

## BRIEF CONSIDERATIONS ON BUSINESS VALUATION METHODS<sup>1</sup>

### BREVES CONSIDERACIONES ACERCA DE LOS MÉTODOS DE VALORACIÓN DE EMPRESAS

### BREVES CONSIDERAÇÕES SOBRE OS MÉTODOS DE VALORIZAÇÃO DE EMPRESAS

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#### ABSTRACT

Nowadays, determining the value of a business has gained significant importance in academic and business fields, as the understanding of the value of an organization has become a key tool for the management and marketing of a business. Accordingly, numerous methods have been developed in order to perform these kinds of practices.

In this article, the most used and current methods in processes of business evaluation are revised, observing their strengths and weaknesses, with the aim of comparing them and determining that the discounted cash flow methods are the most adequate procedures to perform this type of analysis.

**Keywords:** valuation methods, business valuation, discounted cash flows.

**JEL:** G12.

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## RESUMEN

Actualmente, estimar el valor de una firma ha cobrado una importancia significativa en los campos académico y empresarial debido a que conocer el valor de una organización se convierte en una herramienta clave para la administración y comercialización de la misma. De acuerdo con lo anterior, se han desarrollado numerosos métodos para llevar a cabo este tipo de ejercicios. En el presente artículo se revisan los métodos más utilizados en los procesos de valoración de empresas y se resaltan sus fortalezas y debilidades con el fin de compararlos y concluir que los métodos más robustos para llevar a cabo este tipo de análisis son los de flujos de caja descontados.

**Palabras clave:** métodos de valoración, valoración de empresas, flujos de caja descontados.

**JEL:** G12.

## RESUMO

Atualmente, estimar o valor de uma empresa ganhou importância significativa nos domínios acadêmico e empresarial, porque eles sabem o valor de uma organização torna-se uma ferramenta fundamental para a gestão e comercialização do mesmo. De acordo com o acima, vários métodos têm sido desenvolvidos para levar a cabo este tipo de exercício. Neste artigo, o mais utilizado no processo de avaliação de empresas e os seus pontos fortes e fracos são destacados, a fim de comparar e concluir que os métodos mais robustos para realizar este tipo de métodos de análise são os fluxos de caixa descontados.

**Palavras-chave:** métodos de avaliação, as empresas de rating, métodos de valorização de negócios.

**JEL:** G12.

## I. INTRODUCTION

Business valuation plays an important role in the development of the financial theory and its application in the market. It estimates the value of an organization, becomes a fundamental exercise that will help business managers to determine which financial strategy to follow, provides stakeholders with an overview about the financial situation and the expectations of the organization moving forward. However, over the years, many business valuation methods have been developed. These methods do not necessarily produce a unique result. Consistent with the above, it is relevant to review the most popular and currently-used valuation methods.

This article, divided into five sections, revises these valuation methods in order to determine which are the most ideal. In the first section, the accounting methods are revised, by going into detail on the valuation methods through the balance sheet and those methods based on the construction for multiples. In the second section, mixed methods are researched. The third part delves into the methods that incorporate future business

of the shares of a firm -supposing continuity - originated from the cash flow generation to the owners of the shares. Therefore, the most appropriate method to value a Company is to discount the expected future cash flows” (Fernandez, 2008).

In addition, these methods present many advantages. They are considered dynamic methods because the firm value depends on its capability to generate funds in the future, and it is not limited to performing a static analysis considering only the historic information of the organization. In the same line, these type of methods contemplate the economic context in which the business develops its activities and its potential performance in the future. These elements can be incorporated in the projections made to construct valuation models, as well as discount rates and the sector who the company belongs to. As a result, such methods are complete and conceptually correct to develop a valuation exercise. Accordingly, these firm valuation methods are considered suitable for its objectivity, which implies knowing the real firm value and its market offers based on the settlement of its value or its ability of generating, directly or indirectly, funds after its acquisition. These methods are not based on subjective perceptions by their owners or market potential buyers (Pereyra, 2008).

Finally, it is pertinent to reiterate that the reliability of the results obtained through a valuation exercise will largely depend on the analysis and the proper use of the chosen method. Simply performing a business valuation through a discounted cash flow method does not necessarily imply that the exercise is well developed. Quality depends on conceptual clarity and the assertiveness of the analyst to develop the exercise.

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