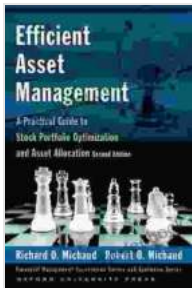


Valuing the Closely Held Firm: Financial Management Association Survey and Analysis

Closely held firms, defined as privately owned businesses with a limited number of shareholders, present unique challenges in valuation compared to publicly traded companies. Their lack of market liquidity and access to capital markets necessitates specialized valuation techniques tailored to their specific characteristics. The Financial Management Association (FMA) conducted a comprehensive survey of financial professionals to gather insights into the current practices and trends in valuing closely held firms.



Valuing the Closely Held Firm (Financial Management Association Survey and Synthesis) by Michael S. Long

★★★★☆ 4.4 out of 5

Language	: English
File size	: 2283 KB
Text-to-Speech	: Enabled
Screen Reader	: Supported
Enhanced typesetting	: Enabled
Word Wise	: Enabled
Print length	: 287 pages
Lending	: Enabled



Survey Methodology

The FMA survey was conducted among its members, who are primarily financial professionals with expertise in valuation and financial management. The survey collected data on various aspects of closely held firm valuation, including:

- Valuation methodologies
- Discount rates
- Adjustments for minority and control interests

li>Applicability of different valuation approaches

Valuation Methodologies

The survey revealed that the most commonly used valuation methodologies for closely held firms are:

- **Income Approach:** This method focuses on the future cash flows of the business and their present value. It is commonly used for businesses with predictable cash flows.
- **Asset Approach:** This method values the individual assets of the business and incorporates factors such as depreciation and current market values.
- **Market Approach:** This method compares the closely held firm to similar publicly traded companies or recent transactions involving similar firms.

Discount Rates

The choice of discount rate is crucial in determining the present value of future cash flows. The survey found that the most common approach is to use the weighted average cost of capital (WACC), which considers both debt and equity financing. Other factors considered when determining the discount rate include the risk profile of the business, industry benchmarks, and market conditions.

Adjustments for Minority and Control Interests

When valuing a minority interest in a closely held firm, discounts are typically applied to reflect the reduced influence and control of the minority shareholder. Similarly, premiums are applied when valuing a controlling interest to account for the additional power and influence it carries.

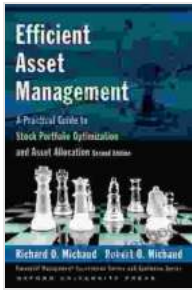
Applicability of Different Valuation Approaches

The survey also explored the applicability of different valuation approaches based on firm size, industry, and other factors. It was found that the income approach is more commonly used for larger firms, while the asset approach is more appropriate for smaller firms with tangible assets. For firms in cyclical industries, market-based approaches are often preferred.

Industry-Specific Considerations

The valuation of closely held firms can also be influenced by industry-specific factors. For example, healthcare firms are often valued with a focus on future revenue streams from managed care contracts. Technology firms may require specialized methods to value intellectual property and intangible assets.

The FMA survey provides valuable insights into the practices and trends in valuing closely held firms. It highlights the importance of considering various valuation methodologies, discount rates, and adjustments to accurately reflect the unique characteristics of these businesses. Financial professionals engaged in valuing closely held firms should stay abreast of current best practices and industry-specific considerations to ensure accurate and reliable valuations.



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