×

Median EBITDA Multiple:

6.8×

Source: FirstPageSage Digital Marketing Agency Valuation Report, 2025

Market Multiple Analysis

EBITDA Multiples - Digital Marketing Agencies (2025)

Agency	EBITDA Multiple
Agency A	6.3×
Agency B	7.2×
Agency C	6.8×
Agency D	7.0×
Agency E	6.5×
Median	6.8×

Multiple Range

6.3× to 7.2× EBITDA

Small to medium digital marketing agencies, 2025

Factors Affecting Multiple

- Client retention rate
- Recurring revenue percentage
- Team stability & expertise

Valuation Calculation

Subject EBITDA

\$420K

×

Multiple

6.8×

Business Value:

\$2.86M

i

This valuation reflects the current market rate for similar digital marketing agencies with strong recurring revenue and stable team.

Income Approach: The Money-Making Perspective

Capitalization Method

Divides expected earnings by a capitalization rate. If the cap rate is 25%, the business is worth 4 times annual earnings.

Best for: Businesses with steady, predictable profits that show consistent year-over-year performance.

Formula: $\text{Value} = \text{Earnings} \div \text{Cap Rate}$

Discounting Method

Projects income over multiple years, then discounts back to present value using a discount rate that reflects investment risk.

Best for: Growing businesses with changing profit patterns or detailed future projections available.

Key: Includes terminal value calculation

Both methods address the core question: If I invest time, money, and effort into this business, what economic benefits will I receive and when? The relationship between cap rates and discount rates follows the formula: $\text{Cap Rate} = \text{Discount Rate} - \text{Growth Rate}$. Different buyers may reach different conclusions based on their unique risk perceptions and business plans, demonstrating the flexibility of income-based approaches.

Income Approach

Methodology & Framework

Core Principle

Business value equals the present value of all future expected economic benefits.

Discounted Cash Flow (DCF) Formula

$$PV = \sum CF_t / (1+r)^t + TV / (1+r)^n$$

PV = Present Value r = Discount Rate
CF_t = Cash Flow in Period t TV = Terminal Value

Two Primary Methods

Discounted Cash Flow

- ✓ Multi-period projection
- ✓ Captures growth phases
- ✓ Best for: Changing cash flows

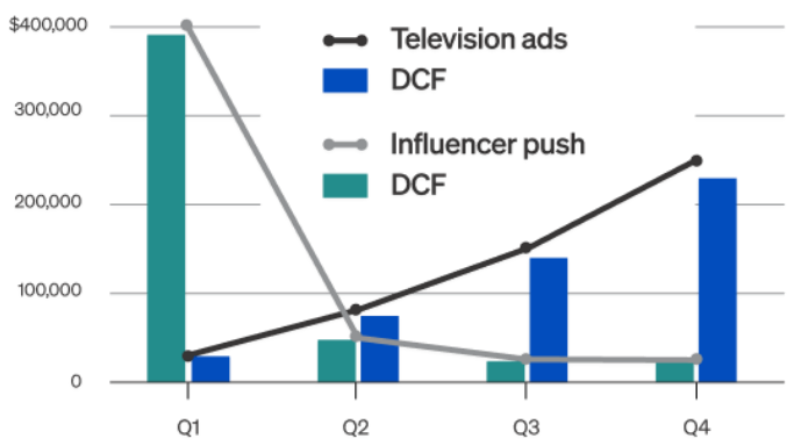
Capitalization of Earnings

- ✓ Single-period model
- ✓ Assumes stable growth
- ✓ Best for: Consistent businesses

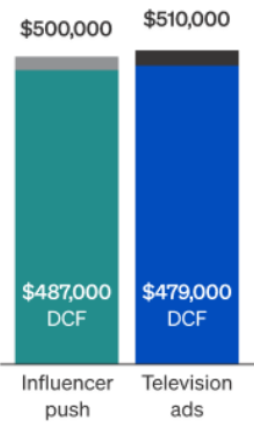
DCF Process Timeline

Compile expected cash flow and DCF

Expected cash flow vs. DCF, quarterly



Full year Expected vs. DCF



Key DCF Inputs

- ➔ Projected cash flows (3-5 years)
- ➔ Discount rate (risk-adjusted)
- ➔ Terminal growth rate
- ➔ Terminal value (perpetuity model)

Capitalization Formula

$$Value = E \div (r - g)$$

Where:

E = Normalized annual earnings
r = Capitalization rate
g = Long-term growth rate

Discount Rate Components

- + Risk-free rate (3-4%)
- + Market risk premium (5-7%)
- + Small business premium (3-5%)
- + Company-specific risk (0-5%)

Terminal Value Methods

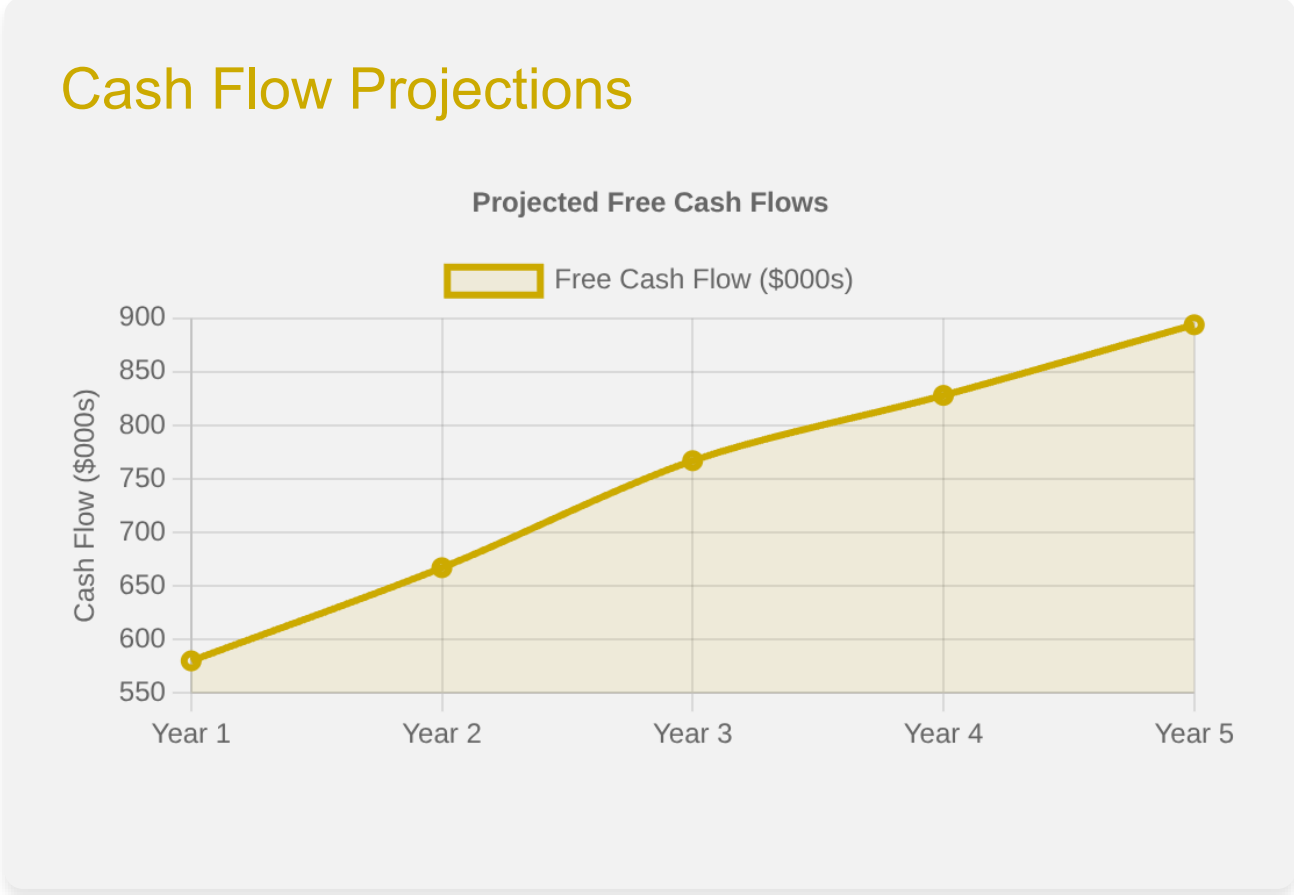
- ∞ **Gordon Growth:**
 $TV = CF_{(n+1)} \div (r - g)$
- 📈 **Exit Multiple:**
 $TV = CF_{(n)} \times Multiple$

Income Approach

Case Example: DCF for Professional Services Firm

Business Profile

Business Type:	IT Consulting Practice
Current Revenue:	\$3,500,000
Current EBITDA:	\$840,000 (24% margin)
Growth Forecast:	15% annually for 3 years, then 8%
Discount Rate:	12% (risk-adjusted)
Long-term grow rate:	3%



5-Year Projection Table

Year	Revenue	EBITDA	Free Cash Flow	PV Factor	Present Value
Year 1	\$4.03M	\$967K	\$580K	0.893	\$518K
Year 2	\$4.63M	\$1.11M	\$667K	0.797	\$532K
Year 3	\$5.33M	\$1.28M	\$767K	0.712	\$546K
Year 4	\$5.75M	\$1.38M	\$828K	0.636	\$527K
Year 5	\$6.21M	\$1.49M	\$894K	0.567	\$507K
Sum of PV of Cash Flows:					\$2.63M

Free Cash Flow Formula (FCF)
FCF =EBIT×(1–Tax Rate)+Depreciation & Amortization–Capex–/+NWC

Terminal Value & Valuation

Terminal Value Calculation

Gordon Growth Method:

TV = CF₅ × (1 + g) ÷ (r – g)

TV = \$894K × (1 + 3%) ÷ (12% – 3%)

TV = \$10.25M

Present Value of Terminal Value:

PV of TV = \$10.25M ÷ (1 + 12%)⁵

PV of TV = \$5.81M

Enterprise Value Calculation

PV of Cash Flows

\$2.63M

PV of Terminal Value

\$5.81M

Enterprise Value:

\$8.44M

– Outstanding Debt:

\$4.10M

= Equity Value:

\$4.34M

Income Approach

Case Example: Capitalization of Earnings

Business Profile

Business Type:	Small Accounting Practice
Annual Revenue:	\$1,250,000
Years in Operation:	12 years
Staff:	8 employees (2 partners, 6 staff)
Key Characteristics:	Stable client base, consistent growth

Earnings Normalization

Item	Amount
Reported EBITDA	\$420,000
+ Partners' Excess Compensation	+\$85,000
+ Personal Expenses	+\$18,000
+ One-time Legal Settlement	+\$32,000
- Market Rate Rent Adjustment	-\$25,000
- Software Subscription Underspending	-\$150,000
Normalized EBITDA	\$380,000

Owner Benefit:

\$380,000

**After deducting market rate compensation for one working owner*

Capitalization Rate Development

Component	Rate
Risk-Free Rate (10-yr Treasury)	3.5%
Equity Risk Premium	6.0%
Size Premium	5.5%
Industry Risk Premium	3.0%
Company-Specific Risk	5.0%
Required Rate of Return	23.0%

Long-term Growth Rate:

3.0%

Capitalization Rate:

20.0%

**Capitalization Rate = Required Return (23%) - Growth Rate (3%)*

Valuation Calculation

Capitalization of Earnings Formula

Value

=

Normalized Earnings

\$380,000

÷

Cap Rate

20.0%

Business Value:

\$1.9M

i

Interpretation:

This valuation represents a multiple of 5× normalized owner benefit, which aligns with market expectations for small accounting practices with stable operations.

w

Sensitivity:

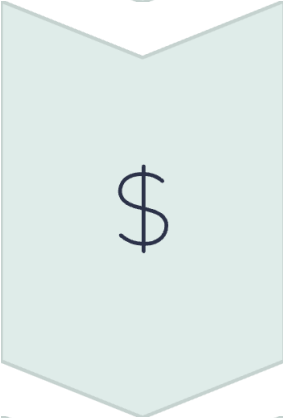
A 1% change in the capitalization rate impacts valuation by approximately ±\$95,000.

The Five-Step Valuation Process



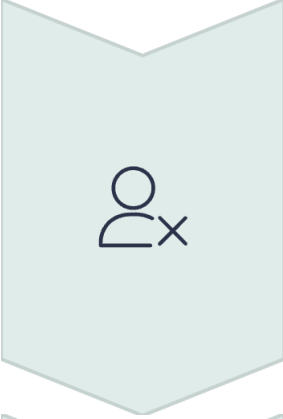
Planning & Preparation

Define valuation purpose and assemble required information including financial statements, operational procedures, and market data.



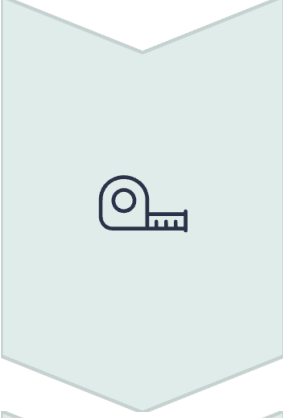
Adjust Financial Statements

Recast income statements and balance sheets to reflect true earning potential and economic reality.



Choose Valuation Methods

Select appropriate combinations of asset, market, and income approaches based on available data.



Apply Methods

Perform calculations using selected methods to generate multiple value estimates for cross-checking.



Reach Value Conclusion

Synthesize results using weighted averages to determine final business value estimate.

This systematic approach ensures thorough analysis while maintaining objectivity. Each step builds on the previous one, creating a comprehensive valuation that can withstand scrutiny from buyers, sellers, lenders, or legal professionals.

Step 1: Planning and Preparation

Define Your Purpose Are you selling, buying, obtaining financing, settling partnership disputes, or defending value in litigation? Your purpose determines the standard of value (fair market vs. investment value) and premise (going concern vs. liquidation).	Gather Essential Data Collect 3-5 years of financial statements, tax returns, operational procedures, marketing plans, customer lists, vendor agreements, and staff records. Quality documentation demonstrates earning power and operational stability.	Understand Value Standards Fair market value assumes arm's length transaction between willing parties. Investment value reflects strategic buyer benefits. Forced liquidation assumes quick asset disposal under pressure.
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Proper preparation sets the foundation for accurate valuation. Well-documented businesses with clear procedures and diversified customer bases typically command higher values because they're easier for buyers to understand and operate successfully.

Step 2: Adjusting Historical Financial Statements

Why Adjustments Are Critical

Small business owners often manage operations to minimize taxable income, but valuation requires demonstrating full earning potential. Adjustments create accurate relationships between required assets, expenses, and achievable income levels.

Common Income Statement Adjustments

- Add back excessive owner compensation
- Normalize discretionary expenses
- Remove non-recurring items
- Adjust for market-rate salaries
- Eliminate personal expenses

Balance Sheet Recasting

Adjust asset values to fair market value, remove non-operating assets, and ensure working capital accurately reflects operational needs.

The goal is constructing financial statements that accurately reflect the business's true economic performance and asset requirements. This recasting process transforms tax-minimized financial reports into valuation-ready documents that reveal genuine earning capacity.



Key Adjustments in Valuation



Owner Compensation Adjustments

Normalize owner compensation to market rates

Common Adjustments:

- Excess salary above market rate for position
- + Below-market compensation requiring adjustment
- Personal expenses run through business



Non-recurring Items

Remove one-time events to reflect sustainable earnings

Examples to Adjust:

- Legal settlements (income or expense)
- One-time project windfalls
- Insurance recoveries
- Pandemic-related anomalies



Working Capital Adjustments

Normalize working capital to industry standards

Working Capital Ratio Formula:

WC Ratio = Working Capital ÷ Annual Revenue

Industry benchmarks typically range from 5-20% of revenue

Common Scenarios:

- ↑ Excess working capital returned to seller
- ↓ Insufficient working capital requires buyer funding



Tax Considerations

Account for tax implications in transaction structure

Asset Sale

- Seller: Higher taxes (capital gains + ordinary income)
- Buyer: Step-up in asset basis
- May require price adjustment to offset tax impact

Stock Sale

- Seller: Lower taxes (typically capital gains)
- Buyer: No step-up in asset basis
- Assumes all liabilities (known and unknown)

Adjustment Best Practices

✓ Document All Adjustments

Maintain clear records of all normalization adjustments and supporting rationale

✓ Use Multi-Year Analysis

Examine 3-5 years of data to identify true anomalies vs. recurring patterns

✓ Apply Consistency

Use consistent methodology across all valuation approaches

Step 3: Choosing Your Valuation Methods

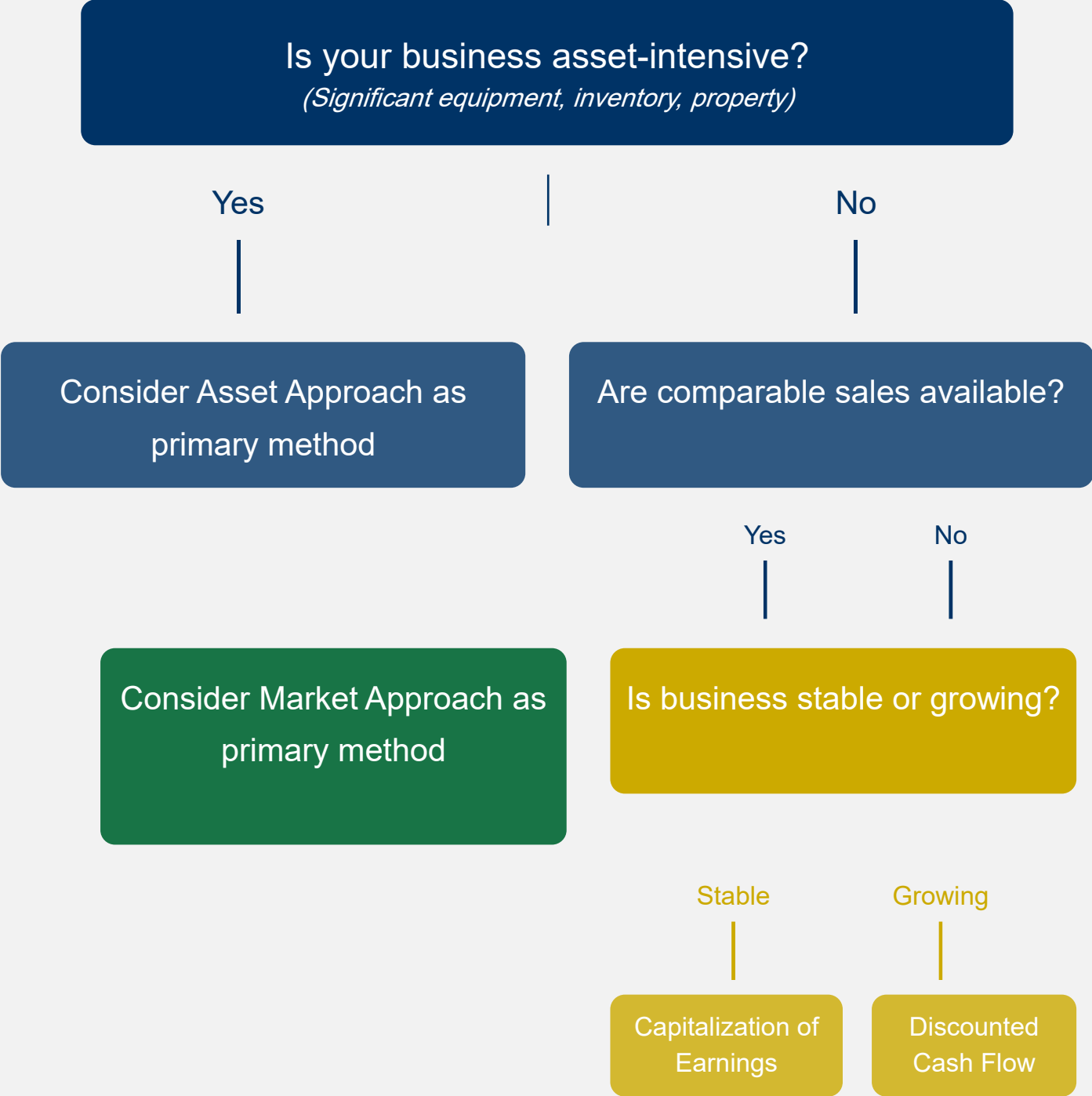


Method selection depends on asset complexity, available market data, earnings history, future projection reliability, and cost of capital information. Using multiple methods provides cross-checking opportunities and increases confidence in your valuation conclusion.

Step 3: Choosing Your Valuation Methods

Selecting the Right Approach

Decision Framework

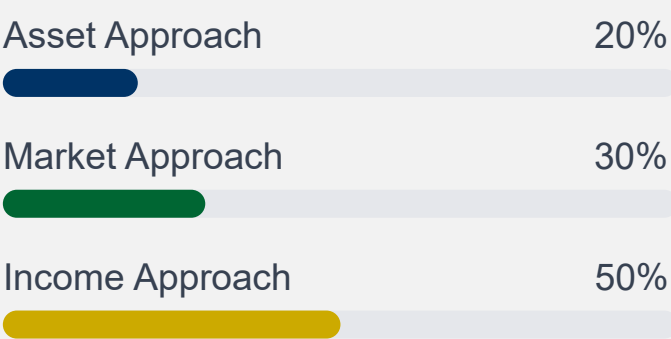


When to Use Multiple Approaches

- ✓ For significant transactions (sale to third party)
- ✓ When business has hybrid characteristics
- ✓ To establish value range for negotiations
- ✓ For regulatory or legal proceedings

Weighting Multiple Approaches

Sample Weighting Scenario



For a service business with some fixed assets and available market comps, but strong growth prospects

- i Weighting should reflect the relevance and reliability of each approach to the specific business situation.

Decision Matrix

	Asset Approach	Market Approach	Income Approach
Manufacturing	★★★★	★★★☆☆	★★★☆☆
Retail	★★★☆☆	★★★★★	★★★★☆
Professional Services	★★★☆☆	★★★★☆	★★★★★
Technology	★★★☆☆	★★★★☆	★★★★★
Hospitality	★★★☆☆	★★★★★	★★★★☆
Distribution	★★★☆☆	★★★★★	★★★☆☆

★★★★

★ Rating scale: (most applicable) to (least applicable)

Professional Judgment Considerations

Industry Norms

Some industries have established valuation conventions that may override theoretical frameworks.

Data Quality

Consider reliability and completeness of data when selecting and weighting approaches.

Purpose of Valuation

Different purposes (sale, tax, legal) may require emphasis on different methods.

Step 3: Choosing Your Valuation Methods

Market-Based Valuation: Pricing Multiples and Applications



Revenue Multiples

Selling price divided by annual revenue. Useful for businesses where revenue is a strong indicator of earning potential and operational scale.



Earnings Multiples

Price divided by net income, EBITDA, or discretionary cash flow. More precise than revenue multiples for businesses with varying profit margins.



Book Value Multiples

Price divided by tangible book value. Most relevant for asset-intensive businesses or when tangible assets drive value creation.

01

Gather Comparable Data

Research sales of similar private companies or analyze public company transactions, ensuring true comparability.

02

Calculate Multiples

Determine relevant pricing multiples from comparable transactions, considering both median and range values.

03

Apply to Subject Business

Multiply your business metrics by appropriate multiples to estimate selling price, then cross-check results.

Step 3: Choosing Your Valuation Methods

Income-Based Methods: Capitalization vs. Discounting

Direct Capitalization



Uses single earnings measure (typically average of recent years) divided by capitalization rate.

Formula: $\text{Value} = \text{Earnings} \div \text{Cap Rate}$

Ideal for: Established businesses with stable, predictable earnings and consistent growth patterns.

Advantages: Simple calculation, requires fewer assumptions, easily understood by buyers and sellers.

Discounted Cash Flow



Projects cash flows for multiple years, then discounts to present value using risk-adjusted discount rate plus terminal value.

Ideal for: Growing or changing businesses where future performance differs significantly from historical results.

Advantages: Captures growth patterns, reflects specific business plans, accommodates varying cash flows.

Both methods achieve the same goal through different approaches. The relationship $\text{Cap Rate} = \text{Discount Rate} - \text{Growth Rate}$ links them mathematically. Choose capitalization for steady businesses, discounting for dynamic or growing companies. Income methods are widely considered most accurate because they directly address the fundamental question: What will this business earn for its owners?

Step 4: Applying Valuation Methods

With data prepared and methods selected, the calculation phase should produce accurate and defensible results. Professional valuation software automates complex mathematical procedures while allowing you to focus on the critical aspects of business analysis - your assumptions about future performance, risk assessment, and market conditions.

		
Input Prepared Data	Configure Parameters	Execute Calculations
Enter adjusted financial statements, market research, and business assumptions into your valuation models	Set discount rates, growth assumptions, terminal values, and other method-specific variables	Run each selected valuation method using the configured parameters and prepared data
		
Review Results	Test Scenarios	
Examine outputs for reasonableness and consistency across different methods	Run sensitivity analyses and what-if scenarios to understand how assumptions affect value	

Using multiple valuation methods provides valuable cross-checking opportunities. If one method produces surprisingly different results, you can review inputs and assumptions to determine if anything has been overlooked or if the method is inappropriate for your specific business situation.

Modern valuation tools enable easy adjustment of assumptions and rapid testing of multiple scenarios. This capability helps you understand which factors most significantly impact business value, providing valuable insights for both buyers and sellers. Sensitivity analysis reveals how changes in growth rates, margins, or risk assessments affect the final valuation, helping you identify the most critical value drivers in your business.

Step 5: Reaching the Business Value Conclusion

The final step involves synthesizing results from multiple valuation methods to reach a defensible business value conclusion. Since no single method provides a definitive answer, professional practice requires weighing different results based on their reliability, relevance, and appropriateness for your specific valuation scenario.

Approach	Valuation Method	Value	Weight	Weighted Value
Market	Comparative Sales	\$1,000,000	25%	\$250,000
Income	Discounted Cash Flow	\$1,200,000	25%	\$300,000
Income	Multiple of Discretionary Earnings	\$1,350,000	30%	\$405,000
Asset	Asset Accumulation	\$950,000	20%	\$190,000
Total	Business Value Conclusion		100%	\$1,145,000

Professional valuers use established guidelines for weighting different methods. Discounted cash flow receives higher weight when reliable earnings projections exist, future income differs substantially from historical performance, the business has significant intangible assets, or 100% ownership interest is being valued.

The Multiple of Discretionary Earnings method gets emphasized when business income prospects align with past performance and growth rate forecasts are reliable. Market-based methods receive higher weights when relevant comparative data is available, minority interests are being valued, or selling price justification is particularly important.

Asset-based approaches are weighted more heavily for exceptionally asset-rich businesses or when detailed asset value data is available and relevant to the valuation purpose. The final weighted average represents a balanced conclusion that considers the strengths and limitations of each approach.

Professional vs. DIY Business Valuation



Professional Appraisal Process

Appraisers invest significant time understanding your business, gathering external data, and reconstructing financials. They provide formal reports but charge \$5,000-\$10,000+ and require substantial business owner involvement.



Save Substantial Costs

Professional fees of \$5,000-\$10,000 can be avoided while maintaining quality through systematic methodology.



Control Timing

Conduct valuations when needed without scheduling constraints or external dependencies.



DIY (Do It Yourself) Valuation Benefits

You already possess deep business knowledge, understand operational nuances, and can assess market prospects better than outsiders. Self-valuation saves money and time while building valuable expertise.



Gain Strategic Knowledge

Understanding value drivers empowers better decision-making in negotiations, planning, and business development.



Enhance Business Value

Use valuation insights as planning tools to identify and implement value-enhancing strategies.

Market Comparison Methods: Strengths and Limitations

Private Company Sales	Public Company Data	Industry Rules of Thumb
Pros: Direct comparability to small businesses, good data sources available, relevant transaction structures.	Pros: Abundant transaction data, consistent reporting standards, reliable financial information.	Pros: Expert practitioner knowledge, widely used by intermediaries, practical market insights.
Cons: Limited data in some industries, requires careful selection and analysis, inconsistent reporting standards.	Cons: Size differences from small businesses, typically minority interests, requires marketability adjustments.	Cons: May lack statistical rigor, limited to brokered transactions, industry-specific application.

Best practice combines multiple approaches: gather empirical transaction data, calculate relevant pricing multiples, then cross-check against expert rules of thumb. When estimates align, confidence increases. When they diverge significantly, review data selection and consider weighting different approaches to reach a balanced conclusion.

Choosing the Right Valuation Methods



Your valuation model combines key assumptions with method selection. Different situations require different assumptions, yet both can produce defensible results when properly supported.

Business valuation is ultimately about serving its intended purpose. If your assumptions are reasonable and your method selection makes sense to your audience, then your valuation succeeds. The key is transparency: clearly spell out your assumptions and demonstrate why your chosen methods are most appropriate for the specific situation.

The Role of Assumptions in Valuation Results

1

Income Generation Prospects

How you view future earning potential and translate it into financial forecasts directly impacts calculated values. Conservative vs. optimistic projections create significant differences.

2

Business Risk Assessment

Your judgment about operational, financial, and market risks appears in discount and capitalization rates, which powerfully affect valuation outcomes.

3

Market Conditions

Economic environment, industry trends, and buyer appetite all influence the assumptions underlying your valuation calculations.

4

Growth Expectations

Projected growth rates in revenue, margins, and cash flow create compound effects on business value over time.

It's normal for two well-prepared appraisals of the same business to show 20-25% variation. This reflects different but reasonable assumptions about the business's future prospects and risk profile. Rather than seeking false precision, quality business valuation establishes value within a defensible range, providing decision-makers with realistic expectations for potential transaction outcomes.

Keeping Your Business Valuation Current



Business valuations have expiration dates - they become outdated as conditions change. Regular reviews help you spot critical changes in valuation multiples reflecting current market conditions, discount rates appropriate for present risk levels, and realistic earnings forecasts based on updated business prospects. During high uncertainty periods, consider multiple scenarios with different assumptions to establish a reasonable value range rather than a single-point estimate.

Critical Parameters for Current Valuations

20%

Typical Variation

Well-prepared valuations of the same business commonly vary by 20-25% due to different assumptions

5

Years of Data

Most valuation methods require 3-5 years of historical financial statements for trend analysis

12

Months Maximum

Business valuations should be updated at least annually, more frequently during volatile periods

Updated Multiples Market-derived pricing multiples change as economic conditions and buyer sentiment shift in different industry sectors.	Current Risk Rates Discount and capitalization rates must reflect present-day risk assessments and required returns.	Realistic Forecasts Earnings projections need regular updating based on actual performance and changing market conditions.
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Modern valuation tools help maintain currency by providing regularly updated market multiples and current risk rate data. Consider scenario analysis during uncertain periods, with different assumptions about growth, risk, and market conditions. This approach provides a value range that acknowledges uncertainty while maintaining analytical rigor.

Top 7 Valuation Mistakes to Avoid

1 Wrong Value Standard

Confusing fair market value with investment value can create significant discrepancies. Investment value includes strategic benefits specific to particular buyers.

2 Using Accounting Profits Instead of Cash Flow

Business value depends on cash-generating ability, not accounting profits. Use Seller's Discretionary Cash Flow or Net Cash Flow for accurate valuation inputs.

3 Assuming Automatic Goodwill

Goodwill exists only when earnings exceed fair returns on tangible assets. Poor-performing businesses may have negative goodwill.

4 Incorrect Valuation Multiples

Mismatching multiples with earnings measures creates major errors. Net cash flow multiples cannot be applied to net profit figures.

5 Incomplete Asset and Liability Analysis

Asset sales typically exclude cash and receivables while buyer assumes no liabilities. Adjust valuations for your specific transaction structure.

6 Generic Risk Assessment

Using industry-average risk rates ignores company-specific factors. Each business has unique risk profiles requiring customized discount rates.

7 Confusing Purchase Price with Project Cost

Acquisition costs include purchase price plus working capital injection, deferred maintenance, regulatory compliance, and staff replacement expenses.

Your Path to Valuation Mastery

01	02	03
Master the Fundamentals	Follow Systematic Process	Avoid Common Pitfalls
Understand the three approaches (asset, market, income) and when each applies most effectively to your situation.	Use the five-step methodology: plan, adjust financials, select methods, calculate values, and synthesize results.	Watch for the seven critical mistakes that can undermine your valuation accuracy and credibility.
04	05	
Keep Values Current	Build Confidence Through Practice	
Update assumptions regularly as market conditions, business performance, and industry dynamics evolve.	Apply these principles consistently to develop expertise and create defensible, accurate business valuations.	

Business valuation is both art and science. Master the technical methods, but remember that informed judgment and clear assumptions separate quality valuations from mere calculations.

Armed with this comprehensive guide, you're prepared to tackle business valuation with confidence. Whether buying, selling, or simply understanding your business worth, these proven methods and practical insights will help you make informed decisions based on solid financial analysis. Remember: your valuation succeeds when it serves its intended purpose and withstands reasonable scrutiny from all stakeholders involved.