

VALUATION OF FIRMS USING ACCOUNTING VARIABLES

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ABSTRACT

This study provides an empirical examination of whether we can predict the market value of publicly traded companies by means of accounting and cash flow variables. We address two research questions in this paper. First, we determine if accounting variables can be used to estimate a significant portion of the total variability of the market value. Second, after dividing the companies into three equally sized groups (small, mid, and large market value companies), we validate whether we can value sub-groups separately in a similar way using accounting information. Our sample consists of 1694 actively exchange-traded non-financial companies, each with market value along with other 23 independent variables. Our results confirm the ability of using as few as five variables to explain more than 90% of the variation in large firm's market value. For small and mid-sized firms, five variables explain less than 50% of the variation in market values.

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