The Valuation School's

MASTERCLASS

VALUATION

Part - 1/30

9 Key Lessons to start with

Hey!

- I welcome you to the 1st part of 30 part Masterclass Series on Valuation.

- Protip - Save this post for Revision

- I hope you will achieve max benefit of this masterclass series and would enhance your Knowledge in Valuations.

Let's Begin

- Before we start learning about valuation, its very imp to understand 9 lessons.

- This will help you to think logically and will keep you on track.

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1. Never percieve value Before hand

- If you have an idea about the value of Target company. It will create anchoring bias.

- You will tweak the valuation in every possible manner to to make it close to your percieved value. Never do that. Period.

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2. Thinking Valuation as Science or Art

- It is neither of them.
- Its a craft
- The story is more imp than numbers.
- Take Eg of cooking - It requires perfect measurements plus experience
- Your first valuation will be disaster
- More you do it; You will get better

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3. Automated & complex models fetch superior valuations

- false, remember you need to keep the valuation as simple as possible.

- Excel model is better than VBA model and plain calculator is better than Excel mode.

- Be a minimalist; Less is more here

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4. Number v/s story

- Most of you are either good with numbers or with stories.
- You can't choose only one when it comes to valuation
- one won't work without other.
- Improve your weaker side. Period.

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5. The Story Behind Numbers

- Valuation works with story
- Valuation of same company can be differed drastically.
- Is TCS an IT service provider? An HR company? or both
- whatever story you choose, the numbers will be dramatically different.

6. The story dilemma

- You must have observed by now that how important story is.
- How to come up with a right story?
- There is nothing such as 'Right story'.
- Ensure your story must fall in one of the three P's
- Possible? Plausible? Probable?

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Possible – Many stories are Possible (Eg– company selling lemonade)

Plausible – fewer stories are Plausible (Eg– lemonade co. become largest in country)

Probable – only handful of stories are probable (Eg– lemonade co. become largest in the world)

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7. focus on Big Picture

- Tonnes of Info is available everywhere
- Its easy to get lost in details while performing valuation.
- Details might be good. But if it doesn't affect cash flows, risk or growth - They do not matter.

- Remember - You have to be a minimalist here.

8. Soft factors →

- Soft factors are things like brand name, Mgmt quality etc.
- Soft factors are often used to justify valuations.
- But in most cases They are worthless
- If they do offer an advantage, the numbers will show that.
- ↑ margins, faster growth etc.

9. Valuation V/S Pricing (V. Imp) →

- People often get confused between these two. But there is huge difference.

- Price is decided by Demand, Supply and momentum. It tells you what ppl are ready to Pay

- Value is derived from cashflows growth and Risk.

If you understood this, You are already ahead of 90% people.

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Assignment of the day

- Identify 3 companies with different products/services and entirely different story (Hint – Tesla – Car? Tech? Battery?)

Mention your Answers in Comments Below.

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