Introduction to Valuation

Consider this scenario

Imagine you own a business which generates a substantial amount of revenue every year.

How much would you want to sell it for?

Consider an alternative scenario

How much would you be willing to buy someone else's identical business for?

The bottom line

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Valuation is a story.

There's no such thing as a "true value", "correct value".

Valuation is subjective, context and preference dependent.

Sellers will tend to value their assets higher than buyers of the same assets.

The resulting purchase / sale value is a function of which story is more believable.

And believability is likely a function of reasonability and need.

We use numbers, equations, and logic to determine the believability and reasonability of the story.

If the price of an asset is higher than what the story suggests, the asset is overvalued.

If the price of an asset is lower than what the story suggests, the asset is undervalued.

If the price of an asset is equal to what the story suggests, the asset is fairly valued.

We define the value based on the story as the 'intrinsic value'.

Valuation models can be as simple or complicated as we like.

It’s easy and tempting to make models look sophisticated and complex.

Simplicity is the ultimate sophistication.

- Da Vinci

Efficient Markets

If markets are efficient, there's no need to value any asset manually.

(Because the value of every asset would be determined by the market and easily viewable.)

Efficient Markets

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By attempting to value any stock, you imply that you do not believe markets are efficient.

Efficient Markets

If you do believe markets are efficient, you just need to lookup the value of a stock on the market to see how much it's worth.

Subjectivity, Relevance & Reliability

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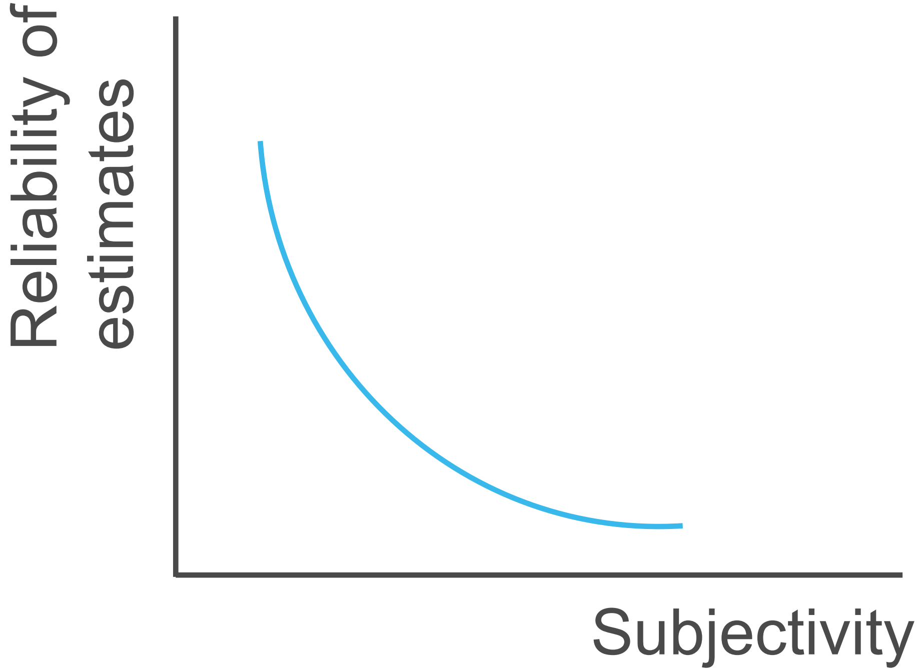

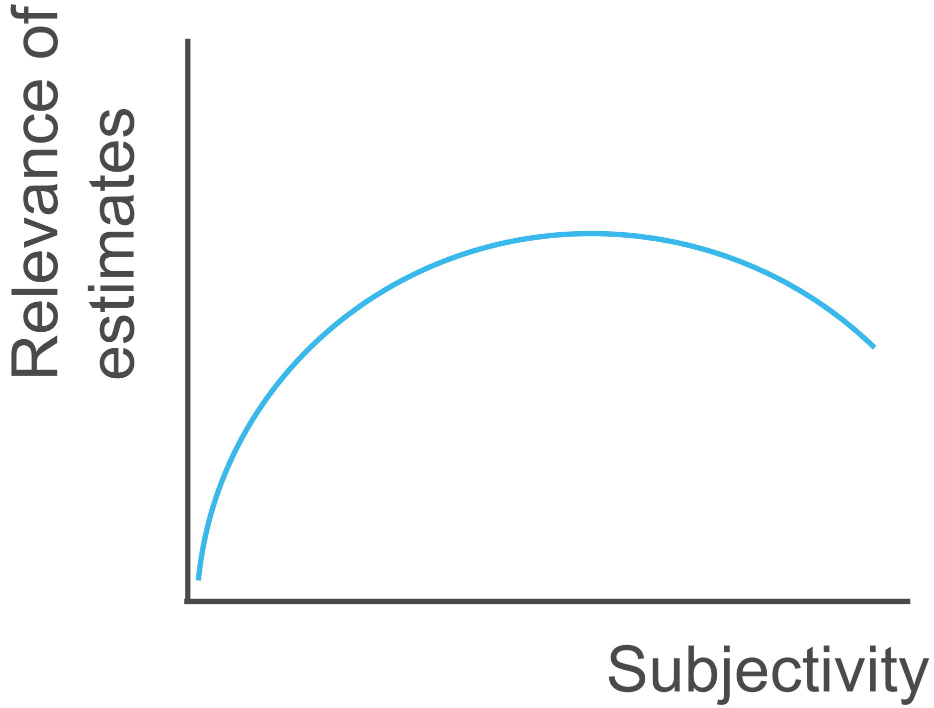

Summary

Valuation is a story.

There's no such thing as a "true" or "perfectly correct" valuation.

We compare our estimates of value with the market price to determine whether an asset is under, over, or fairly valued.

Conducting any sort of valuation implies a belief that markets are not entirely efficient.

Now have a go at the quiz!