VALUING FINANCIAL CONGLOMERATES

Stylised factors and new evidence from financial crises

Claudia Curi

The aim of this book is to provide an innovative analysis of the financial conglomerate phenomenon by combining both theoretical and empirical research methods. Moreover, new empirical evidence of the impact of diversification during the 2008-2009 and 2010-2011 financial crises on the shareholder value is presented. The book also discusses current issues and future directions for research.

Recent research questions whether diversification in financial conglomerates enhances or destroys shareholder value, thus whether financial conglomerates trade at premium or discount compared to specialized banks. Empirical evidence shows that prior to the financial crisis, there existed substantial and persistent conglomerate discount among financial intermediaries. However, the global financial crisis of 2008-2009 and the European debt crisis of 2010-2011 have sparked off an active debate among financial economists about the so-called "diversification discount" or lack thereof, as the value of diversification might have changed, and if so, why. The aim of this book is to provide an innovative analysis of the financial conglomerate phenomenon by combining both theoretical and empirical research methods. Moreover, new empirical evidence of the impact of diversification during the 2008-2009 and 2010-2011 financial crises on the shareholder value is presented. The book also discusses current issues and future directions for research.

Claudia Curi is Assistant Professor of Corporate Finance at the Faculty of Economics and Management of the Free University of Bolzano-Bozen since 2012. She teaches Corporate Finance and Project Finance. Before joining Free University of Bolzano-Bolzen Claudia was Research Economist at the Central Bank of Luxembourg and Postdoctoral Researcher at the Luxembourg School of Finance. Her main research interests are on the theory and empirical analysis of corporate finance and financial intermediation. She has published articles on international banking, bank business models, and financial crisis. She holds a PhD in Economics and Management Engineering and an MBA from the University of Rome, Tor Vergata.
But are financial conglomerates the wave of the future in finance? And if so, how are they to be regulated? White would allow banks to use historical costs only where market values or estimates are unavailable. Furthermore, since timeliness is critical for bank regulation, White supports bank financial reporting on a weekly, if not daily, basis. Since banks (and other financial institutions) already close their books daily, White believes more frequent public and regulatory reporting would be feasible and minimally burdensome. Conglomerate discount isn’t what its name may suggest. It’s a drawback for a conglomerate with multiple sections/divisions/companies, all of which aren’t generally successfully run as a cohesive unit. As a result, the market may discount the value of a multi-division corporation, giving less value to its earnings. Calculating the Conglomerate Discount. As mentioned above, a conglomerate discount isn’t a good or popular thing among most market analysts. Financial conglomerates. The EBA cooperates regularly and closely with the other two European Supervisory Authorities (ESAs), EIOPA and ESMA, through the ESAs’ Joint Committee. The aim of this cooperation is to ensure cross-sectoral consistency of work and to reach joint positions in the area of supervision of financial conglomerates, under the Financial Conglomerates Directive (FICOD, 2002/87/EC). Valuation methods are the methods to value a business/company which is the primary task of every financial analyst and there are five methods for valuing company which are 1. Discounted Cash Flow. The below table summarizes Alibaba’s Discounted Cash Flow Valuation model. DCF is the net present value (NPV) of cash flows projected by the company. DCF is based on the principle that the value of a business or asset is intrinsically based on its capability to generate cash flows. A conglomerate is a company that owns a controlling stake in smaller companies of separate or similar industries that conduct business separately. A conglomerate is a corporation that is made up of a number of different, sometimes unrelated businesses. In a conglomerate, one company owns a controlling stake in a number of smaller companies all of whom conduct business separately and independently.