

## 1: An Overview of Value Creation through Services in ITIL | Invensis Learning

*A DCF valuation attempts to get at the value of a company in the most direct manner possible: a company's worth is equal to the current value of the cash it will generate in the future, and DCF is a framework for attempting to calculate exactly that. In this respect, DCF is the most theoretically correct of all of the valuation methods.*

November 14, by Sherise Alexis Today we will give you a quick overview of business valuation methods. This post is geared toward those with at least a little basic business or financial background, and will show a few common business valuation methods. Of course, the utility of business valuation methods is not limited to only large corporations and investment bankers. Startups and small businesses would benefit from knowing a bit about how business valuation works and perhaps could even consider a course in small business valuation. Alternatively, those in need of a slightly more advanced and thorough explanation and step-by-step walkthroughs will want to take a look at this CFA-Approved training in financial models and valuation for beginners that need more corporate finance or investor-type knowledge. There are a lot of factors that go into determining the valuation of a company. So, how have people decided that a company based around a bunch of character posts is worth billions? Through business valuation methods, of course! Business valuation methods are the various ways to estimate the somewhat unbiased value of a business in terms of present value and the potential that a company has rather than just the current revenues. These are calculated using objective measures that look at all aspects of a business such as analysis of capital structure, earnings prospects, market value of assets, and sometimes an analysis of company management. This valuation is important to financial people and investors as it helps determine the economic value of a business and drive investment decisions. Finance people and potential investors will generally look at the financial statements to evaluate a company including: To get a better overview than what I can give you here, I recommend this minute course on the basics of accounting. Market Valuation Method Market Valuation is the simplest way to value a publicly traded firm firms that issue shares. Since they are publically traded, it is fairly easy to locate information about them since they are required to publish financial reports annually. Once you have that value then you adjust for the amount that it would sell for if the company were being sold. The price that buyers are actually willing to pay is not necessarily reflected in the share price. As a result, a company would sell for either a discount a value under market value or a premium which is a value higher than market value. A classic tool of MBAs, this method has two general approaches: It uses the target equity ratio and the target debt ratio. The risk-free rate comes from the Treasury bond rate at the time where the projections are being considered Adjusted Present Value APV The adjusted present value uses the Net Present Value NPV , which calculates on the basis of being financed only by equity. After the NPV is determined, APV then factors in the benefits of financing by taking into account the present value PV of any financing benefits like tax shields such as those provided by deductible interests. The NPV formula is:

## 2: Discounted Cash Flow (DCF) Analysis

*CME Group has seen impressive growth in recent years. The company's continued efforts in expanding its global footprint and diverse product line bodes well for its long-term growth outlook.*

We will cover three key topics: The 30, Foot View Investment bankers use four primary valuation techniques when advising corporate clients. These techniques apply almost universally, regardless of the company, industry or circumstance. They will be introduced in the next chapter, Valuation Techniques Overview. But how are the valuation techniques actually constructed? When should which technique be used? What are the basic building blocks required for them? We will find more detailed answers to some of these questions in the next chapter. In this chapter, therefore, you will find a detailed overview of the core building blocks of the valuation techniques used by investment bankers. Enterprise Value frequently referred to as EV is not to be confused with Equity Value, which is another name for Market Value of a company is the core building block used in financial modeling. The reason is this: By contrast, Market Value is a residual: Money that has been lent to the company by another person or institution. This money, assuming it is not required by the operations of the business, could be used to pay off existing claimants, or stakeholders. Thus the higher the Cash balance a company has, the less its operations must be worth. This concept is counterintuitive: That value can be ascribed to only two sources: The higher 2 is, the lower 1 is, and vice versa. This is one way of looking at it. In practice, Cash is often subtracted from Debt to get an important statistic called Net Debt. Net Debt is the value of the Debt once balance sheet Cash has, hypothetically, been used to pay some of it off. Diagrams below will explain the different ways of conceptualizing this. This is a tricky one. This is a special accounting designation for a specific scenario: In fact it does not, so this Liability account is created to represent the value of the shares owned in the subsidiary by other individuals or companies. Despite the name, Preferred Equity primarily operates as Debt, not Equity. It receives preferential treatment. Visually, we can look at this two different ways: This is the one to be most familiar with. Core assets are used to generate profit for the business; non-core assets are things owned by the business but not central to its money-generating operations. In this sense, Cash on the Balance Sheet usually at least for the most part is non-core. Other non-core assets may be as well, especially if they can be sold off for cash without harming the operations of the business. Therefore Cash is generally a non-core asset. These Cash-like assets can also be sold off, and should be stripped out of the Net Debt Calculation. Debt with less than one year maturity. Debt with more than one year maturity. Operating Leases and Pension Shortfalls. This is because Short-Term Debt is coming due soon within less than a year, and thus must be paid off or refinanced in the near future. This may be of interest if the company is having financial trouble the due date on the near-term Debt may trigger difficulties for the Company in terms of repayment. This type of difficulty, which can end up being a crisis under the right circumstances, is called a liquidity problem or crisis. Understanding Enterprise Value vs. So which do we use, and when? Techniques related to the value available to shareholders should focus on Market Value of Equity. Similarly, Techniques related to the value available to all stakeholders should focus on Enterprise Value. No compensation has yet been taken out for non-Equity stakeholders. In other words, both the numerator and denominator must both relate to either all stakeholders or only shareholders. This concept is demonstrated in the following graphic: An Introduction to Valuation Techniques You will read about the four main valuation techniques for Investment Bankers in great detail in the upcoming chapters. Here is a brief overview of them all, with this concept of Enterprise Value vs. Market Value in mind: Comps a market-based valuation analysis relying on current market prices for publicly traded companies. Comps valuation can revolve around either the Enterprise Value of the company or the Market Value of the company, depending on the multiples being used. The Three Main Steps of a Comps Valuation Identify publicly-traded companies with characteristics similar to those of the company being valued. Assign these multiples to company financial results to determine valuation ranges. Publicly traded comparable companies are trading, on average, at 10x current year Net Income. How much is the Equity of this company worth? Note that a proper range of the valuation can be obtained by looking at the highest and lowest Net Income multiples in the comparable companies set. DCF valuation

builds off of Free Cash Flow forecasts that are typically done for the upcoming 5 to 10 years. Free Cash Flows are discounted back to Year 0 today to solve for Enterprise Value, as displayed in this graphic: Precedent Transaction valuation can revolve around either the Enterprise Value of the company or the Market Value of the company, depending on the multiples being used. Assign industry multiples to company figures to determine valuation ranges. Note that a proper range of the valuation can be obtained by looking at the highest and lowest Net Income multiples in the precedent transactions set. Leveraged Buyout Analysis is discussed later in this training module; it is also discussed in great depth in the Private Equity Training Module. LBO acquirers are typically Private Equity sponsors. This is a transaction-based valuation technique. Private Equity buyers typically look to sell the business within 5 years after purchase. LBO valuation revolves around the Enterprise Value of the company, because the entire business will be acquired and all or essentially all of the pre-existing Debt will be paid off. Adjust the Balance Sheet for the new Debt and Equity, and other transaction-related adjustments. Project out the three financial statements usually 5 years and determine how much Debt is paid down each year.

## 3: Giddy: Methods of Corporate Valuation

*In-depth Overview of the Valuation of Cryptocurrencies: Case Study "The Safex Token. The Cryptotech Bubble. Perhaps the largest challenge for the professional finance community related to the.*

Some of the most common are: Market value "The price at which an asset would trade in a competitive Walrasian auction setting. Market value is usually interchangeable with open market value or fair value. Value-in-use is the value to one particular user, and may be above or below the market value of a property. Investment value "is the value to one particular investor, and may or may not be higher than the market value of a property. Differences between the investment value of an asset and its market value provide the motivation for buyers or sellers to enter the marketplace. Investment value "the value of an asset to the owner or a prospective owner for individual investment or operational objectives. The mass appraisal process applies the data collected through various sources to real property to determine taxable value [7] Insurable value "is the value of real property covered by an insurance policy. Generally, it does not include the site value. Liquidation value "may be analyzed as either a forced liquidation or an orderly liquidation and is a commonly sought standard of value in bankruptcy proceedings. It assumes a seller who is compelled to sell after an exposure period which is less than the market-normal time-frame. Price vs value[ edit ] There can be differences between what the property is really worth market value and what it cost to buy it price. Sometimes, special considerations may have been present, such as a special relationship between the buyer and the seller where one party had control or significant influence over the other party. In other cases, the transaction may have been just one of several properties sold or traded between two parties. In such cases, the price paid for any particular piece is not its market "value" with the idea usually being, though, that all the pieces and prices add up to the market value of all the parts but rather its market "price". At other times, a buyer may willingly pay a premium price, above the generally accepted market value, if his subjective valuation of the property its investment value for him was higher than the market value. One specific example of this is an owner of a neighboring property who, by combining his own property with the subject property, could obtain economies-of-scale. Similar situations sometimes happen in corporate finance. For example, this can occur when a merger or acquisition happens at a price which is higher than the value represented by the price of the underlying stock. The usual explanation for these types of mergers and acquisitions is that "the sum is greater than its parts", since full ownership of a company provides full control of it. This is something that purchasers will sometimes pay a high price for. This situation can happen in real estate purchases too. This is unfortunate for one of the two parties. It is the obligation of a real property appraiser to estimate the true market value of a property and not its market price. Market value definitions in the United States[ edit ] In the United States, appraisals are for a certain type of value e. The most commonly used definition of value is Market Value. A type of value, stated as an opinion, that presumes the transfer of a property i. Thus, the definition of value used in an appraisal or Current Market Analysis CMA analysis and report is a set of assumptions about the market in which the subject property may transact. It affects the choice of comparable data for use in the analysis. It can also affect the method used to value the property. These are usually referred to as the "three approaches to value" which are generally independent of each other: The cost approach the buyer will not pay more for a property than it would cost to build an equivalent. The income approach similar to the methods used for financial valuation, securities analysis or bond pricing. However, the recent trend of the business tends to be toward the use of a scientific methodology of appraisal which relies on the foundation of quantitative-data, [10] risk, and geographical based approaches. One or two of these approaches will usually be most applicable, with the other approach or approaches usually being less useful. The appraiser has to think about the "scope of work", the type of value, the property itself, and the quality and quantity of data available for each approach. No overarching statement can be made that one approach or another is always better than one of the other approaches. The appraiser has to think about the way that most buyers usually buy a given type of property. What appraisal method do most buyers use for the type of property being valued? For instance, appraisals of properties that are typically purchased by investors e. Buyers interested in purchasing single family residential

property would rather compare price, in this case, the Sales Comparison Approach market analysis approach would be more applicable. The third and final approach to value is the Cost Approach to value. The Cost Approach to value is most useful in determining insurable value, and cost to construct a new structure or building. For example, single apartment buildings of a given quality tend to sell at a particular price per apartment. In many of those cases, the sales comparison approach may be more applicable. On the other hand, a multiple-building apartment complex would usually be valued by the income approach, as that would follow how most buyers would value it. As another example, single-family houses are most commonly valued with the greatest weighting to the sales comparison approach. However, if a single-family dwelling is in a neighborhood where all or most of the dwellings are rental units, then some variant of the income approach may be more useful. So the choice of valuation method can change depending upon the circumstances, even if the property being valued does not change much.

The sales comparison approach[ edit ] The sales comparison approach is based primarily on the principle of substitution. This approach assumes a prudent or rational individual will pay no more for a property than it would cost to purchase a comparable substitute property. The approach recognizes that a typical buyer will compare asking prices and seek to purchase the property that meets his or her wants and needs for the lowest cost. In developing the sales comparison approach, the appraiser attempts to interpret and measure the actions of parties involved in the marketplace, including buyers, sellers, and investors. Data collection methods and valuation process Data is collected on recent sales of properties similar to the subject being valued, called "comparables". Important details of each comparable sale are described in the appraisal report. Since comparable sales are not identical to the subject property, adjustments may be made for date of sale, location, style, amenities, square footage, site size, etc. The main idea is to simulate the price that would have been paid if each comparable sale were identical to the subject property. If the comparable is superior to the subject in a factor or aspect, then a downward adjustment is needed for that factor. From the analysis of the group of adjusted sales prices of the comparable sales, the appraiser selects an indicator of value that is representative of the subject property. It is possible for various appraisers to choose a different indicator of value which ultimately will provide different property value.

Steps in the sales comparison approach Research the market to obtain information pertaining to sales, and pending sales that are similar to the subject property Investigate the market data to determine whether they are factually correct and accurate Determine relevant units of comparison e. The theory is that the value of a property can be estimated by summing the land value and the depreciated value of any improvements. Reproduction refers to reproducing an exact replica; replacement cost refers to the cost of building a house or other improvement which has the same utility , but using modern design, workmanship and materials. In practice, appraisers almost always use replacement cost and then deduct a factor for any functional dis-utility associated with the age of the subject property. An exception to the general rule of using the replacement cost is for some insurance value appraisals. In those cases, reproduction of the exact asset after a destructive event like a fire is the goal. For example, the replacement cost to construct a building can be determined by adding the labor, material, and other costs. On the other hand, land values and depreciation must be derived from an analysis of comparable sales data. The cost approach is considered most reliable when used on newer structures, but the method tends to become less reliable for older properties. The cost approach is often the only reliable approach when dealing with special use properties e. The income approach[ edit ] Main article: Income approach The income capitalization Approach often referred to simply as the "income approach" is used to value commercial and investment properties. Because it is intended to directly reflect or model the expectations and behaviors of typical market participants, this approach is generally considered the most applicable valuation technique for income-producing properties, where sufficient market data exists. In a commercial income-producing property this approach capitalizes an income stream into a value indication. Usually, an NOI has been stabilized so as not to place too much weight on a very recent event. An example of this is an unleased building which, technically, has no NOI. A stabilized NOI would assume that the building is leased at a normal rate, and to usual occupancy levels. Alternatively, multiple years of net operating income can be valued by a discounted cash flow analysis DCF model. The DCF model is widely used to value larger and more expensive income-producing properties, such as large office towers or major shopping centres. This

technique applies market-supported yields or discount rates to projected future cash flows such as annual income figures and typically a lump reversion from the eventual sale of the property to arrive at a present value indication. When homes are purchased for personal use the buyer can validate the asking price by using the income approach in the opposite direction. An expected rate of return can be estimated by comparing net expected costs to the asking price. Used for most types of property where there is good evidence of previous sales. This is analogous to the sales comparison approach outlined above. Used for most commercial and residential property that is producing future cash flows through the letting of the property. If the current estimated rental value ERV and the passing income are known, as well as the market-determined equivalent yield, then the property value can be determined by means of a simple model. Note that this method is really a comparison method, since the main variables are determined in the market. Used for properties ripe for development or redevelopment or for bare land only. Used for trading properties where evidence of rates is slight, such as hotels, restaurants and old-age homes. A three-year average of operating income derived from the profit and loss or income statement is capitalized using an appropriate yield. Note that since the variables used are inherent to the property and are not market-derived, therefore unless appropriate adjustments are made, the resulting value will be value-in-use or investment value, not market value. Used for land and buildings of special character for which profit figures cannot be obtained or land and buildings for which there is no market because of their public service or heritage characteristics. Both the residual method and the cost method would be grouped in the United States under the cost approach see above. Market value see PS 3. In formulating the scope of work for a credible appraisal, the concept of a limited versus complete appraisal and the use of the Departure Rule caused confusion to clients, appraisers, and appraisal reviewers. In this, appraisers were to identify six key parts of the appraisal problem at the beginning of each assignment: Client and other intended users Intended use of the appraisal and appraisal report Definition of value e. Currently, minimum standards for scope of work are: By defining the scope of work, an appraiser can properly develop a value for a given property for the intended user, and for the intended use of the appraisal.

## 4: Outline of finance - Wikipedia

*The dividend discount model is an absolute valuation model that can be used to value a firm based on the estimated value of all future dividends, while also accounting for the time value of money.*

Knowing what an asset is worth and what determines that value is a pre-requisite for intelligent decision making -- in choosing investments for a portfolio, in deciding on the appropriate price to pay or receive in a takeover and in making investment, financing and dividend choices when running a business. The premise of valuation is that we can make reasonable estimates of value for most assets, and that the same fundamental principles determine the values of all types of assets, real as well as financial. Some assets are easier to value than others, the details of valuation vary from asset to asset, and the uncertainty associated with value estimates is different for different assets, but the core principles remain the same. This introduction lays out some general insights about the valuation process and outlines the role that valuation plays in portfolio management, acquisition analysis and in corporate finance. It also examines the three basic approaches that can be used to value an asset.

A philosophical basis for valuation A postulate of sound investing is that an investor does not pay more for an asset than it is worth. This statement may seem logical and obvious, but it is forgotten and rediscovered at some time in every generation and in every market. There are those who are disingenuous enough to argue that value is in the eyes of the beholder, and that any price can be justified if there are other investors willing to pay that price. That is patently absurd. Perceptions may be all that matter when the asset is a painting or a sculpture, but we do not and should not buy most assets for aesthetic or emotional reasons; we buy financial assets for the cashflows we expect to receive from them. Consequently, perceptions of value have to be backed up by reality, which implies that the price we pay for any asset should reflect the cashflows it is expected to generate. Valuation models attempt to relate value to the level of, uncertainty about and expected growth in these cashflows. There are many aspects of valuation where we can agree to disagree, including estimates of true value and how long it will take for prices to adjust to that true value. But there is one point on which there can be no disagreement. Asset prices cannot be justified by merely using the argument that there will be other investors around who will pay a higher price in the future. That is the equivalent of playing a very expensive game of musical chairs, where every investor has to answer the question, "Where will I be when the music stops? The problem with investing with the expectation that there will be a bigger fool around to sell an asset to, when the time comes, is that you might end up being the biggest fool of all.

Inside the Valuation Process There are two extreme views of the valuation process. At one end are those who believe that valuation, done right, is a hard science, where there is little room for analyst views or human error. At the other are those who feel that valuation is more of an art, where savvy analysts can manipulate the numbers to generate whatever result they want. The truth does lie somewhere in the middle and we will use this section to consider three components of the valuation process that do not get the attention they deserve -- the bias that analysts bring to the process, the uncertainty that they have to grapple with and the complexity that modern technology and easy access to information have introduced into valuation.

Value first, Valuation to follow: Bias in Valuation We almost never start valuing a company with a blank slate. All too often, our views on a company are formed before we start inputting the numbers into the models that we use and not surprisingly, our conclusions tend to reflect our biases. We will begin by considering the sources of bias in valuation and then move on to evaluate how bias manifests itself in most valuations. We will close with a discussion of how best to minimize or at least deal with bias in valuations.

Sources of Bias The bias in valuation starts with the companies we choose to value. These choices are almost never random, and how we make them can start laying the foundation for bias. It may be that we have read something in the press good or bad about the company or heard from an expert that it was under or over valued. Thus, we already begin with a perception about the company that we are about to value. We add to the bias when we collect the information we need to value the firm. The annual report and other financial statements include not only the accounting numbers but also management discussions of performance, often putting the best possible spin on the numbers. With many larger companies, it is easy to access what other

analysts following the stock think about these companies. Valuations that stray too far from this number make analysts uncomfortable, since they may reflect large valuation errors rather than market mistakes. In many valuations, there are institutional factors that add to this already substantial bias. For instance, it is an acknowledged fact that equity research analysts are more likely to issue buy rather than sell recommendations, i. The reward and punishment structure associated with finding companies to be under and over valued is also a contributor to bias. An analyst whose compensation is dependent upon whether she finds a firm is under or over valued will be biased in her conclusions. This should explain why acquisition valuations are so often biased upwards. One is to find that the deal is seriously over priced and recommend rejection, in which case the analyst receives the eternal gratitude of the stockholders of the acquiring firm but little else. The other is to find that the deal makes sense no matter what the price and to reap the ample financial windfall from getting the deal done. Manifestations of Bias There are three ways in which our views on a company and the biases we have can manifest themselves in value. The first is in the inputs that we use in the valuation. When we value companies, we constantly come to forks in the road where we have to make assumptions to move on. These assumptions can be optimistic or pessimistic. For a company with high operating margins now, we can either assume that competition will drive the margins down to industry averages very quickly pessimistic or that the company will be able to maintain its margins for an extended period optimistic. The path we choose will reflect our prior biases. It should come as no surprise then that the end value that we arrive at is reflective of the optimistic or pessimistic choices we made along the way. The second is in what we will call post-valuation tinkering, where analysts revisit assumptions after a valuation in an attempt to get a value closer to what they had expected to obtain starting off. The third is to leave the value as is but attribute the difference between the value we estimate and the value we think is the right one to a qualitative factor such as synergy or strategic considerations. This is a common device in acquisition valuation where analysts are often called upon to justify the unjustifiable. In fact, the use of premiums and discounts, where we augment or reduce estimated value, provides a window on the bias in the process. The use of premiums “control and synergy are good examples” is commonplace in acquisition valuations, where the bias is towards pushing value upwards to justify high acquisition prices. The use of discounts “illiquidity and minority discounts, for instance” are more typical in private company valuations for tax and divorce court, where the objective is often to report as low a value as possible for a company. What to do about bias Bias cannot be regulated or legislated out of existence. Analysts are human and bring their biases to the table. However, there are ways in which we can mitigate the effects of bias on valuation: As we noted earlier, a significant portion of bias can be attributed to institutional factors. Equity research analysts in the s, for instance, in addition to dealing with all of the standard sources of bias had to grapple with the demand from their employers that they bring in investment banking business. Institutions that want honest sell-side equity research should protect their equity research analysts who issue sell recommendations on companies, not only from irate companies but also from their own sales people and portfolio managers. Any valuation process where the reward or punishment is conditioned on the outcome of the valuation will result in biased valuations. In other words, if we want acquisition valuations to be unbiased, we have to separate the deal analysis from the deal making to reduce bias. Decision makers should avoid taking strong public positions on the value of a firm before the valuation is complete. In far too many cases, the decision on whether a firm is under or over valued precedes the actual valuation, leading to seriously biased analyses. The best antidote to bias is awareness. In Bayesian statistics, analysts are required to reveal their priors biases before they present their results from an analysis. Thus, an environmentalist will have to reveal that he or she strongly believes that there is a hole in the ozone layer before presenting empirical evidence to that effect. The person reviewing the study can then factor that bias in while looking at the conclusions. Valuations would be much more useful if analysts revealed their biases up front. While we cannot eliminate bias in valuations, we can try to minimize its impact by designing valuation processes that are more protected from overt outside influences and by report our biases with our estimated values. It is only an estimate: Imprecision and Uncertainty in Valuation Starting early in life, we are taught that if we do things right, we will get the right answers. In other words, the precision of the answer is used as a measure of the quality of the process that yielded the answer. While this may be appropriate in mathematics or

physics, it is a poor measure of quality in valuation. Barring a very small subset of assets, there will always be uncertainty associated with valuations, and even the best valuations come with a substantial margin for error. In this section, we examine the sources of uncertainty and the consequences for valuation. Sources of Uncertainty

Uncertainty is part and parcel of the valuation process, both at the point in time that we value a business and in how that value evolves over time as we get new information that impacts the valuation. That information can be specific to the firm being valued, more generally about the sector in which the firm operates or even be general market information about interest rates and the economy. When valuing an asset at any point in time, we make forecasts for the future. Since none of us possess crystal balls, we have to make our best estimates, given the information that we have at the time of the valuation. Our estimates of value can be wrong for a number of reasons, and we can categorize these reasons into three groups. Even if our information sources are impeccable, we have to convert raw information into inputs and use these inputs in models. Any mistakes or mis-assessments that we make at either stage of this process will cause estimation error. The path that we envision for a firm can prove to be hopelessly wrong. The firm may do much better or much worse than we expected it to perform, and the resulting earnings and cash flows will be very different from our estimates. Even if a firm evolves exactly the way we expected it to, the macro economic environment can change in unpredictable ways. Interest rates can go up or down and the economy can do much better or worse than expected. These macro economic changes will affect value. The contribution of each type of uncertainty to the overall uncertainty associated with a valuation can vary across companies. When valuing a mature cyclical or commodity company, it may be macroeconomic uncertainty that is the biggest factor causing actual numbers to deviate from expectations. Valuing a young technology company can expose analysts to far more estimation and firm-specific uncertainty. Note that the only source of uncertainty that can be clearly laid at the feet of the analyst is estimation uncertainty. Given the constant flow of information into financial markets, a valuation done on a firm ages quickly, and has to be updated to reflect current information. Thus, technology companies that were valued highly in late , on the assumption that the high growth from the nineties would continue into the future, would have been valued much less in early , as the prospects of future growth dimmed. With the benefit of hindsight, the valuations of these companies and the analyst recommendations made in can be criticized, but they may well have been reasonable, given the information available at that time. Responses of Uncertainty Analysts who value companies confront uncertainty at every turn in a valuation and they respond to it in both healthy and unhealthy ways. Among the healthy responses are the following: Building better valuation models that use more of the information that is available at the time of the valuation is one way of attacking the uncertainty problem. It should be noted, though, that even the best-constructed models may reduce estimation uncertainty but they cannot reduce or eliminate the very real uncertainties associated with the future Valuation Ranges:

## 5: Overview | Benefits & Value | Your Membership | The Chamber

*Capital Requirements Regulation (CRR) is an EU law that aims to decrease the likelihood that banks go insolvent. Prudent valuation, incorporated under the CRR, requires diligent valuation of financial instruments to ensure that the solvency of a financial institution is not misrepresented.*

First, investment banks act as intermediaries between those entities that demand capital e. This is mainly facilitated through debt and equity offerings by companies. In providing these services, an investment bank must determine the value of a company. How does an investment bank determine what a company is worth? In this guide you will find a detailed overview of the valuation techniques used by investment bankers to facilitate these services that they provide. In this chapter we will cover two primary topic areas: How do bankers determine how much a company is worth— in other words, what valuation techniques are typically used? What are the advantages and disadvantages of each valuation technique, and when should which technique be used? Overview While there are many different possible techniques to arrive at the value of a company— a lot of which are company, industry, or situation-specific— there is a relatively small subset of generally accepted valuation techniques that come into play quite frequently, in many different scenarios. We will describe these methods in greater detail later in this training course: Comparable Company Analysis Public Comps: Valuing a company by projecting its future cash flows and then using the Net Present Value NPV method to value the firm. Different parts of the investment bank will use these core techniques for different needs in different circumstances. Equity Capital Markets ECM bankers underwrite company shares in the public equity markets in advance of an initial public offering IPO or secondary offering, and thus rely heavily on Comparables valuation. Financial sponsors and leveraged finance groups will almost always value a company based upon leveraged buyout LBO transaction assumptions, but will also look at others. Also, in many cases, all of these groups will employ some degree of DCF valuation analysis. These different divisions of an investment bank may come up with similar valuation ranges using some subset of the techniques given, but will approach this process often with entirely different goals in mind. Thus all of these techniques are used routinely by investment banks, and for a banking analyst, at least some degree of familiarity with all of these techniques must be achieved in order for that analyst to be considered proficient at his or her job. When To Use Each Valuation Technique All of the valuation techniques listed earlier should be practiced by a junior banker, but some may be more applicable than others, given the group, the client, and the exact situation. Comparable Company Analysis The Comparable Company valuation technique is generally the easiest to perform. It requires that the comparable companies have publicly traded securities, so that the value of the comparable companies can be estimated properly. We will detail the calculation process for Comparable Company analysis later in this guide. The analysis is best used when a minority small, or non-controlling stake in a company is being acquired or a new issuance of equity is being considered this also does not cause a change in control. In these cases there is no control premium, i. With no change of control occurring, Comparable Company analysis is usually the most relied-upon technique. In this respect, DCF is the most theoretically correct of all of the valuation methods because it is the most precise. However, this level of preciseness can be tricky. What DCFs gain in precision giving an exact estimate based on theory and computation , they often lose in accuracy giving a true indicator of the exact value of the company. DCFs are exceedingly difficult to get right in practice, because they involve predicting future cash flows and the value of them, as determined by the discount rate , and all such predictions require assumptions. The farther into the future we predict, the more difficult these projections become. Any number of assumptions made in a DCF valuation can swing the value of the company— sometimes quite significantly. Therefore, DCF valuations are typically most useful and reliable in a company with highly stable and predictable cash flows, such as an established Utility company. Precedent Transaction Analysis The Precedent Transaction valuation technique is also generally fairly easy to perform. If the buyer acquires a majority stake in a company or similarly, when a controlling stake in a business is divested , a Precedent Transaction analysis is almost always the theoretically correct Comparable Company analysis to perform. Why do we use Precedent Transactions analysis in this

scenario? Because when a majority stake is purchased, the buyer assumes control of the acquired entity. By having control over the business, the buyer has more flexibility and more options about how to create value for the business, with less interference from other stakeholders. Therefore, when control is transferred, a control premium is typically paid. Precedent Transactions are designed to attempt to ascertain the difference between the value of the comparable companies acquired in the past before the transaction vs. In other words, the analyst determines the difference between the market value of the company before the transaction is announced vs. This difference represents the premium paid to acquire the controlling interest in the business. Thus when a change of control is occurring, Precedent Transaction analysis should typically be one of the valuation methods used. We will detail the calculation process for Precedent Transaction analysis later in this guide. In order to maximize returns from these investments, LBO firms generally try to use as much borrowed capital debt financing as possible to fund the acquisition of the company, thereby minimizing the amount of equity capital that the sponsor itself must invest equity financing. There are three possible approaches to take in running an LBO analysis for a target company: Usually the first analysis is performed by investment bankers. Bankers will often use LBO analysis to determine whether a higher valuation from private equity investors is possible, again using the first analysis. LBO analysis can be quite complex to perform, especially as the model gets more and more detailed. For example, different assumptions about the capital structure can be made, with increasing layers of refinement, to the point where each individual component of the capital structure is being modeled over time with a host of tranche-specific assumptions and features. That said, a simple, standard LBO model with generic, high-level assumptions can be put together fairly easily. Unfortunately, LBO valuations can be highly subject to market conditions. Hence LBO investing is highly cyclical depending upon market forces.

### Valuation Technique Advantages and Disadvantages

Each valuation method naturally has its own set of advantages and disadvantages. Some are more reliable and accurate, while others are easier to perform, for example. Additionally, some valuation methods are specifically indicated in certain circumstances. Here are the main Pros and Cons of each method:

#### Comparable Company Analysis Pro:

Market efficiency ensures that trading values for comparable companies serve as a reasonably good indicator of value for the company being evaluated, provided that the comparables are chosen wisely. These comparables should reflect industry trends, business risk, market growth, etc. Values obtained tend to be most reliable as an indicator of value of the company whenever a non-controlling minority investment scenario is being considered. No two companies are perfectly alike, and as such, their valuations generally should not be identical either. Thus comparable valuation ratios are often an inexact match. Also, for some companies, finding a decent sample of comparables or any at all! Illiquid comparable stocks that are thinly traded or have a relatively small percentage of floated stock might have a price that does not reflect the fundamental value of that company.

#### DCF method

is not heavily influenced by temporary market conditions or non-economic factors. Valuation obtained is very sensitive to modeling assumptions—particularly growth rate, profit margin, and discount rate assumptions—and as a result, different DCF analyses can lead to wildly different valuations. Generally regarded as the best valuation tool for control-transferring transactions because the previous transaction has validated the valuation in other words, a precedent has been established, whereby a previous buyer has actually paid the amount specified in the precedent transaction. The valuation multiples found in prior transactions typically include control premium and synergy assumptions, which are not public knowledge and are often transaction-specific. These assumptions are not always achievable by other market participants conducting a new transaction. Precedent Transaction valuations are easily influenced by temporary market conditions, which fluctuate over time. For example, a prior transaction might have been conducted in a more favorable environment for debt or equity issuance. LBO valuation is realistic, as it does not require synergies to achieve financial buyers usually do not have synergy opportunities. Ignoring synergies could result in an underestimated valuation, particularly for a well-fitting strategic buyer. The valuation obtained is very sensitive to operating assumptions growth rate, operating working capital assumptions, profit margins, etc.

#### Company Value

In order to use the valuation techniques described above, it is important to understand a few core building blocks of valuation. These concepts will be used in much more detail in later chapters of this training course, wherein we will walk you through how to conduct these valuations in explicit

detail. It is calculated by multiplying shares outstanding by the current stock price. The accounting valuation of the equity. This generally assumes, of course, that the company will be ceasing operations. What is the difference between Book Value and Market Value? Market Value is almost always larger than Book Value for three primary reasons: Market Value includes future growth expectations while Book Value does not. Market Value includes brand value and company intangible assets. Market Value includes value accrued by the company historically through wise managerial decision making, while Book Value generally does not. How do you calculate Market Value and Enterprise Value? Why is Cash subtracted out? Cash is subtracted out of Enterprise Value because excess Cash is considered a non-operating asset. When should Enterprise Value be used? Here are a couple of simple examples of how to calculate Enterprise Value based on information available for a company: Solving for Enterprise Value, Example 1:

### 6: Concise Overview of Business Valuation

*Every investor seeks value, that is, a return on invested capital that includes a reward for taking risk in addition to a payout for the time value of money. Company executives succeed by knowing how to create value for investors, which requires knowing how to measure it.*

Thus we can say that the value of a service is determined by the customer and not the service provider. The position of the customer is unique, and they will understand what type of return they will be achieved by using the service. Whenever there is a clear relationship between the service and the business objectives the customer needs to achieve, they value the IT service. Characteristics of Value The following terms can characterize the value of a service: Value is defined by the customer Even if the service provider suggests a particular value, the customer ultimately decides whether or not the service is valuable enough for them or not. Affordable mix of features Depending on which service offering has the most effective set of features and at a reasonable price, customers make their choice. Achievement of objectives Customers perceive maximum value from those particular services which can be associated with their business objectives, and this value may not always be financial in nature. Value changes over time and circumstance As time passes, the perception by a customer regarding what is valuable to them is likely to change as their business priorities change. Perceived Value Taking into account the above-mentioned characteristics, the perceived value of an IT service provider is influenced by the following 3 core questions: What are IT services being provided to the customer? What is the customer achieving as a result of using the IT services? Creating Value Quantifying the financial value of a service would be simple if it can be directly related to business outcomes that are measured in financial terms. It is tougher to evaluate the value of a service when the business outcomes are not linked directly to a monetary value. We can see the relationship among business outcome, perceptions, preferences and the value of the services below. Perception of Value Service providers need to understand, articulate and measure the effectiveness of their services in enabling the customers to achieve desired outcomes. They also need to consider any potential differences between what the customer perceives as valuable and what the service providers believe they provide. The attribute of the services delivered The past and present experience of the customer; of similar attributes, the supplier and their competitors and peers. The self-image of the customer and position in the market. The illustration below shows how customers tend to perceive the economic value of service: The reference value need not be based on hard facts. The positive difference of the proposed service is based on the additional benefits that the customer perceives they will gain. The net difference is the overall perception of the customer of how much better the value proposition is from the proposed service compared to the reference value. The economic value is the total value that the customer perceives the proposed service will deliver, including the reference value. Subscribe to Our Newsletter Subscribe to receive awesome resources, offers, and updates straight to your inbox x Success! Thank You for Your Subscription. Subscribe Now If you like this article, please share it Leave a Comment.

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*Overview of business valuation parameters in the energy industry Edition No. 2 - 5 With the aim of providing the basic elements for the analysis of the value of companies and/.*

For example, it is commonly used to value industries that involve tremendous up-front capital expenditures and companies that have large amortization burdens. Cable TV companies like Time-Warner Cable and TeleCommunications have reported negative earnings for years due to the huge capital expense of building their cable networks, even though their cash flow has actually grown. This is because huge depreciation and amortization charges have masked their ability to generate cash. Sophisticated buyers of these properties use cash flow as one way of pricing an acquisition, thus it makes sense for investors to use it as well. It is also commonly used method in venture capital financings because it focuses on what the venture investor is actually buying, a piece of the future operations of the company. The premise of the discounted free cash flow method is that company value can be estimated by forecasting future performance of the business and measuring the surplus cash flow generated by the company. The surplus cash flows and cash flow shortfalls are discounted back to a present value and added together to arrive at a valuation. The discount factor used is adjusted for the financial risk of investing in the company. The mechanics of the method focus investors on the internal operations of the company and its future. The discounted cash flow method can be applied in six distinct steps. Since the method is based on forecasts, a good understanding of the business, its market and its past operations is a must. The steps in the discounted cash flow method are as follows: This is clearly the critical element in the valuation. The more closely the projections reflect a good understanding of the business and its realistic prospects, the more confident investors will be with the valuation its supports. Quantify positive and negative cash flow in each year of the projections. The cash flow being measured is the surplus cash generated by the business each year. In years when the company does not generate surplus cash, the cash shortfall is measured. So that borrowings will not distort the valuation, cash flow is calculated as if the company had no debt. In other words, interest charges are backed out of the projections before cash flows are measured. Estimate a terminal value for the last year of the projections. Since it is impractical to project company operations out beyond three to five years in most cases, some assumptions must be made to estimate how much value will be contributed to the company by the cash flows generated after the last year in the projections. Without making such assumptions, the value generated by the discounted cash flow method would approximate the value of the company as if it ceased operations at the end of the projection period. One common and conservative assumption is the perpetuity assumption. This assumption assumes that the cash flow of the last projected year will continue forever and then discounts that cash flow back to the last year of the projections. Determine the discount factor to be applied to the cash flows. One of the key elements affecting the valuation generated by this method is the discount factor chosen. The larger the factor is, the lower the valuation it will generate. This discount factor should reflect the business and investment risk involved. The less likely the company is to meet its projections, the higher the factor should be. Discount factors used most often are a compromise between the cost of borrowing and the cost of equity investment. Apply the discount factor to the cash flow surplus and shortfall of each year and to the terminal value. The following table illustrates the computations made in the discounted cash flow method.

### 8: Valuation Techniques Overview | Street Of Walls

*Concise Overview of Business Valuation is written by David L. Perkins, Jr., a respected mergers-and-acquisitions consultant and a leading authority on the purchase, sale and valuation of private companies.*

### 9: Real estate appraisal - Wikipedia

*Today we will give you a quick overview of business valuation methods. This post is geared toward those with at least a*

## OVERVIEW OF VALUATION pdf

*little basic business or financial background, and will show a few common business valuation methods. Of course, the utility of business valuation methods is not limited to only.*

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