Preface e-Bright module: Introduction into Valuation

For the complete course visit www.e-Bright.com
or contact us at info@e-Bright.com

www.e-Bright.com

Rivium Quadrant 90

2909 LC Capelle a/d IJssel

The Netherlands

info@e-Bright.com

INTRODUCTION INTO VALUATION

PREFACE

Reliable Valuation In A Relevant Context

In practice, many managers encounter the concept of value without deeper understanding of the principles that create the economic value. Often, managers and professionals possess a limited understanding of valuation and consider only certain elements of value. Even valuation professionals develop a single perspective on valuation lacking the broad view. Many professionals rely on specific methods that they apply universally without profound consideration of variables that set the context of valuation. Especially in today's business environment, businesses rely more than ever on intangible assets which results in a more dynamic and complex valuation process. Therefore, one of the challenges of valuation is to develop a broad understanding of contextual elements and their reasonable consideration in the valuation process. This creates one of the main themes of this course, which is to help you develop understanding of a complex valuation and its relevant application in today's business.

Use Of Valuation Across Different Disciplines

A profound knowledge of valuation will provide today's managers with a better understanding of an asset or a business value and will ensure value creation and better decision making across multiple management tasks (strategic decision making, corporate portfolio strategy, capital structure, intra-group transactions, investor relationships etc.) Simultaneously, a better understanding of valuation can benefit the decision making of investors and entrepreneurs who often base their decisions on the company or asset values. Furthermore, professionals who work closely with real estate or any other asset groups will better understand how the value of the assets they work with is estimated and would be able to critically evaluate the valuation process. Simultaneously, professionals that take this course will gain a profound understanding of valuation principles and will be prepared for learning advanced valuation techniques to perform reliable valuations in the given context.

1. INTRODUCTION

1.1 Course Content

This online course provides concise, practical and insightful training in valuation based on the insights of today's cutting edge valuation professionals. The "Introduction Into Valuation" module of this course will introduce you to the course structure, basic valuation concepts and principles, and to the valuation in today's business context. After finishing the first module, you can further expand your knowledge by proceeding with the modules of one or more of the four below mentioned objects to be valued to address the specific context of the valuation process. The four objects are: **Shares, Machinery, Real Estate,** and **Intangible Assets**.

Share Deal/ Stock | Machinery/ Fixed Assets | Real Estate | Intangibles

The Viewpoints On The Valuation To Be Covered

The ***perspectives*** on value and overall valuation approaches differ across various ***stakeholders*** and various purposes of valuation. The course will help you to better understand this ***relativity of value*** and its meaning in ***different contexts***. You will be guided through simple ***step-by-step valuation methodologies*** and will discover underlying principles behind each asset group. Moreover, the valuation in today's business context is closely interconnected with valuation ***frameworks*** across the globe. Students of this course will develop an understanding of how these standards are applied in practice and will be capable of critically evaluating ***variables*** that impact the final value. The educational content of the course is supplemented by ***examples and short case studies***.

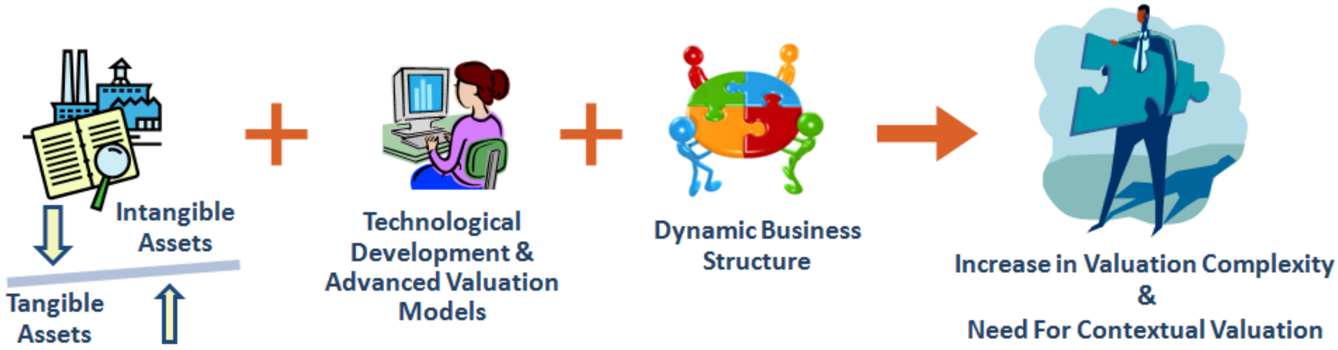
1.2 Valuation In Today's Business Context

Intangible Capital

In the last decade, the valuation of businesses has become more complex and challenging as companies' values is based more on the intangible and less on the tangible assets. With the increasing competition and shorter product life cycles, intangible capital is considered to be more important for companies. As a result, strategic decisions are increasingly dependent on understanding the economics affecting the value of these properties.

Change of Business Environment

Today's increasing activities of merger &acquisition, venture capital funding and initial public offering help to increase the needs for valuation of intangibles. Moreover, a more dynamic business structure and internal business factors have also contributed to these growing needs, e.g. transfer pricing, assets movement, international tax planning and future business development. Apart from complex valuation of intangible assets, the development of software and constant introduction of more advanced valuation models adds to the complexity of valuation practices.



1.3 Broad Perspective On Valuation - 4 Steps

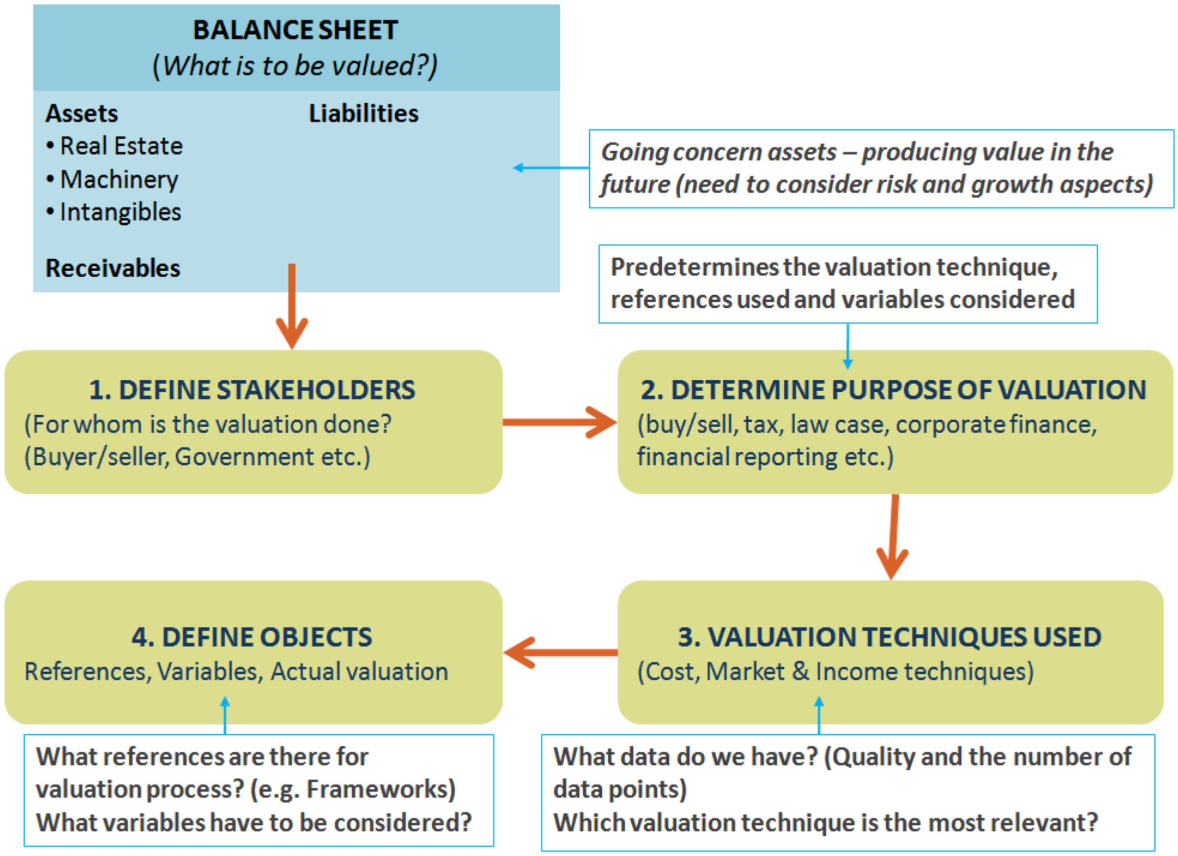
Step 1 and 2 - Context

Below we have illustrated the big picture of the valuation process to help you understand what will be covered in this course and how it fits into the context of valuation. At first, the ***object to be valued*** needs to be identified. Many of the assets are considered "going concern" assets, which means they will produce value in the future, which creates a context of a specific asset and needs to be clarified at the beginning of the valuation process. Furthermore, the context is determined by the ***purpose*** of the valuation and interest groups or ***stakeholders*** involved.

Step 3 and 4 - Valuation technique and objects

Based on the context and also based on data available, a ***valuation technique*** to be used is determined. At the same time, ***valuation references*** are selected and consist of references in law or regulations issued by the government or a professional valuation institute. The selected framework should correlate with the valuation purpose and technique that has been selected. Remaining ***variables*** are considered and the whole valuation is adjusted. This suggests that valuation can be very dynamic and the valuation process can be reiterative until a final value or a value range is reached. Within the four step approach per object to be valued, a pre-determined process is provided to start enhancing a professional and consistent approach in how a valuation exercise is performed.

Diagram: Holistic Step-plan to Valuation



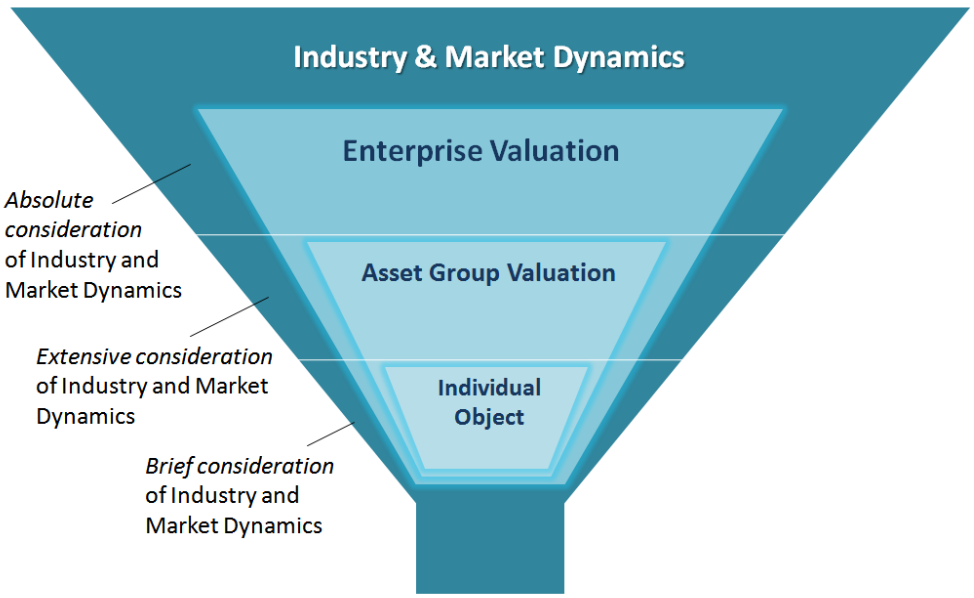
All modules in the valuation course are structured based on these four steps: beginning with defining stakeholders and the purpose of the valuation, explaining valuation techniques and defining the objects (providing guidance to references, providing insights into functional variables and guiding you through the valuation process).

1.4 Industry and Market Dynamics

In general terms, the subject of your valuation could be:
1.Enterprise (The whole company including brand, building and machinery)
2.Group of Assets (Whole machinery)
3.Individual Asset (A Specific machine)

The importance of consideration of a valuation context has been stressed in the previous slides. Ultimately, it is the ***Industry and Market Dynamics*** that gives relevance to the value. Especially in today's market, the changes in supply and demand or a technological innovation have strong impact on business or asset values. When valuing an ***individual asset***, the context range to be considered is very small as valuing such asset is very straightforward. For example, to value a specific machine, we would simply consider the market value of other machines on the market.

However, when it comes to valuation of ***asset groups***, we would also have to consider a unique role these assets play for a company in its specific market environment or the future income and risks associated with these assets. In valuation of an ***enterprise***, we would have to consider all industry and market factors that have an impact on the value of a business. Surprisingly, still many valuations today provide very brief consideration of Industry and Market Dynamics factors. Even the most complex and advanced valuation techniques are useless if the final value obtained is not relevant in the context. These context considerations are demonstrated in the funnel below.



Industry and Market Dynamics destroying "Perpetuity" concept

Perpetuity, a concept that assumes a stream of cash payments that continues forever, is still commonly used in many valuations today. The assumption of perpetuity in many valuations today, especially in specific industries, is one of the signs that many professionals are lacking insights into the Industry and Market Dynamics. As the business environment changes, the average lifespan of a company listed in the S&P 500 index has decreased from 67 years in the 1920s to just 15 years in 2012 and it continuous to decline. Some researchers estimate that more than three-quarters of the S&P 500 will be companies that we have not heard of yet.[1]This is one of the reasons why professionals that do enterprise valuation today must understand the industry and market dynamics as well as company's value chain and strategic position in order to be able to construct a reliable valuation.

For the complete course visit www.e-Bright.com/courses or contact us at info@e-Bright.com

[1]http://www.bbc.com/news/business-16611040