JEM132 – Company Valuation

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1. Dividend Growth Model (DGM) – philosophy of revenue-based valuation and comparison to cost-based and comparable-based approaches; Gordon growth model – advantages, limitations, determination of appropriate discount factor
2. Discounted Dividend Model (DDM) – construction, determination of forecasted dividends, determination of appropriate discount factor, comparison with other valuation approaches
3. Discounted Free Cash Flow Model (DCF) – construction, determination of forecasted free cash flow (FCF), determination of appropriate discount factor, comparison with other valuation approaches
4. Residual Income Model (RIM) – logic, construction, similarities and differences between RIM and DCF, advantages and disadvantages of using RIM
5. Comparable Multiples I – comparison of sophisticated and unsophisticated valuation techniques, book-to-market ratio, causes of bias in book-to-market ratio, EBITA-to-enterprise value ratio,
6. Comparable Multiples II – comparison of sophisticated and unsophisticated valuation techniques, earnings-to-price ratio, predictable changes in earnings-to-price ratio, PEG ratio
7. Financial Accounting – use of accounting numbers in valuation, key accounting relationships, accrual principle vs. cash flow, clean surplus relationship, motivation of the use of income statement and balance sheet numbers in determining free cash flow (FCF)
8. Accounting Restatements – motivation for accounting restatements, classification criteria, definition of invested capital, questionable issues in restatements (e.g. cash, leasing)
9. Financial Analysis – Profitability – construction of financial ratios, return on equity, return on invested capital, financial leverage & spread, asset turnover, operating profit margin
10. Financial Analysis – Riskiness – importance of liquidity and solvency measures, basic logic of construction of these ratios, individual ratios and their use in valuation
11. Free Cash Flow – determination of free cash flow (discuss in detail the individual steps), role of financial analysis in determining free cash flow, treatment of capital expenditures and depreciation, treatment of changes in working capital
12. Forecasting – discussion of value drivers, determinants in forecasting of growth, determinants in forecasting of profitability, relationship between forecasted growth and profitability, determining horizon growth and profitability, continuing value
13. Weighted Average Cost of Capital – importance, use in valuation, determining the weights, treatment of taxes, principles of determining the costs of debt and equity
14. Cost of Debt – financial structure, sensitivity of cost of debt to performance, determining risk free rate, determining default premium, implied yield to maturity
15. Cost of Equity – ways of estimating cost of equity, estimating CAPM, determination of equity market risk premium, estimating beta, 3-factor model, advantages and drawbacks

Form of Examination

After drawing the question the student will have 5 minutes to prepare the answer that will be provided in next 5 minutes followed by 5 minutes of complementary questions by the examiner. The students are asked to organize their thoughts well and present the answer in a concise and well organized manner. Grades will be based on the (1) sophistication, (2) precision and (3) structure of the answer that clearly demonstrates a good command of the relevant topic by the student.