[M/S -18] Fair Market Value Estimate #2 *-The Discounted Future Income Valuation Method:*

A quick method for creating forecasts for Years [2-5] is by entering simple formulas in any yellow input cell as a percentage change from a prior year. For example, to reflect a revenue growth rate of 2.5% in [Year-2] over the [current-year] click on [G6] and enter =" F6*1.025" in the above Formula-Bar.

http://fastbooks.solutions/website-tutorial-ss-18

Columns [E & F] are carried over from [M/S -1]:

Column [E] reflects the current-year [Y-T-D] Income Statement position annualized:

Column [F] reflects the current-year [Future Forecast] carried over from [M/S -1] column [R]:

		Year-to-Date Annualized	[M/S -1 Col -R]: Annual Forecast				
Revenue:	[Activity Base #1]:						
The first step in structuring an [F-M-V] financial valuation employing this common method for estimating a [Dollar Value] for a business is to begin by structuring a forecast for [Year-1] utilizing the functionality features included in [M/S 1 and 9].		*% of Revenue Growth over Prior Year:*					
		% of Revenue Growth over Current Year:					
		% of Compounded Revenue Growth over Current Year:					
Payroll and Related Expenses: (See Note -1)	[Activity Base #2]:						
Subtract: Owner Normalization Compensation Adjustment:	*[M/S -17] cell [c20]:*						
	% of Revenue:						
	[Activity Base #3]:						
	% of Revenue:						
All Other Business Expenses:	[Activity Base #4]:						
	% of Revenue:						
Add-Back: -Depreciation Expense							
Add-Back: -Interest Expense							
	% of Revenue:						
Ordinary Business Income (loss) before Federal Tax:							
	% of Revenue:						
Federal Tax percentage rate:	0.00%						
Ordinary Business Income (loss) after Federal Tax:							
	% of Revenue:						
Present Discount Value at Discount Rate:							
Present Value Today of Net Income Streams:							
Terminal Value:		*The terminal value is the present value at a future point in time of all future net income when a stable growth rate is expected forever:*					
Fair Market Value Estimate using this method:							

Definition of Discounted Future Income Valuation Method:

The value of a business is equal to the present-day value of all future profits. For anyone considering purchasing a business the businesses value is the results from the additional future income earned from ownership of the business. For example, a dentist's base salary for performing dentistry may be $250,000, but the dentist may be able to earn an additional income of $150,000 as the owner of the practice. The financial value of the practice is the result of this excess practice profitability.

Definition of Terminal Value:

In a discounted cash flow valuation, the cash flow is projected for each year into the future for a certain number of years, after which unique annual cash flows cannot forecast with reasonable accuracy. At that point, rather than attempting to forecast the varying cash flow for each year, one uses a single value representing the discounted value of all subsequent cash flows. This single-valued referred to as the Terminal Value.

The Terminal Value can represent a large portion of the valuation. The Terminal Value of a piece of manufacturing equipment at the end of its useful life is its salvage value, typically less than 10% of the present value. In contrast, the Terminal Value associated with a business often is more than 50% of the total present value. For this reason, the Terminal Value calculation is critical in performing the valuation. The Terminal-Value can be calculated either based on the value if liquidated or based on the value of the firm as an ongoing concern.

Definition of [Revenue / Collections]:

Business revenues [actual collections] should be projected based on what is considered the most likely future scenario. Recent growth used as a guide for the near term, but it is important to be realistic in longer-term projections. If a business has been growing at 30% a year for the past several years this may continue for the short-term, but not indefinitely. At some point, almost all businesses plateau. Consider what the maximum possible throughput for your business would be, given available space and a reasonable utilization rate. However, even revenues for businesses that have reached a plateau will still increase at projected [inflation rates].