

Valuation: Newsletter – April 25, 2020

Where we are in class...

Lecture Notes Packet 3 (pdf)

As of last session: Start



As of next week: Pge 81



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. 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:

<https://www.renaissancecapital.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

Am I done with my DCF valuation?

Assuming that you have done your DCF and gave it to me for your feedback, the answer is yes (partially). You should fix whatever needs to be fixed and update it.

What's left to do?

For most of you, it is just the relative valuation, which builds off what we have been doing in class these last few sessions. So, find your comparable firms, pick a multiple, control for differences and estimate a relative value.