Why are Valuations Important?
The most important objective of management is to increase the value of the company. Company Value is important to:
- Shareholders
- Employees
- Management
- Future Investors
- Creditors
- Community

Defining Business Value
- Value is a reflection of your company’s relevance and viability in the EXISTING and FUTURE supply chain
- Value can be determined using a number of methods, but the goal of every method is to establish the value of the firm TODAY

Warren Buffet’s Philosophy
- “Rule number 1—Never lose money. Rule number 2—Never forget Rule number 1.”
- “It is far better to buy a wonderful company at a fair price than a fair company at a wonderful price.”
- “We want the business to be (1) something that we understand (2) a favorable long term prospect (3) operated by honest and competent people and (4) available at a very attractive price.”

Methods of Valuation
- SWAG Method—“Catch All” category that may or may not be based on logic
- Balance Sheet Methods—More conventional methods that focus on historic cash flows and accounting measurements
- Income Statement Methods—Some methods are based on historic cash flow multiples while others are future cash flow driven
- Discounted Cash Flow Method—This method is driven by long term value creation and future cash flows
- SWAG
  - "We want it."
  - "If we get it, we will be the biggest player in our market."
  - "We won’t pay a penny over Book Value."
  - "This is a good deal."
Balance Sheet Methods

- Net Book Value—Total equity on the balance sheet (total assets less total liabilities)
- Liquidation Value—Selling assets under various scenarios (i.e. orderly sale or forced sale)
- Replacement Value—What a willing buyer would have to pay to replace the assets at today’s market prices

Discounted Cash Flow Approach

- This method recognizes that a dollar earned today is worth more than a dollar earned in the future and equity demands a higher return than debt
- Must understand your “value drivers”
  - CapEx, Working Capital, Competitive Advantage, Cost of Capital and Debt
  - Production trends, Market Share, Margin Structure, Transportation
  - Sum of Future Cash Flows discounted by Weighted Average Cost of Capital

Income Statement

- Price Earnings Multiples or P/E Ratio—Commonly used as a benchmarking tool for public companies
- Enterprise Value/ EBITDA—A yardstick used in valuing private companies, particularly leveraged financial transactions

Summary

- Value can be determined using a number of methods, but the goal of every method is to establish the value of the firm TODAY
  - Balance Sheet Methods
  - Income Statement Methods
  - Discounted Cash Flow Methods
- Many resources available to help determine an appropriate value and eliminate the SWAG method