



VALUATION METHODOLOGY · PRIMER

Four Ways to Value *a Business*

DCF, market comparables, Economic Value Added, and Adjusted Present Value — what each method measures, when to trust it, and why serious valuation work uses all four and reads the disagreement.

DCF

Intrinsic cash-flow value

Comps

What the market pays

EVA

Does it beat its cost of capital

APV

Value plus financing effects

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Educational primer on valuation methodology. Not a valuation opinion or investment advice. Illustrative figures for teaching only.

No single method is "right" — that's the point

A business is worth what its future cash flows are worth, what a buyer will pay, and whether it earns more than its capital costs. Those are three different questions, and they don't always agree. The disagreement is information.

Ask a valuation to produce one number and you've hidden the most useful part of the analysis: **where the methods diverge, and why**. A discounted-cash-flow value far above the market price means either the market is missing something or your assumptions are too rosy. Reconciling that gap is the actual work.



A typical spread. When DCF sits well above comparables, the honest analysis explains the gap rather than averaging it away.

The discipline that separates a headline multiple from a defensible value: run intrinsic (DCF), relative (comps), and return-based (EVA) methods, adjust for financing (APV), and **read the disagreement** instead of forcing a single answer.

The four at a glance

Method	Answers the question
DCF	What are the future cash flows worth today?
Comparables	What is the market paying for similar businesses?
EVA	Does it earn more than its cost of capital?
APV	What is it worth, separating operations from financing?

DCF and market comparables

The two workhorses. DCF builds value from the inside out; comparables read it off the market. Together they bracket a defensible range.

METHOD 1 · INTRINSIC

Discounted Cash Flow (DCF)

Project the free cash flow the business will generate, then discount each year back to today at a rate that reflects its risk (the WACC). Add a terminal value for the years beyond the forecast. The sum is intrinsic value — what the cash flows are worth regardless of what the market says today.

$$\text{Value} = \sum (\text{Free Cash Flow}_t \div (1 + \text{WACC})^t) + \text{Terminal Value}$$

STRENGTH

Grounded in the business's own economics; not swayed by market mood.

WEAKNESS

Highly sensitive to assumptions — small WACC or growth changes swing it widely.

METHOD 2 · RELATIVE

Market Comparable Analysis (Comps)

Find comparable businesses that have traded or trade publicly, compute their valuation multiples (EV/EBITDA is the standard), and apply a like-for-like multiple to your subject's earnings. The market does the pricing; you translate it. The discipline is in choosing genuinely comparable companies and comparing on the same basis.

$$\text{Value} = \text{Subject EBITDA} \times \text{Peer EV/EBITDA multiple}$$

STRENGTH

Reflects what buyers actually pay right now; hard to argue with the market.

WEAKNESS

Only as good as the peer set; "comparable" companies rarely are, exactly.

A common trap in comps: comparing businesses with different structures on the same basis. If one peer leases its real estate and another owns it, you must compare them on an **after-rent** basis — or the lease penalty stays hidden and the multiple misleads.

Economic Value Added and Adjusted Present Value

The two methods that separate the professionals from the spreadsheet jockeys. EVA asks whether a business actually creates value; APV isolates the effect of how it's financed.

METHOD 3 · RETURN-BASED

Economic Value Added (EVA)

Profit alone doesn't mean value was created. EVA tests a stricter question: did the business earn more than the cost of the capital tied up in it? If return on invested capital (ROIC) exceeds the weighted-average cost of capital (WACC), value is created. If not — even with positive net income — value is being destroyed.

$$\text{EVA} = (\text{ROIC} - \text{WACC}) \times \text{Invested Capital}$$

STRENGTH

Catches value destruction that positive earnings hide; a truer test than EPS.

WEAKNESS

Requires careful capital and NOPAT definitions; sensitive to those choices.

METHOD 4 · FINANCING-ADJUSTED

Adjusted Present Value (APV)

APV values the business as if it were all-equity financed, then adds the value of financing effects separately — most commonly the tax shield from debt. It's the method of choice when capital structure is complex or changing, because it keeps operating value and financing value from getting tangled together.

$$\text{APV} = \text{Unlevered Value} + \text{PV of Financing Effects}$$

STRENGTH

Cleanly separates operations from financing; ideal for leveraged or shifting structures.

WEAKNESS

More moving parts; financing assumptions must be modeled explicitly.

Why EVA matters in practice: a business can post positive net income and still be **destroying value** if its returns don't clear its cost of capital. That gap — ROIC below WACC — is invisible on an income statement but decisive in a valuation.

The answer is the range, and the reason

Run all four, lay the results side by side, and the valuable output isn't an average — it's understanding why they differ and which method the situation should weight most.

When methods agree

Tight clustering across DCF, comps, and EVA is a strong signal — the intrinsic economics, the market, and the returns all point to the same value. Confidence is high and the range is narrow.

When they diverge

A wide spread is a finding, not a failure. DCF far above comps? Either the market is mispricing, or the forecast is optimistic. The reconciliation — not a blind average — is the analysis.

How to weight them

- **Stable, cash-generative business:** lean on DCF and EVA — the economics are knowable.
- **Active M&A market with good comps:** weight comparables — the market is pricing efficiently.
- **Leveraged or lease-heavy structure:** APV and after-rent comps prevent financing from distorting the read.
- **Early-stage or volatile earnings:** widen the range and lean on relative methods and scenarios.

The mark of serious valuation work: not a single confident number, but a defensible **range**, a clear view of which method the situation should weight most, and an honest account of where the methods disagree and why.

Need a defensible valuation?

MCS Advisory brings this multi-method discipline to healthcare practice, ASC, and transaction engagements — DCF, comparables, EVA, and APV, triangulated and stress-tested. Veteran-owned, senior-led.

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