

Valuation: Newsletter – April 19, 2014

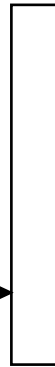
Where we are in class...

Lecture Notes Packet 2 (pdf)

As of last week: Page 132



As of next week: Packet 3



Multiples: The Basics
Defining a multiple
Describing a multiple
Analyzing a multiple
Applying a multiple
Choosing and Using Multiples
Asset based Valuation
Private Company Valuation

Where you should be in the project...

Rest of Project

- | <i>Item</i> |
|--|
| 1. Complete your DCF valuation |
| 2. Find comparable firms |
| 3. Pick a multiple |
| 4. Collect information on the multiple and variables that determine that multiple for comparable firms |
| 5. Develop a subjective estimate of what the multiple should be for your firm |
| 6. Run a regression for your multiple across comparable firms |
| 7. Use the market regression to estimate the multiple for your firm |
| 8. Based upon (5), (6) and (7), decide which one you believe best represents the relative value. |
| 9. Apply the option pricing model to value equity in your firm |
| 10. Calculate the face value of the debt and the weighted duration. |
| 11. Estimate the variance in firm value |
| 11. Value equity as an option |
| 12. Value control at one of the firms in your group. |
| 13. Estimate EVA at each of your firms |
| 14. Make a recommendation. |

Data Notes...

Now that we are done with multiples, you can check out your mastery of the topic by picking up equity research reports and browsing through them. As you read the reports, play devil's advocate and ask the key questions. To the extent that the report seems to have anticipated these questions and tried to answer them, it is a good analysis. If not, it tells you little about whether the stock in question is cheap or expensive.

If you are interested in getting a taste of private company valuation, I would recommend that you visit the following websites:

<http://www.ipocentral.com> (a central site for prospective IPOs; you can check out the prospectuses and value them)

<http://www.bvresources.com> (a site that provides data and hosts discussions on topics near and dear to private business appraisers)

Miscellaneous FAQs

Do we all have to use the same multiple in a group?

No. In fact, you will find that the same multiple will not work for all firms. Therefore, use the best multiple for your firm and focus on the estimate of value that you obtain using that multiple

Can I use more than one multiple to value my firm?

Sure. As long as you keep your eyes on the final recommendation, you can use as many multiples as you want in your analysis.

What if my value from relative valuation is different from my DCF valuation?

I would be surprised if this were not the case. The whole point of doing a relative valuation is to get a different perspective on value.