

Business Valuation Fundamentals — Workbook

This workbook turns the course into a working valuation toolkit. Move through it in order: fix your standard and purpose, recast a real company into clean SDE and EBITDA, value it on market multiples, build a discounted-cash-flow model with a defensible discount rate, set an asset floor, apply the right discounts, and reconcile everything into a range you can defend. Use the spreadsheet templates to recast earnings, run a full DCF, and lay your three approaches side by side.

What Valuation Is and the Numbers Behind It

Define what value you are measuring and recast the company's earnings into clean SDE and EBITDA.

Worksheet: Frame the Engagement

Pin down the basics before any calculation. These four answers determine which standard, premise, methods, and discounts you will use. Be specific.

Subject company and as-of valuation date

Purpose (sale, SBA loan, buy-sell agreement, estate/gift, divorce, fundraiser, internal)

Standard of value (Fair Market Value, Fair Value, Investment Value, Intrinsic Value)

Premise of value (going concern, orderly liquidation, forced liquidation)

Interest being valued (100% control, or a minority % and which)

Who the audience is (banker, buyer, seller, partner, court, tax authority)

Exercise: Recast the Earnings

Work from the most recent full-year tax return or P&L. List every add-back with proof, then compute both earnings figures. The goal is a number a buyer's accountant cannot dismiss.

- What is reported net income, and what are the interest, tax, depreciation, and amortization lines you add back to reach EBITDA?

- What is the owner's total compensation (salary plus payroll taxes) that you add back to reach SDE?

- Which costs are genuinely one-time or personal (lawsuit, equipment rebuild, personal vehicle/phone/travel, above-market family wages) and what is your proof for each?

- Which 'add-backs' must a buyer actually keep paying (a manager's salary the new owner cannot cut), and have you excluded them?

Checklist: Earnings Quality Check

- Used a full fiscal year, not a partial or annualized stub
- Reconciled the P&L to the tax return and flagged any gaps
- Documented every add-back with a source line, not a guess
- Chose SDE for an owner-operated business or EBITDA for a manager-run one (not both at once)
- Confirmed I did not double-count the owner's salary
- Noted whether the figures are cash-free, debt-free, and inventory-inclusive

The Market Approach: Valuing on Multiples

Price the business off what buyers actually pay for comparable companies.

Worksheet: Build Your Comparable Set

Gather at least three to five real comparable transactions. Pull from DealStats, BizComps, the BizBuySell Insight Report, or the IBA database where available, and record the terms, not just the multiple.

Comp source (DealStats / BizComps / BizBuySell / IBA / broker report)

Industry and NAICS or SIC code match

Comp size (revenue and SDE or EBITDA)

Sale price and earnings multiple (x SDE or x EBITDA)

Deal terms (asset vs. stock, real estate included? earn-out? date)

Median multiple of the set (not the mean)

Exercise: Select and Adjust Your Multiple

Move from the comp-set median to the multiple your specific business deserves by scoring it against the value drivers.

- How does your target compare to the comps on size, growth rate, and margins, and does that argue for a higher or lower multiple?

- What is the customer concentration (top customer as % of revenue), and how much should it pull the multiple down?

- How owner-dependent is the business, and can it run without the seller? How does that affect the multiple?

- What share of revenue is recurring or contracted versus one-off, and what is your final selected multiple after these adjustments?

Checklist: Multiple Sanity Checks

- Matched comps on industry, size, and recency before trusting them
- Took the median of the comp set to blunt outliers
- Confirmed whether the multiple is on SDE or EBITDA and used the matching earnings figure
- Checked the result against a published rule of thumb as a cross-check only
- Converted enterprise value to equity value (add cash, subtract debt) where needed
- Wrote down why my selected multiple sits above or below the comp median

The Income Approach: Capitalization and DCF

Value the business off the present value of its future cash flows.

Worksheet: Build the Discount Rate (Buildup)

Construct a cost of equity for a private small business using the buildup method, then blend to a WACC. Cite a source for each premium so the rate is defensible.

Risk-free rate (long-term government bond yield), %

Equity risk premium, %

Size premium (Kroll / Duff & Phelps), %

Industry risk premium, %

Company-specific risk premium (concentration, owner dependence, thin management), %

Cost of equity (sum of the above), %

After-tax cost of debt and debt/equity weights

Resulting WACC, %

Exercise: Run the DCF and Test the Terminal Value

Use the DCF template to project five years of free cash flow and discount them. Then pressure-test the terminal value, which usually drives most of the answer.

- What is your free cash flow each year ($\text{EBIT} \times (1 - \text{tax}) + \text{D\&A} - \text{capex} - \text{change in working capital}$), and what growth assumption drives it?
 - What perpetual growth rate g did you use in the Gordon Growth terminal value, and is it below long-run GDP growth?
 - What enterprise value does the exit-multiple method give versus the perpetuity method, and how far apart are they?
 - What percent of total enterprise value is the terminal value, and how much does the answer move if you shift WACC by two points?
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Exercise: Cross-Check Capitalization vs. DCF

For a stable business, the simple capitalization method should land near the DCF. Reconcile them.

- Using $\text{Value} = \text{Earnings} / (\text{Discount Rate} - \text{Growth})$, what value does capitalizing one normalized year give?
- What implied multiple does that capitalization rate represent (1 divided by the cap rate)?
- How close is the capitalization result to your DCF enterprise value, and what explains any gap?
- Is this business stable enough that capitalization is appropriate, or does lumpy cash flow require the full DCF?

Checklist: Income-Approach Integrity

- Projected unlevered free cash flow, not accounting net income
- Built the discount rate from documented components, not a round guess
- Tested terminal value with both perpetuity and exit-multiple methods
- Confirmed perpetual growth g is below long-run economic growth
- Ran a sensitivity table on WACC, growth, and exit multiple
- Converted enterprise value to equity value by adjusting for cash and debt

Asset Methods, Discounts, and Reconciliation

Set an asset floor, apply the right discounts, and weight everything into a defensible range.

Worksheet: Adjusted Net Asset Floor

Restate the balance sheet to fair market value to establish the floor value, then note the liquidation alternatives a lender would care about.

Asset category (cash, receivables, inventory, equipment, real estate, intangibles)

Book value (\$)

Fair market value adjustment (\$)

Adjusted fair market value (\$)

Total adjusted assets minus total adjusted liabilities = adjusted net asset value (\$)

Orderly and forced liquidation value estimates (\$)

Exercise: Apply Discounts and Premiums

If you are valuing less than 100% or an illiquid interest, adjust the base value. Apply the discounts in sequence and show the math.

- Is your base value on a control or minority basis, and marketable or non-marketable? Which discounts therefore apply?

- What Discount for Lack of Control (minority discount) is justified, and what evidence supports the percentage?

- What Discount for Lack of Marketability is justified given the size and illiquidity of the interest?

- Stacking them in order (apply DLOC first, then DLOM to the reduced figure), what is the resulting value?

Worksheet: Reconcile the Three Approaches

Lay your indications side by side and weight them by fit and reliability for this specific business. Do not simply average.

Market approach indication (\$) and weight (%)

Income approach indication (\$) and weight (%)

Asset approach indication (\$) and weight (%)

Weighted concluded value (\$)

Concluded value range (low to high \$)

Implied multiple of SDE or EBITDA at the concluded value

Checklist: Defensibility Final Pass

- Weighted methods by fit, not a blind average
- Used the asset value as a floor and checked the implied goodwill is justified by cash flow
- Confirmed the concluded implied multiple is sane versus comparables
- Stated standard of value, premise, interest, and as-of date in writing
- Documented every add-back, premium, and discount with support
- Presented a defensible range rather than a false-precision single number

Your Action Plan

1. Write down the purpose, standard of value, premise, interest, and as-of date before touching a calculation.
2. Gather three years of financials and the tax returns, and recast the most recent year into clean SDE and EBITDA with documented add-backs.
3. Pull three to five real comparable transactions, take the median multiple, and adjust it for your company's size, growth, concentration, and owner dependence.
4. Compute a market-approach value by multiplying your selected multiple by the matching earnings figure.
5. Build a discount rate with the buildup method, then run a five-year DCF with a terminal value tested two ways.
6. Cross-check the DCF against a simple capitalization of one normalized year and resolve any gap.
7. Restate the balance sheet to fair market value to set the adjusted net asset floor, and note liquidation values.
8. If valuing a partial or illiquid interest, apply the appropriate control and marketability discounts in sequence.
9. Reconcile the market, income, and asset indications by weighting them, then express the result as a defensible range.
10. Run a sensitivity table, confirm the implied multiple is sane, and write up every assumption so the number survives challenge.

