

**CORPORATE FINANCE: CASE STUDY (LASK3048),
Fall 2016**

INSTRUCTIONS

Students of the course are asked to prepare a case study in groups of 3 (min) –5 (max) people following the instructions below. Each group is supposed to represent the owners (seller) or the buyers of a Finnish engineering company Ponsse Oyj. Your task is to shortly analyse the target company and prepare a valuation in order to indicate suitable sale/acquisition price. The analysis as well as the results should be presented in a paper (Word document/ PDF) that should be max. 10 pages long. The language of the paper is English. The paper is expected to provide an analysis and a valuation of Ponsse Oyj. The analysis should cover following topics (please use these numbered items as subtitles of the sections in the paper in this order):

1. Introduction

- Describe your role (i.e. do you present the potential buyer or the seller)
- Describe the company and its current situation

2. Ponsse Oyj

- Short analysis of the company and the industry (market outlook etc.)
- Analysis of the ownership base of Ponsse and how it affects the planned transaction from your point of view

3. Weighted Average Cost of Capital

- Calculate the cost of equity (write what interest rate and market risk premium you have used and how you derived the beta used in the calculation)
- Calculate the cost of debt (write what risk free interest rate, tax rate, and risk premium (margin) you used)
- Calculate the WACC (based on above and the capital structure selected by your team for valuation purposes)

4. Discounted Free Cash Flow (DCF) based Valuation

- Prepare prognosis for 2016–2021
- Calculate FCF based on your prognoses and derive DCF for 2016–2021
- Calculate terminal value (i.e. perpetuity or infinity value) 2022–
- Calculate enterprise value based on above
- Calculate current net debt (as of 30 September 2016)
- Calculate equity value and price per share (as of 1 December 2016)

5. Dividend Discount Model

- Prepare prognosis
- Calculate price per share based on the dividend discount model

6. Peer Group Valuation

- Calculate P/Sales, P/EBITDA, and P/E for each of the peer group companies for 2016F and 2017F based on material provided
- Calculate averages for different pricing multiples for the years 2015F and 2016F
- Derive Ponsse Oyj's value based on peer group companies' multiples and your estimates of Ponsse's sales, EBITDA, and EPS of 2016 and 2017

7. Summary

- Summarize the results of the different methods (DCF, dividend model, multiples)
- Indicate a suitable price range based on the results (€X–Y per share)
- Discuss why this possibly differs from the current share price in OMX(Helsinki Stock Exchange) and how the results may affect the expected outcome of the deal.

Groups

Students must form groups of 3 (min) – 5 (max) independently (e.g. group members are NOT assigned by the teacher). Same groups shall remain for the “learning diary” assignment. Mention all of the group members (incl. student ID number) on the first page of the term paper.

Additionally, each group should prepare one to three PowerPoint slides that cover the results of the discounted cash flow analysis, the results of the peer group valuations and the summary of the valuation with the suggested valuation range for the company's share. Please don't include these slides to your paper but take these slides with you on a memory stick to the second lecture.

Materials to be used in this case study include but are not limited to:

- Annual report and quarterly reports of Ponsse Oyj (www.ponsse.com)
- Other relevant information from the company's web pages
- Data on comparable companies (provided during the lecture)
- PwC research on equity market risk premium in Finland (www.pwc.fi/fi/julkaisut/tiedostot/markkinariskipreemio_2012.pdf)

Please include all key calculations into your report together with your profit and loss account and other financial estimates as well as all calculations and input figures for WACC calculation. **The written reports shall be returned to Vitaly Orlov via email vorlov@uva.fi by 4pm on 30 November 2016 at the latest.** For more information please refer to the course's home page at WebOodi. If you have any questions, please contact the lecturer using email: [ito\(at\)iki.fi](mailto:ito(at)iki.fi)