

Equity Instruments: Newsletter – November 5, 2016

Where we are in class...

Lecture Notes Packet 1 (pdf)

Last session: Page 340



Basics of DCF valuation
Estimation of Discount Rates
Estimation of Cash Flows
Estimation of Growth Rates
Terminal Value
Choosing the Right Model
Dealing with Loose Ends
Valuation Examples
The Dark Side of 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 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. Value control at one of the firms in your group. |
| 13. Estimate EVA at each of your firms |
| 14. Make a recommendation. |

Data Notes...

Next week, we begin our discussion of pricing and how you can use screening to find cheap stocks. You can screen for stocks with specific characteristics – say price earnings ratios less than 15 and growth rates greater than 20% by going to

<http://www.stockscreener.com>

If you want to find comparable firms on Bloomberg, use the RV function. You can tailor the output to put only the information you want on the print out. This may help if you have a foreign company and cannot find comparable firms on my compfirm.xls spreadsheet. On Capital IQ, you can use stock screener to great effect to pick and choose companies.

Miscellaneous FAQs

I did badly on the last quiz. Can I throw it out?

No quiz, once done, can be thrown out. However, your worst quiz will be weighted less than the 10% that was allotted to it. How much less? It will depend upon how far the quiz score is from your average on the other exams (quizzes and final). The extreme example is if you get zero on one quiz and get 100% on all of the remaining exams. Then, the weight on the quiz is zero.

Is the mystery project here and when is it due?

Yes, the mystery project will be online shortly and will be due on November 21. It is a group project and you will be sending me a pdf file for the group.

What statistics package works best for regressions?

You can run multiple regressions from within excel or you can use a statistics package. I am partial to SPSS, which is available at a student rate in the computer store.