

# Valuation Techniques

There are many business valuation techniques available to compute value and are usually classified into income, market and cost approaches. The techniques used more often by eValue, and by analysts around the world, to calculate the value of a business consider the company future income and the market multiples of public companies and actual M&A transactions.



Discounted Free Cash Flow

## Discounted Future Economic Income

This technique is based on the potential of a business to generate a specific kind of economic income, free cash flow. In theory, the value of a business or an interest in a business depends on the future benefits that will accrue to it, with the value of the future economic benefits discounted back to a present value at some appropriate discount rate. In other words, the basic concept of the income approach is to project the future economic income

associated with the investment and to discount the projected income stream to a present value at a discount rate appropriate for the expected risk of the prospective economic income stream. This technique is a very power analytical tool and is used as first approach to compute value by financial institutions. The technique is also called Discounted Free Cash Flow.



Public Company Multiples

## Guideline Publicly Traded Company

This valuation technique uses information of public companies to calculate the value of a business. The purpose of compiling guideline company statistics is to develop value measures based on prices at which stocks of similar companies are trading in a public market. The value measures thus developed will be applied to the subject company's fundamental data and correlated

to reach an estimate of value for the subject company or its shares or other interests. Market analysts and financial institutions regard this technique as a reliable way to compute the value of a company and often use it to compare the results from other techniques like the Discounted Future Economic Income. eValue knows how to identify the public companies more suitable to value the subject company, a task that is a very delicate one. The variables more often used by eValue to develop market multiples with this technique are Revenue, EBITDA, Net Income and Total Assets.



### M&A Transactions

### **Guideline Merged and Acquired Company**

This technique uses actual prices paid in M&A transactions for a whole or a part of a company similar to the one being valued. The essential difference between this technique and the previous one is the nature of the market data used as a starting point. In the previous technique, non controlling ownership interest transactions are used, mostly in the public stock market and thus fully marketable. With this technique data on transfers of controlling

ownership interests, usually (but not entirely) 100 percent ownership interests are used. eValue knows how to identify the M&A transactions more suitable to value the subject company, a task that is a very delicate one. The variables more often used by eValue to develop market multiples with this technique are Revenue, EBITDA, Net Income and Total Assets.

### **For More Information**

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