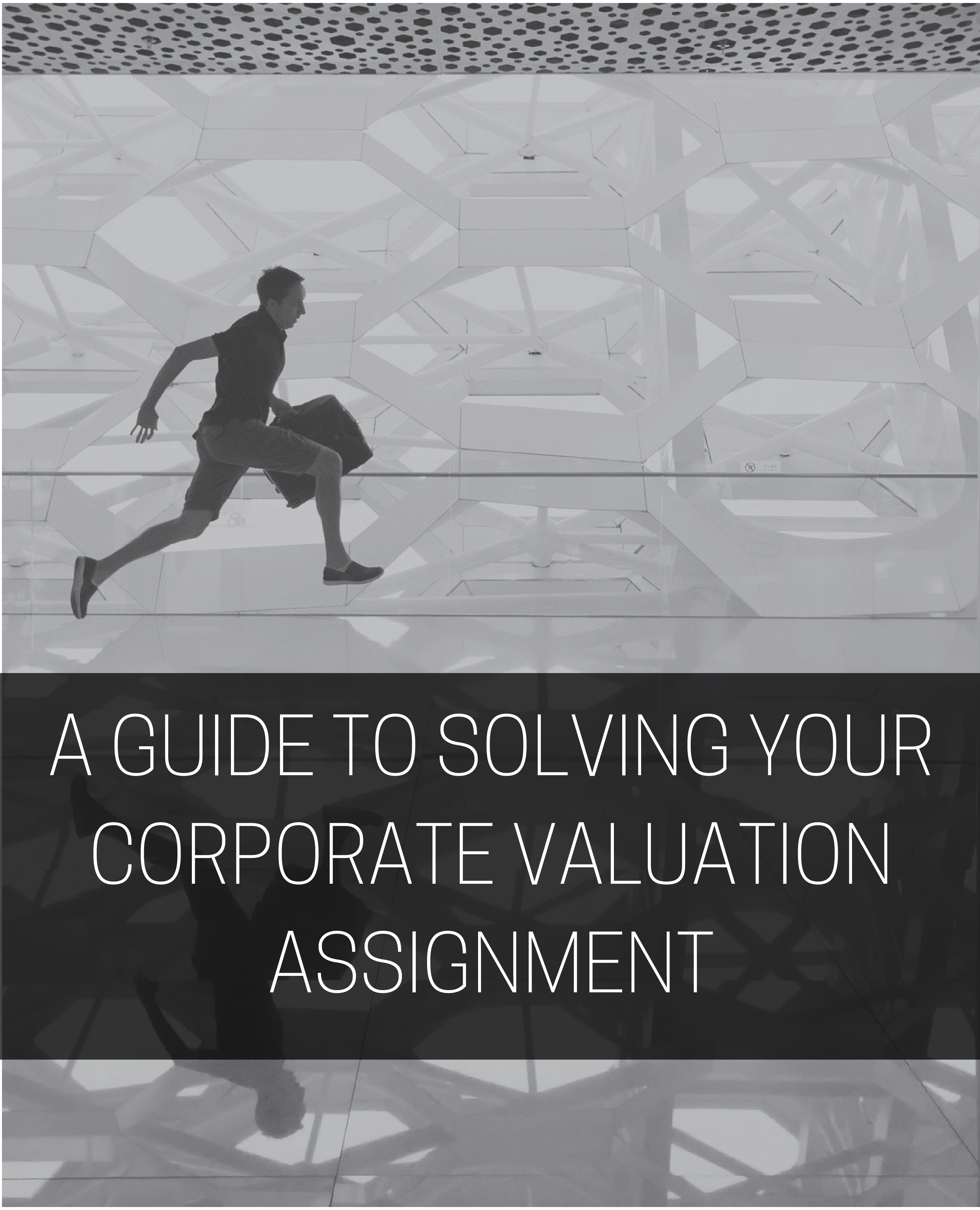

A GUIDE TO SOLVING YOUR CORPORATE VALUATION ASSIGNMENT

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A corporate valuation assignment is a challenging task to deal with because there are many formulas involved. Sometimes, it is as hard as to choose which among the available methods to use is. For help, keep reading and learn how to deal with and solve the homework.

What Is A Corporate Valuation? What Is Its Purpose?

If you were assigned with a corporate valuation assignment, it’s good to know what corporate valuation really means. It is the answer to the question “how much a company is valued or worth?”
However, there are different methods, tools and standard ratios used by financial experts in finding out the worth of one company and determining if their stocks are overvalued or undervalued.
It is important to find out the company’s value especially regarding acquisitions, mergers, market instability and financial stress. Aside from these things, there are other purposes when a corporate valuation is needed.
The process of corporate valuation is an essential procedure with steps, which will help in estimating the economic value of a corporate owner’s business interest.

Business analysis and valuation is used by the participants in the financial markets in order to determine the price, which they’d want to receive to perfect their business sale or pay if the party is the potential buyer.

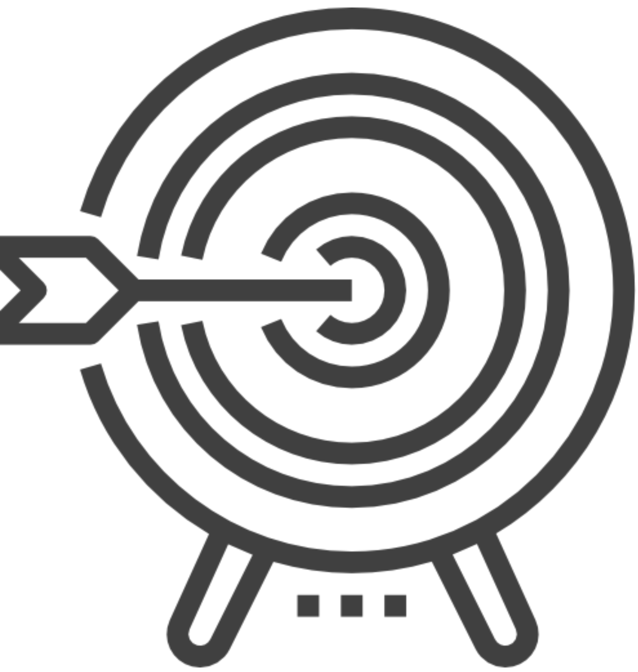
But other than the valuation of the business’ selling price, the same methods and tools are also used by business appraisers when trying to resolve a dispute regarding estate and gift taxation.

It also helps them establish a good formula for figuring out the estimated value of ownership interest of partners regarding buy and sell agreements, among other legal purposes.

Using firm valuation methods, companies will be able to figure out corporate valuation accurately. They do the valuation for the above-mentioned purposes as well as to take advantage of its benefits.
For one, it helps them attract future investments. The investors can decide better if one company is good investing at or not. If it is, they will go to that direction for the investment. Valuation is also done when selling one's company.

The owner or owners are looking for the best prices. It helps the sellers decide on how much to sell to make a profit or receive offers. In addition, it's done to figure out future operational cost of one's company. It will help financial managers find out how this company would be able to grow and how it would be affected by future operational costs – on whether it would suffer from a future rise or fall.

Main Firm Valuation Methods



Discounted Cash Flow Analysis

There are two ways that a firm or company is using this approach - the Weighted Average Cost of Capital (WACC) and the Adjusted Present Value (APW). Take note, however, both of these need cash-free flows calculation of a specific company and the net present value of the FCFs.

Multiples Method

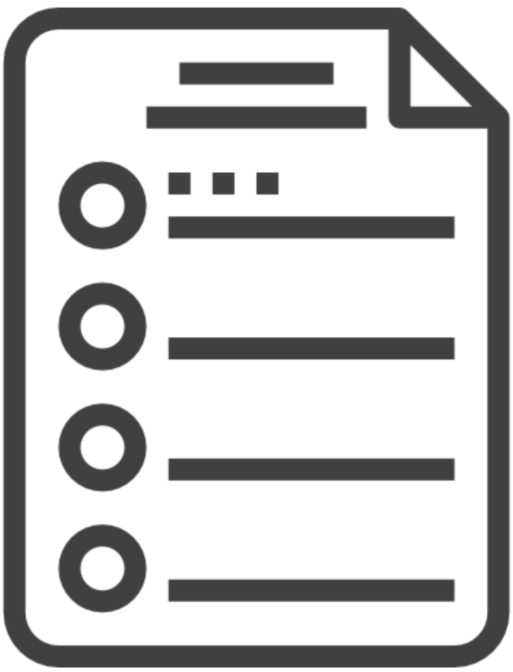
This method is useful in times when only little information can be used by the comparable transaction method. So using it, you can value a firm or company with market valuation multiples, and a few examples include earning/price multiples and EBITDA multiples.

Market Valuation

It follows a competition's economic rationale, stating that if there is free market, components, such as demand and supply, are going to affect the properties' value up to a specific balance. It only means that the buyers will not be ready to part with high amount for this business and that those vendors are not going to be willing to get anything lower to the commercial entity's value.

Comparable Transaction

It's used when valuing a firm preparing for acquisition or merger. All parties involved are going to look at the similar transactions.



Business Analysis And Valuation Formulas with Explanations

- Income method
- Book Value & Liquidation Value
- Owner Benefit Valuation
- Business Valuation Methods with Samples
- Corporate Valuation Assignment Help Examples

Example 1 (Market Valuation Method)

Say you own a restaurant and you would like to estimate the economic value. There’s another restaurant nearby that recently sold for $2 million dollars and had about $400,000 in earnings. Calculating the market multiple:

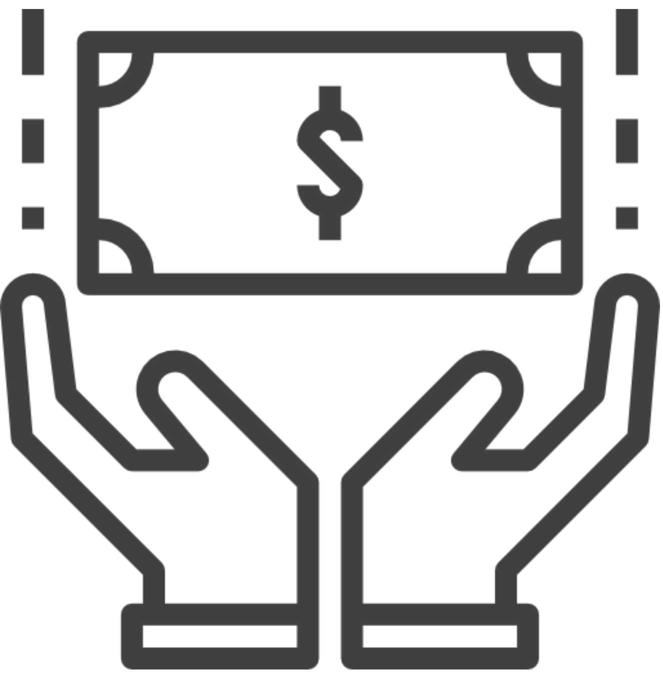
$2 million/$400,000=5 times earnings

So if your business makes $300,000 in earnings, then its value would be $1.5 million.

Example 2 (Capitalization of Earnings)

Suppose your restaurant has earnings of $200,000 with a cap rate of 10% (the cap rate is calculated by taking into consideration the cost of capital and the risk of the company). Then the value would be:

$2,000,000/10%=$2 million



- **Simple Calculation Method**
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- Add the cost of replacement of the business assets, such as equipment, inventory and vehicles. A way of placing company valuation is measuring the assets’ total value that you’ll gain if you’r buying the company.
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- Find out revenue stream. The business analysis and valuation might be

composed of different business streams of revenue. For example, in a firm in which twice the revenue is the correct valuation, the firm with yearly revenue of $500,000 would have $1,000,000 valuation.

Calculate the earnings of the company. Earnings in the amount a company is clearing during the reporting period, and valuation is according on what the amount’s worth to the potential buyer.

Determine the present net value of the business. If you’re looking for a 20% ROI, you must deduct 20% every year that you need to wait to get your investment back on your investment in a company having an annual profit of $50,000, as an example.