What is Valuation?

What is Valuation?

- What do we mean by Valuation?
- A critical question for this Company Valuation course

What is Valuation?

- Valuation involves establishing the present value of a company or an asset

What is Valuation?

- Subjective valuation criteria may include:
  - Management quality and skill
  - Future earnings
  - The market value of the assets of the business
  - The funding structure of the firm: debt and equity

What is Valuation?

- Valuation raises the question of "Fair Value"
- What is a buyer prepared to pay?
- What is a seller prepared to accept?

What is Valuation?

- There are two main approaches to Valuation
  - Intrinsic or Absolute
  - Relative Valuation

What is Valuation?

- Intrinsic Valuation use financial modelling and analysis to try to determine the value of an investment, an asset or a business

What is Valuation?

- Intrinsic Valuation models include:
  - Discounted Cash Flow Model
  - Dividend Discount Model
  - Residual Income Model
  - Asset Based Models

What is Valuation?

- Relative Valuation compares the asset to other similar assets or companies to try to gauge the value from this comparison

What is Valuation?

- Relative Valuation uses methods such as:
  - Ratio analysis
  - Price/Earnings
  - Comparable Companies
  - Comparable Transactions

What is Valuation?

- It is important to understand that there is never a right answer.

What is Valuation?

- The wide range of value models and approaches will all give different answers
- You have to accept this limitation of valuation

What is Valuation?

- The approach taken in valuation is to use a number of different approaches to establish a range of values and present this as the result
- Investment Bankers use a "Football Field" Presentation, so called because the graph resembles an American Football pitch.

What is Valuation?