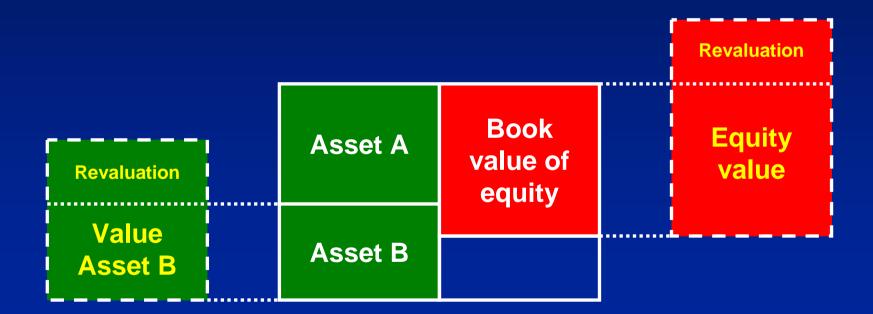
Corporate Finance Valuation Panorama

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1. Patrimonial method (1/2)

 This method aims at revaluing the market value of assets and liabilities and to adjust book value of equity of identified capital gains or losses

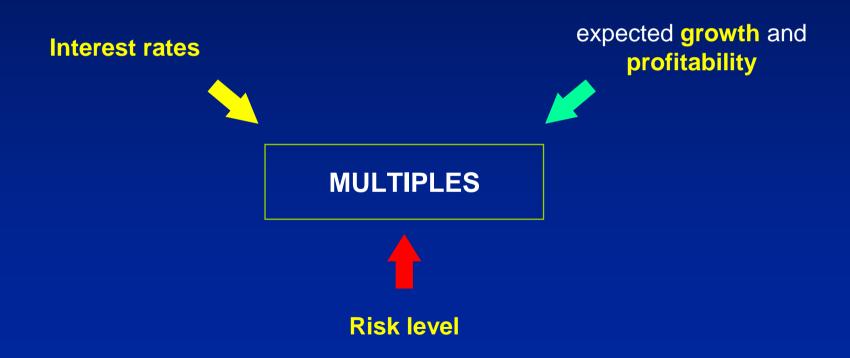


1. Patrimonial method (2/2)

- Possible approach ?
 - Liquidation approach
 - Going forward approach
- Tax impact is different
- Difficulty to determine the continuing value of assets

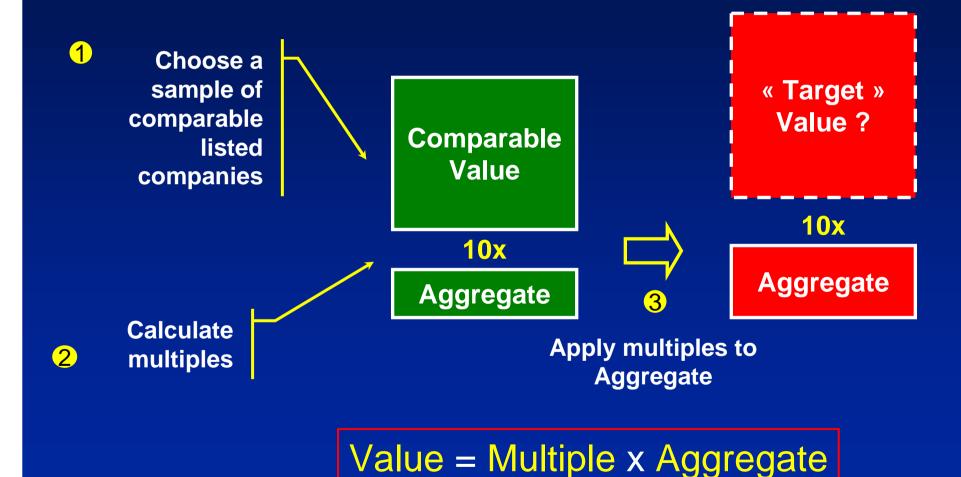
2. Analogical method (1/2)

- Principle : applying to the target a multiple, observed on a sample of peers
- Multiples give a value which integrates :



2. Analogical method (2/2)

Three steps in multiple method:



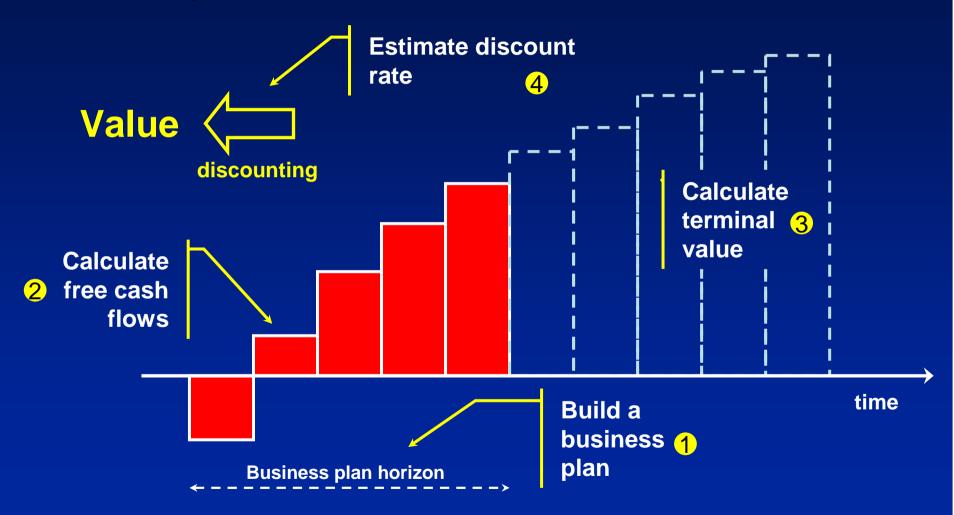
3. Intrinsic method (1/2)

- Principle: « a firm is like a bond! »
- The value of the firm is obtained, through discounted free cash flows at a rate depending on risk
- We get the following formula:

Value
$$=\sum_{i=1}^{\infty} \frac{\text{Free Cash Flows year i}}{(1+k)^i}$$

3. Intrinsic method (2/2)

The 4 steps of the DCF method



4. Real Options (1/3)

- Principle: taking into account company life flexibility
- Those flexibilities are options to valorize, what leads to Adjusted
 Present Value (APV)

APV = DCF Value + Real Options Value

Real Options are a tool to integrate time value in a firm valuation

4. Real Options (2/3)

Real Options declination

Investment / Growth

Expectation / Learning

Divestiture / Reduction

Scale up
Project Expanding

Switch up Flexibility

Scope up
New Projects
Implementation

Expecting that success conditions of the project are implemented

Scale down
Project Downsizing

Switch down Flexibility

Scope down
Project abandoning

4. Real Options (3/3)

The **four steps** of real options method

Choose to **Determine** exercise potential available values of real options cash flows 1987 1789 1929

 $T_0 + 2$



 T_0+1

Repeat the process till T₀, discounting cash flows at each decisional node

 T_0

Compute the

retained cash

expected

3 return of

time

1. Valuation methods advantages and drawbacks

	Advantages	Drawbacks
Patrimonial Method	Easy referenceRelevant for small companies	 Book approach Going concern value is an issue Limited application fields
Multiples	 Simple and popular Tangible reference in a negotiation process 	Reliability of the sampleShare price signification
DCF	 "Intrinsic" method Thoughts about business and profitability	 Sensitivity of retained assumptions Choice of terminal value and wacc Circularity of the method
Real Options	Managerial view close to realityTime Value	Heavy implementationDifficult to price