Price to Book

Price to Book

- This ratio enables us to value the company based on its market price and taking the net assets of the company
- What if we liquidated all the assets and liabilities of the company - would the result be higher or lower than the market value?

Price to Book

- The ratio is a measure of value based on the balance sheet
- It is most often used to value financial, insurance, real estate or investment companies
- It does not work well with companies with significant intangible assets such as technology companies which contain high brand values in their price

Price to Book

- A ratio below one might suggest the company is undervalued
- Above 1 and the ratio may be suggesting over valuation

Price to Book

- You should stick to comparing companies in similar industries as cross industry comparisons are probably meaningless

Price to Book

- You should be aware of this metric but unless valuing one of the industry types mentioned in this lecture, I would be very cautious about using this metric in your Comparable Companies valuation

- Financial
- Insurance
- Real Estate
- Investment companies

Price to Book