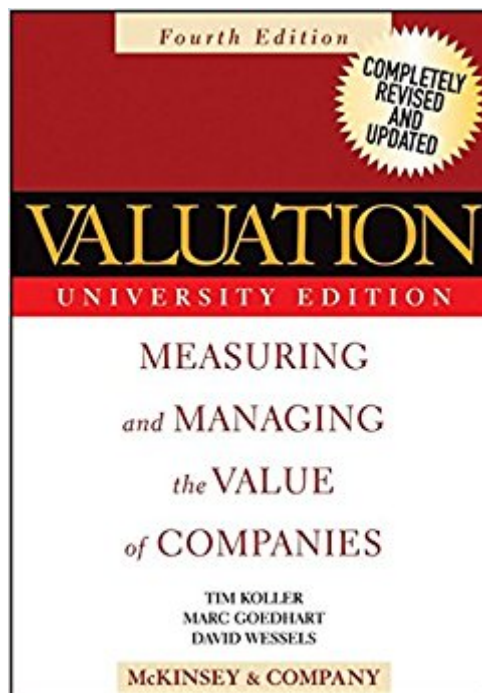




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Valuation: Measuring And Managing The Value Of Companies, Fourth Edition, University Edition



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.

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VALUATION, Fourth Edition UNIVERSITY EDITION The #1 guide to corporate valuation is back . . . and better than ever! "The best valuation book just got better. This edition's greater emphasis on what drives value and how to measure it will improve the way practitioners conduct financial analysis and, ultimately, make strategic decisions. It is required reading for all executives."

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— John A. Manzoni, Chief Executive Refining and Marketing, BP plc Praise for the First Edition "A 'how-to' guide for corporate executives who want to get at the unrealized

shareholder values trapped in public companies."

— The New York Times "The book's clarity and comprehensive coverage make it one of the best practitioners' guides to valuation."

— Financial Times

The authors are all current or former consultants of McKinsey & Company's corporate finance practice. Collectively they have more than 50 years of experience in consulting and financial education. McKinsey & Company is a management-consulting firm that helps leading corporations and organizations make distinctive, lasting, and substantial improvements in their performance. Over the past seven decades, the firm's primary objective has remained constant: to serve as an organization's most trusted external advisor on critical issues facing senior management. With consultants deployed from over 80 offices in more than 40 countries, McKinsey advises companies on strategic, operational, organizational, financial, and technological issues. The firm has extensive experience in all major industry sectors and primary functional areas, as well as in-depth expertise in high-priority areas for today's business leaders. Tim Koller is a partner in McKinsey's New York office. He leads the firm's Corporate Performance Center and is a member of the leadership group of the firm's global corporate finance practice. In his 20 years in consulting Tim has served clients in North America and Europe on corporate strategy and capital markets, M&A transactions, and value-based management. He leads the firm's research activities in valuation and capital markets. He was formerly with Stern Stewart & Company, and Mobil Corporation. He received his MBA from the University of Chicago. Marc Goedhart is an associate principal in McKinsey's Amsterdam office and a member of the leadership group of the firm's corporate finance practice in Europe. Marc has served clients across Europe on portfolio restructuring, capital markets, and M&A transactions. He taught finance as an assistant professor at Erasmus University in Rotterdam, where he also earned a PhD in finance. David Wessels is an adjunct professor of finance at the Wharton School of the University of Pennsylvania. Named by Business Week as one of America's top business school instructors, he teaches courses on investment banking and corporate valuation at the MBA and Executive MBA levels. David is also a director in Wharton's executive education group, serving on the executive development faculties of several Fortune 500 companies. David, a former consultant with McKinsey, received his PhD from the University of California at Los Angeles.

I used this book for my Valuation course in my MS Finance degree program. This book covers many proven valuation methods and is supported by very comprehensive and current data. We used this book in parallel to a semester long group project in valuating a mining company. This book was a useful tool to use while working on our project. It is easy to understand outside of the

classroom and provides clear instruction and well written examples. This book is a must-have for your professional or academic valuation and finance tool-kit.

Read the chapters assigned for my equity course. At first it was easy to understand, because of the frankness in the writing. As I went through the chapters, it got more and more difficult to really follow.

Very good

The best foundational text on understanding valuation for any business. Kenneth H Marks, lead author of *The Handbook of Financing Growth: Strategies, Capital Structure, and M&A Transactions* (Wiley Finance)

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 including 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. For a practitioner who wants to understand cash flow analysis I recommend the book: *Free Cash Flow* by George Christy, and for understanding corporate finance I recommend: *Analysis for Financial Management* by Robert Higgins. PS: This review is for the 4th

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. However, a company's history is full of learnings that are key to assessing its future prospects. Historical financials show what has been accomplished given the constraints of industry, business model, technology, management team etc. To imagine the future, start by really understanding the past, then methodically think about how each variable will most likely change going forward. Some historical variables, of course, won't show up in the financials at all, for example a pharmaceutical company's pipeline of drugs. With good reason, investors look beyond the books to assess such non-financial assets. Some point out that most M&A fails. What the data shows in fact is that, in general, public companies that buy other public companies do not see an increase in value after the transaction. However, the shareholders of the company being acquired usually sell for a premium over where their stock had traded before any deal announcement. This implies that the market fully prices any expected transaction synergies into the shares. So why do managers buy other companies? Sometimes there is a valid strategic rationale for future synergies that the market doesn't see and doesn't know to give them credit for. And sometimes it's all about misaligned incentives, ego, and empire building. It is not,

however, about a methodological flaw in using cash flows for valuation. Ultimately, when you make an investment, there are only two ways to make money. One is to extract cash while you own the business (i.e., dividends), and the other is to sell the investment to someone else for a higher price. A cash flow forecast is the best way to estimate the first of these. Estimating the second depends on how you think potential buyers (i.e., the "market") will estimate the cash flows during their own hold time as well as their own future prospects for exit. Most institutional investors at some point use a DCF model, so viewing the world through your potential buyer's lens is a useful exercise. Of course investors can also be irrational (viz. "New Economy" valuations in 1999). Quantifying that irrationality remains one of the biggest gaps in the literature.

I work on at a large investment bank in NY in the M&A department. I have yet to see any of the McKinsey consultants' formulas in practice. I like the Jeffrey Hooke book on valuation or the Josh Rosenbaum book on LBOs and value. Good luck on finding deals.

This book is awesome. It offers incredibly comprehensive and insightful methods for rearranging financial statements into key drivers of firm value. It also teaches you how to apply those drivers to create a forecast for the future. Individual chapters are dedicated to the more complex concepts. This is a great resource for an aspiring or practicing analyst.

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