

ASWATH DAMODARAN

LOOSE ENDS IN VALUATION

Dante meets DCF: The ten biggest “sins” in DCF Valuation (2 hours)

While discounted cash flow valuation is fundamentally a simple concept, it is easy to fall into inconsistency and input traps. This session will cover the ten most common mistakes in DCF valuation and the layers of valuation hell that you will be consigned to with each one. In the process, we will explore basic practices in valuation such as how to compute taxes for after-tax income, where to go to get betas and whether debt ratios should change over time. And terminal value will come into the discussion for obvious reasons...

Acquirer’s Anonymous: Seven Steps to Sobriety (1.5 – 2 hours)

The typical acquisition fails to deliver value to the acquirer and many valuations are complete and total disasters. This session will look at common mistakes and issues in valuing acquisitions and at the process that leads to so many valuation errors. In the process, we will look at how best to estimate the cost of capital for a target firm, how to value control and synergy and how much to pay as a premium.

Loose Ends in Valuation: Premiums and Discounts in Valuation (2 hours)

It is common practice in valuation to value a business and then to start attaching premiums and discounts to this value – for control, synergy, illiquidity etc. This session will look at the dangers of doing this and more reasonable ways of estimating the value of these factors. In the process, we will consider whether we should discount cash balances at some companies and the cost of complexity and poor corporate governance.

The L, B and O of LBO: Leverage, Control and Value (2 hours)

There are three components to a leveraged buyout – an increase in financial leverage, a change in management practices (even with the same management) and a public to private transition. This session will look at the valuation implications of each component and what types of firms are best “targets” for each of the components. Using Harman (a Goldman/ KKR failed LBO), we will look at why LBOs succeed and why they fail.

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