## Index \_\_\_\_\_

ABV see adjusted book value	risk-free rate (R <sub>p</sub> ) 108
acquisition goodwill 79n	capital structure 119–20
adjusted book value (ABV) 43, 50	case study 189–90
American Society of Appraisers 9n	concluding remarks 90-6
	EV/BEV calculation 87–90
beta (β) 109–14	EV/EBT1 calculation 79–87
BEV see book enterprise value	EV/Sales calculation 56–79
black box effects 18	historical data/forecasts 53–4
book enterprise value (BEV) 30	celected key ratios (value drivers) 55
EV/BEV calculation 87–90, 193–4	selected value multiples (EV & P) 55
book value of equity (BV) 30, 43	cash flow valuation of given asset
business model 23–4	98–105
competition 25	company-specific premium (CSP)
customers 24–5	116–18
geography/location 25	compounded annual growth rate (CAGR)
market operations 24	62, 80
product mix 24	control 11–12
structural change 25	adjusting for 13–18
suppliers 24	cost of capital (discount rate) 106-7
trade-offs 25	cost of debt $(K_a)$ 118–19
buy-out acquisitions 12, 17	cost of equity (K <sub>e</sub> ) 107
BV see book value of equity	CSP see company-specific premium
CAGR see compounded annual growth	DCF see discounted cash flow
rate	discounted cash flow (DCF) 5-6, 10,
capital asset pricing model (CAPM) 107	95–6, 96
adjusted 114–18	compared with market approach 181–7
beta (β) 109–14	risk 97–105
equity market risk premium (EMRP)	discounted cash flow (DCF)
108–9	reconciliation 141–5

discounted cash flow (DCF) (continued) closing remarks 166-72 EV/BEV 165-6 EV/EBIT 158-65 EV/Sales 146-58 divestment scheme 13 E see earnings after tax earnings after tax (E) 42 earnings before interest and tax (EBIT) 40 earnings before interest, taxes and amortization (EBITA) 40 earnings before interest, taxes, depreciation and amortization (EBITDA) 40 earnings before tax (EBT) 42 EBIT% see EBIT margin EBIT see earnings before interest and tax EBIT margin (EBIT%) 57-62 EMRP see equity market risk premium enterprise value (EV) 29 and note, 39 enterprise value (EV) multiples 40–2 case study example 130-1 EV/EBIT (market value of invested capital in relation to earnings before interest and tax) 40

EV/FCFF (market value of invested

equity capital vs. operating/invested

equity market risk premium (EMRP)

EV/BEV calculation 87-90, 165-6

EV/EBIT calculation 79-87, 158-65

to firm) 40

capital 30-7

EV see enterprise value

derivation 193-4

derivation 192-3

108 - 9

capital in relation to free cash flow

free cash flow to equity (FCFE) 106 free cash flow to firm (FCFF) 5, 6, 40, EV/EBITA (market value of invested capital in relation to earnings before interest, taxes and amortization) 40 EV/EBITDA (market value of invested capital in relation to revenues/sales)

exchange-traded shares 15, 16, 19 data accessibility 19 effectiveness of market 19 free will of participants 19 liquidity of shares 19 price not 'affected' by synergies 19 up-to-date 19 valuations of listed unlisted companies on equal footing 20 fair market value 1-2, 9 and note fair value 9 and note, 10 FCFE see free cash flow to equity FCFF see free cash flow to firm forecasted cash flows 105-6 forward-looking multiples 173-9

EV/Sales calculation 56–7, 146–58

discount rate (i.e. risk) 151-8

value driver 57-62

62-79, 149-51

operating margin (EBIT%) as key

revenue growth as key value driver

derivation 191-2

g see growth rate GDP growth 149 and note going concern assumption 7 goodwill 79n Gordon's formula 101 and note, 181–2 growth rate (g) 82-6, 101, 143, 149 and note, 156-7, 173-4, 181

42, 86n, 106, 143, 181-4

historical analysis adjustments affecting comparability 27 common time period 26–7

independent valuation method 6–7 initial public offering (IPO) 14 interest-bearing net debt 9n International Financial Reporting Standards (IFRS) 9n

investment value 9, 10	P see price
IPO see initial public offering	P/BV derivation 50 and note, 194-5
	P/E derivation 42, 194
K <sub>e</sub> see cost of equity	peer group selection 23
	business model 23-6
liquidity 16	comparability 26
loss-making companies 79n	finding company outside prevailing
	sector/industry 26
market approach 6, 189	geography 23
case study 56–96	historical analysis of 26-7
compared with discounted cash flow	trade-offs 25
181–7	premiums/discounts 10, 12, 14 and note
reconciliation 141-72	present value firm (PVF) 143
risk 96–130	price assets (PA) 29 and note
summary of calculated values 130-40	price (P) 39
market value 9-10	price (P) multiples 42–7
market value of equity 29, 36, 137-40	P/E (market value of equity in relation
market value of invested capital (MVIC)	to earnings after tax) 42
29 and note	P/EBT (market value of equity in
market value of operating/invested	relation to earnings before tax) 42
capital 29–30	P/PCFF (market value of equity in
marketability (liquidity) 11	relation to free cash flow to equity) 42
adjusting for 13–18	short tuning 131–7
levels/combinations 12	price-related indicators 6
marketable minority interest 11, 13, 14,	primary value drivers of EV multiples
17	EV/BEV (expected return on book
vs. non-marketable majority interest 15	operating/invested capital) 49 and
MVIC see market value of invested	note
capital	EV/EBIT (expected growth in earnings
	before interest and tax) 49
net asset approach 6–7, 96–7	EV/EBITA (expected growth in
net financial debt 9n	earnings before interest, taxes and
net investment ratio (NIR) 83, 86, 92, 94	amortization) 49
net present value calculation 5–6	EV/EBITDA (expected growth in
neutral market value 10	earnings before interest, taxes,
NIR see net investment ratio	depreciation and amortization) 49
non-marketable majority interest 11, 13,	EV/FA (expected return on fixed
15	assets) 49 and note
vs. marketable minority interest 15	EV/FCFF (expected growth in free
non-marketable minority interest 11, 13,	cash flow to firm) 49
14	EV/Sales (expected operating margin
	and revenue growth) 49
ownership interest 11–12	EV/TA (expected return on total assets)
levels/combinations 12	49 and note

cost of equity (K <sub>e</sub> ) 107
discounted cash flow (DCF) 97–105
forecast cash flows 105-6
weighted average cost of capital
(WACC) 120-30
risk-adjusted rate of return 106
risk-free rate (R <sub>r</sub> ) 108
RoE see return on equity
ROIC see return on invested capital
RR see retention ratio
small stock premium (SSP) 115-16
SSP see small stock premium
standard of values 9–10
structured bid 16
sum-of-the-parts valuation 50-1
synergies 6, 9, 10, 17, 18 and note
100x
tangible/intangible assets 7, 41n–2n
tra: saction data 10
ransaction-related multiples 10, 16–17
transactions 20
advantages 22
black box effects 21
business valuation perishable/
acquisitions stochastic 20
compensation other than cash 21
difficulty accessing data 20
difficulty knowing type of assets
transferred 21
forecasts on future earnings
unavailable 20
lower public disclosure 20
price may include synergies 21
size varies between acquisitions 20-1
unknown arrangements/agreements
between buyers 21
value
marketability and control 11-18
standard of 9-10
value drivers 49
assumptions 50–1
EV multiples 49

P multiples 50 value multiples 10, 187 calculated on operating basis 47 differing time periods for income data 48 enterprise value (EV) 39, 40–2 price (P) 39, 42–7 rent-free property 47–8 sum-of-the-parts valuation 47 summary of calculations 130-7

WACC *see* weighted average cost of capital weighted average cost of capital (WACC) 86n, 120–30, 143

zero sum game 75

Attp.//www.pbookshop.com?

http://www.phookshop.com