

NACVA



National Association of Certified Valuers and Analysts

The Core Body of Knowledge for Business Valuations

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The Core Body of Knowledge for Business Valuations

SUBJECT MATTER	Percentage Emphasis on CVA* Exam
I. OVERVIEW	4%
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	
II. PROFESSIONAL RESPONSIBILITIES, QUALIFICATIONS, AND REGULATORY STANDARDS	4.5%
See Appendix I for country-specific professional responsibilities, qualifications, and regulatory standards.	↓
III. ENGAGEMENT ACCEPTANCE AND PLANNING	3%
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	
IV. QUALITATIVE ANALYSIS	
A. Sources of Data	↓
B. Economic Environment	
1. Macro-environment	↓



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SUBJECT MATTER	Percentage Emphasis on CVA* Exam
<ul style="list-style-type: none">a) National economic datab) Regional economic datac) Metropolitan economic datad) Relationship of economic activity to valuatione) International elements and impact <p>2. Micro-environment</p> <p>C. Industry background</p> <ul style="list-style-type: none">1. Economic data2. Structure, trends, and life cycle <p>D. Company background</p> <ul style="list-style-type: none">1. Site visit and discussions with management2. History and nature3. Economic data (cost structure, pricing power, marginal analysis)4. SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats)	↓
V. QUANTITATIVE ANALYSIS	16.5%
<ul style="list-style-type: none">A. Financial statements<ul style="list-style-type: none">1. Source (audited/reviewed/compiled/tax returns/internal)2. Number of years to obtain3. Common size4. Trend analysis5. Ratios6. Comparative analysis<ul style="list-style-type: none">a) Specific companyb) Industry averagesB. Adjustments to financial statements<ul style="list-style-type: none">1. Normalizing<ul style="list-style-type: none">a) Control v. non-controlb) Discretionaryc) Reasonable compensation analysisd) See Appendix II for country-specific accounting principlese) Extraordinary/non-recurring2. Operating v. non-operating items3. Off-balance sheet and unrecorded itemsC. Statistical Analysis<ul style="list-style-type: none">1. Measures of central tendency (arithmetic, harmonic, geometric means)2. Measures of dispersion (including variance and standard deviation)3. Statistical strengths of numerical relationships (including covariance, correlation, coefficient of determination, and coefficient of variation)4. Linear regressionD. Types of benefit streams and selection<ul style="list-style-type: none">1. Selection of appropriate time periods (including mid-year convention)2. Selection of appropriate type of income/cash flow3. Growth assumptions	↓



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<ul style="list-style-type: none">a) Trend line projectedb) Constantc) Erraticd) Levele) Declining growth approaches4. Historical v. projection based on considerations5. Relating effects due to economic/industry events and trends6. Pass-through entities—tax effecting of the benefit stream	↓
VI. VALUATION APPROACHES	27.5%
A. Income approach	
<ul style="list-style-type: none">1. General theory2. Defining applicable income/cash flow3. Sources of data4. Capitalization/discount rates5. Commonly used methods<ul style="list-style-type: none">a) Capitalized economic income/cash flow method (CCF), including Gordon Growth Model (constant growth model)b) Discounted economic income/cash flow method (DCF), including Gordon Growth Model (two stage model)c) Excess earnings (cash flow) method<ul style="list-style-type: none">(1) See Appendix III for country-specific applications of the excess earnings method(2) Reasonable rate methodd) Dividend paying capacity	
B. Market approach	
<ul style="list-style-type: none">1. General theory2. Commonly used methods<ul style="list-style-type: none">a) Transactions in subject company's stockb) Transactions/sales of companies similar to subject<ul style="list-style-type: none">(1) Guideline public companies<ul style="list-style-type: none">(a) General theory(b) Selecting guideline companies<ul style="list-style-type: none">i) Sources of dataii) Size adjustments(c) Equity v. invested capital (including multiples)(d) Selection of appropriate time periods(e) Selection of appropriate multiples<ul style="list-style-type: none">i) Adjusting for growth, size, and company specific risk(2) Guideline merged and acquired companies<ul style="list-style-type: none">(a) General theory(b) Sources of data(c) Consideration of the selection of data points(d) Transactional databases	↓



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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	
VII. COST OF CAPITAL CONCEPTS AND METHODOLOGY, AND OTHER PRICING MODELS	15%
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 (β) 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	
VIII. DISCOUNTS, PREMIUMS, AND OTHER ADJUSTMENTS	15.5%
A. Levels of value and effect on discounts and premiums	
1. Synergistic value	



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SUBJECT MATTER	Percentage Emphasis on CVA* Exam
<ul style="list-style-type: none">2. Control value3. Non-controlling, marketable value4. Non-controlling, non-marketable value <p>B. Adjustments for Control Issues</p> <ul style="list-style-type: none">1. General theory2. Sources of data3. Ownership characteristics4. Magnitude5. Relationship to how benefit stream is defined <p>C. Adjustments for Marketability Issues</p> <ul style="list-style-type: none">1. General theory2. Sources of data3. Ownership characteristics4. Restrictions on transferability5. Magnitude6. Models <p>D. Discounts and premiums—understanding the empirical studies</p> <p>E. See Appendix VI for country-specific entity structures</p> <p>F. Allocation between Voting and Non-voting stock</p> <p>G. Professional v. practice goodwill</p> <p>H. Other valuation discounts and adjustments</p> <p>I. Current issues</p> <p>J. Subsequent events</p>	↓
<p>IX. RELATED TOPICS</p> <ul style="list-style-type: none">A. Case law—See Appendix VII for country-specific case law issuesB. Intellectual property<ul style="list-style-type: none">1. General theoryC. See Appendix VIII for country-specific financial reporting issuesD. See Appendix IX for country-specific judicial guidance informationE. Roles of the valuation analyst in litigation services<ul style="list-style-type: none">1. Expert witness2. Consultant3. Fact witness4. Other practitioner roleF. See Appendix X for country-specific special classes of securities	6% ↓

* Effective April 1, 2013, the AVA credential was merged into the CVA. Holders of the AVA may continue to hold themselves out as an AVA through March 31, 2014, after which they must drop the AVA appellation and use only the CVA. AVAs may adopt the CVA appellation anytime between April 1, 2013 and March 31, 2014, but may not use both appellations—they must choose one or the other.



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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 Valuers and 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



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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