

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

<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

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.

	2017	2018	2019	2020	2021	2022
Revenue:	5,979,950	6,000,000	6,120,000	6,242,400	6,367,248	6,494,593
Payroll and Related Expenses: (See Note -1)	2,858,132	2,858,133	2,915,295	2,973,601	3,033,073	3,093,735
Subtract: Owner Normalization Compensation Adjustment:	(160,136)	(160,136)	(163,339)	(166,605)	(169,937)	(173,336)
Dental Supplies and Lab Fees Expense	895,120	812,908	829,166	845,749	862,664	879,918
All Other Business Expenses:	2,226,697	2,172,408	2,215,856	2,260,173	2,305,377	2,351,484
Ordinary Business Income (loss) before Federal Tax:	532,136	688,687	702,461	716,510	730,840	745,457
Federal Tax percentage rate:	35.00%					
Ordinary Business Income (loss) after Federal Tax:	345,888	447,647	456,600	465,732	475,046	484,547
Present Discount Value at Discount Rate:	0.8734	0.8734	0.8734	0.8734	0.8734	0.8734
Present Value Today of Net Income Streams:	345,888	345,888	345,888	345,888	345,888	345,888
Terminal Value:						3,826,251
Fair Market Value Estimate using this method:						5,555,692

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].