



A DEEPER LOOK

Projecting Cash Flow

By: Russell T. Glazer

When valuing a business or a business interest, application of the market approach requires an estimate of the subject company's revenues, EBITDA (earnings before interest, taxes, depreciation and amortization) or other measures of economic benefit. Similarly, the income approach requires a projection of net income or cash flow. Often, for smaller companies, management does not or cannot prepare thoughtful, considered projections. In these cases, it is up to the valuation expert, hopefully with management's input, to do so.

In those circumstances where management prepares projections, the valuation expert should not simply accept the projections without scrutiny. Often the case is made that "the valuator does not know the industry and the company as well as the owner." This is

certainly true; but it is also true that anyone tasked with determining the value of a company (a valuator, an investor, a lender, a divorcing spouse, etc.) would do well to assess the reasonableness and achievability of the projections as a key part of their analysis.

Thus, there may be times when the valuator may decide not to accept management's projections, and may use different assumptions and computations as part of the valuation analysis, even over management's objections, if the valuator believes that to be the right course of action.



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