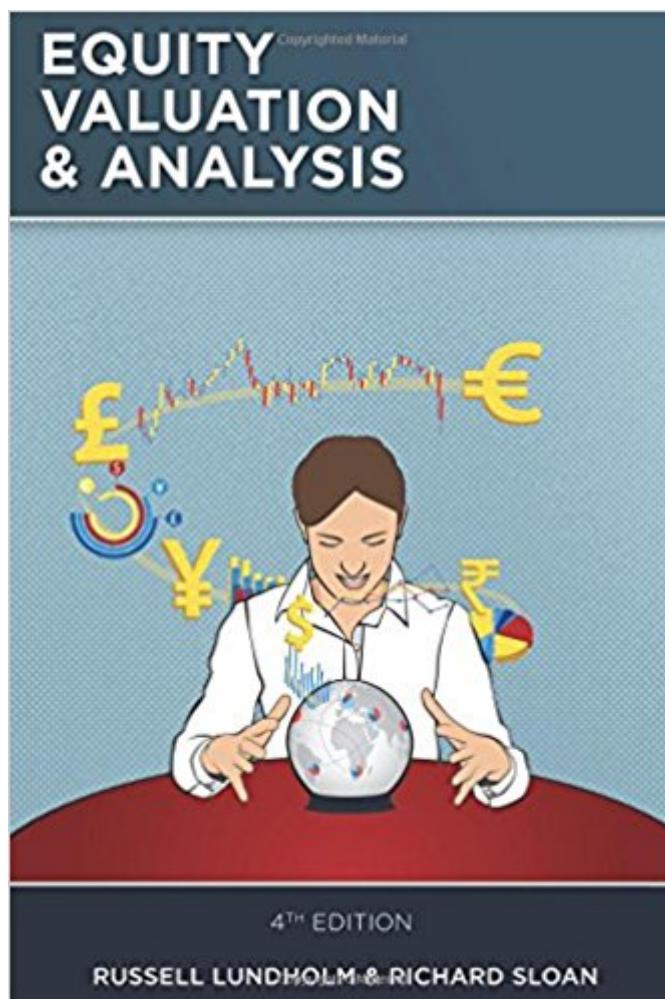


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Equity Valuation And Analysis: 4th Edition



Synopsis

WHY THIS BOOK? This book spans the void between the abstract theoretical treatment of equity valuation and the practical problem of valuing an actual company using real-world data. We give serious treatment to the underlying theory of financial analysis and valuation, but our main goal is to be able to arrive at a pragmatic answer to the important question, “what is this company really worth?” To answer this question, we adopt a different approach from other textbooks. The key differences can be summarized as follows: 1. Our focus is on generating good financial statement forecasts. 2. We provide detailed practical guidance on how to obtain and analyze relevant real-world data. 3. We demystify the mechanics of equity valuation. Our overriding theme is that good forecasts of the future financial statements are the key input to a good valuation. Most other aspects of the valuation process are mechanical and can be programmed into a computer. In fact, this text refers often to eVal, a fancy Excel workbook that provides a template for these many mechanical tasks and is freely available. As with many other textbooks, we discuss topics like business strategy analysis, accounting analysis, financial ratio analysis, and so forth. However, we always do so with a clear view to how these analyses help us to generate better financial statement forecasts. We also provide plenty of advice on where to go to obtain the most relevant raw data. Armed with such a rich source of data, we are able to provide you with plenty of practical examples and limitless opportunities for you to practice doing your own analyses. A final goal of this book is to demystify the valuation process. In the past, we have seen students become lost in a sea of valuation formulas and inconsistent spreadsheet models. For example, students get confused as to whether they should use a DDM, DCF, or RIM valuation formula and whether they need to use the CAPM, APT, or MFM to estimate their WACC (and to how many decimal places). They become obsessed with learning acronyms and formulas but flounder when asked to provide a plausible valuation for an actual company. We demonstrate that these different formulas are easily reconciled and refocus students on developing the best set of financial forecasts to plug into these formulas. This reinforces our main point that the key to good valuations is good forecasts. HOW DOES ALL THIS HELP YOU? The theory of financial analysis and valuation is more compelling when linked to real-world examples. The abstract theory of financial statements, ratios, and valuation formulas can be covered in a few boring lectures. What makes this topic exciting is seeing how an organized approach to studying a real company leaves you so much better informed about the firm’s future. Is Apple really worth more than any other public company in the world? The answer is probably yes, once you understand its free cash flow generating ability. Tesla wants to produce and sell hundreds of thousands of cars in the future, but can it generate enough cash from existing sales

to fund the production of all these new cars? A careful study of their cash flows shows that they will almost certainly be borrowing lots of money to build all these cars. Financial statements, accounting rules, financial ratios, and valuation models are all pretty dull beasts on their own, but if we can use them to answer questions such as these, we can really bring them to life. By blending the theory of equity analysis with practical application, we feel that students learn both more effectively. The book is supported by a comprehensive set of free online resources, including software, cases, and quizzes, all available at <http://www.lundholmandsloan.com>

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Customer Reviews

Russell Lundholm is the Alumni Professor of Accounting at the University of British Columbia Sauder School of Business. He holds a PhD in Business Administration and a Masters of Science in Statistics from the University of Iowa. He has also taught at the University of Michigan from 1993 to 2010, and at Stanford University from 1987 to 1993. Professor Lundholm's research has been published in the *Review of Accounting Studies*, the *Journal of Accounting Research*, *The Accounting Review*, *Contemporary Accounting Review*, the *Journal of Finance*, the *Review of Financial Studies*, *Econometrica*, and the *Journal of Political Economy*. His principal teaching specialty is financial statement analysis, with a particular emphasis on financial forecasting and equity valuation. His work has been covered extensively in the popular press, including *Forbes*, the *New York Times*, the *Wall Street Journal* and *Fortune*. He regularly speaks to organizations in the industry about forecasting and valuation techniques. Richard Sloan is Visiting Professor of Accounting at the University of Southern California and is on leave from the University of California

Berkeley, where he holds the Emile R. Niemela Chair in Accounting and International Business. From 2006 to 2009, Sloan was a managing director in equity research at Barclays Global Investors. He has also served on the faculties of the University of Michigan's Ross School of Business and the University of Pennsylvania's Wharton School. While at the University of Michigan, Professor Sloan was the founding director of the John R. and Georgene M. Tozzi Electronic Business and Finance Center. Professor Sloan's research focuses on the role of accounting information in investment decisions. His research has received numerous awards, including the American Accounting Association's Seminal Contributions to the Accounting Literature Award (2016), the American Accounting Association's Distinguished Contributions to the Accounting Literature Award (2010) and the American Accounting Association's Notable Contributions to the Accounting Literature Award (2001, 2009). He is also an editor of the Review of Accounting Studies and an associate editor of the Journal of Financial Economics. Professor Sloan holds a PhD in Accounting from the University of Rochester and a BCom(Hons) from the University of Western Australia.

The authors of this text did a pretty decent job of explaining a fairly complex subject. It would have been a huge help if a study guide would have been available in order to help the learning process for some of the tougher subjects. The access to the eVal excel template in my opinion is a HUGE bonus! However a little more explanation of how to decipher what to do with the results of eVal would have been appreciated.

On time, as promised

Didn't purchase the text, borrowed one - however found it extremely useful, informative and easy to decipher.

Aweful

This must be a good book though I haven't read it yet but I will find some time to read it. I hope so!

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