



VALUATION METHODOLOGIES FOR CLOSELY HELD BUSINESSES

INCOME APPROACH

- Most Common Method
- Assumes the business value is the present value of the economic income expected to be generated
- Methods include discounted cash flow method (dcf method) and the capitalization of earnings method

MARKET APPROACH

- Based on principle of "substitution"
- Theory is that the value can be estimated based on the price of similar companies
- Methods include the guideline publicly traded method and guideline transaction

ASSET APPROACH

- Applies when benefits of operating a business are less than the value that could be received through an ordinary liquidation
- Calculated as business assets minus existing liabilities
- Methods include net asset value method adjusted net book value method

CUSTOMER BASED CORPORATE VALUATION

- Bottoms up valuation method that starts with the customer and recognizes that not all customers are created equally.
- Looks at two key dimensions. external/ internal data; contractual/non-contractual customers.
- Does not apply to all businesses.