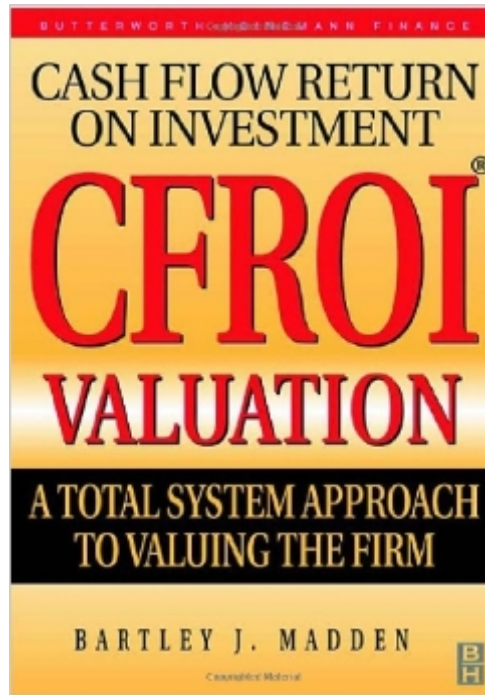


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# CFROI Valuation



## Synopsis

What generates shareholder value? How can it be evaluated? How can it influence investment decisions and corporate strategy? Cash Flow Return On Investment answers all these questions by detailing the pioneering financial research carried out by HOLT Value Associates, the leading consultancy in the field. Read this book if you want to find out what really drives the wealth generation in any business, allowing you to pick which equities will succeed and which strategic initiatives are destined for high returns. The CFROI model is an essential tool for professionals working in finance and corporate strategy. It clarifies how economic value is created in a firm and acts as a reliable guide to:

- \* making investment decisions
- \* taking key strategic decisions

understanding economic value Shows how to judge and compare individual equities across markets and company sectors Cutting edge theory and practice The leading book about shareholder value authored by one of the world's leading consultancies in the field

## Book Information

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## Customer Reviews

Madden's text substitutes empirical fact for academic claptrap, clearing away the underbrush of neat-but-erroneous theories like CAPM and EVA, giving the conscientious professional and serious amateur a meticulous roadmap to superior understanding and investment returns. Or in Madden's words, "The employment of CAPM/beta and related procedures has become a ritual due not to empirical usefulness, but to its mathematical elegance - the touchstone of mainstream academic corporate finance." The justification for CFROIs demanding discipline is demonstrated early in the text in an example, wherein the past real record of a hypothetical firm with a stable 6.5

% ROI is converted into GAAP accounting numbers from which an ROI series is calculated. In the accounting-based return history, Madden asks, "Who referring to (the chart) would not be misled about a firm's performance relying on the (ROI gyrating between + 24% and -10%) while the economic performance did not vary?" In short, if you don't know the facts, you can't solve the mystery. The predictive and interpretive powers of the system's valuation metric is the result of plain hard work, not the magical properties of some lazy man's statistical dowsing rod like Earnings Momentum. Last widely employed during the Tulip Craze of an earlier century, Earnings Momentum is based on the dubious concept that as long as accounting earnings, surreal and manipulable though they be, go up, the stock should go up as fast as it does go up, unless earnings don't go up as fast as expected, in which case we've been disappointed, so it's not worth anything until the bookies can reestablish the odds.

Madden's "CFROI Valuation" is a good primer on valuation, especially for non-financial practitioners, managers, and executives of public firms who have been pounded in the last decade with the goal of maximizing shareholder value today - even at the risk of tomorrow. A cursory review of numerous other books and articles on valuation shows that the topic has become somewhat of an art-meets-science cliché. Madden provides a relatively fresh approach on the topic using the cashflow return on investment (CFROI) perspective. Standard valuation is largely driven by a measure of cashflows, the long and short term capital investment required to achieve such cashflows, the growth and sustainability of such cashflows, and a cost of capital used to fund such activities. Here the science begins to shift into art - to determine what to do with the cashflows - usually to discount them and/or to apply some metric to arrive at value. Similar to other widely read valuation books such as Koller's "Valuation" published by McKinsey & Co. and "Damodaran on Valuation", I would recommend this book especially to non-financial managers and executives, as an informative, introductory primer on valuation. Madden provides easy-to-understand, step-by-step guidance on valuing a company including analytical assumptions (remember the art!). Though much of the book is presumably written from the perspective of an institutional investor analyzing stocks, Madden delves into CFROI with enough breadth to make valuation and other financial professionals ponder its broader applications.

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