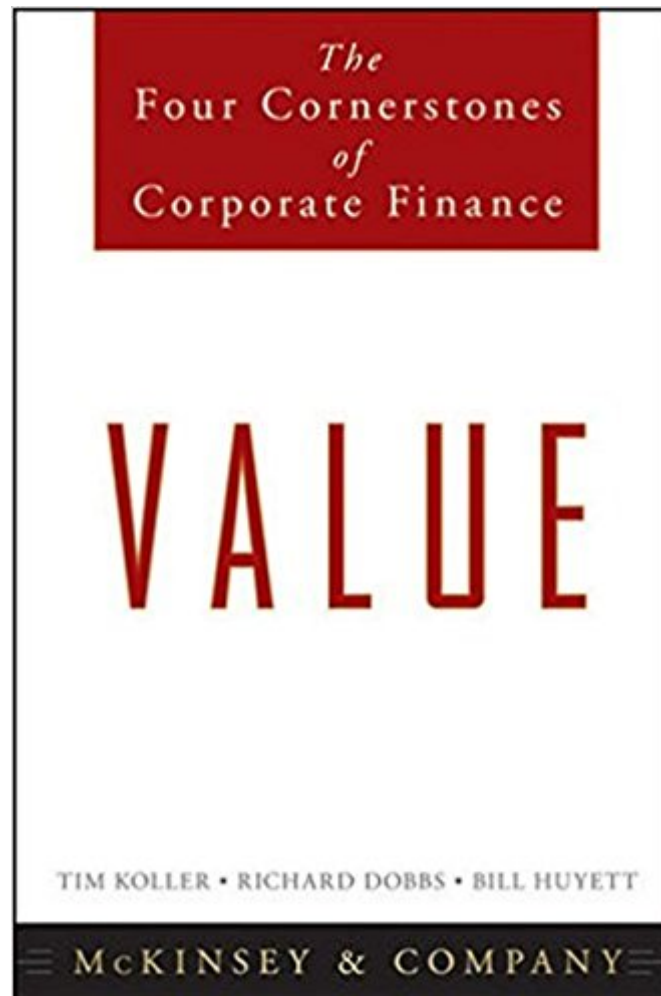




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# Value: The Four Cornerstones Of Corporate Finance



## Synopsis

An accessible guide to the essential issues of corporate finance While you can find numerous books focused on the topic of corporate finance, few offer the type of information managers need to help them make important decisions day in and day out. Value explores the core of corporate finance without getting bogged down in numbers and is intended to give managers an accessible guide to both the foundations and applications of corporate finance. Filled with in-depth insights from experts at McKinsey & Company, this reliable resource takes a much more qualitative approach to what the authors consider a lost art. Discusses the four foundational principles of corporate finance Effectively applies the theory of value creation to our economy Examines ways to maintain and grow value through mergers, acquisitions, and portfolio management Addresses how to ensure your company has the right governance, performance measurement, and internal discussions to encourage value-creating decisions A perfect companion to the Fifth Edition of Valuation, this book will put the various issues associated with corporate finance in perspective.

## Book Information

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## Customer Reviews

marches the reader through the very practical issues that affect value. (Financial Times, November 2010).

From the team behind Valuation—the #1 bestselling reference on corporate finance—comes a decision-making guide for all executives to use as they create, manage, and sustain shareholder value. Corporate leaders are regularly confronted with conventional

wisdom and half-truths about value creation. They're given conflicting advice about what will or won't appeal to investors, often contradicting their own judgment about what builds lasting worth in their companies and the economy. In *Value: The Four Cornerstones of Corporate Finance*, partners from the management consulting firm of McKinsey & Company describe the basic principles of value creation and their relevance. Internalizing these principles – or cornerstones – gives decision makers the independence and courage they need to challenge conventional wisdom, defy half-truths, and build thriving businesses. The four cornerstones are:

- The Core of Value: a business's value is driven by its growth and return on capital, and resulting cash flows
- The Conservation of Value: value is created when companies generate higher cash flows, not by simply rearranging investors' claims on cash flows
- The Expectations Treadmill: movements in company share prices reflect changes in the stock market's expectations, not just underlying performance
- The Best Owner: the value of a business is not an absolute but, rather, depends on who is managing it and the strategy pursued

While there are many books that cover selected topics within corporate finance – often for specialized practitioners – it's the rare book that offers leaders a unifying viewpoint of business. *Value* is that book.

In summary, a lot of good insights in a small read. Really worth the time. *The Four Cornerstones of Corporate Finance - VALUE* by McKinsey & Company was written by three McKinsey consultants, Tom Koller, Richard Dobbs and Bill Huyett and focuses on four factors that drive the value of a company:

- \* The Core of Value: growth, return on capital and the resulting cash flows.
- \* The Conservation of Value: the desire for high cash flows over accounting gimmicks that simply rearrange existing cash flows.
- \* The Expectations Treadmill: how market expectations, as reflected in the stock price, can become the tail wagging a dog's performance.
- \* The Best Owner: how the value of a business is tied to who is managing it, and how management requirements change as the business ages.

Traditional capitalist theory holds that above-costs-of-capital returns should be competed away, but the McKinsey team uses their experience and access to the extensive data at the McKinsey Global Institute to show that theory and the real world can be made to part ways. While their explanations of how to optimize value are well detailed, the reader need not be a CPA to come away with key insights. For my part I believe this text is an ideal tool for aligning the strategic thinking of Outside Board members, Executive Management and employees, who actually manufacture the "value" on the same page in terms of how to think about and measure value. I recommend this book to any new clients where I find a lack of symmetry between where the leadership is trying to direct the firm and where the employees are actually

taking it. Of all the management books at , this is the one Shareholders should want on the desks of employees creating value for them. Like most good management books, this one rewards the reader early with insights, and keeps them coming without the drone of a McKinsey sales pitch. Ever since college, I've made a point of highlighting and notating almost any book I read. In reviewing my highlighting of this text I note that the examples are, once again, the type which almost anyone can follow. They communicate nuance without losing the lay reader and for this reason I find the text is not only helpful for those working in a large corporate environment, but also helpful for employees building a startup business. In term of getting value for what you paid, this text is a real bargain.

This book lives at the nexus between a corporate finance textbook and a popular management book. It condenses a lot of information that seems like the stuff you'd learn in the first year of business school, but yet is very instructional for anyone just learning organizational capitalism and all that it entails. I imagine this would be an excellent refresher for highly motivated executives as well, although I'm not sure there are many of those around. I took the advice of another reader who recommended pairing this with the McKinsey Valuation Workbook, but I had to do a lot of side research to fill in some technical gaps. I might have been better served with the more advanced and regularly updated Valuation, but I appreciated the brevity and condensing of valuable topics into a fairly short read. I would definitely recommend this book, if you have sufficient motivation to really READ it.

This book filled in many of the gaps in my understanding of corporate finance. While I had a sense of how maintaining a high ROIC along with sustaining growth would create value, I was shocked to learn how volatility actually works. The book explained how different types of traders with totally different strategies naturally will cause sort of arbitrary day-to-day volatility that nonetheless still does not stray too far from intrinsic value over time. Being a relatively short term trader myself of highly researched stocks with a full portfolio turnover every month, I thought market movement occurred exclusively according to new information so chapter 6 was elucidative for me. (I would probably qualify as an "intrinsic investor" according to chapter 6 since I make investment decisions based on the intrinsic value of the firm). Moreover, because the authors were writing for a specific practicing audience of public company managers, they conveyed information and context that you may not get in class. For example, the authors explained to managers how investors and analysts get involved in irrational behavior when asset bubbles arise.

They also explained how macroeconomic factors (currency/inflation/etc) are included in investor analyses and also how investors may anchor current performance in future expectations. All of these discussions had the effect of teaching managers to manage based on intrinsic valuation and not to be misled by investors. One of the most striking discussions was how managers should not potentially destroy value by trying to meet arbitrary short term earnings expectations that not only are empirically inaccurate, but also are futile in stopping natural volatility. I hope to be able to disregard such poor decision making in the face of arbitrary expectations if I am in such a position. Another discussion which was striking was the risk management discussion. This required me to develop my understanding of risk and realize that not all risk should be avoided but they should be understood.

I've read many books about business and the economy--but none as comprehensive and well presented as this one. It's as simple as it is insightful. Don't be confused: this isn't really a book about corporate finance. It's really an epistle on what makes for successful thinking in business. As a professional Human Resources leader and a graduate student in Organizational Development, this book has guided me to the heart of how value is either created or destroyed in a company. I especially benefited from chapters 10 (Return on Capital) and 11 (Growth), as they helped me boil down all of the literature on corporate strategy into a simple framework that makes clear sense. Two thumbs up for Value!

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