Investment Valuation

Tools and Techniques for Determining the Value of *Any* Asset

Third Edition

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Preface to the Third Edition

This is a book about valuation—the valuation of stocks, bonds, options, futures and real assets. It is a fundamental precept of this book that any asset can be valued, albeit imprecisely in some cases. I have attempted to provide a sense of not only the differences between the models used to value different types of assets, but also the common elements in these models.

The past decade has been an eventful one for those interested in valuation for several reasons. First, the growth of Asian and Latin American markets brought emerging market companies into the forefront, and you will see the increased focus on these companies in this edition. Second, we saw the havoc wreaked by macroeconomic factors on company valuations during the bank crisis of 2008, and a blurring of the lines between developed and emerging markets. The lessons I learned about financial fundamentals during the crisis about risk-free rates, risk premiums and cash flow estimation are incorporated into the text. Third, the past year has seen the influx of social media companies, with small revenues and outsized market capitalizations, in an eerie replay of the dot-com boom from the late 1990s. More than ever, it made clear that the more things change, the more they stay the same. Finally, the entry of new players into equity markets (hedge funds, private equity investors and high-frequency traders) has changed markets and investing dramatically. With each shift, the perennial question arises: "Is valuation still relevant in this market?" and my answer remains unchanged, "Absolutely and more than ever."

As technology increasingly makes the printed page an anachronism, I have tried to adapt in many ways. First, this book will be available in e-book format, and hopefully will be just as useful as the print edition (if not more so). Second, every valuation in this book will be put on the web site that will accompany this book (www.damodaran.com), as will a significant number of datasets and spreadsheets. In fact, the valuations in the book will be updated online, allowing the book to have a much closer link to real-time valuations.

In the process of presenting and discussing the various aspects of valuation, I have tried to adhere to four basic principles. First, I have attempted to be as comprehensive as possible in covering the range of valuation models that are available to an analyst doing a valuation, while presenting the common elements in these models and providing a framework that can be used to pick the right model for any valuation scenario. Second, the models are presented with real-world examples, warts and all, so as to capture some of the problems inherent in applying these models. There is the obvious danger that some of these valuations will appear to be hopelessly wrong in hindsight, but this cost is well worth the benefits. Third, in keeping with my belief that valuation models are universal and not market-specific, illustrations from markets outside the United States are interspersed throughout the book. Finally, I have tried to make the book as modular as possible, enabling a reader to pick and choose sections of the book to read, without a significant loss of continuity.

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