

GBUS 7603 - VALUATION IN FINANCIAL MARKETS
Fall 2017, SY Quarter 1

This course focuses on how financial assets and firms are valued in financial markets. While a key objective of the course is to provide valuation skills employed in finance elective courses, the course will also apply valuation models to real financial data and assets. The course is organized in two modules. We open with a module on valuing traded financial assets in the options and fixed income areas. Our focus is on financial assets that have fairly complicated structures. The second module focuses on valuing companies and the implication for their stock prices. In addition to models introduced in the First Year Finance course, we discuss other valuation approaches and the relative merits of each.

Requirements

Students should be prepared for each class. Grading is based on class participation (25%), two problem sets (20%) and a final exam (55%). Some of the reading assignments are drawn from Brealey, Myers and Allen, Principles of Corporate Finance. This textbook (hereafter BM) is a standard finance text and the Finance faculty recommends that students purchase the book as a reference text, which will be useful for future finance courses and on the job.



Fall 2017, SY Quarter 1
VALUATION IN FINANCIAL MARKETS
COURSE OUTLINE

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|-----|-------------------------|---|
| 1. | Wednesday, August 23 | Duration and Convexity
<i>Case: Norfolk Southern Railway– Century Bonds</i> |
| 2. | Thursday, August 24 | Term Structure of Interest Rates
<i>Case: Pricing Strips and the Term Structure</i> |
| 3. | Wednesday, August 30 | Pricing Interest Rate Swaps
Lecture and Problems |
| 4. | Thursday, August 31 | Interest Rate Swaps
<i>Case: Dominion Gas Holdings, LLC- Anticipatory Interest Rate Hedging</i>
Speaker: James Chapman (Dominion, Treasurer) |
| 5. | Wednesday, September 6 | Introduction to Options
Lecture and Problems |
| 6. | Thursday, September 7 | Equity Linked Notes
<i>Case: Principal Protected Equity Linked Notes</i>
----- <i>Problem Set #1 (due: September 14 at 8:00am)</i> ----- |
| 7. | Wednesday, September 13 | Option Pricing Models and Dividend Payments
Lecture and Problems |
| 8. | Thursday, September 14 | Convertible Bonds
<i>Case: Mogen Inc.</i> |
| 9. | Wednesday, September 20 | Hedging
<i>Case: Hedging Vignettes</i> |
| 10. | Thursday, September 21 | Valuing a Company
<i>TBD</i>
----- <i>Problem Set #2 (due September 27 at 8:00am)</i> ----- |
| 11. | Wednesday, September 27 | Adjusted Present Value
Lecture and Problems |
| 12. | Thursday, September 28 | Equity Residual Approach (1)
<i>Case: Lonestar Graphite</i> |
| 13. | Wednesday, October 4 | Equity Residual Approach (2)
<i>Case: EDP Renewables North America: Tax Equity Financing and Asset Rotation</i>
Speaker: Bernardo Goarmon (EDPR NA, CFO) |
| 14. | Thursday, October 5 | Valuation Overview
----- <i>Final Exam</i> ----- |



VALUATION IN FINANCIAL MARKETS
Session #1: Duration and Convexity

Date: Wednesday, August 23, 2017

Class Objective: Understand a bond's price sensitivity to interest rate changes.

Case: *F-1733 Norfolk Southern Railway – Century Bonds*

Read: *F-1238 Duration and Convexity*

OR view the online tutorials: [Introduction to duration](#), [Macaulay Duration](#) & [Modified Duration](#)

Self-Assessments: I recommend you do these self-assessments, either before or after class:

[Macaulay Duration Assessment](#)

[Modified Duration Assessment](#)

Assignment: (Note: For purposes of analysis, assume the 6% coupon bond will sell at par.)

1. How risky are the Norfolk Southern Railway bonds?
2. What types of risk are relevant to your risk assessment?
3. In terms of risk, how do these bonds compare with a comparable 20-year issue?
4. What is your recommendation?



VALUATION IN FINANCIAL MARKETS
Session #2: Term Structure of Interest Rates

Date: Thursday, August 24, 2107

Class Objective: Cover the basics of the term structure of interest rates, including the relation between yields to maturity, spot interest rates and forward interest rates.

Case: *F-0925 Pricing Strips and the Term Structure*

Read: *F-1517 Interest Rates, Market Pricing and Compounding*

F-1520 Spot and Forward Interest Rates

OR view the online tutorials: [Compounding and interest rates](#), [Spot and Forward Rates](#), [Using spot rates to value bonds](#) & [Bootstrapping](#)

Supplemental reading: Brealey, Myers and Allen, Principles of Corporate Finance, 11th edition, Chapter 3

Self-Assessments: I strongly recommend you do the self-assessments.

[Estimating Spot Rates](#)

[Estimating Forward Rates](#)

File: Strip.xls

Assignment:

1. What is the yield to maturity on the 2-year and 5-year bonds quoted in Exhibit 1?
2. What are the spot rates for the first 2-years implied by the zero coupon bonds in Exhibit 2?
3. What are the spot rates for the first 2-years implied in the coupon bond prices shown in Exhibit 1? (Use bootstrap approach to estimate the spot rates). How do these spot rates compare to those in question 2?
4. What is the relationship between the yield to maturity on the 2-year bond and the spot rates for the first two years?
5. What is the forward interest rate from month 18 through month 24?
6. Plot the yield curve and the term structure of interest rates implied in Exhibits 1 and 2. What does the term structure tell you about future interest rates?



VALUATION IN FINANCIAL MARKETS
Session #3: Pricing Interest Rate Swaps

Date: Wednesday, August 30, 2017

Class Objective: Understanding interest rate swaps and how they are priced.

Read: *F-1121 Valuation of Plain Vanilla Interest Rate Swaps*

OR view the online tutorials (in this order): [Intro to Fixed and Variable rate loans](#), [Eurodollar Futures Contracts](#), [Pricing Interest rate Swaps](#)

File: Eurodollar Futures Session 3.xlsx

Assignment: Assume that today is June 12, 2017 and it is exactly 3 months to the first payment on September 12, 2017. Assume the current 3-month LIBOR rate is 3.21%.

1. Estimate a swap rate for a 3-year (last payment June 2020) interest rate swap expressed as a fixed annual interest rate that could be swapped for 3-month LIBOR.
2. Estimate a 5-year swap rate (last payment June 2022).

Base the pricing on the attached sheet of assumed Eurodollar Futures contract prices from June 2017. The rates used in this exercise are not the actual rates as of June 2017 but are rates that have been in place in another set of market conditions.

Extra: If you are particularly interested in these markets, try out the Bloomberg System in the library to look at current swap quotes and information on Eurodollar Futures. You can print out swap quotes using these instructions: hit **M-Mkt** key, then type **IRSB** and hit **Go** Select *18 United States* by entering **18** and hitting **Go** This is the swap quote page. To print a copy hit the **print** key. Eurodollar Futures Analysis: hit **Cmdty** and enter **EDS** and hit **Go**. This will get you to the IMM Eurodollar Futures Analysis page. To print a copy hit the **print** key.

EURODOLLAR (CME) - \$1 million: pts of 100%

Date:
June 12, 2017

	Open	High	Low	Settle	Chg.	Yield		Open Interest
						Settle	Chg.	
2017-Jul	96.76	96.76	96.76	96.76	-	3.24	-	116,620
2017-Aug	96.71	96.71	96.71	96.71	-	3.29	-	17,794
2017-Sep	96.71	96.71	96.71	96.71	-	3.29	-	813,919
2017-Oct	96.76	96.76	96.76	96.76	-	3.24	-	230
2017-Dec	96.66	96.66	96.66	96.66	-	3.34	-	752,837
2018-Mar	96.62	96.62	96.62	96.62	-	3.38	-	660,259
2018-Jun	96.30	96.40	96.26	96.32	0.01	3.68	(0.01)	490,780
2018-Sep	96.08	96.18	96.04	96.10	0.02	3.90	(0.02)	424,856
2018-Dec	95.78	95.88	95.74	95.80	0.04	4.20	(0.04)	449,413
2019-Mar	95.69	95.79	95.65	95.71	0.04	4.29	(0.04)	242,773
2019-Jun	95.18	95.28	95.14	95.20	0.03	4.80	(0.03)	183,517
2019-Sep	94.90	95.00	94.86	94.92	0.02	5.08	(0.02)	173,389
2019-Dec	94.62	94.72	94.58	94.64	0.02	5.36	(0.02)	141,627
2020-Mar	94.37	94.47	94.33	94.39	0.03	5.61	(0.03)	150,124
2020-Jun	94.14	94.24	94.10	94.16	0.03	5.84	(0.03)	117,292
2020-Sep	94.12	94.22	94.08	94.14	0.03	5.86	(0.03)	81,626
2020-Dec	93.71	93.81	93.67	93.73	0.03	6.27	(0.03)	66,604
2021-Mar	93.52	93.62	93.48	93.54	0.04	6.46	(0.04)	73,873
2021-Jun	93.34	93.44	93.30	93.36	0.04	6.64	(0.04)	50,968
2021-Sep	93.18	93.28	93.14	93.20	0.04	6.80	(0.04)	39,005
2021-Dec	93.04	93.14	93.00	93.06	0.04	6.94	(0.04)	31,822
2022-Mar	92.91	93.01	92.87	92.93	0.04	7.07	(0.04)	30,792
2022-Jun	92.78	92.88	92.74	92.80	0.04	7.20	(0.04)	17,891
2022-Sep	92.36	92.46	92.32	92.38	0.05	7.62	(0.05)	7,123
2022-Dec	92.25	92.35	92.21	92.27	0.05	7.73	(0.05)	7,504
2023-Mar	92.16	92.26	92.12	92.18	0.05	7.82	(0.05)	2,922
2023-Jun	92.08	92.18	92.04	92.10	0.05	7.90	(0.05)	6,039
2023-Sep	91.86	91.96	91.82	91.88	0.05	8.12	(0.05)	1,930
2023-Dec	91.54	91.64	91.50	91.56	0.05	8.44	(0.05)	603
2024-Mar	91.50	91.60	91.46	91.52	0.05	8.48	(0.05)	305

Est. vol. 606,932; vol. Tue 682,932; open int. 5,204,390, +21,147.



VALUATION IN FINANCIAL MARKETS
Session #4: Interest Rate Swaps

Date: Thursday, August 31, 2017

Class Objective: Understanding the valuation and use of interest rate swaps.

Case: *F-1754 Dominion Gas Holdings, LLC- Anticipatory Interest Rate Hedging*

Guest Speaker: [James Chapman \(MBA'00\) - Dominion](#). *James R. "Jim" Chapman is senior vice president-Mergers & Acquisitions and Treasurer. He joined Dominion in September 2013 and was named to his current post in February 2016. Chapman has nearly 20 years of experience in international corporate finance and mergers and acquisitions, primarily in the power and energy industry. Recent roles include managing director and head of Asia Pacific Power & Utilities Investment Banking at Barclays, as well as similar senior roles at Barclays and its predecessor firm, Lehman Brothers. In his career Chapman has worked with dozens of power sector and utility companies with strategic and financing transactions on five continents. After being based for more than eight years in Asia, five in New York and five in Russia, he relocated to his native Virginia in 2013. He serves on the Dean's Global Advisory Council at the Darden School of Business at the University of Virginia. Chapman earned a bachelor's degree in history and political science from Auburn University and his MBA from U.Va.'s Darden School of Business.*

File: Dominion Gas - Exhibit 6 (revised).xls

Assignment:

1. What are the benefits and costs of the proposed swap for Dominion?
2. What would be a fair 3-year fixed rate for a swap starting in November 2012 and ending in November 2015? Similarly, what would be a fair 4-year fixed rate for a swap starting in November 2012 and ending in November 2016?
3. How does the 0.70% fixed rate for the 3-year forward-starting swap starting in November 2013 and ending in November 2016 compare with the market rate implied by the Eurodollar Futures prices? Is this a competitive rate?

Extra: If you have time, review Exhibit 7 on the LIBOR scandal. Do you recommend the LIBOR or OIS swap?



VALUATION IN FINANCIAL MARKETS
Session #5: Introduction to Options

Date: Wednesday, September 6, 2017

Class Objective: Introduce the basics of options and their valuation.

Read: *F-1519 Option Contracts and Their Valuation*

F-1521 Stock Options and Compensation

F-1522 The Black-Scholes Option Pricing Model

OR view the online tutorials: [Option Contracts and their Valuation](#),
[Estimating Returns](#), [Estimating Volatility](#), [Introduction to Put-Call Parity](#),

Supplemental reading: *Brealey, Myers and Allen, Principles of Corporate Finance, 11th edition, Chapter 20*. Also glance over the websites of the Chicago Board of Trade ([CBOT](#)) and Chicago Board Options Exchange ([CBOE](#)).

File: Option Valuation Models.xls

Assignment:

1. What is a call option? What is a put option? Based on the Black-Scholes model, how does the value of a call option change as the time to maturity increases, the volatility increases and the stock price increases relative to the strike price?
2. Using the Black-Scholes model, what volatility is implied in the current call option prices on Celgene Corporation stock? How does this compare with the historic volatility of 0.3038? Build your own Black-Scholes Model in Excel using the material in the readings.
3. What is your estimate of the value of the stock options awarded to the executives of Celgene Corporation in October 2014? What would have been the impact if the managers had received the same value of the option grants but in shares of Celgene Corporation?
4. Given the vesting schedule on these options, the company has determined that the expected term of the options is only 5 year. Using the Black-Scholes model, what would the value of the option grants be if the maturity of the Celgene was only 5 years?

Note: When dealing with derivative contracts such as options, the general convention is to express interest rates using continuous compounding.



VALUATION IN FINANCIAL MARKETS
Session #6: Equity Linked Notes

Date: Thursday, September 7, 2017

Class Objective: Structuring new financial products and how they are used in private banking.

Case: *F-1752 Principal Protected Equity Linked Notes*

File: None

Online Tutorial: [Introduction to Put-Call Parity](#),

Assignment:

1. How should the bank allocate the \$ 1 million to deliver this equity-linked note to the client?
2. Was this equity-linked note product a “fair” deal to the client or would the bank be earning a fee on this product?
3. Mario Casals had already chatted over the phone with his first client and realized that she wanted to get the \$ 1 million capital guaranteed and receive 50% (not 40%) of the increase in the S&P500 index. To do this the bank would be losing money. Casals wanted to propose to the client whether she would accept a product with a cap on her gains if the S&P500 rises by more than 20%. This meant the client gets 50% of the S&P index appreciation (that is, 10%) if the index goes up 20% or more. See the payoff table below. How could the bank add this extra feature to the PP-ELN product?
4. Suppose, you wanted to create a product that (after one year) provided the \$1 million dollar guarantee and received 100% of the increase in the SP500. How would you do it? How much would the product “cost” to create using the markets for bonds and call options?
5. What does put-call parity say about the pricing of puts on the SP500? How could you use puts to structure the product mentioned in question 4?

Ending value of the S&P500 (current index=1)	Underlying (S&P500) return	PP-ELN Payoff (principal = \$ 1 million)	PP-ELN return
0.80	-20%	1	0%
0.85	-15%	1	0%
0.90	-10%	1	0%
0.95	-5%	1	0%
1	0%	1	0%
1.05	5%	1.025	2.5%
1.10	10%	1.05	5%
1.15	15%	1.075	7.5%
1.20	20%	1.10	10%
1.25	25%	1.10	10%
1.30	30%	1.10	10%

1.



VALUATION IN FINANCIAL MARKETS
Session #7: Option Pricing Models and Dividend Payments

Date: Wednesday, September 13, 2017

Class Objective: Extend the Black-Scholes model to account for dividend payments. Understand differences between European and American call options in terms of early exercise.

Case: None

Read: *F-1523 Option Valuation and Dividend Payments*

OR view the online tutorial: [Option Valuation and Dividend Payments](#)

File: None

Assignment: Assume today's date is September 1, 2017. The market information on XYZ stock is as follows:

- Current stock price = \$47.50
- Volatility = 0.25
- Risk-free rate of interest = 1.0% (continuous compounding)

Expected Dividend payments in 2017-2018:

Dividend	Ex-date	Payable Date
\$0.50	Dec. 1, 2017	Dec. 15, 2017
\$0.50	Mar. 1, 2018	Mar. 15, 2018
\$0.75	Jun. 1, 2018	Jun. 15, 2018
\$1.00	Sep. 1, 2018	Sep. 15, 2018

1. Build an Excel based Black-Scholes model and price a **European** call option with a maturity of 61 days, Nov. 1, 2017. Assume an exercise price of \$45. How does this compare to the option value without dividends?
2. Using your excel model, what is your estimate of the price of a **European** call option with a maturity date of December 15, 2017 and an exercise price of \$45?
3. Using your excel model, what is the value of a **European** call option with a maturity date of September 2, 2018 and an exercise price of \$45?
4. Using your excel model, how would you price a **European** call option with a maturity date of September 2, 2019 and an exercise price of \$45?

5. Compare the values of a European call option with a maturity of May 31, 2018 and an exercise price of \$45 using a known dividend approach and a constant dividend yield approach. Are the values different? If so, why? Which approach is the better representation of reality?

6. Based on the technical note discussion (*Option Valuation and Dividend Payments*), how would you adapt your excel model to value the option in question 2 if it were an **American** option? What would you have to do if the option in question 3 were an **American** option?

7. Would an **American** call option with maturity of 120 days and an exercise price of \$45 ever be exercised early? If so, what would be your decision rule to decide when and at what stock price you'd want to exercise early?



VALUATION IN FINANCIAL MARKETS
Session #8: Convertible Bonds

Date: Thursday, September 14, 2017

Class Objective: Review convertible bonds and how they are priced.

Case: *F-1559 Mogen Inc*

Read: **Online tutorial:** [Convertible Bonds](#)

Supplemental Reading: *Brealey, Myers and Allen, Principles of Corporate Finance, 11th edition, Chapter 24, section 24.6 “Convertible Bonds and Warrants”*

File: Mogen, Inc. F-1559X.xls

Assignment:

1. How important is it for MOGEN to get \$5 billion of external funding in 2006? Could the company cut back on its share repurchase program, for example, to reduce the funds needed?
2. What are the pros and cons of issuing convertible debt versus straight debt or equity?
3. The case states a convertible bond can be valued as the sum of a straight bond plus a call option. For sake of simplicity this approach ignores any impact of dilution. Please adopt this approach. The conversion option (call option) can be valued using a strike price of \$1,000 and maturity of five years. For a 25% conversion premium, be prepared to explain your choice of inputs for the Black-Sholes pricing model for the stock price, risk-free rate, dividend yield, and volatility. {Note that the strike price of \$1,000 will be converted to number of shares by dividing by the conversion price. For instance, if the conversion price were \$50 per share of stock you'd get $\$1,000/\$50 = 20$ shares of stock when the bond was converted.}
4. Describe conceptually how you would value the bond component. What are the cash flows? What discount rate should be used to value the cash flows? What coupon rate should Manaavi propose in order for the 25% conversion premium to sell at exactly \$1,000 per bond? (What coupon rate should he propose for a 15% conversion premium? What about for a 40% conversion premium?)
5. Should MOGEN go forward with the convertible issue?



VALUATION IN FINANCIAL MARKETS
Session #9: Hedging using derivatives

Date: Wednesday, September 20, 2017

Class Objective: Financial risk management using derivatives.

Case: *F-1750 Hedging Vignettes*

File: F-1750X.xls

Online Tutorials:

https://www.youtube.com/playlist?list=PLhhjMOAwF8Dclv1l4Rc_AJq6gdByjf5Zi

Assignment:

1. Should Coca-Cola hedge its foreign exchange risk, Starbucks hedge coffee prices and American Airlines hedge jet fuel prices? What would be the benefits of hedging? What would be the costs? What factors affect the decision?
2. What are the similarities and differences between these three situations?
3. If Starbucks decides to hedge an estimated 200 million pounds of coffee for the fourth quarter, how could the company use futures contracts? Alternatively, how could it hedge using call and put options? Finally, how could it set up a zero-cost collar hedge? [Please note that the call and put premiums in Table 3 are quoted in cents per pound.]



VALUATION IN FINANCIAL MARKETS
Session #10: Valuing a Company

Date: Thursday, September 21, 2017

Class Objective: Review firm valuation techniques (DCF and multiples) and the sum-of-the-parts valuation.

Case TBD



VALUATION IN FINANCIAL MARKETS
Session #11: Adjusted Present Value

Date: Wednesday, September 27, 2017

Class Objective: Adjusted Present Value valuation approach.

Read: *F-1187 Valuing Companies - an Overview of Analytical Approaches*

Online tutorials: [Introduction to the Adjusted Present Value Approach \(APV\)](#), [Comparison of WACC and APV: an example](#) , [APV: How to use it](#)

Supplemental reading: *Brealey, Myers and Allen, Principles of Corporate Finance, 11th edition, Chapter 19*

File: Session 11 assignment.xlsx

Assignment: Given the information in “Session 11 assignment.xlsx” please answer the following questions:

1. The Randolph Real Estate Investment Co is planning to purchase an apartment building. To do so it will take out a \$500,000 mortgage. The estimated unlevered cash flows for the life of the building are shown below. The mortgage will be paid down over the life of the building. At the end of the 15 years it is estimated that the land can be sold for the book value of \$50,000. Using APV, what is the value of the project?
2. The Ultimate Private Equity is planning on making an offer for Kramer Inc. UPE plans to purchase Kramer with a debt commitment shown below. The holding period is seven years. UPE plans to do an IOP at the end of year seven. What is the value of Kramer Inc to UPE, given the information provided below?
3. What is the value of Bowers Inc. given the projected debt schedule shown below? Assume that the forecast horizon is 5 years and that the steady state growth rate of the unlevered cash flows in steady-state is 2%. Value the firm using APV for each of the assumptions listed below (a, b & c)
 - a. Assume that Bowers will keep the same dollar amount of debt that they have at the end of year 5 forever.
 - b. Assume that Bowers will keep debt as constant percentage of the book value of assets. It anticipates that debt will grow at approximately the same rate as the unlevered cash flows for the foreseeable future.
 - c. Assume that Bowers plans to adopt a debt policy of keeping debt as 25% of the enterprise value of the firm.



VALUATION IN FINANCIAL MARKETS
Session #12: Equity Residual Approach (1)

Date: Thursday, September 28, 2017

Class Objective: Introduce the Equity Residual Approach to valuation. Application to an LBO transaction.

Case: *F-1595 Lonestar Graphite*

File: UVA-S-F-1595 (Lonestar Graphite) - REVISED.xls

Read: *F-1301 A Comparison of the Weighted-Average Cost of Capital*
F-1267 Using the Equity Residual Approach to Valuation

Online Tutorial: [Introduction to the Equity Residual Approach](#)

Assignment:

1. What is Hamilton's business? Why is Hamilton interested in Lonestar?
2. Compute the Equity Residual Cash Flows for Lonestar under the management case. Assume that the starting debt is \$51.8 million and "Total Debt" at year-end for the forecast period is provided in the top row of the spreadsheet.
 - Compare Equity Residual Cash Flows to the Free Cash Flows. Why do they differ?
 - What value do you estimate that Hamilton can achieve for Lonestar upon exit?
 - Using the proposed debt financing plan, what required rates of return on equity are you assuming during each of the years in the forecast period?
3. Based on your analysis, how much is Lonestar's equity worth to Hamilton? What should be the total purchase price?
4. If your bid is accepted, what is Hamilton's IRR on the transaction?
5. What do you see as the major risks to Hamilton?
6. Should Hamilton make with the investment in Lonestar?



VALUATION IN FINANCIAL MARKETS
Session #13: Equity Residual Approach (2)

Date: Wednesday, October 4, 2017

Class Objective: Application of the Equity Residual Approach to project finance.

Case: *F-1757 Draft EDP Renewables North America: Tax Equity Financing and Asset Rotation*

File: *F-DRAFT XLS EDPR NA.xls*

Assignment:

1. Why does EDPR rely on tax equity and asset rotation project finance strategy for the development of wind farms in North America?
2. Exhibit 13 presents the Rising Star project's total cash flows, tax benefits and the allocations of these to the Tax Equity (TE) investor. Given that the TE is investing \$240 million, what IRR is it earning? The remaining tax and cash flows are allocated to cash equity and 49% of these go to a minority investor and EDPR retains 51% as the equity sponsor. If the minority investor targets an IRR of 6%, what are the minority sale proceeds?
3. Compute EDPR's IRR on the residual cash flows after the tax equity and asset rotation strategy for the Rising Star project. How much does the tax equity and asset rotation financing boost the returns for EDPR shareholders? Is it better to have an attractive IRR on the residual cash flows or a higher NPV for the complete project?
4. Should EDPR slow down its growth pace in North America and consequently reduce raising of tax equity financing and the need for its Asset Rotation program? Is this a good alternative to cope with the parent's desired optimal capital structure?
5. How different is EDPR's asset rotation strategy from a public YieldCo? Would EDPR still need to raise Tax Equity? What considerations should a CEO and a CFO have when balancing the merits of the alternate financing structures? (non quantitative answer)



VALUATION IN FINANCIAL MARKETS
Session #14: Valuation Overview

Date: Thursday, October 5, 2017

Class Objective: Overview of Valuation.

Read: None

File: None

Assignment:

We will finish our conversation from the last class and review various approaches to valuation. Think of a range of valuation challenges such as IPOs, capital budgeting, strategic acquisitions and highly levered transactions.

1. What do you see as the attractive features of various valuation methodologies in tackling each type of situation?
2. What are the main strengths and weaknesses of each of the following valuation approaches?
 - Arbitrage-Free Option Pricing
 - Multiples
 - Weighted Average Cost of Capital Approach to DCF
 - Adjusted Present Value Approach to DCF
 - Equity Residual Approach to DCF