

Fair Market Value vs. 409A Valuation

Two reports. Different purposes. One is more detailed and rigorous.

Founders often ask “can’t I just get a \$990 409A?” You can – but a 409A is designed specifically for equity compensation, while an FMV analysis provides a broader, more detailed view of value.

	Fair Market Value (FMV)	409A Valuation
Summary	More detailed. More rigorous. Broader scope.	Focused. Specific. For equity compensation.
Definition	The estimated price an asset, business, or ownership interest could reasonably sell for between a willing buyer and seller.	A valuation of a private company’s common stock used to set stock option strike prices and other equity compensation.
Methodology	• Market approach • Market multiples • Comparable transactions • Discounted cash flow (DCF) • PWERM • Other applicable methods	• Market approach • Asset-based approach • Backsolve method • DCF (less common)
Common uses	• Business planning and strategy • M&A discussions • Financial reporting • Estate and gift planning • General benchmarking	• Setting option exercise price • Ensuring Section 409A compliance
Audience	Founders, management teams, investors, advisors, and other stakeholders.	Company, employees, equity recipients, tax advisors, and other stakeholders.

Key Differences between FMV vs 409A

	FMV	409A
	Business, asset or interest value Varies (business, assets, etc.) More detailed & rigorous Planning, transactions, reporting, etc. Multiple approaches Broad	Equity compensation (Section 409A) Common stock Equity compensation specific Option pricing, tax compliance Fewer applied approaches Narrower

FMV

Business / Asset / Interest

More detailed, rigorous and broader in scope

409A

Common Stock for Equity Compensation

A specific type of valuation within FMV