The Valuation/Calculation Process

1. Define the Scope of the Engagement
    a. Determine what is to be valued – the business assets themselves, the entity owning the business assets, 100%, fractional interest (controlling or non-controlling), fractional interests as a single block, etc.
    b. Determine the "as of" date the business will be valued (valuation date). Usually, a normal fiscal year end, but a date during the year can work if more information is provided. The importance of this date is that subsequent information cannot usually be considered
    c. Determine the premise of value – going concern, assemblage of assets, liquidation
    d. Determine the standard of value – fair market value, fair value, investment value, intrinsic value

2. Gather Initial Information
    a. Gather historic financial, operating, ownership and management information as of the valuation date
    b. Gather fair market value information for all the assets and liabilities, including those not listed on the balance sheet, as of the valuation date
    c. Analyze the historic financial data for trends and numeric relationships
    d. Question the owners about unusual transaction and numerical fluctuations
    e. Question the owners about perquisites, non-business transactions, non-operating assets and liabilities, unnecessary and/or personal expenses
    f. Obtain peer group and benchmark data based on the relevant business code, and compare to the business

3. Analyze the Initial Data
    a. Adjust the assets from book/tax to fair market value
    b. Adjust the financial data, based on the answers, to determine the true economic income a fair market value buyer of the business would realize in the future, if they were to buy the business.
    c. Compare both the historic and adjusted financial data to peer group data to determine how the business is performing relative to its peers
    d. Ask follow-up questions based on the initial analysis

4. Research Market and Other Data
    a. Obtain fair market value wages for all owners and related parties involved in the business
    b. Research market data bases to find similar businesses that have sold.
    c. Research reasonable rates of return
    d. Research marketability and control discount data, if applicable

5. Apply Valuation/Calculation Methods and Discounts
    a. Calculate various metrics for the business used in applying the market data (free cash flow, sellers discretionary earnings, earnings multiples, etc.)
    b. Apply the multiples indicated by the market data to the business metrics to develop initial indications of value (multiple methods).
    c. Reconcile any large differences between method results
    d. Perform reasonableness tests

e. Adjust the initial indications of value for items not usually sold (cash, accounts receivable, accounts payable and non-operating assets) to derive the value of the business equity in assets.
f. Adjust for entity ownership issues, if any
g. Appy discounts
h. Determine the final value conclusion or range

6. Write Report