



## Standards of Value

### ***Investment Value***

Investment value differs from fair market value in one major way. Fair market value is based on the assumption of a large number of willing buyers. Investment value is based on a particular buyer and their criteria in order for them to invest or buy the business. Another way to view it, is that investment value is based on a real person and reality instead of a hypothetical person and make-believe.

Investment value is not only used for purchases. It is increasingly being used in divorce cases. The courts realize that in the case of a divorce, the value of the business is specific to two parties and not a large number of people. We are not saying that this is the correct value to be used; rather it is being used more often. The attorney and/or the court must determine which standard of value is to be used in a divorce. Divorce court cases will be discussed in more detail in a later piece.

Several factors that should be considered in determining the investment value include:

- The amount of risk the individual investor perceives
- The required rate of return that is required to meet the investor's perceived risk
- Synergies that the business provides to the investor
- Estimates of earning and cash flow
- Capital structure

At this point, you might assume that different standards of values will always and automatically generate different values. This is not necessarily true. It is possible for different standards of values to generate the same, or close to the same, value.

We have covered three of the most frequently used standards of values used in business appraisal. You might be wondering, which value you should use. The table will help you decide which standard of value to use.

Standard of Value (Purpose)	Function (Use)
Fair Market Value	Tax related matters
Fair Value	Disputes and Dissolutions
Investment Value	Acquisitions
Whatever the parties agree to	Buy-Sell Agreements
Look to case law	Divorce

Intrinsic value, the fourth major value, will be discussed in the next issue.

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