

# Final Exam Study Guide

This is a general guideline and should be viewed as such. Anything covered in class can be tested.

1. Basic Excel Modeling
  - (a) Know your standard formatting! (colors, decimals, number formatting)
  - (b) Other skills that may be asked about:
    - i. Proper reference usage
    - ii. Lookup functions
2. Financial Statements Review
  - (a) Need to know the principles, assumptions, and constraints.
  - (b) What are financial reporting requirements.
  - (c) Three Financial Statements
    - i. What are they.
    - ii. How to construct them.
    - iii. What the item/account means.
    - iv. How a single transaction impacts each statement.
  - (d) Issues with Financial Statements
3. Financial Statement Analysis
  - (a) Common-size. Why do we do it? Perform and analyze.
  - (b) Ratio Analysis
    - i. How are they calculated from financial statements?
    - ii. Analyze ratios (Know groupings)
    - iii. Dupont Identity
    - iv. Benchmarking
    - v. Common issues with Ratios
4. Discounted Cash Flow Valuation
  - (a) Unlevered Cash Flows (What does it mean and how do we calculate)
    - i. After-tax pre-depreciation operating income minus investments.
    - ii. What are Investments? What do we adjust NWC for? Why?
  - (b) Forecasting
    - i. Understand how we forecast values. What factors are important in determining your forecast?
    - ii. What determines forecast window?
    - iii. What is required for growth?
  - (c) Terminal Value
    - i. Infinite horizon problem. i.e., Why do we need a terminal value
    - ii. What is it conceptually and how do we estimate (Perpetuity growth and Exit multiple)
    - iii. Explain each approach to terminal value (Conceptually and how to estimate)
  - (d) Cost of Capital (WACC)
    - i. What is it? How do we estimate it?

- ii. Why is it appropriate discount rate?
    - A. Cost of Equity
      - What is the CAPM? Intuition behind the model
      - Risk free rate: What is it, how do we estimate it, why is that a good estimate
      - Equity (or Market) Risk Premium: what is it and how do we estimate
      - Beta: what is it? what is wrong with standard measurement? What do we do instead?
      - Bottom up beta: how do we execute and why do we estimate this way
    - B. Cost of Debt
      - Default Spread approach.
      - Yield approach
      - Logic of approaches and how do we execute them
      - Why are we concerned with after-tax cost of debt? What is appropriate tax rate?
    - C. Capital structure weights
      - Market or Book Values? Why?
      - How to calculate.
  - (e) What is an Enterprise Value? How do we get to an Equity Value?
  - (f) Equity Compensation and Shares Outstanding
    - i. Be able to explain all three methods (Treasury, with a twist, and option value)
    - ii. Account for Restricted stock
    - iii. Why might we prefer ALL options to just exercisable options?
  - (g) Cross-holding: What are they and how do we incorporate into valuation?
  - (h) Mid-year discounting, Estimating MV of Debt, Dual Class Stock
  - (i) Levered cash flows: what are they, how do we calculate, how do we use them in a DCF.
  - (j) Sensitivity Analysis: What is it? How do we execute?
  - (k) What makes a good valuation?
5. Relative Valuation: Multiples
- (a) What is it and how do we do it?
  - (b) Explain the steps to completing a relative valuation.
  - (c) What is a multiple? Common multiples and their value drivers
    - i. EV/EBIT, EV/Revenue, EV/EBITDA, P/E, PEG, Price to Book
  - (d) Why are value drivers important?
  - (e) Why is consistency between numerator and denominator important
  - (f) What is sampling trade-off?
  - (g) What are the periods of measurement?
  - (h) What are the common statistics used? Role of outliers?
6. Model Selection
- (a) Valuation Myths and Truths
  - (b) Intrinsic vs Relative Valuation
    - i. Define the methods, explain the market assumption, pros and cons, value drivers, when to use each method
  - (c) Pricing and Gap between price and value
    - i. Value Extremist vs Pricing Extremist (and their dilemmas)
7. Advanced Excel (will not be tested in any way on oral exam)