

Valuation: Newsletter – April 25, 2020

Where we are in class...

Lecture Notes Packet 3 (pdf)

As of last session: Pge 71



As of next week: Pge 130



Introduction to Option Pricing
Options in Investments
Options in Capital Structure
Options in Valuation
Acquisition Valuation
The value of control
Value Enhancement

Where you should be in the project...

Rest of Project

Item

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 as 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. Make a recommendation.



Data Notes...

Next week, we will complete our discussion of real options and move on to valuation in acquisitions, looking for insights on why they fail so frequently. An article on mergers by KPMG is on my web site under readings. Take a look at it. It contains some fascinating statistics on what works in mergers and what often does not work.

McKinsey has also done some very good work on synergy in mergers and you can get some of their research online.

Data on mergers that have actually occurred and the premiums made on mergers can be obtained at

<http://www.mergerstat.com/>

While they will let you view a sample report, you have to pay \$ 399 a year to subscribe to the service. Get your employer to pick up the tab, if you feel that this is useful information for you.

Miscellaneous FAQs

Where should I be on the project?

You should have completed your relative valuation.

When is the final exam?

The final exam is on May 15 and will be online as were the quizzes. It will be comprehensive (cover the whole class) and be two hours long.

When is the final project report due?

On the last day of class (May 11), by 5 pm.