

# [Laura martin case study essay](https://assignbuster.com/laura-martin-case-study-essay/)

Laura Martin says she gets “ paid to talk” – to whom is she talking? Answer: Laura Martin is talking with investors. She would meet with many company representatives including the CEO, CFO, operating division chiefs and head of investor relations. She is in connections with these investors via telephone, fax, voice mail or email. It is approximately 900 individual per month. Question 2- Given this crazy web of relationships, what are Martin’s incentives? Can she anger the people who provide her information? What happens if she makes negative comments? Positive comments? When and how might she try to stand out from other analysts? Answer: Question 3- What is happening to the role Martin plays in the economy? Will people like Martin exist in 30 years? Answer: People like Martin Exist in 30 years because each year “ All-America Research Team” vote inverstors’ decision and Martin got high ratings among them which criterion evaluate on 10 points, industry knowledge 8.

9 rating, written reports 7. 26 rating, stock selection 7. 20 rating, earnings estimates 6. 83 rating and special services including company visits and conferances 6.

70 rating. Therefore Martin thinks that “ accesibility is important, I have to basically be available 24 hours a day”. So, Martin is important player in the economy. Question 4- What can be said of how good analysts are at their jobs? Answer: Question 5- What are the tradeoffs in using multiples versus the DCF analysis? Answer: DCF Valuation ; Martin forecast revenue for each year for from the firm’s financial data, select appropriate discount rate based on WACC, discount each cashflow back to it present value, obtain the terminal value through an application of terminal value multiple, using DCF method, Martin calculates the price of Cox’s share to be $54. 29. Multiple Valuation; Identify comparable firms that have growth, cashflow and risks similar to those of targetfirm whose value is in question, She obtain the individual multiple or ratio of the firm’s price to their financial data, such as EBITDA.

Average these multiples to obtain the industry average multiple, adjust this industry multiple and apply it to the target firm to get that firm’s value, using a multiple of 20. 9, Laura Martin calculates the price of Cox’s share to be $50. 00. Question 6- How is Martin’s regression analysis different from/similar to traditional multiples analysis? Answer: .

Multiple Valuation: 1. Identify comparable firms that have growth, cashflow and risks similar to those of targetfirm whose value is in question. 2. Obtain the individual multiple or ratio of the firm’s price to their financial data, such as EBITDA. .

Average these multiples to obtain the industry average multiple. 4. Adjust this industry multiple and apply it to the target firm to get that firm’s value. 5. Using a multiple of 20.

9, Laura Martin calculates the price of Cox’s share to be $50. 00 Advantage of multiple • With multiple, there’s no need to go through the process of forecasting future revenue with great uncertainty. It simply relies on current financial statement of comparable firms to obtain the industry average multiple. • This process is simple to understand and easy to apply.

As a result, the information is also cheap to obtain compared to the high cost of research and calculation required for DCF analysis. • By basing valuation upon data of comparable firms, it reflects the current mood of the marketand obtain a relative value. • Good for private firm when datas are not readily available and prevalent measure among particular industries such as cable industry. Disadvantage of multiple • According to Martin, Multiple simply doesn’t ask the right questions. • In particular, the EBIDTA figure inflates the earning of the firm, as it ignores “ all the bad stuff” in its abbreviation. Furthermore, it is a pro forma figure which is very vulnerable to accounting manipulation.

Question 7- Do you agree with her interpretation of the regression analysis? Answer: Question 8- How reasonable are Martin’s forecasts for EBITDA and her assumptions about the asset intensity of the business? Answer: EBIDTA figure inflates the earning of the firm, as it ignores “ all the bad stuff” in its abbreviation. Furthermore, it is a pro forma figure which is very vulnerable to accounting manipulation. Martin’s target price was $50 and her projections for EBITDA were realized. According to her analysis Cox traded at 13.

X EBITDA, and Martin’ s target price would translate into a 20. 9X. Question 9- How plausible is Martin’s terminal value multiple? Answer: Question 10- Why is Martin pushing real options valuation as an alternative to DCF analysis? Answer: Question 11- What is the analogy Martin is trying to draw with options? What is the “ stealth tier”? What is the unit of analysis? What is the underlying asset price? Strike price? Volatility? Answer: Laura Martin felt, and with reason that the EBITDA multiplier and the DCF analysis did not account for this possible revenue stream which she named “ Stealth Tier”.