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Chapter 1 : The Book Value Approach to Business Valuation - BusinessTown

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Aug 22, InvestingByTheBooks. The first is that the value of something is what someone is prepared to pay for that something. The other model is based on that a company has a fundamental intrinsic value that is On a basic level there are two competing mental models of stock values in the financial sector. The other model is based on that a company has a fundamental intrinsic value that is separate from the market pricing of its equity. This book is about both how to estimate this intrinsic value and also on how to create it. Out of all the books reviewed on this website Valuation is probably the one that sits on most shelves behind workstations of employees in the financial sector. The reason is that most of us have had it as a text book at university, but compared to all the other text books this one is also a handbook in corporate valuation that is used by practitioners. For those who use the concept of intrinsic value, cash flow valuation has become the standard methodology and Valuation is the standard source material. The book is mandatory reading for persons within corporate finance, venture capital and private equity who are slightly less close to the public stock market. It is less widely used by portfolio managers or sell side analysts who often look to shorter time horizons. There are obviously competing text books on valuation such as Damodaran on Valuation. Two of the he authors of Valuation are employed by McKinsey and the main focus is on one specific method of valuation. This is a fifth edition. Damodaran on Valuation is written by an academic, Valuation is written by consultants for daily use by CEOs and finance professionals. The intrinsic value in a DCF is based on cash flows, the growth in cash flows and the risk that these future cash flows will not materialize. The cash flow in question differs; it might be dividends for stocks, coupons for bonds or after tax cash flows for businesses. The problem is that as the future is unknown the intrinsic value is unobservable. Any calculation of it is an act of faith. One strength of the DCF is that it is transparent. It requires a large number of assumptions of future performance. Each such input has a range of reasonable values and the choice of inputs can be examined and criticized. Paradoxically the construction also opens up for psychological biases. If each and one of the many inputs are tweaked in a slightly more optimistic or pessimistic direction the multiplier effect of all those small but one by one reasonable changes will bring huge swings in the calculated intrinsic value. The fact that a DCF could be made to show almost anything has created a mini revival for excess return valuations such as the Residual Income Model. These are close cousins to the DCF methodology, but use a the capital base of the company and b its ability to earn a return on capital that is higher than the cost of capital as the two main inputs. Using the capital as the base for the valuation makes it potentially less dependent on estimates of an unknowable future. This book is unbeatable for the practitioner who needs the tools for valuing a company or must understand how other do just that. More philosophical issues are to be sought elsewhere. This has a lot of information but is admittedly a little beyond my ability at the time. I think the information is solid and it will be something I keep on hand as a reference text especially as I get a little more established. I feel like it leaves too much up to speculation and esp I studied this book with the hopes of gaining some more in depth methodology for valuation. I feel like it leaves too much up to speculation and especially with how complicated it gets to calculate I expect I would never feel the sense of precision I would like after working through it. If you understand the basics of finance level-ready and above and you want one book to read and then use as a reference to learn how to understand and conduct business valuations, this is one of the books to consider. But it covers valuation principles well and delves into the common complicating factors, the most commonly relevant theoretical challenges, etc. It breaks down the fundamentals of how value is created and various approaches for measuring it. It goes beyond cookie-cutter descriptions and is a must read for anyone interested in understanding what drives the value of companies, whether for personal or professional purposes. This book is not meant to shape your philosophy to valuation but contains core principles that must be learned before you are allowed to even have an opinion.

Chapter 2 : Investment Banking Book PDF - Valuation, Financial Modeling, Skills

The book has been coauthored by Tim Koller, Marc Goedhart and David Wessels and is one of the best guides for corporate valuation. The book establishes some proven principles of value creation, completely denying the myths that prevail through the world.

I see book value as generally a very secondary approach to valuation. For buying a very tiny business, you can probably just ignore it unless there are significant assets involved. Book value is a good way to test valuations of companies that have significant assets, such as inventory, receivables, equipment, or property. The book value approach to business valuation is not adequate for most small businesses. It is a good way to value companies which have significant assets. Book value might also be a good approach if a company has particularly low profits. So, in this case, the selling price of the company might be more based on the book value than the profitability. For example, maybe the selling price would be a 20 percent discount to book value, because the profits are so low. Fast and Simple Business Valuation Book Value Is Total Assets Minus Total Liabilities Book value, a multiple of book value, or a premium to book value is also a method used to value manufacturing or distribution companies. Book value is total assets minus total liabilities and is commonly known as net worth. In a book I published written by Russell Robb, Buying Your Own Business , he identified several situations where the use of book value as the primary method of valuation is prevalent: When the company is losing money on an operating basis. In such cases, there are no earnings on which to apply the multiples previously discussed. Therefore, the reconstructed or fair market value of total assets less total liabilities is used for the valuation. However, there are other ways to value unprofitable businesses, which I will discuss in a separate presentation. These relationships are tenuous because they are usually noncontractual and nontransferable. Such companies usually sell at their book value plus a modest premium. If the primary method of valuation is using a multiple of earnings, it is helpful to take the industry average of the book value multiples of other companies recently sold. Book value serves as a reference point. Some buyers will raise or lower their EBITDA multiple for valuation purposes based on the relationship to the proposed selling price; some buyers will use only multiples of 4. If book value is higher than half the selling price, some buyers will use a five to six multiple. By pegging the purchase price to a multiple of book value, the buyer is protected against a decline in the value of the business between the signing of the purchase and sale agreement and the completion date of due diligence. The Book Value Approach May Require Some Adjustments When the book value technique is used, there is an important variation that a seller will probably want the buyer to consider: Also, the inventory might be adjusted to reflect current values and to pick up items that have been written off in order to minimize taxes. The buyer must also determine whether all the assets are actually earning money for the business. If they are not, he or she should request an adjustment in the purchase price to reflect this condition. Takeaways You Can Use Book value should be seen as a secondary approach to valuation. Book value is more appropriate when there are expensive assets and low profits.

Chapter 3 : Wiley: Wiley Valuation Books, Corporate Finance

The book is a textbook classic on valuation, which helps a lot in my coursework. The author uses very clear language and prose so that it's not boring or confusing. Much recommended if you're into finance.

Chapter 4 : Equity Asset Valuation Workbook 3rd Edition PDF

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Chapter 7 : Property Assessment Valuation - Third Ed.

Corporate Valuation: Theory, Evidence & Practice is intended as a college textbook for both graduate and undergraduate courses in valuation. Given the detailed approach, it is also a useful book for practicing professionals.