



# NACVA

---

*National Association of Certified Valuation Analysts*

## **The Core Body of Knowledge for Business Valuations**

*All rights reserved. No part of this work covered by the copyrights herein may be reproduced or copied in any form or by any means—graphically, electronically or mechanically, including photocopying, audio/video recording or information storage and retrieval of any kind—without the express written permission of the National Association of Certified Valuation Analysts.*



# The Core Body of Knowledge for Business Valuations

SUBJECT MATTER	Percentage Emphasis on CVA/AVA Exam
<b>I. OVERVIEW</b>	<b>4%</b>
A. Purpose for business valuation	
1. Financial accounting	
2. Tax valuations	
3. Litigation	
4. Merger and acquisition	
B. Standards of value	
1. Definitions of standards of value, including	
a) Fair market value	
b) Fair value	
(1) Statutory	
(2) Financial reporting	
c) Investment (strategic) value	
d) Intrinsic (fundamental) value	
2. Relationship between purpose of the valuation and standard of value	
C. Premise of value	
1. Going concern	
2. Assemblage of assets	
3. Liquidation (orderly or forced)	
D. Levels of value	
1. Lack of control (minority) v. control	
2. Marketable v. non-marketable	
3. Strategic and investment value	
<b>II. PROFESSIONAL RESPONSIBILITIES, QUALIFICATIONS, AND REGULATORY STANDARDS</b>	<b>4.5%</b>
See Appendix I for country-specific professional responsibilities, qualifications, and regulatory standards.	
<b>III. ENGAGEMENT ACCEPTANCE AND PLANNING</b>	<b>3%</b>
A. Defining the engagement	
1. Valuation date and its importance	
B. Engagement Letters	
1. Purpose	
2. Content	
C. Acceptance	
1. Experience	
2. Staffing	
3. Expectations	
<b>IV. QUALITATIVE ANALYSIS</b>	<b>8%</b>
A. Sources of Data	
B. Economic Environment	
1. Macro-environment	



# The Core Body of Knowledge for Business Valuations

SUBJECT MATTER	Percentage Emphasis on CVA/AVA Exam
<ul style="list-style-type: none"><li>a) National economic data</li><li>b) Regional economic data</li><li>c) Metropolitan economic data</li><li>d) Relationship of economic activity to valuation</li><li>e) International elements and impact</li></ul> <p>2. Micro-environment</p> <p>C. Industry background</p> <ul style="list-style-type: none"><li>1. Economic data</li><li>2. Structure, trends, and life cycle</li></ul> <p>D. Company background</p> <ul style="list-style-type: none"><li>1. Site visit and discussions with management</li><li>2. History and nature</li><li>3. Economic data (cost structure, pricing power, marginal analysis)</li><li>4. SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats)</li></ul>	↓
<p><b>V. QUANTITATIVE ANALYSIS</b></p> <p>A. Financial statements</p> <ul style="list-style-type: none"><li>1. Source (audited/reviewed/compiled/tax returns/internal)</li><li>2. Number of years to obtain</li><li>3. Common size</li><li>4. Trend analysis</li><li>5. Ratios</li><li>6. Comparative analysis<ul style="list-style-type: none"><li>a) Specific company</li><li>b) Industry averages</li></ul></li></ul> <p>B. Adjustments to financial statements</p> <ul style="list-style-type: none"><li>1. Normalizing<ul style="list-style-type: none"><li>a) Control v. non-control</li><li>b) Discretionary</li><li>c) Reasonable compensation analysis</li><li>d) See Appendix II for country-specific accounting principles</li><li>e) Extraordinary/non-recurring</li></ul></li><li>2. Operating v. non-operating items</li><li>3. Off-balance sheet and unrecorded items</li></ul> <p>C. Statistical Analysis</p> <ul style="list-style-type: none"><li>1. Measures of central tendency (arithmetic, harmonic, geometric means)</li><li>2. Measures of dispersion (including variance and standard deviation)</li><li>3. Statistical strengths of numerical relationships (including covariance, correlation, coefficient of determination, and coefficient of variation)</li><li>4. Linear regression</li></ul> <p>D. Types of benefit streams and selection</p> <ul style="list-style-type: none"><li>1. Selection of appropriate time periods (including mid-year convention)</li><li>2. Selection of appropriate type of income/cash flow</li><li>3. Growth assumptions</li></ul>	16.5% ↓



# The Core Body of Knowledge for Business Valuations

SUBJECT MATTER	Percentage Emphasis on CVA/AVA Exam
<ul style="list-style-type: none"><li>a) Trend line projected</li><li>b) Constant</li><li>c) Erratic</li><li>d) Level</li><li>e) Declining growth approaches</li><li>4. Historical v. projection based on considerations</li><li>5. Relating effects due to economic/industry events and trends</li><li>6. Pass-through entities—tax effecting of the benefit stream</li></ul>	↓
<b>VI. VALUATION APPROACHES</b>	<b>27.5%</b>
A. Income approach	↓
<ul style="list-style-type: none"><li>1. General theory</li><li>2. Defining applicable income/cash flow</li><li>3. Sources of data</li><li>4. Capitalization/discount rates</li><li>5. Commonly used methods<ul style="list-style-type: none"><li>a) Capitalized economic income/cash flow method (CCF), including Gordon Growth Model (constant growth model)</li><li>b) Discounted economic income/cash flow method (DCF), including Gordon Growth Model (two stage model)</li><li>c) Excess earnings (cash flow) method<ul style="list-style-type: none"><li>(1) See Appendix III for country-specific applications of the excess earnings method</li><li>(2) Reasonable rate method</li></ul></li><li>d) Dividend paying capacity</li></ul></li></ul>	↓
B. Market approach	↓
<ul style="list-style-type: none"><li>1. General theory</li><li>2. Commonly used methods<ul style="list-style-type: none"><li>a) Transactions in subject company's stock</li><li>b) Transactions/sales of companies similar to subject<ul style="list-style-type: none"><li>(1) Guideline public companies<ul style="list-style-type: none"><li>(a) General theory</li><li>(b) Selecting guideline companies<ul style="list-style-type: none"><li>i) Sources of data</li><li>ii) Size adjustments</li></ul></li><li>(c) Equity v. invested capital (including multiples)</li><li>(d) Selection of appropriate time periods</li><li>(e) Selection of appropriate multiples<ul style="list-style-type: none"><li>i) Adjusting for growth, size, and company specific risk</li></ul></li></ul></li><li>(2) Guideline merged and acquired companies<ul style="list-style-type: none"><li>(a) General theory</li><li>(b) Sources of data</li><li>(c) Consideration of the selection of data points</li><li>(d) Transactional databases</li></ul></li></ul></li></ul></li></ul>	↓



# The Core Body of Knowledge for Business Valuations

SUBJECT MATTER	Percentage Emphasis on CVA/AVA Exam
i) See Appendix IV for country-specific transactional databases	↓
C. Asset Approach	
1. General theory	
2. Sources of data	
3. Commonly used methods	
a) Book value	
b) Adjusted net asset method	
c) Excess earnings method	
(1) See Appendix III for country-specific applications of the excess earnings method	
(2) Reasonable rate method	
d) Liquidation method (forced or orderly)	
4. Identifying and valuing intangible assets	
a) Approaches and methods	
b) Estimated life	
c) Impairment	
5. Tax effecting the balance sheet (built-in capital gains)	
D. Sanity Checks	
1. General theory	
2. Sources of data	
3. Commonly used methods	
a) Industry formulas (“Rules of Thumb”)	
b) Justification of purchase	
E. Reconciliation of indicated values	
<b>VII. COST OF CAPITAL CONCEPTS AND METHODOLOGY, AND OTHER PRICING MODELS</b>	<b>15%</b>
A. Build-up method	
1. Risk free rate	
2. Equity risk premium	
3. Size risk premium	
4. Industry equity risk premium	
5. Company specific risk	
6. Supply side equity risk premium	
7. Long-term sustainable growth	
8. Other	
9. See Appendix V for country-specific sources of risk premiums	
B. Capital asset pricing model (CAPM) and Beta ( $\beta$ ) including un-levered and re-levered Betas	
C. Weighted average cost of capital	
D. Converting after tax risk rates to pre-tax rates	
E. Other recognized methods	
<b>VIII. DISCOUNTS, PREMIUMS, AND OTHER ADJUSTMENTS</b>	<b>15.5%</b>
A. Levels of value and effect on discounts and premiums	
1. Synergistic value	



# The Core Body of Knowledge for Business Valuations

SUBJECT MATTER	Percentage Emphasis on CVA/AVA Exam
2. Control value	↓
3. Non-controlling, marketable value	
4. Non-controlling, non-marketable value	
B. Adjustments for Control Issues	
1. General theory	
2. Sources of data	
3. Ownership characteristics	
4. Magnitude	
5. Relationship to how benefit stream is defined	
C. Adjustments for Marketability Issues	
1. General theory	
2. Sources of data	
3. Ownership characteristics	
4. Restrictions on transferability	
5. Magnitude	
6. Models	
D. Discounts and premiums—understanding the empirical studies	
E. See Appendix VI for country-specific entity structures	
F. Allocation between Voting and Non-voting stock	
G. Professional v. practice goodwill	
H. Other valuation discounts and adjustments	
I. Current issues	
J. Subsequent events	
<b>IX. RELATED TOPICS</b>	<b>6%</b>
A. Case law—See Appendix VII for country-specific case law issues	↓
B. Intellectual property	
1. General theory	
C. See Appendix VIII for country-specific financial reporting issues	
D. See Appendix IX for country-specific judicial guidance information	
E. Roles of the valuation analyst in litigation services	
1. Expert witness	
2. Consultant	
3. Fact witness	
4. Other practitioner role	
F. See Appendix X for country-specific special classes of securities	



# The Core Body of Knowledge for Business Valuations

## Appendices for Valuations in the United States

### **APPENDIX I**

In the United States, the following bodies issue statements on professional responsibilities, qualifications, and regulations:

- A. NACVA—National Association of Certified Valuation Analysts
- B. AICPA—American Institute of Certified Public Accountants
  - 1. Code of Professional Conduct
  - 2. Statement on Standards for Consulting Services, No. 1
  - 3. Statement on Standards for Valuation Services, No. 1
- C. ASA—American Society of Appraisers
- D. IBA—Institute of Business Appraisers
- E. The Appraisal Foundation (USPAP—Uniform Standards of Professional Appraisal Practice)
  - 1. General and ethical
  - 2. Standard No. 9
  - 3. Standard No. 10
- F. IRS—Internal Revenue Service
  - 1. Circular 230
  - 2. Business Valuation Guidelines
  - 3. Preparer penalties and disbarment
- G. SEC—Securities and Exchange Commission
  - 1. Sarbanes-Oxley Act of 2002 and related SEC Rules
- H. FASB—Financial Accounting Standards Board
- I. DOL—Department of Labor
- J. Ethical considerations
  - 1. Advocate v. expert
  - 2. Independence
- K. Other Applicable rules, requirements, and authoritative sources

### **APPENDIX II**

In the United States, financial statement adjustments include changes to put the statements in compliance with Generally Accepted Accounting Principles (GAAP)

### **APPENDIX III**

In the United States, use of the excess earnings method should include consideration of the Treasury Method.

### **APPENDIX IV**

In the United States, examples of transactional databases include:

- 1. BIZCOMPS®
- 2. Institute of Business Appraisers
- 3. Pratt's Stats
- 4. Done Deals
- 5. Mergerstat
- 6. Others



# **The Core Body of Knowledge for Business Valuations**

---

## **APPENDIX V**

In the United States, Morningstar/Ibbotson and Duff & Phelps are two standard sources of risk rates.

## **APPENDIX VI**

In the United States, examples of business entities include:

1. S-corporation
2. C-corporation
3. Partnership
4. Limited liability company
5. Proprietorship

Special issues for the various forms should be considered.

## **APPENDIX VII**

In the United States, case law directly related to business valuations is found for:

1. Income taxation
2. Estate and gift taxation
3. Employee Stock Ownership Plans
4. Family law
5. Commercial law
6. Other

## **APPENDIX VIII**

In the United States, special valuation issues arise when reporting Fair Value for financial reporting purposes.

## **APPENDIX IX**

In the United States, the Federal Rules of Civil Procedure (Rule 26) provide judicial guidance.

## **APPENDIX X**

In the United States, there are several special classes of securities:

1. Preferred stock
2. Convertible instruments
3. Stock options and other derivative instruments

*— Approved by the Valuation Credentialing Board  
January 21, 2009*