

Relative Valuation (Enterprise Value and Equity Value Multiples)

Objective: The objective of this assignment is to apply the concept of total enterprise value (TEV) and also equity market value (EMV) multiples to a real world company. This assignment should be done after you have finished reading Chapter 14 through Chapter 16 in Damodaran, *Investment Valuation*.

Company: Harrah's Entertainment Inc (Ticker: HET, <http://www.harrahs.com>) Harrah's Entertainment is the world's second-largest gaming company. HET owns, operates, and/or manages 25 casinos in 13 US states. Its operations include casino hotels, dockside and riverboat casinos, and Indian gaming establishments. Harrah's derives more than 75% of its revenues from gambling at its casinos. In terms of its operations, HET is less cyclical than its large cap peers. From a location perspective, Harrah's Entertainment is the most geographically diverse gaming operator in the United States.



HET has a number of longer term growth options given their financial flexibility. These options include expansion within existing markets, new jurisdictional opportunities, and continued consolidation of the gaming industry.

Competitors: Caesars Entertainment Inc (CZR), Mandalay Resort Group (MBG), and MGM Mirage Inc (MGG).

Assignment: Download the file, Harrahs.xls from my website and do all your work on this spreadsheet. This is an *individual* assignment. Although you can discuss this case with your classmates, you are responsible for doing the case yourself. Students caught cheating will be able to experience depression first-hand since they'll be given an F on this assignment. The assignment/questions can be found after the assumptions.

Warning: The financial statements are quarterly. Make the necessary adjustments to these quarterly numbers to obtain the trailing twelve-month (TTM) figures. Income statement numbers are "flow" numbers while balance sheet items are "stock" numbers.

Assignment:

1. Using the Valuation Template provided in the Harrahs.xls file, complete the template by filling in each cell that is highlighted in **yellow** by linking the worksheets containing the various financial statements in the Harrahs workbook to the valuation template worksheet. What is the justified average **equity** value for Harrahs – mean price per share and median price per share - based on the various multiples (please highlight in yellow on the spreadsheet)?

2. What multiple(s) appear to be the most reliable in terms of enterprise value multiples for your answer in question 1 above if you use the lowest standard deviation as the criteria? Which are the most reliable equity multiples? Why? On the basis of economic intuition (rather than using the lowest standard deviation as the selection criteria), which multiples should you focus on? Please explain.
3. Do you agree or disagree with the analyst recommendations for Harrah's given your answers in questions 1 and 2 above? Why or why not? Please discuss.

Date	Research Firm	Action	From	To
22-Apr-04	Bear, Stearns & Co.			Outperform
22-Apr-04	Blaylock & Partners	Upgrade	Hold	Buy
21-Apr-04	Salomon Smith Barney Citigroup			Buy
5-Feb-04	Merrill Lynch	Upgrade	Neutral	Buy

Sources: <http://biz.yahoo.com>, Investext

Please turn in a hard copy of the spreadsheet together with your disk containing the spreadsheet with all the appropriate calculations. This is an **individual** assignment. Any person caught cheating will receive an F on this project.