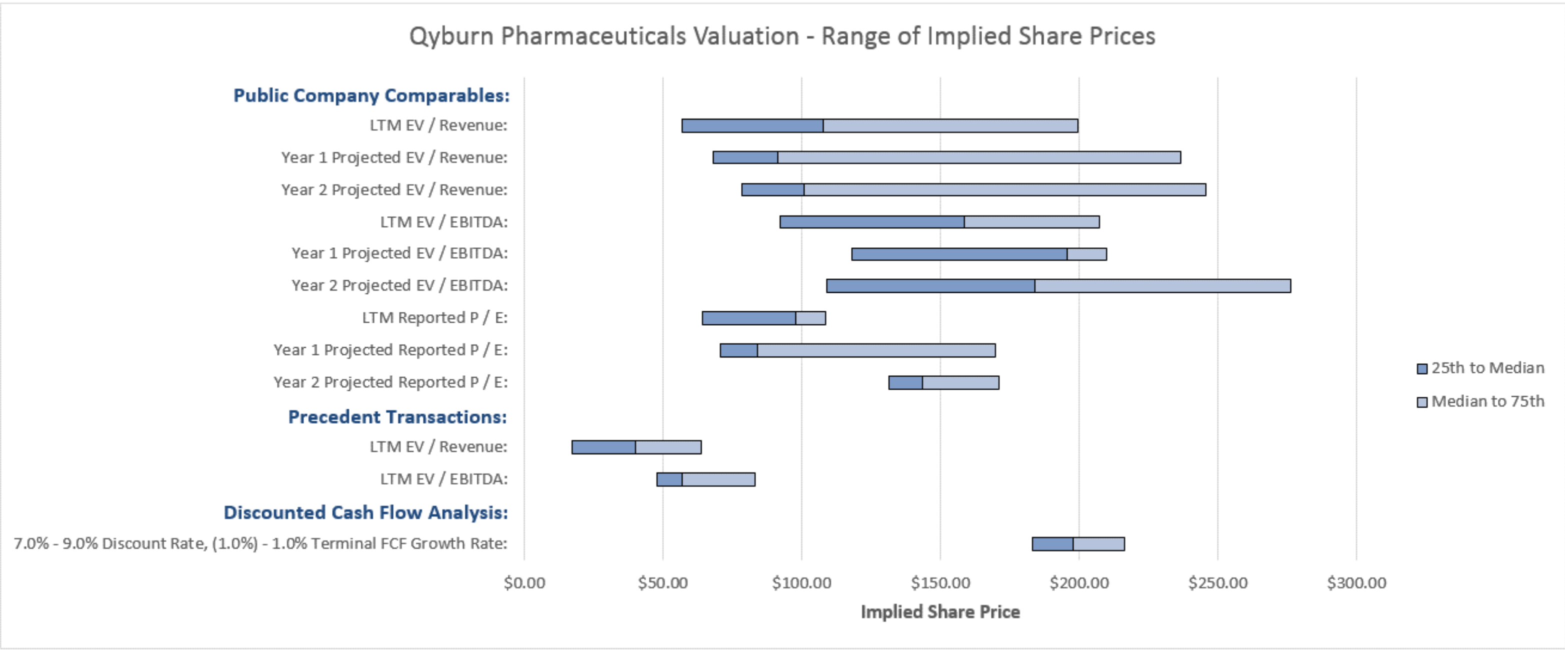
Financial Modeling Fundamentals – Module 09
Valuation Interpretation & Uses –
Quiz Questions

1. **Consider the "football field" valuation chart shown below for Qyburn Pharmaceuticals, which displays the company's implied value across a range of historical and forward multiples and different methodologies:**



Based on this graph, which of the following interpretations might be reasonable?

Assume that the company's current share price is $170.

a. The company might be worth anywhere from $150 to $200 per share.

b. It is highly unusual how the Precedent Transactions imply values far lower than the comparable public companies, so we may want to reconsider our set.

c. Most likely, the Precedent Transactions imply lower values because synergies have not been factored into the deal prices and multiples.

d. The DCF analysis looks unreliable because it produces higher values than all the other methodologies, which rarely happens in practice.

e. The DCF could be either the most important or the least important methodology, depending on the assumptions.

f. The company seems to be neither clearly undervalued nor clearly overvalued.

2. **Which of the following represents a key DIFFERENCE in how you might use financial modeling in an investment banking pitch book or client presentation, as opposed to how you might use it in a stock pitch at a hedge fund or asset management firm?**

   a. In an investment banking pitch book or client presentation, you'll typically use financial models and valuation to support your recommendation to buy another company, sell, or raise capital.

   b. In investment banking presentations, you're more likely to rely on financial figures provided by management, but in a stock pitch you're more likely to use custom numbers based on your view of the company.

   c. Investment banking presentations tend to focus on the correct analysis of the numbers instead of presenting a "unique" view of the company.

   d. In stock pitches, you recommend a long, short, or neutral position, but in investment banking presentations you recommend steps in a process.

   e. All of the above.

3. **Which of the following steps should you follow when you've valued a company and you are now trying to decide on a long or short recommendation in a stock pitch?**

    a. Review the numbers, sensitize the assumptions you're most certain of (if the numbers are ambiguous), substantiate and quantify the catalysts, and determine the risk factors and mitigants.

    b. Focus on the numbers rather than the market factors, and only pick a company as a long or short candidate if it is dramatically undervalued or overvalued (e.g., by 50% or more).

    c. Focus more on the qualitative and market factors because the numbers are almost always ambiguous; it's easier to take a unique view on the market and then use the numbers to support your view.

    d. Find stocks with solid catalysts that could easily move the price in the next 6-12 months; nothing else matters if the stock stays mispriced for a long time.

4. **Which of the following events might serve as <u>catalysts</u> if you are drafting a stock pitch for a healthcare company?**

    a. The launch of new products in any year of the projection period shown in your DCF analysis.

    b. The launch of new pipeline drugs in the next 6-12 months.

    c. A debt, equity, or convertible issuance within the next year.

    d. A key patent expiration in 2-3 years.

    e. An annual price increase that the company announces in January each year.

    f. US or EU regulators approving a key drug for sale within the next year.

    g. An acquisition that is set to close in 18 months.

5. How does an equity research report differ from what you might see in a hedge fund or asset management stock pitch?

a. Equity research analysts tend to forecast a "target stock price" instead of giving a wide range of possible intrinsic values for the company.

b. There is often significantly more industry data in equity research reports, especially in initiating coverage reports.

c. While hedge fund stock pitches could be either "long" or "short" recommendations, equity research reports only recommend stocks (i.e., "buy" recommendations).

d. There is not as much of a formalized investment thesis in most equity research (i.e., risk factors, mitigants, and catalysts won't necessarily be stated explicitly).

e. Both hedge fund stock pitches and equity research reports tend to be far more critical of companies than investment banking advisory presentations or pitch books.