



Business Valuation Methods

by Paul Svendsen CPA CVA MBA

There are 3 basic ways to approach a business valuation. They are:

- Asset Approach
- Income Approach
- Market Approach.

How to apply these methodologies is what all the books are written about. It's also why you should use a competent, credentialed specialist when your client needs a valuation.

The **asset** approach assumes that an asset's value is indicated by the cost of replacing it, less an allowance for physical deterioration and obsolescence. The approach is commonly used for assets that are not sold on an active market, such as land improvements and special purpose equipment. For business valuations, the approach generally applies to companies with little value beyond the value of their tangible assets, such as holding companies. It is also used when valuing individual components of a business enterprise.

Under the **income** approach, the specialist estimates the future ownership benefits and discounts those benefits to present value using a rate suitable for the risks associated with realizing those benefits. As a shortcut method under the income approach, the specialist may capitalize some normalized level of ongoing benefits using a rate of return.

The **market** approach assumes that value can be estimated from analyzing recent sales of comparable assets. This approach is commonly used to value single-family homes, where the appraiser estimates a house's value by comparing it to similar houses recently sold or offered for sale. In business valuations, the specialist analyzes guideline public companies (and private companies, whenever possible) to determine a company's value. Using this approach requires a thorough search for guideline transactions to determine a company's value. Using this approach requires a thorough search for guideline companies and thorough analysis of the data.

Axia Valuation LLC specializes in business valuations for all purposes, including estate planning, marital dissolution, succession planning, and litigation. Feel free to call if you have any questions or comments.