

Disrupted or Discounted Cash Flow: Impact of Digitisation on Business Valuation

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Abstract : This article discusses the impact of digitization on business valuation. In order to become and remain 'digital', investments are necessary whose return on investment (ROI) often remains vague. This uncertainty is contradictory for a valuation, that rely on predictable cash flows, fixed capital structures and the steady state. However digitisation does not make a company valuation impossible, but traditional approaches must be reconsidered. The authors identify four areas that are to be changing: (1) Tools instead of intuition - In the future, company valuation will neither be art nor science, but craft. This does not require intuition, but experience and good tools. Digital evaluation tools beyond Excel will therefore gain in importance. (2) Real-time instead of deadline - At present, company valuations are always carried out on a case-by-case basis and on a specific key date. This will change with the digitalization and the introduction of web-based valuation tools. Company valuations can thus not only be carried out faster and more efficiently, but can also be offered more frequently. Instead of calculating the value for a previous key date, current and real-time valuations can be carried out. (3) Predictive planning instead of analysis of the past - Past data will also be needed in the future, but its use will not be limited to monovalent time series or key figure analyses. With pictures of 'black swans' and the 'turkey illusion' it was made clear to us that we build forecasts on too few data points of the past and underestimate the power of chance. Predictive planning can help here. (4) Convergence instead of residual value - Digital transformation shortens the lifespan of viable business models. If companies want to live forever, they have to change forever. For the company valuation, this means that the business model valid on the valuation date only has a limited service life.

Keywords : business valuation, corporate finance, digitisation, disruption

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