

Contents

Introduction.	5
1. Understanding Business Valuation	9
2. Understanding Financial Statements	15
2.1.Explanation of Financial Statements.	15
2.2.Implication of Financial Statements for Valuation	23
2.3.Financial Ratios	26
3. Company Valuation Methods	29
3.1.The Fundamentals of Discounted Cash Flow.	32
3.2.The Adjustments in Discounted Cash Flow.	39
3.3.Cost of Capital	51
3.3.1. Cost of Debt.	52
3.3.2. Cost of Preferred Stock.	56
3.3.3. Cost of Equity.	56
3.3.4. Private Cost of Capital Model	67
3.4 Adjusted Present Value	75
3.5 Relative Valuation	76
3.6 The Build-Up Model	90
3.7 Arbitrage Pricing Theory	92
3.8 Alternative Valuation Methods.	94
3.8.1. Valuation based on derivative securities	98
3.8.2. Private equity and venture capital valuation	101
3.9 Specific Issues and Situations in Valuation	104
4. Dealing with Risk	107
4.1. Risk and return models.	108
4.2. Models of default risk.	112
Conclusion	115
List of Exhibits	118
Bibliography.	120