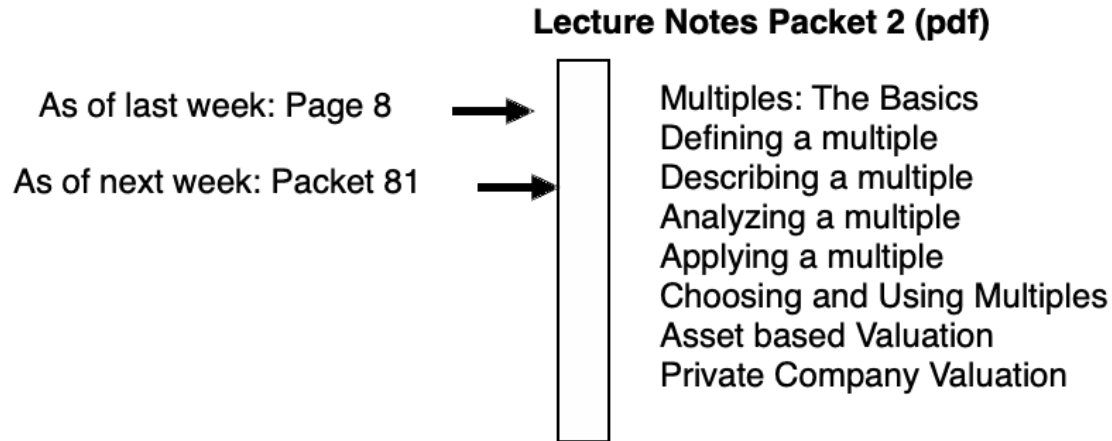


Valuation: Newsletter – April 11, 2020

Where we are in class...



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...

As the information on firms gets more extensive, we are faced with making choices. With earnings, the choices are increasing with different measures of earnings reported by different services. Since so many multiples are based upon earnings, you may want to check out some of these alternative approaches. The best way to do this is to pick up a

few equity research reports and go through them, looking at ways in which the same multiple is being computed in different ways by different analysts.

It is also instructive to look up a company on a data service and examine the array of multiples that are usually reported for that company. Pass these multiples through the consistency and uniformity tests to see if they pass.

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.