Valuation in Practice

Accounting & Finance

Where valuations go wrong, and how to sanity-check one.

Checks before trusting a number.

Common errors

- Forecasts that never revert to the mean
- Discount rate inconsistent with the cash flows
- Double counting synergies and growth
- Mismatched multiple numerators
- Terminal growth above GDP

Sanity checks

- Implied multiple against the peer set
- Implied market share at the end of the forecast
- Margin against the best firm in the sector
- Reverse DCF: what must be true for today's price

> The most useful check is the implied one: what does the current price already assume? That reframes the question.