AMERICAN SOCIETY OF APPRAISERS

Business Valuation
Principles of Valuation
Course Outlines
BV201
BV202
BV203
BV204
INTRODUCTION

Questions on the ASA’s eight hour Business Valuation Challenge Exam are based on the content of the four ASA Business Valuation Principles of Valuation (POV) courses:

- BV201: Introduction to Business Valuation, Market Approach
- BV202: Introduction to Business Valuation, Income Approach
- BV203: Introduction to Business Valuation, Asset Approach, Discounts and Premiums
- BV204: Advanced Topics in Business Valuation

The following outlines for each course are intended to describe the general topics that are covered in the POV courses and tested on the Challenge Exam. With the exception of content related to the ASA’s Business Valuation Standards, all other content is found in most if not all of the publicly-available books and materials related to business valuation, including without limitation:


A .pdf copy of the ASA’s Business Valuation Standards can be downloaded from the following web page: http://www.appraisers.org/About/professional-standards-ethics
BV201: Introduction to Business Valuation, Market Approach

1. INTRODUCTION
   a. The Business Appraisal Profession
   b. Necessary Business Appraisal Skills and Qualifications

2. BUSINESS VALUATION THEORY
   a. Comparison with Real Estate Appraisals
   b. Three Approaches to Value
   c. Basic Description of a Business
   d. Organizational Structure of
   e. Financial Structure of Business
   f. Basic Concept of Value
   g. Value vs. Cost vs. Price
   h. Standards of Value
   i. Premise of Value
   j. Basic Variables Affecting Value
   k. The Role of IRS Rulings
   l. The Role of Key Court Cases
   m. The Role of Financial Accounting Standards Board Guidance
   n. Steps of a Business Appraisal

3. DEFINING THE APPRAISAL ASSIGNMENT
   a. ASA Business Valuation Standards BVS-I
   b. Pre-Engagement Assessment
   c. What is Being Appraised
   d. The Effective Date of Appraisal
   e. The Scope of the Appraisal
   f. Engagement Letters
   g. The Purpose and Intended Use of the Valuation
   h. Professional Obligation of the Appraiser
   i. Professional Standards

4. DATA GATHERING
a. Data Gathering via the Internet  
b. General Information  
c. Economic and Industry Data  
d. Specific Data Sources  

5. GENERAL ECONOMIC AND POLITICAL ANALYSIS  
a. The Globalization of Economic Factors  
b. Country-Specific (National) Economic Factors  
c. Regional and Local Economic Factors  

6. INDUSTRY ANALYSIS  
a. Porter’s Five Forces and Generic Strategies  

7. COMPANY ANALYSIS  
a. Applying the Business Appraiser’s Analysis to the Company  
b. Financial Performance Analysis  
c. Company Risk Factors  
d. Analytical Frameworks  
e. SWOT Analysis  
f. Company-Specific Value Drivers  

8. OVERVIEW OF THE MARKET APPROACH  
a. Basic Principles Underlying the Market Approach  
b. Basic Steps of the Market Approach Process  
c. ASA Standards and Definitions  

9. GPC STEP 1—GUIDELINE PUBLIC COMPANY SEARCH AND SELECTION  
a. Overview of the Guideline Public Company (GPC) Method  
b. ASA BVS-1 Conceptual Framework and Guidance  
c. GPC Selection Process  
d. Getting and Setting up the GPC Financial Statements  

10. GPC STEP 2—NORMALIZE FINANCIAL STATEMENTS  
a. ASA SBVS-1 Guidance 1  
b. Accounting Translation Adjustments  

11. GPC STEPS 3-4—CALCULATION & SELECTION OF MULTIPLES  
a. ASA SBVS-1 Guidance for the Calculation and Selection of Multiples  
b. GPC Step 3—Calculating Market Multiples  
c. Which Multiples Should Be Used?
d. Time Period for Financial Operating Metrics  
e. Useful Summary Measures – Statistical Tools  
f. GPC Step 4 – Selection of the Appropriate Type of Market Multiples to Use

12. GPC STEPS 5-6—COMPARE AND ADJUST GPC MULTIPLES  
a. GPC Step 5—Comparative Analysis  
b. Comparative Qualitative Factors to Consider  
c. Comparative Quantitative Financial Performance Factors to Consider  
d. GPC Step 6—Adjusting the GPC Market Multiples – the Key Step  
e. Qualitative and Quantitative Techniques for Adjusting Market Multiples

13. GPC STEPS 7-9—APPLY MULTIPLES, RECONCILE AND ADJUST  
a. Step 8 – Reconcile the Different Indications of Value  
b. Step 9 – Consider Applying Appropriate Discounts or Premium

14. THE MERGER AND ACQUISITION METHOD  
a. Database Inconsistencies and Analytical Issues  
b. Analytical Procedures  
c. Equity Multiples  
d. Invested Capital Multiples  
e. Closer Examination of Common Data Sources for Small Businesses

15. RULES OF THUMB AND OTHER MARKET METHODS  
a. Rules of Thumb  
b. Prior Transactions in the Subject Company’s Stock  
c. Buy-Sell Agreement  
d. Bona Fide Offers to Buy  
e. Analysis of Acquisitions Made by the Company
BV202: Introduction to Business Valuation, Income Approach

1. OVERVIEW OF THE INCOME APPROACH
   a. Definition and Methods
   b. Benefit Stream
   c. Conversion of Anticipated Benefits to Value

2. ECONOMIC BENEFITS
   a. Measures of Economic Benefits
   b. Equity Versus Invested Capital Income Measures
   c. Selecting an Appropriate Benefits Measure for the Subject Company
   d. Adjustments to Subject Company Financial Statements

3. PROJECTING FINANCIAL STATEMENTS
   a. Sources of Projections
   b. Factors to Consider
   c. Methods of Projecting
   d. Developing the Projection
   e. Problems with Projecting as a Percentage of Sales
   f. Analysis of Management Projection
   g. Projections of Nonlinear Relationships
   h. Special Considerations for Projecting Stub Periods
   i. Common Errors in Projecting

4. CAPITALIZATION OF BENEFITS METHOD
   a. Definitions and Formula
   b. Components of the Capitalization of Benefits Method
   c. Other Uses of Capitalization of Benefits Method
   d. Sensitivity of Value to the Capitalization Rate
   e. Capitalization Rates for Other Income Measures

5. DISCOUNTED FUTURE BENEFITS METHOD
   a. Definitions and Formula
   b. Key Elements in the Method
   c. Sensitivity Analysis
6. INTRODUCTION TO DISCOUNT RATES
   a. Definition and Terminology
   b. Relationship Between Risk and the Discount Rate
   c. Types of Risk
   d. Characteristics of the Discount Rate
   e. Two Main Measures of Discount Rate

7. DEVELOPING THE EQUITY DISCOUNT RATE
   a. Methods to Estimate the Equity Discount Rate
   b. Components of the Cost of Equity
   c. Overview of the Buildup Method
   d. Risk Free Rate of Return
   e. Equity Risk Premium
   f. Size Premium
   g. Re-levering the Equity Risk Premium
   h. Industry Risk Premium
   i. Company Specific Risk Premium
   j. Application of Buildup Discount Rates
   k. Cost of Equity for Start-up and Early Stage Companies

8. THE CAPITAL ASSET PRICING MODEL
   a. History and Derivation
   b. Key Assumptions of CAPM
   c. Derivation and Use of Betas
   d. Challenges to CAPM
   e. Application of CAPM Discount Rates

9. WEIGHTED AVERAGE COST OF CAPITAL
   a. Definition and Formula
   b. Cost of Common Equity (ke)
   c. Cost of Debt (kd)
   d. Tax Rate
   e. Capital Structure
   f. Application of WACC Discount Rates

10. LEVELS OF VALUE
    a. General Levels of Value
b. How Methodology Affects Resulting Value

c. Level of Value from the Income Approach

d. Level of Value from the Asset Approach

e. Level of Value from the Market Approach

f. Application of the DLOC and DLOM
BV 203: Introduction to Business Valuation, Asset Approach, Discounts and Premiums

1. The Asset Approach to Valuation
   a. Theoretical basis
   b. Definitions and terminology
   c. Net Asset Value Method
   d. Traditional Excess Earnings Method
   e. Multi-Period Excess Earnings Method
   f. Level of Value from Asset Approach

2. Valuation Adjustments
   a. Entity level and Shareholder level discounts
   b. Levels of value

3. Premium for Control
   a. Prerogatives of control
   b. Diversity in practice: Does the guideline public company method yield a control level value?
   c. Economic benefits of control
   d. Business characteristics influencing the premium for control
   e. Historical premium and transaction data
   f. Challenges with using observed premiums for control

4. Discount for Lack of Control
   a. Degree of control
   b. Protection of non-controlling interests: agreements and statutes
   c. Undivided partial interests
   d. DLOC approaches, methods, and procedures

5. Discount for Lack of Marketability
   a. Marketability versus liquidity
   b. DLOM for control interests
   c. DLOM qualitative analysis
   d. DLOM approaches, methods, and procedures

6. Application of Discounts
7. **Other Valuation Adjustments**
   a. Key person discount
   b. Blockage discount
   c. Discount from NAV
   d. Non-homogenous/portfolio discount
   e. Non-voting interests
   f. Embedded capital gains

8. **Reconciling Values**

9. **Report Writing**
   a. USPAP reporting standards
   b. ASA reporting standards
BV204: Advanced Topics in Business Valuation

1. Pass-Through Entities
   a. Attributes of a pass-through entity (PTE)
   b. Advantages and disadvantages of PTE tax status
   c. Differences between PTEs and C corporations
   d. Major Tax Court cases relating to valuation of PTEs
   e. Diversity of practice: Tax-affect or not
   f. Arguments for and against tax-affecting the earnings of PTEs
   g. Impact of distribution policies on the expected future benefit stream to owner of an interest in a PTE
   h. PTE valuation methods

2. Valuation of Early Stage Entities & Entities with Complex Capital Structures
   a. Stages of development and relevance to the valuation assignment
   b. Complex capital structures: classes of equities and equity derivatives
   c. Equity allocation methods
   d. Inputs/variables in the equity allocation process
   e. Fair value of debt

3. Intangible Assets
   a. Reasons to value intangible assets
   b. Definitions of intangible assets
   c. Categories and types of intangible assets
   d. Define bundle of legal rights associated with the subject intangible asset
   e. Intangible asset valuation approaches
   f. Risk-based hierarchy of discount rates of and rates of return on assets
   g. Remaining useful life
   h. Tax amortization benefit
   i. Goodwill: Personal and entity

4. Valuation of Debt and Preferred Stock
   a. Risk-based hierarchy of discount rates of and rates of return on capital
   b. Valuing debt
      i. Reasons to value debt
      ii. Characteristics of debt
iii. Risks associated with debt
iv. Debt and embedded options
v. Term structure of interest rates
vi. Valuation methods
vii. Credit analysis and credit ratings
c. Valuing preferred stock
   i. Reasons to value preferred stock
   ii. Characteristics of preferred stock
   iii. Valuation methods
d. Valuation adjustments (discounts/premiums)