

# Valuation of businesses by marie.madero via cheatography.com/23665/cs/5338/

# What and Why

#### What

The amount a business is worth to a stakeholder or any other interested party. *Expectation gap* the placing of a higher value on a company from a seller than the one of a buyer.

### Why

Planning a sale, Takeover, Merging, Demerger or management buy-out, Flotation, Securing Loans, Divorce settlement, inheritance tax (if applicable), curiosity, comparisons

#### How

**Market capitalization** = share price \* number of shares issued

**Capitalized earnings**= price/earnings ratio \* maintainable earnings

**Discounted Cash Flow** 

**Net Assets**= (fixed assets + current assets)/-(current long term liabilities)

**Return on Investment** = Maintainable operating profit/purchase price

**Pricing Curve** 

## Problems

- Share price doesn't exactly reflect the performance of a business.
- True value of assets may not appear @balance sheet
- DCF method requires human judging
- Human Judgment

Overcome them through the use of more than one valuation method



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