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