Imperial Business School
Corporate Finance
Assignment 2

Conduct a Valuation Analysis for a Publicly Listed Company

You work as an investment analyst in a financial institution. Identify a *public listed corporation*[1] you would like to perform a valuation analysis for investment purposes.

Part A. (30 marks)

Extract the financial statements for the *past three 3 fiscal years* (Income Statement, Balance Sheet and Cash Flow Statement). You can use the Investor Relations website or 10-k form for US based firms.

Analyse the company's financial statement over the last three years, by selecting and calculating financial ratios and by proposing possible explanations of the results, in the light of the entity strategy as indicted in the annual report.

Part B. (70 marks)

Forecast future free cash flows to the firm ("FCFF") for the next 5 years as per the following steps:

1. Estimate Revenue Growth
2. EBITDA as a fraction of revenue (you can assume the historical EBITDA margin will persist in the future)
3. Estimate Depreciation and Amortisation as % revenue based on historical data
4. Apply statutory corporate tax rate
5. Net Working capital as a fraction of revenue
6. Capex as a fraction of *new* revenue
7. Estimate cost of debt and equity to get a discount rate (WACC)
8. Get from the most recent accounts the net debt.

Value Free Cash Flows to get the EV[2] and further derive the equity value.

Submit your excel workings and a power point presentation **with up to 10 slides** addressing:

- The calculated financial ratios and their analysis
- Your assumptions and discussion on revenue growth, net working capital and CAPEX forecast
- Trends in FCFF for the discrete period AND terminal value
- Cost of debt and equity input and WACC calculation
- EV and share price [3]estimate as of the valuation date: *do you find the company to be over/under priced?*
- Any investment considerations/ suggestions

[1] Should not be an example we discuss in class.
[2] You can assume all cash is excess cash.
3 For simplicity, please assume that all share classes have the same rights and are treated as one share class.