

409A snapshot

Valuation inputs, equity timing, audit support



The Essential Guide to 409A Valuations

What private companies need to know before issuing equity, granting stock options, or preparing for fundraising.

409A valuations are not just a compliance task.

They affect how you grant equity, how employees understand compensation, how investors evaluate your company, and how prepared you are for diligence.

For many private companies, the 409A process shows up right when the team is already moving fast: preparing option grants, closing a financing round, hiring senior talent, or planning an acquisition.

That timing creates pressure. It can also lead teams to treat valuation as a quick box to check. The better approach is to understand what the valuation does, when it needs to be refreshed, and what level of support your situation actually requires.

A good 409A valuation helps you move quickly without turning equity decisions into future cleanup work.

USE THIS GUIDE TO

Know when to act

Spot common triggers before they become urgent.

AVOID MISTAKES

Reduce risk

Understand documentation, refresh timing, and audit concerns.

CHOOSE WISELY

Assess providers

Look beyond price and compare rigor, support, and defensibility.



Who needs a 409A Valuation?

If equity compensation or investor diligence is part of the next stage, a current 409A can help the company move with more confidence.

The need usually appears when a company is about to grant options, hire with equity compensation, raise capital, or prepare documents for investors, auditors, counsel, the board, or a potential acquirer.



Issuing stock options

Before approving new option grants.



Granting equity

For employees, executives, advisors, or consultants.



Raising funding

Before or after financing activity changes the value story.



Preparing for review

Audit, diligence, acquisition, counsel, or board review.

Material changes can trigger a refresh.

Major growth, missed forecasts, new contracts, layoffs, market shifts, recapitalizations, or a recent priced round can all create a need to revisit valuation timing.



What is a 409A Valuation?

A 409A valuation is an independent appraisal of the fair market value of a private company's common stock.

Private companies use 409A valuations to set a defensible strike price for stock options and other equity compensation. The goal is to document that options are granted at or above fair market value when issued.

When performed by a qualified independent provider using reasonable methods, a 409A valuation can help establish a safe harbor position. That means the valuation is presumed reasonable unless the IRS can show it is grossly unreasonable.

PLAIN-ENGLISH VIEW

**It answers one central question:
What is our common stock worth today for equity grant purposes?**

That value is not automatically the same as your preferred share price, fundraising valuation, or internal estimate.

1

Company inputs

Financials, projections, cap table, business model, market context, and recent events.

2

Valuation analysis

Methods may include income, market, asset, and option pricing approaches depending on the facts.

3

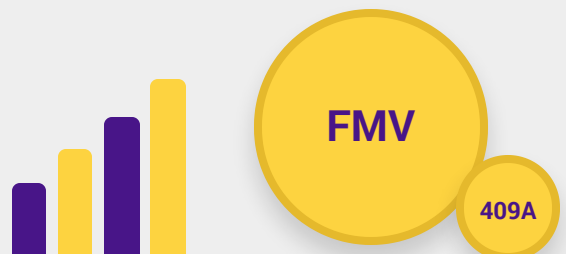
Defensible output

A report that supports the fair market value used for stock option grants.

What the report helps connect

409A work translates company facts into a supportable common stock value for equity grant decisions.

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When companies usually need a 409A Valuation

Most private companies need a 409A valuation before granting stock options and again after meaningful changes to the business.

Issuing stock options

Before new grants, especially for employees, executives, advisors, or consultants.

Raising capital

After a priced round, new preferred financing, or a financing event that changes company value.

Material business changes

Major revenue growth, missed forecasts, new contracts, layoffs, product shifts, or market changes.

M&A activity

Acquisition talks, LOIs, asset sales, recapitalizations, or ownership changes.

Annual refresh

409A reports are commonly refreshed at least every 12 months if no material event occurs.

Investor or audit pressure

When investors, auditors, counsel, or boards need support for equity decisions.

RULE OF THUMB

If the company's value story changed, your 409A may need to change too.

Examples include a new financing, a major customer win or loss, a material change in financial performance, a strategic transaction, or a meaningful shift in the market environment.



Financing

Priced rounds can change value assumptions.



Growth

New traction may make old reports stale.



Change

Missed forecasts or pivots can matter too.



Refresh

Annual updates are only the baseline.

Common 409A mistakes

Most 409A problems are not caused by bad intent. They usually come from timing pressure, incomplete information, or treating valuation as a commodity.

MISTAKE	WHY IT CREATES RISK	BETTER MOVE
Waiting until grants are urgent	Teams may delay hiring packages, board approvals, or option administration.	Start the process before grant windows or board meetings.
Choosing only on price	Low-cost reports may not fit complex capitalization, audit needs, or investor scrutiny.	Compare methodology, support access, and report defensibility.
Using an outdated valuation	Material events can make prior assumptions stale before the 12-month mark.	Refresh after financing rounds or significant company changes.
Poor documentation	Missing inputs and weak rationale make diligence harder later.	Keep a clean package of financials, projections, cap table, and board records.
Assuming all providers are the same	Support, modeling depth, and audit responsiveness can vary meaningfully.	Match the provider to the complexity of your capital structure and stakeholders.

The cheapest valuation can become expensive if it slows diligence, frustrates auditors, or leaves leadership without clear answers.



Timing

Do not wait until grants are urgent.



Price

Lowest cost is not always lowest risk.



Docs

Keep inputs and approvals organized.



Refresh

Material events can reset the clock.

What happens if you skip it or get it wrong?

A weak or missing 409A can create problems across tax, people, audit, fundraising, and transaction workflows.

Tax and compliance exposure

Equity awards issued below fair market value can create adverse tax consequences and penalties for recipients. A properly supported 409A helps establish a defensible strike price.

Employee trust issues

Equity compensation is emotional. Confusion around strike prices can make offers harder to explain.

Investor scrutiny

Investors and counsel may ask whether option grants, board approvals, and valuation timing are supportable.

Audit complications

Auditors may need clear methodology, assumptions, inputs, and responsive support from the valuation provider.

Fundraising delays

Cleanup work can slow diligence when leadership should be focused on closing the round, approving grants, or responding to investor requests.

Preventable rework

The earlier you align valuation, legal, finance, and equity administration, the fewer surprises later.

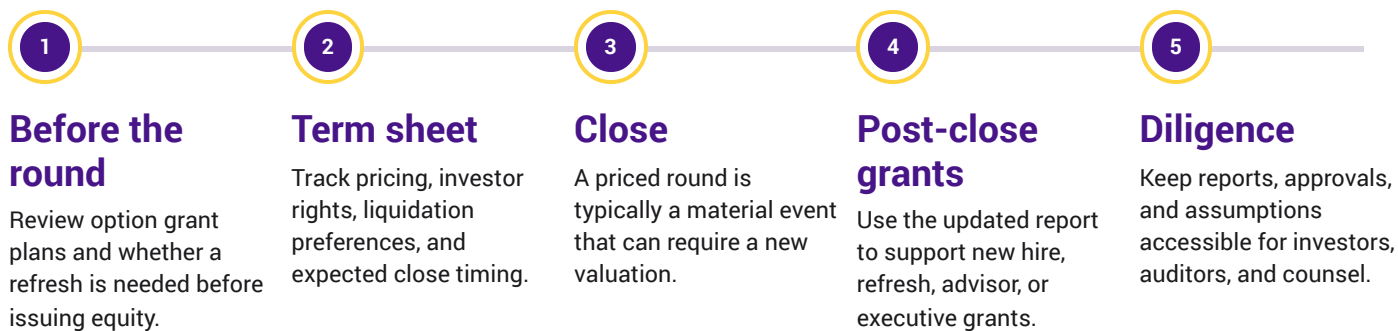
Keep the goal practical

Compliance should feel controlled, not scary.

The point is to create a clear record around the facts available at the time, so leadership can keep moving with fewer surprises during hiring, grants, board approvals, audit, or diligence.

How financing rounds impact your 409A Valuation

Fundraising can change the company's valuation story, capital structure, investor rights, and expectations for documentation. A current, defensible 409A helps reduce friction when investors, auditors, or counsel review equity timing.



Why preferred pricing is not the whole story

Investors often buy preferred shares with rights that common shareholders do not have. A 409A considers the company's full capital structure and the economics allocated to common stock.

FINANCE LEADER CHECKLIST

- Do upcoming grants depend on the current valuation?
- Has a material event occurred since the last report?
- Are new investor rights reflected in the cap table?
- Will investors, auditors, or counsel review timing and documentation?



Valuation timing follows the event timeline.

Coordinate the 409A process with grants, board approvals, and diligence to reduce last-minute cleanup.



Cheap vs. premium 409A providers

A simple company may only need a straightforward report. A company with complex financing terms, investor scrutiny, or audit needs should look more closely at the support behind the number.

WHAT TO COMPARE	LOW-TOUCH OR TEMPLATIZED EXPERIENCE	HIGHER-TOUCH VALUATION PARTNER
Capital structure	May simplify complex rights, preferences, warrants, convertibles, or bridge instruments.	Models the economics of the capitalization stack with more judgment and support.
Methodology depth	May rely heavily on standardized assumptions and limited scenario work.	Can incorporate DCF, market comps, transaction context, WACC assumptions, and scenario analysis when appropriate.
Audit readiness	Answers may flow through ticket queues or feel difficult to unpack.	Provides clearer rationale and accessible expert support for audit questions.
Founder experience	Fast and inexpensive, but less consultative when facts are nuanced.	Explains tradeoffs, timing, inputs, and stakeholder implications.
Long-term reliability	Works best when the company is simple and the report will face limited scrutiny.	Built for companies preparing for fundraising, grants, audit, or strategic transactions.

How to think about price

The right question is not only "How much does the report cost?" It is "Will this report hold up when someone important asks hard questions?"



Methods
Ask what valuation approaches are used.



Support
Know who answers audit questions.



Complexity
Match modeling depth to your structure.



Experience
Prioritize clarity and responsiveness.



PREPARATION CHECKLIST

What to gather before the process starts

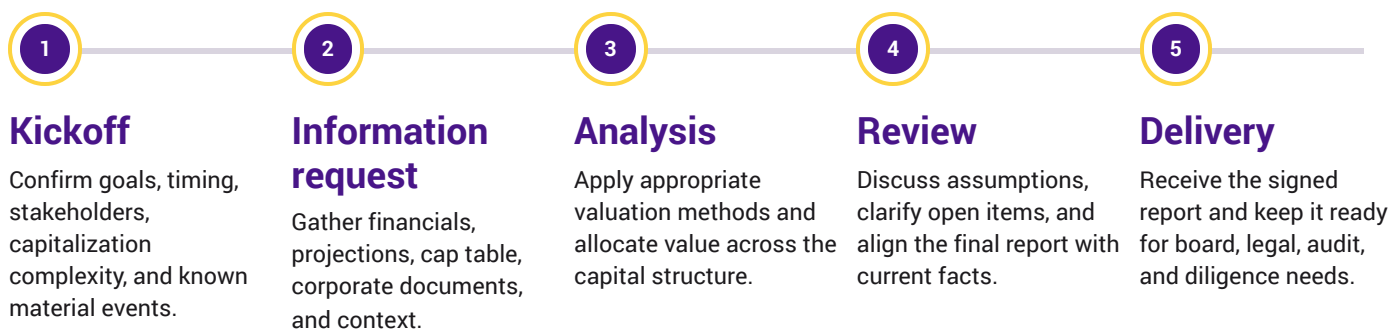
A clean prep package helps your valuation provider move faster and ask better questions.

- Current cap table**
Include common, preferred, options, warrants, convertibles, SAFEs, and bridge instruments.
- Historical financials**
Share income statement, balance sheet, cash flow, and key operating metrics.
- Recent financing history**
Document round terms, valuation, close date, and any pending financing activity.
- Board and grant timing**
Identify upcoming board meetings, planned grants, and offer-letter deadlines.
- Articles, bylaws, and financing docs**
Provide rights, preferences, conversion terms, and investor agreements.
- Forward-looking projections**
Include revenue, expenses, cash runway, hiring plans, and major assumptions.
- Business overview**
Summarize product, market, customer base, revenue model, growth strategy, and risks.
- Material events**
Flag major customer wins or losses, M&A activity, layoffs, pivots, or market changes.

Better inputs create better questions. Better questions create a more defensible valuation story.

What the 409A Valuation process typically looks like

The process should feel structured, transparent, and manageable for the finance team, so the company can move faster when hiring, issuing grants, preparing board approvals, or responding to diligence requests.



Who is usually involved?

- Founder or CEO
- CFO, controller, or finance lead
- Corporate counsel
- Board or compensation committee
- Auditors, when applicable

How long does it take?

Timing varies based on company complexity and how quickly complete information is provided. Current valuation work can help reduce last-minute delays during financing, hiring, and equity grant cycles.

409A questions leaders ask most often

Is a 409A the same as our fundraising valuation?

No. A financing round may involve preferred shares with rights that common stock does not have. A 409A focuses on common stock fair market value.

Do we need a new 409A after every round?

A priced financing is commonly treated as a material event. Companies often refresh after a round closes before issuing new grants.

Can we grant options before the report is final?

Ask counsel. Many companies prefer to complete the valuation before approving grants to avoid timing and documentation issues.

What if our company is still pre-revenue?

You may still need a 409A if issuing options. The analysis will rely on the facts available, including financing, milestones, market data, and projections.

How often should we update it?

Common practice is at least annually, and sooner after a material event such as a financing, acquisition activity, or significant business change.

What makes a report audit-friendly?

Clear methodology, transparent assumptions, supportable inputs, capitalization analysis, and access to experts who can explain the work.

Bottom line

A strong 409A valuation process gives leadership confidence to grant equity, communicate with stakeholders, and move through diligence with fewer surprises.

NEXT STEP

Make your next equity decision with confidence.

indinero provides expert 409A valuation services designed to support compliance, equity planning, fundraising readiness, and stakeholder confidence.

Talk with a 409A expert

Get practical guidance on timing, required inputs, report scope, and whether your company needs a standard or more complex valuation approach.

Talk to an expert



Strategic

We help connect valuation decisions to fundraising, equity planning, and finance operations.

High-touch

Work with specialists who can explain methodology and respond when stakeholders ask questions.

Defensible

Receive clear reports built for compliance awareness, documentation, and investor or audit review.

409A valuations

Fractional CFO

Accounting

Tax

Payroll

Financial operations

This guide is for educational purposes only and does not constitute tax, legal, investment, or valuation advice. Consult qualified advisors regarding your company's specific facts and circumstances. 409A safe harbor treatment depends on the facts, process, and applicable requirements.