

Valuation: Newsletter – May 2, 2020

Where we are in class...

Lecture Notes Packet 3 (pdf)

As of last session: Pge 47



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. 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...

In class this week, we will talk about the most common mistakes that analysts make when analyzing acquisitions and why these mistakes remain uncorrected over time. On Wednesday, we will connect corporate finance to valuation by talking about how to enhance the value of a business (as opposed to increasing its price). In the process, we

will look at the tools that activist investors bring to the table to try to create value from investments.

Miscellaneous FAQs

Where should I be on the project?

You should have completed or at least be working on your pricing.

When is the final exam?

The final exam is on the May 18.

When is the summary of the final project report due?

I would like you to update the Google shared spreadsheet with your shared numbers by Sunday, May 10.