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Appendix A. Capital Asset Pricing Model (CAPM)

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Preface

Valuation Methods and shareholder value creation is a complete book about business valuation and value creation. The book explains the nuances of different valuation methods and provides the reader with the tools for analyzing and valuing any business, no matter how complex. With 300 pages divided into four parts, *Valuation and shareholder value creation* uses 140 diagrams, 211 tables, and more than 100 examples to help the reader absorb these concepts.

This book contains materials of the MBA and executive courses that I teach in IESE Business School. It also includes some material presented in courses and congresses in Spain, US, Austria, Mexico, Argentina, Peru, Colombia, UK, Italy, France and Germany. The chapters have been modified many times as a consequence of the suggestions of my students since 1988, my work in class, and my work as a consultant specialized in valuation and acquisitions. I want to thank all my students their comments on previous manuscripts and their questions. The book also has results of the research conducted in the International Center for Financial Research at IESE.

Part I – Basics of Valuation Methods and Shareholder Value Creation

The book begins with the definition of Shareholder Value Creation and with a description of the most popular valuation methods, with particular emphasis on Price Earnings Ratio, the relationship between market value and book value, dividends, and the impact of interest rates on valuation. Later chapters take an in-depth look at valuing a company by discounting a stream of potential future income back to the present. It lays out the differences between using net income or cash flow as the relevant stream. It offers various examples of valuations and explains real-life valuations. Chapter 11 tackles the question of which discount rate to use in discounting income streams. It shows the problems that may arise in measuring company betas and the difficulty of obtaining the market risk premium starting from historical data.

Part II – Shareholder Value Creation

The second part describes some of the tools used to measure value creation e.g., economic value-added and economic benefit, analyzing their limitations and applicability in various situations. Chapter 15 contains several valuations of RJR Nabisco and the value creation of each strategy. Chapter 16 analyzes the evolution of a number of Internet-related companies (Terra, Amazon, America Online, Microsoft, B2B companies, online brokers...), although the focus is the valuation of Amazon.

Part III – Rigorous Approaches To Discounted Cash Flow Valuation

The third part examines in greater depth discounted cash flow valuation and starts with the analysis of the eight most commonly used methods for valuing companies by cash flow discounting:

- Free cash flow discounted at the WACC;
- Equity cash flows discounted at the required return to equity;
- Capital cash flows discounted at the WACC before tax;
- APV (Adjusted Present Value);
- The business's risk-adjusted free cash flows discounted at the required return to assets;
- The business's risk-adjusted equity cash flows discounted at the required return to assets;
- Economic profit discounted at the required return to equity; and
- EVA discounted at the WACC.

It is shown how all eight methods always give the same value. This result is logical, since the methods analyze the same reality under the same hypotheses; they only differ in the cash flows taken as starting point for the valuation.

Chapter 18 is a revision of the financial literature about discounted cash flow valuation. We will analyze in greater detail the most important theories about value creation by leverage: Modigliani and Miller, Damodaran, Practitioners method, Harris and Pringle, Ruback, Myers, and Miles and Ezzell. Chapter 20 is the application of the theories studied in previous chapters to RJR Nabisco. Chapter 21 is a summarized compendium of all the methods and theories on company valuation using cash flow discounting presented in the previous chapters.

Part IV – Real options and brands

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The final portion of the book reviews the most important methods to value real options and shows the usefulness and limitations of option pricing theory for company valuation, clarifying the differences between financial options and real options. It also addresses the valuation of brands and intangible assets.

Some issues covered in *Valuation Methods and Shareholder Value Creation*:

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Shareholder value creation of 142 American companies in the period 1993-2000.

Valuation and shareholder value creation of Internet-related companies.

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Optimal capital structure

Main errors in valuations.

Make your table of contents look inviting to your readers. Here's how you can give them a beautiful direction by designing your own table of contents. The Plot pairs its chapter headings and page numbers with short descriptions of each. It is an interesting way to brief readers on what's ahead, what might be immediately interesting, and what might not be. 38. Use letters as design elements. Txell Gracia. Creating Table of Contents entries by marking TOC entries (a.k.a. the not-as-easy way). There is another way to create a Table of Contents: marking each heading with a special hidden code to designate what level of the TOC you want it to appear in. Once you've marked it, it looks something like this: This method has some advantages and disadvantages To automatically insert a table of contents in Microsoft Word, follow these steps: Apply heading styles throughout the document. In the references section in the ribbon, locate the Table of Contents group. Click the arrow next to the Table of Contents icon and select Custom Table of Contents. Select which levels of headings you would like to include in the table of contents. Click OK. Make sure to update your table of contents if you move text or change headings. To update, simply right click and select Update Field. A table of contents example will help structure a long academic manuscript and a table of contents page is necessary for academic submission. The table of contents contains an organised listing of your manuscript's chapters and sections with clearly marked (and accurate) page numbers. The aim of the table of contents is to allow the reader to flip easily to the section they require and to get a feel of your argument's structure. FAQs. What comes first, table of contents or abstract? If you are writing an academic paper, you have to take the order of your paper into account. Usually, the first sections of your thesis are the title page, cover page, acknowledgements and the abstract. After these pages, you place the table of contents. A content brief should include all the information a writer needs to create high-quality content that checks all the boxes. Before we provide a detailed look at the most important elements of a content brief, let's review a full example: Overview (example). Title: Top Social Media Marketing Tips for 2021. Number of visuals: include one featured image, three screenshots, and two tables. Placement: featured image before the introduction, screenshots, and tables throughout based on the content. Now that you know what a content brief looks like, it's time to dig into the five most important elements to include. 1. The Details (Overview). Think of this section as a high-level overview of the content.