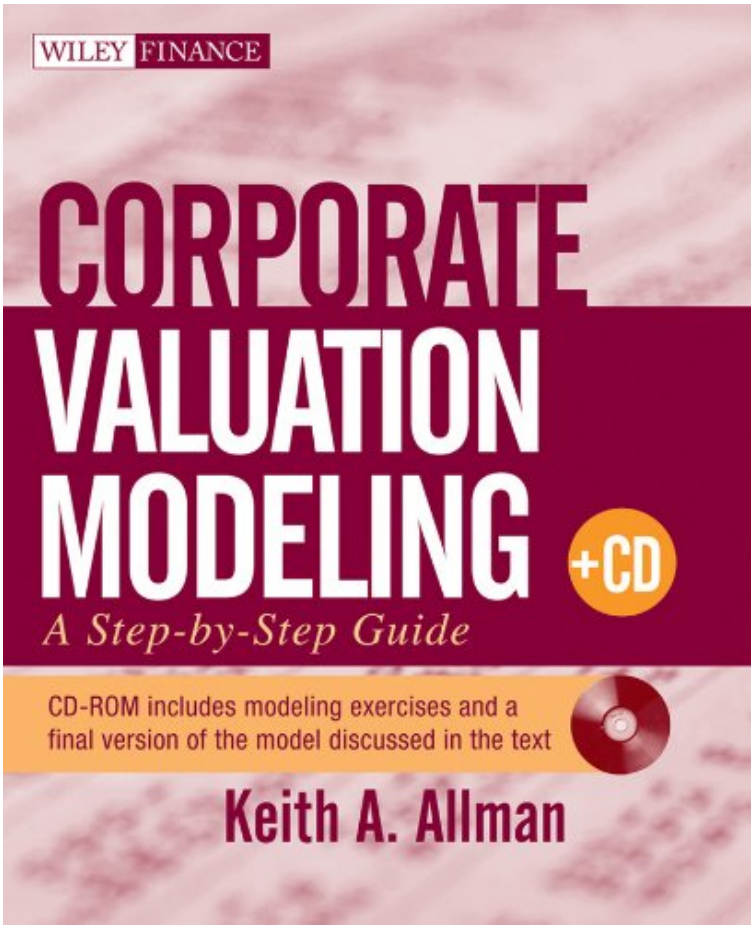
Corporate Valuation Modeling: A Step-by-Step Guide (Wiley Finance)

Keith A. Allman



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Keith A. Allman : Corporate Valuation Modeling: A Step-by-Step Guide (Wiley Finance) before purchasing it in order to gage whether or not it would be worth my time, and all praised Corporate Valuation Modeling: A Step-by-Step Guide (Wiley Finance):

20 of 20 people found the following review helpful. Better than other modelsBy O. HaneefThere are many different variations on the basic DCF valuation model. Every bank has one, every business school has one, and everyone modifies it for their own purposes.Keith's book offers some distinct advantages: (1) It actually walks you through the steps of building the model, instead of simply typing the inputs into one. This will ensure you understand it, but it might take some time to build it. (The full model is included for people who want to skip the typing). (2) Secondly, it is a "full blown" model and not a simplified version of one. While the first is common, and the second is common, the combination is (in my experience) uncommon.More interestingly, (3) this model is more advanced than most of the others out there. The primary improvement is he has more "checks and balances" thrown in. The model has little checks that make sure cash ties through, that the extra cash pays off the debt, that capital expenditures are accounted

for and that their depreciation pours through the income statement etc. This is invaluable. It does make it complicated, and sometimes I had circular references that were hard to fix, but this just forced me to deal with what was really going on in the model.All in all, nicely done.20 of 21 people found the following review helpful. Across the Board Superb; Should be Regarded as a Gold StandardBy mattdbergmanDeserves Recognition As Simply Top-NotchFirst off, apologies for the length.I'm an admitted total geek for business valuation and modeling, so I can speak with at least the knowledge of having read extensively and continually on the topic. If you're someone who wants to learn both how to build a model in Excel (and how to use VBA), while also getting broad (relatively speaking, the book is not a valuation treatise, nor is it intended to be used as one), coverage of the underlying mechanics of valuation and if you're limited to choosing just a single book as your source of learning, go with this gem. I'm frankly shocked that it's not routinely mentioned as a matter of course when someone asks the "How can I learn to Model?" question.What makes this book special is, ironically, the very quality that one of the other comments complains about: constructing financial models and valuing businesses while no doubt critically linked, are discrete, independent topics of study. You need to master both of them and also how they fit together. And that's exactly the premise of this book, from the introduction onward and I really believe that it's unique at least as standalone books go (e.g., you could read all of Prof. Damodoran's books and then teach yourself how to use his million spreadsheets - and I strongly suggest it, the man is amazing - but you could spend a life time simply getting through everything he has out there). Most books in the genre will come with a supporting spreadsheet (see McKinsey), but will say literally nothing on how to use either Excel or the modeling template. In terms of actually integrating the two, really only Bennigna is in the class of Mr. Allman's book and again, that's an advanced corporate finance textbook.In one corner is the science and art of building the model which entails, inter alia, (a) the extensive Excel skills required, (b) the mastery of modeling "best practices", which by and large have nothing at all to do with valuation - think, e.g., clearly distinguishing input cells from formula cells, never hard coding an input into a formula, entering each input only once (and the use a basic =(cell) formula to link to that input if you want it visible at multiple points in the model), (c) stylistic considerations, which if you ever plan to show your model to someone else, sadly often matter just as much as the model's content, and, most importantly, (d) ensuring at each step that your model (i) flows dynamically, linking your assumptions to your inputs to your formula-derived outputs; (ii) has all data and formulas properly validated; (iii) has a ready-to-go circularity breaker for use if needed and (iv) features top notch functionality in respect of scenario analysis, allowing the user to review each case modeled by basically flipping a switch.And, of course, in the second corner, is the ever-broadening field of business valuation. I note that the following is geared to those just getting interested in the area, not to professionals who don't need this basic background. Corporate valuation, as a field, off the top of one's head, entails at least nine distinct methodologies by which a company can sometimes be valued (ten if you want to throw real options analysis in) and that's simply listing "discounted cash flow analysis" as one of those nine; obviously, there's an extensive subset f DCF models (dividend discount, FCFE, FCFF - and for each of these there are additional iterations based on how many stages of the company's growth you need to model and the characteristics of the growth) and also proposed alternative models that still fall within the "intrinsic valuation" family (Discounted economic profit, adjusted present value, excess return/residual income just to throw out a few).All that said, if you can prepare a truly robust, all the bells-and-whistles operating model for a firm, as well as a discounted cash flow analysis with corresponding sensitivity tables, doing all the rest is a breeze - with the possible exception, for me, of highly detailed LBO models, but one area where this book absolutely shines is in its highly detailed coverage of modeling debt and interest, which obviously is paramount in an LBO model.As one of the other comments notes, most books that purport to teach "corporate valuation" and which aren't really just valuation texts with lots of equations and subscript w/ a vague reference to some spreadsheet somewhere, almost, without exception, go the opposite extreme and largely teach modeling exclusively, maybe a bit of accounting and if you're lucky get as far as distinguishing FCFE from FCFF. And frankly, a truly exhaustive treatment of the valuation methodologies and step-by-step instructions on how to model each would be a multi-volume treatise.So in that context, what Mr. Allman has done in about 250 pages is remarkable IMHO - this is not a book of vague platitudes, a book that rambles about its super-secret excel macros or a book that basically just covers Excel and then throws a model at you and says, hey, here it is. It is a painstaking, exhaustive - quite literally cell-by-cell across a model that contains nearly ten worksheet tabs - technical and yet 100% practically oriented instruction manual for constructing a top of the line operating model and DCF model. Seriously, if done exactly as guided, this is the kind of model that would have a client simply loving his banker. I have no hesitation in saying that it's the best core operating model I've seen (while it doesn't go truly nuts and like break sales out by segment, it does actually lay out a unit and COGS build to provide additional support for sales, as well as supplementary inventory info on the balance sheet).Now, with apologies, before this review becomes its own book, let me get to exactly why this book is a must have:1. Organizationally superb and with a consistent scheme - instead of clerical data entry, you're learning exactly how to enter the data and why you're entering it in respect of your valuation.a. Each chapter follows an identical structure. First, a treatment of the financial valuation topic to be modeled. In this respect, for a book of its size, the breadth of the coverage is masterful and the depth is more than appropriate. Have a look at the index online. The coverage of the finance is concise, but each sentence has a purpose.

You just don't see "how to" books that actually broach using an implied equity risk premium and a "bottom up" forward-looking beta which would allow for the impact of increased financial leverage on cost of equity in a way that a historical regression beta simply cannot. And just because I happen to a bank finance lawyer, this is one area where I can tell you, I've seen so-called guides centering only on syndicated loans/capital structure that aren't as accurate and thorough as the coverage here. I can say categorically I've yet to come across another book in the genre that even tosses out the terms "LIBOR", "cash sweEp", and "senior subordinated debt" amongst others.b. Following the financial overview are numerically coded "Model Builder" sections. It's in these parts where the model is built cell by cell. What's most impressive about the Model Builders are that unlike so many other training materials, they don't take building the model an exercise in clerical data entry. Yes, you do enter considerable data, but that's life and critically, the actual numbers entered are largely ancillary to the detailed excel instructions and additional detail as to the substantive valuation. The book doesn't just go say "enter $5 in cell b4" - it tells you both exactly how to make the entry and why you're making it - and that's just incredibly valuable and rare.c. Finally, each chapter has a "Toolbox" section. The Toolbox provides tremendously detailed and insightful explanations of several Excel functions (and combinations of functions) which are otherwise not at all intuitive - you can read the actual definition of the VLookup, HLookupm Offset, Index and Match functions in Excel over and over and have no idea what they do, let alone in conjunction with each other. The "Toolboxes" spell out exactly why these functions are helpful or required in progressing the model, i.e. you walk away knowing what the function is supposed to do and also with a clear idea of how it relates to substantive aspects of your model. I would probably note that if you're an Excel novice, in some chapters, it's worth it to read the "Toolbox" section once at the start (but do read it again in order, as well).2. Masterful combination of Mr. Allman teaching precisely now to build the model and providing the final version as a reference, while at the same time having the experience and sense of building it yourself. One feature of his approach that is non-conventional is that he's not having you enter all the historical financial info and make projections at the outset. Really, the actual numbers ultimately populate themselves at a latter stage. Certainly not something that I think would be workable with a real model but I don't think Keith Allman is purporting it to be, it's, I think, a philosophical training tool to get you to focus on the "why" of the data entry not the numbers. There's certainly more than sufficient coverage for an intro book as to how to forecast revenues. And in a sense, the actual numbers not showing up until late in the game is actually fitting. Yes, a valuation model is full of numbers. But the dirty little secret is that with probably more than half those numbers, nobody knows or is capable of knowing, if they're right. They'll have to fit, in the sense of balancing the balance sheet,but no one can tell you to the decimal or to the dollar how on the money your projections are (though always a good idea to compare against equity research for a sanity check). Really, if I tell you that projected sales in forecast year 1 are 100 and in year 2 110, I've told you virtually nothing except that I'm projecting some growth over that period. Of much greater value is to grapple with turning that into a percentage growth figure and more importantly, putting that number in its proper context (e.g. given the company's financial and business profile, does that level of sales growth make sense?)3. This is a legitimately complex operating model with most of the bells and whistles. It's "top of the line" as operating models go in the level of detail provided in the schedules and in the level of functionality provided for. If you can thoroughly understand all aspects of this model, you're off to a great start. If I have any real nit-pick with the book and model is that it doesn't model out the potential dilutive effects of stock options and convertible debt (though converts and the notion of dilution are touched on in the text). Mr. Allman does an excellent job distinguish and showing how to reconcile FCFE and FCFF but really doesn't address the corresponding concept of equity value and enterprise value. It doesn't really matter in the end, the book gets you where you need to go, but the process of moving from equity value to enterprise value would allow for some discussion of interesting and sometimes complex concepts, e.g., cash and cash equivalents net (or gross, depending on preference) debt, non-controlling interest, capital leases, etc. While I hope he'll consider including expanded coverage of those areas in the future, the book more than makes up for it, because its treatment of debt and interest is so sophisticated and that's just harder to find than an explanation of the treasury stock method. But this is the kind of model where given the high level everywhere else, where I would've imagined the company would have had a few tranches of options as well as some converts and that the calculation of dilution using the treasury stock method, as well as the impact of In-the-Money Convertibles, not only on dilution but also on net debt (the basic point is that convertible debt is something of a hybrid, and if it's converted, the new fractional shares created are added to dilutive shares outstanding and all the converts cashed in are then subtracted from any calculation of net debt) would have been set out in detail.4. As with the modeling techniques, complex valuation issues aren't danced around, with the one exception noted above. While obviously not a valuation treatise - and the book aims for practicality, not academic debate - the concepts chosen for emphasis tend to run both sophisticated in nature and in the author's presentation of them.5. Finally, this is one of those rare books, particularly if you're the compulsive type, that you can take some comfort in knowing that getting through the 250 pages requires some real work and thought, all to good end. Certainly you'll constantly continue to develop your modeling and valuation skills, but you can feel confident that this book actually does exactly what it states it will do in its introduction. I happen to love authors who actually do what they claim they will. E.G., there shouldn't be any shock that there's not a word in this book about trading and acquisition

comps, or LBO analysis or accretion/dilution, as it's made quite clear at the outset exactly the parameters of the model you'll be building. And there's just no question that learning this stuff is about learning how to do the basic operating and DCF models perfectly, along with all the schedules. With that info in hand, doing a public company comparable, or a merger analysis, at least in terms of the modeling work (there will be lots of reading of SEC filings and equity research), isn't any harder - and indeed in some cases is easier - than the material covered here.Working with this book is at each step, interactive, rigorous (yes, tough at times) and worth every second. I couldn't recommend it more highly.0 of 0 people found the following review helpful. I am very pleased to have a detailed template for how to make ...By Morris PearlAs per other reviews, the book goes step by step, building an elaborate spreadsheet to value a company.Mr. Allman seems to have in mind a financial company. He pays a lot of attention to a circular dependence of calculations (cash depends on earnings, and earnings depends on cash, through investment income. He does not really spend a lot of time on how one might forecast inputs for the future, but he wants to get very precise earnings forecasts, given the model inputs.I am very pleased to have a detailed template for how to make all of the financial statements in my model tie together exactly correctly.

A critical guide to corporate valuation modeling Valuation is at the heart of everything that Wall Street does. Every day, millions of transactions to purchase or sell companies take place based on prices created by the activities of all market participants. In this book, author Keith Allman provides you with a core model to value companies. Corporate Valuation Modeling takes you step-by-step through the process of creating a powerful corporate valuation model. Each chapter skillfully discusses the theory of the concept, followed by Model Builder instructions that inform you of every step necessary to create the template model. Many chapters also include a validation section that shows techniques and implementations that you can employ to make sure the model is working properly. Walks you through the full process of constructing a fully dynamic corporate valuation model A Tool Box section at the end of each chapter assists readers who may be less skilled in Excel techniques and functions Complete with a companion CD-ROM that contains constructed models, this book is an essential guide to understanding the intricacies of corporate valuation modeling. Note: CD-ROM/DVD and other supplementary materials are not included as part of eBook file.