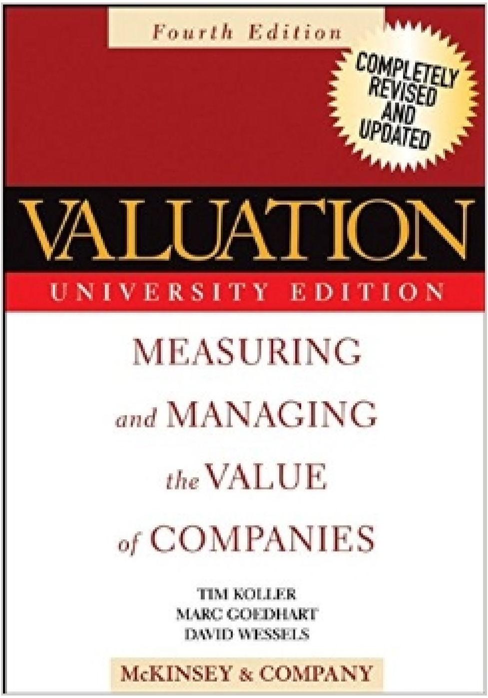
Valuation: Measuring And Managing The Value Of Companies, Fourth Edition, University Edition



Synopsis

The University Edition of Valuation 4e offers students and professors up-to-date information on valuing companies. It contains all the revisions of the main edition, plus end of chapter questions for the needs of the classroom.

Book Information

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Customer Reviews

This is an elaborate textbook on how to do business valuation using Discounted Cash Flows (DCF). It describes both the basics as well as many of the more advanced aspects of valuation incl. valuation of multi-business, cyclical, and growing companies, as well as companies operating in highly inflationary countries.The aim of the book is to arrive at a rather precise measure of value for a business through detailed valuations. The authors claim to have an error of some 15% in their valuations and this is my first complaint about the book: Their valuations are based on extrapolated future cash flows and even when multiple scenarios of the future are taken into account, there is no way you can achieve that kind of precision. Even Warren Buffett and Charlie Munger aren’t that precise in their valuations and they have been doing it for many decades. The trick to investing is to have a greater margin of safety in your buying-price. But the authors dismiss that as being possible, as the book relies on academic theories such as the Efficient Market Theory, Capital Asset Pricing Model, etc., which claim that the stock-markets are good at pricing stocks correctly and great bargains cannot be found. These theories are incorrect in my opinion and experience, and should therefore not be used in valuation e.g. to determine the cost of capital.Overall I have given the book

3 of 5 stars because it does contain some interesting information and ideas for doing valuation. But it is clear that the authors are financial consultants who have an interest in making their craft seem as complicated as possible. It takes much effort to read this book and I therefore recommend some more accessible books instead.

This book is the definitive text on DCF valuation, combining theory, practice, and clear presentation as McKinsey should. Its focus on core value drivers (growth, margin, and capital efficiency) is seminal.Some reviewers claim the book focuses excessively on cash flow modeling to the exclusion of important considerations such as the skill of the management team, the company's product lineup, etc. I think this criticism is off base:For example, a great management team should lead to a more valuable business. Mechanically however, this works because a great management team will be better at driving growth, margins, capital efficiency, or all three -- in other words, cash flows. In fact, all of these broader issues can and should be assessed in terms of the ways in which they influence the expected future cash flows of the business.For example, if you believe a management team is unusually strong in operational cost control, you can adjust your forecasted cost structure, but if you think they're far better in marketing, be more aggressive on the top line while potentially modeling a fatter cost structure. This way you force yourself to be specific about the impact of these factors, and rely on the mechanics of the DCF model to translate this impact into a number. The model - and the value of a company in general - will be more sensitive to some variables than to others. By driving your assumptions through the model, you ensure the different factors' effects are properly scaled in your final value number.To criticisms about using past cash flows to help forecast the future, it is certainly true that to use a model that blithely carries past growth into future years is to develop a valuation based on fantasy. The authors state as much.

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