

IV. Valuation

The primary job of the advanced analyst and the associate is to value companies. As you will quickly learn, valuation is just as much an art as it is a science. In the end, valuation is all about pinpointing a value where a buyer and a seller would willingly participate given the same level of information. Thus, the secret to successful valuation is intimately understanding the profile of both buyer and seller. This is KEY.

Who are the buyers then? What motivates them? What drives them? How much risk are they willing to undertake for a given reward? What is their time horizon? How much volatility can they stomach? What do they really seek? Who do they compare themselves to? These are the questions good bankers continually asks themselves. Success in this business stems from understanding the needs and desires of the market.

Who are the sellers? Why are they selling? How much are they giving up? What do they really seek? Likewise, every transaction has a seller. A smart banker will also understand the intricate mindset of the seller...[MORE]

Retail Ltd. Initial Public Offering

Summary Offering Terms

(Dollars in Thousands)

Assumptions	
Primary Shares Offered in the Offering	9,000
Price Range	\$14 - \$16
Shares Currently Outstanding	13,000
Total Shares After Offering	22,000
Gross Spread and Advisory Fee	7.0%
All Other Offering Costs	1.0%

Valuation Summary (Mid-Point of the Range)	
Multiple on 1999E EPS	<u>16.0 x</u>
1999E EPS	\$ 1.10
Implied Post-IPO Discount Price Per Share	\$ 17.65
Total Equity Valuation	388,235
IPO Discount @ 15%	<u>58,235</u>
Total Equity Market Capitalization	<u>\$ 330,000</u>

Sources & Uses (Mid-Point of the Range)			
Gross Proceeds	\$ 135,000	Purchase of Assets	\$ 50,000
Gross Spread/Advisory Fee	(9,450)	Expansions & W.C.	34,200
All Other Offering Costs	<u>(1,350)</u>	Repay Note	<u>40,000</u>
Net Proceeds	<u>\$ 124,200</u>	Total Uses	<u>\$ 124,200</u>

Offering Summary			
Stock Price	<u>\$ 14.00</u>	<u>\$ 15.00</u>	<u>\$ 16.00</u>
Pro Forma 1998E EPS	\$ 0.64	\$ 0.64	\$ 0.64
Implied Multiple	21.9 x	23.4 x	25.0 x
Comp. Co. '98E P/E Mult.	22.0 x	22.0 x	22.0 x
Discount to Comp. Co. '98E P/E Mult.	0.6%	-6.1%	-12.0%
Pro Forma 1999E EPS	\$ 1.10	\$ 1.10	\$ 1.10
Implied Multiple	12.7 x	13.6 x	14.5 x
Comp. Co. '99E P/E Mult.	16.0 x	16.0 x	16.0 x
Discount from Comp. Co. '99E P/E Mult.	25.7%	17.3%	10.0%
<u>Market Capitalization</u>			
Market Value of Equity Ownership			
Public	\$ 126,000	\$ 135,000	\$ 144,000
Management	98,000	105,000	112,000
Other	<u>84,000</u>	<u>90,000</u>	<u>96,000</u>
Total Equity Market Capitalization	<u>\$ 308,000</u>	<u>\$ 330,000</u>	<u>\$ 352,000</u>
Total Equity Market Capitalization	\$ 308,000	\$ 330,000	\$ 352,000
Pro Forma Debt	<u>32,000</u>	<u>32,000</u>	<u>32,000</u>
Total Capitalization	<u>\$ 340,000</u>	<u>\$ 362,000</u>	<u>\$ 384,000</u>
<u>Shares</u>			
To Public	9,000	9,000	9,000
Management	7,000	7,000	7,000
Other	<u>6,000</u>	<u>6,000</u>	<u>6,000</u>
Total Shares Out.	<u>22,000</u>	<u>22,000</u>	<u>22,000</u>

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[Second Page of Model Omitted for Excerpt**]**

Summary Points – IPO Valuation

The first page is a traditional IPO model cover page which details the shares offered, the dilution to current shareholders, the sources and uses of proceeds, and the IPO range. Notice how the IPO valuation applies a 15% IPO Discount to the Equity Value (at the midpoint of the range)...[MORE]

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