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Bird & Bird



# Valuation Fundamentals

*Learn the fundamentals of the main equity valuation techniques  
with this thorough and practical introductory course*



*A one-day course*

## TECHNICAL COURSE CONTENT

The emphasis is on practical analysis of real-world valuations throughout, combined with a straightforward explanation of the underlying rationale.

Specifically, the course covers:

- Business and equity valuation techniques, in the context of mergers, acquisitions, and capital markets.
- The most common methodologies and the underlying theory.
- The practicalities of business valuation, by way of discounted cash flow and through the use of comparable.
- Limitations and risks to bear in mind when assessing results.
- The 'bridge' from business to equity value.
- Illustrated with simple but rigorous demonstrations.

*Case studies and exercises based on real corporate finance situations.*

### Part One

#### Valuation fundamentals

- The importance of valuation in corporate finance – and other contexts
- Valuation theory and framework: Three fundamental approaches
  - Assets
  - Earnings
  - Market
- How all methods come back to the present value of future cash flows
- Risk – the key input to valuation
- How risk differs – basic principles
- CAP-M – a framework for assessing risk
  - Risk-free rate
  - Specific risk
- Artificial intelligence (AI) – its current applicability to valuation, and its limitations

*Exercise – assessing and comparing the risk-free rate across a universe of borrowers*

#### Discounted Cash Flows

*Case Study 1: Valuing a private company whose owner is contemplating a sale*

- Focus on the Earnings Method
- Presenting unlevered free cash flows as a basis for business valuation
  - Components of cash flow
  - Tax treatment
- Discounting future cash flows: methodology
- The discounting formula in Excel

- Building a five-year discounting model
- Mid-year adjustments
- Calculating the terminal value
  - Perpetuity growth method
  - Realistic inputs
- Sanity checks
  - Sensitivity grid
  - Implied multiples and growth rates
  - Percentage of value in the terminal period

## Calculating the weighted average cost of capital

*Case Study 2: What discount rate did the private company owner use, and how was it calculated?*

- Establishing the company's cost of debt
- How credit spreads move around
- Cost of equity: understanding the risk-free rate, the equity risk premium, beta, and alpha
- Studies of the 'correct' equity risk premium
- What beta signifies (and masks)
- Unlevering and relevering the beta
- What goes into alpha
- Using a normalised capital structure
- Applying the calculated WACC to our discounting model

## Enterprise vs. equity value

- Why all the main methods focus on enterprise (business) value
- Understanding the difference
- The components of the 'bridge' between the two
- The M&A perspective
- Why this is not straightforward
- What to look out for (especially in valuing for business sale) – tricks and position

*Case Study 3: Equity bridge –worked example*

*Exercise: Perform a DCF on a broadcast satellite business, taking the presented ten-year cash flows and understanding the sensitivity of the valuation to key inputs – WACC and terminal value*

*Exercise: how the market is (implicitly) valuing Nvidia*

## Part Two

- Recap on DCF and day one
- Video: five key learnings
- What is Shohei Ohtani's \$700 m contract really worth?

## Introduction to comparables

- Focus on the Market Method
- Introducing valuation techniques based on trading (market) multiples, and on precedent M&A transaction multiples
- What do multiples signify – in what are they rooted?
- Multiples – four key areas to consider ...
- ... and two key sources of data
- Which multiples? Consider those most commonly used:
  - EV / Revenue
  - EV / EBITDA
  - EV / EBIT
  - P / E
- What drives differences?

*Exercise (based on a selection of FTSE-100 shares): identifying which companies attract high and low multiples*

## Linking the theory: how valuation multiples should (over time) align with valuation based on DCF

- Revisiting the components of cash flow
- Worked mathematical illustrations with references
- Why values don't always align in practice
- How to interpret differences

## Comparable M&A Transactions ('CoTrans')

- Selection of transactions
- Challenges with information gathering and usage
- Issues with sourcing data
- The value of insight
- Example to illustrate the importance of positioning your target
- Practical issues with transaction comparables
- Analysis and summary output

*Exercise: Choosing the 'best' comparables for a control transaction in the Building Materials sector*



## Comparable Quoted Companies ('CoCos')

- Screening companies to identify a suitable comparable set
- Review publicly available data (including from databases) on the comparables
- The breadth of data available
- Issues in assessing the data:
  - Cleaning non-recurring items from earnings
  - Which period? Historic/ Last Twelve Months/ Current/ Forecast years
  - Calendarization issues
  - Analysis: Dealing with outliers
- Applying quoted company analysis to private company valuation
- Troubleshooting and checking the output
- Determining an appropriate range
- Applying the results

## Applying CoCos and CoTrans together

### *Case Study 4: Fair valuation of a soft drinks business*

- Context and introduction of the client and target business
- For each of CoCos and CoTrans:
  - Identify a broad peer group and sift the most appropriate comparables.
  - Identify and analyse outliers, and consider how best to treat them
  - Qualitative comparisons
  - Analysis over time
- Public to private discount
- Narrowing the range of multiples observed to generate an enterprise valuation analysis based on EV/Sales and EV/EBITDA
- Drawing the results of each approach together
- Conclusion: How to advise the client

## Valuing The Group vs The sum of its parts – using all methods

### *Case Study 5/ Exercise: 'Sum of the parts' valuation of an oilfield services group*

- Understanding a situation where all methods are applicable ...
- ... and where a business has several divisions which can be valued separately ...
- ... using different methods
- Introducing division-specific multiples
- Which division lends itself to DCF?
- Exercise: complete the DCF, then use comparables for a whole-group valuation, and to value each division separately
- Comparing the whole vs the sum of the parts ...
- ... and why this is not always straightforward
- Conclusion: debate the 'right' choice

## Special situations

- 'LBO model' – a simple framework for assessing private equity valuation
- What is control premium, and how can it be assessed (case by case)
- Early-stage businesses: valuation in the absence of profits
- Taking account of share options
- When the value is not proportionate – unequal shareholders

## Conclusion

- Review of all material, key messages, and key learnings
- Revisit case studies as necessary
- Revisiting AI – what it can and (currently) cannot do
- Opportunity for discussion

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## BACKGROUND OF THE TRAINER

The trainer has worked on corporate finance and capital markets transactions for over thirty years, holding positions on the client side as well as leading advisory teams.

At the Department of Energy, he was a civil servant involved in the privatisation of British Gas, a global IPO involving a large advisory team. He also spent two years (1990–92) in the Hungarian Government privatisation agency working with many advisory firms, as the changing political environment triggered massive ownership change. He has worked in major investment banks (Swiss Bank Corporation International – now UBS – and Lazard) and also co-founded a successful M&A advisory boutique firm. In 2021 he retired from KPMG, where he spent 13 years in the firm's global M&A business, based in Scotland.

His experience combines a broad range of M&A and equity transactions in North and Central America, Asia Pacific, and all the major European countries, plus, most recently, in Africa. His courses draw deeply on case studies from transactions he has run, bringing practical examples to set alongside the theory.

## TRAINING OBJECTIVES

- Participants are introduced to the main equity valuation techniques.
  - The participants start with an overview of fundamentals, where the intellectual framework and the different methodologies are discussed.
  - The differences between Enterprise Value (EV) and equity value are explained in detail.
  - The participants will then look at the Discounted Cash Flow technique (DCF) and specifically at computing the Free Cash Flows and the Weighted Average Cost of Capital (WACC), to understand how valuation by DCF is undertaken.
  - Lastly, participants will review valuation based on comparable quoted company and comparable M&A transaction multiples, compute several EV and equity multiples and be introduced to why the market applies different multiples to apparently similar companies.
  - Exercises, case studies and work examples throughout.
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## WHAT MAKES THIS COURSE DIFFERENT?

- If you are looking for a course that's led by an experienced trainer, you've come to the right place. Our trainer is a corporate financier with over 30 years of experience in capital markets and corporate finance valuation advisory work.
- Our trainer's experience includes the application of all main equity valuation techniques to businesses at all stages of development and in all forms of transaction: growth capital, IPO (Initial Public Offering), M&A and distressed sales.
- Comprehensive material covering all the fundamentals, from basic through intermediate level.
- Step-by-step Excel models illustrating key concepts.
- Delegates are encouraged to bring their own examples of difficult equity valuation challenges to discuss and debate during the session.
- The analysis is key – but valuation is an art as much as a science – the areas where judgement is paramount will be made clear.

## DO YOU NEED TO ATTEND THIS COURSE?

This course is a 'must know' for:

- Practitioners new to M&A (Mergers and Acquisitions) and valuation, seeking a closer understanding of the principles and practice and how the principal methods are applied in practice.
- Family business advisors working with SME owners (small and medium-sized enterprises) who are considering a sale, but lack an understanding of basic equity valuation techniques.

This course is also a 'nice to know' for:

- Legal and other advisors seeking a greater understanding of the financial advisor's role concerning equity valuation.

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## TRAINING COURSE SUMMARY

This course is a practical guide for anyone who wants to learn the initial steps to valuing a business.

Fundamentals is a practical workshop by an experienced trainer that teaches the most common methodologies. Expect to learn discounted cash flows, comparable transactions and comparable quoted companies' multiples, concluding with a case study that applies all methods to the divisions of a large and diverse business.