

VALUATION

MEASURING AND MANAGING THE VALUE OF COMPANIES

SIXTH EDITION

McKinsey & Company

Tim Koller

Marc Goedhart

David Wessels



WILEY

Contents

About the Authors ix

Preface xi

Acknowledgments xv

Part One Foundations of Value

- 1 Why Value Value? 3
Review Questions 16
- 2 Fundamental Principles of Value Creation 17
Review Questions 34
- 3 Conservation of Value and the Role of Risk 35
Review Questions 48
- 4 The Alchemy of Stock Market Performance 49
Review Questions 64
- 5 The Stock Market Is Smarter Than You Think 65
Review Questions 93
- 6 Return on Invested Capital 95
Review Questions 116
- 7 Growth 117
Review Questions 134

Part Two Core Valuation Techniques

- 8 Frameworks for Valuation 137
Review Questions 167

9	Reorganizing the Financial Statements	169
	Review Questions	204
10	Analyzing Performance	207
	Review Questions	226
11	Forecasting Performance	229
	Review Questions	255
12	Estimating Continuing Value	259
	Review Questions	280
13	Estimating the Cost of Capital	283
	Review Questions	314
14	Moving from Enterprise Value to Value per Share	317
	Review Questions	336
15	Analyzing the Results	339
	Review Questions	349
16	Using Multiples	351
	Review Questions	372
17	Valuation by Parts	375
	Review Questions	393

Part Three Advanced Valuation Techniques

18	Taxes	397
	Review Questions	411
19	Nonoperating Items, Provisions, and Reserves	413
	Review Questions	430
20	Leases and Retirement Obligations	431
	Review Questions	448
21	Alternative Ways to Measure Return on Capital	449
	Review Questions	471
22	Inflation	473
	Review Questions	487
23	Cross-Border Valuation	489
	Review Questions	511
24	Case Study: Heineken	513

Part Four Managing for Value

25	Corporate Portfolio Strategy	557
	Review Questions	575
26	Performance Management	577
	Review Questions	598
27	Mergers and Acquisitions	599
	Review Questions	627
28	Divestitures	629
	Review Questions	647
29	Capital Structure, Dividends, and Share Repurchases	649
	Review Questions	680
30	Investor Communications	681
	Review Questions	702

Part Five Special Situations

31	Emerging Markets	705
	Review Questions	729
32	Valuing High-Growth Companies	731
	Review Questions	745
33	Cyclical Companies	747
	Review Questions	755
34	Banks	757
	Review Questions	784
35	Flexibility	785
	Review Questions	819
Appendix A	Discounted Economic Profit Equals Discounted Free Cash Flow	821
Appendix B	Derivation of Free Cash Flow, Weighted Average Cost of Capital, and Adjusted Present Value	827
Appendix C	Levering and Unlevering the Cost of Equity	833
Appendix D	Leverage and the Price-to-Earnings Multiple	841
Appendix E	Other Capital Structure Issues	845
Appendix F	Technical Issues in Estimating the Market Risk Premium	851
Index		855