

Valuation Project

Finance 40610 – Fall Semester 2009
Professor Shane A. Corwin

Objectives:

The purpose of this project is for you to apply the valuation techniques learned in class, while becoming an expert on a particular firm. In the end, I do not care whether you give the stock a buy, hold, or sell recommendation. I will be grading your project based on the quality of your analysis, on how well you support your assumptions/methods, and on the professionalism of your report. My goal is for you to create a valuation model and analyst report that you would be comfortable sharing with a potential employer.

Details:

- To complete this project you will work in groups of 3-5 students. All students are equally responsible for the work that is turned in. In completing the project, you should not collaborate with any students outside your own group.
- Each group may select the company they wish to value, so long as that company has not already been selected by another group. The only restriction is that the firm be a publicly-traded non-financial U.S. company, with at least three identifiable comparable firms.
- This project will require you to make use of numerous outside resources, including company web pages, annual reports, analyst reports, etc. Be sure to appropriately cite relevant resources.
- The valuation project consists of three related components which will all count toward the final project grade. Each of these components is described in more detail below.

Project Components:

I. Project-related assignments, readings, and discussions

During the semester, you will complete several assignments and readings related to the valuation project. These assignments are designed to guide your analysis throughout the semester and will allow me to provide feedback on your initial analysis prior to the completion of your final valuation. The timely completion of these assignments is an important component of your project grade.

II. Spreadsheet model of your valuation

In order to complete the valuation project, you will be required to develop a detailed spreadsheet model. This model will incorporate all of your quantitative analysis and provide the justification for your recommendation. Within the spreadsheet, you should explain all assumptions made regarding key variables. The spreadsheet will be graded based on the quality and clarity of your analysis, and on the appropriateness of your assumptions. The completed spreadsheet model will be submitted to me electronically and is due on Thursday, December 10th at 5:00 p.m.

III. Written analyst report

The written report should be no more than six pages in length, including a one-page summary (or tear sheet). Points will be deducted if you go over six pages. An unlimited number of attachments are allowed and will not be counted in the six pages. However, you should include only those attachments that are relevant for the analysis and discussed in the text. There are no font or margin requirements for the summary page. However, the rest of the document should be double-spaced, with a font size of 12 and one inch margins. The complete analyst report is due by 5:00 p.m. on Thursday, December 10th.

The summary page should give the reader a basic understanding of the firm, its past performance, its expected future performance, and the justification for your recommendation. This page should be able to stand alone as a summary of your valuation. Several example tear sheets are attached. At a minimum, the summary page should include the following items:

- Buy/sell/hold recommendation and 52-week price target
- A chart of past stock price and trading volume
- Current statistics such as price, beta, dividend yield, market capitalization, shares outstanding, institutional holdings, valuation multiples (P/E, P/Sales, etc.), sector/industry
- Key financial ratios, balance sheet items, and income statement items based on annual data for the past five years and based on quarterly data for the most recent quarter
- A short business summary
- A short summary of recent developments
- A short summary of key future prospects that provide a rationale for your recommendation

The remaining five pages of your report and supporting attachments will fill in the details of your valuation analysis and assumptions. Keep in mind that the report should support and explain your recommendation on the stock, so you should spend the most time on information that is most relevant to the valuation. At a minimum, the complete analysis should include the following items:

- A more detailed explanation of your recommendation and the justification for your valuation forecast. This section should summarize the key points supporting your recommendation.
- A detailed discussion of the key value drivers for this firm. This section should explain the most important sources of value for this firm. Depending on their importance, this may include descriptions of key product lines, competitive advantages, key competitors, acquisition strategies, etc. If it is important for your valuation, you may also wish to discuss the outlook for the firm's industry. Be sure to be specific about how these items affect value.
- A detailed discussion of the key risk factors for the firm. This section should explain the most important risks that could damage firm value. Depending on their importance, this may include descriptions of key product lines or product development, retention of key personnel, economic or cost forecasts, Be sure to be specific about how these items affect value.
- A detailed discussion of the valuation method used and key assumptions. This section should explain and justify those assumptions that are most important to your analysis. Examples include forecasts for cost of capital and its components (market risk premium, beta, cost of debt, capital structure, etc.), free cash flow and its components (working capital, capital expenditures, after-tax income, etc.), margins, growth, etc. You should also discuss any sensitivity analysis that is important for the interpretation of your valuation.