Valuation 201

Investment Banking Case Study: ConAgra's $4.9 Billion Bid for Ralcorp

Breaking INTO Wall Street

Job Search Digest

Getting Started
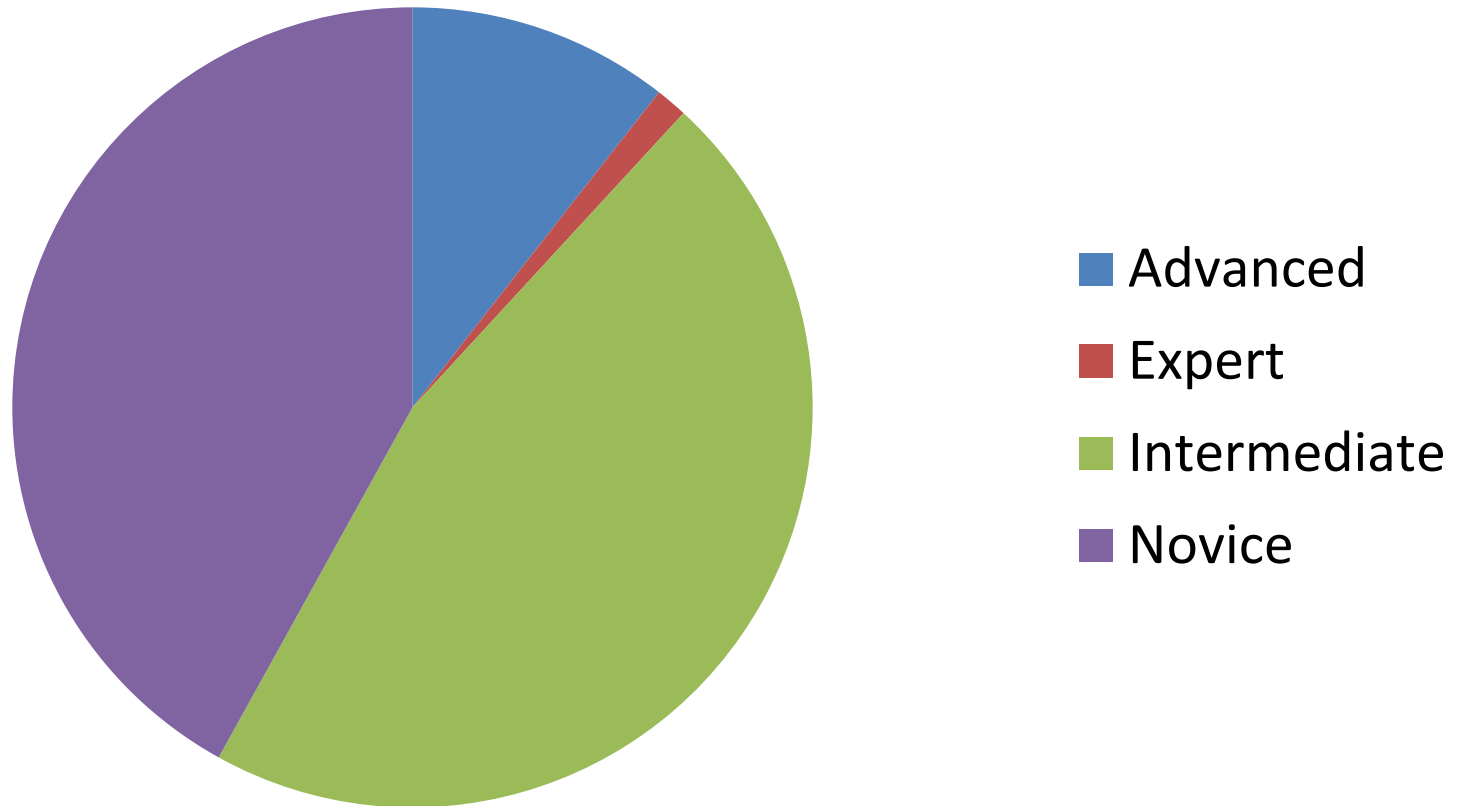
- **Moving Quickly**

- **Pop Quizzes**

- **Exit Survey**

About Brian DeChesare

- **Founder of Mergers & Inquisitions**
- **Ex-Investment Banker**
- **Frequent speaker at Universities and Business Schools**
- **Founder of the training program "Breaking Into Wall Street"**

Modeling Experience

How Experienced in Valuations are You?

- Advanced
- Expert
- Intermediate
- Novice

88% Novice to Intermediate

What You Can Expect

1. IB/PE Case Studies 101
2. Review Public Comps and Multiples
3. Gather Information / Analyze Public Comps
4. Find and Analyze Precedent Transactions
5. Build DCF Model
6. Create Valuation Summary
7. Answer the Case Study Questions

Why a Valuation?

- Always in the News

- Interviews – Required!

- Learn/Review Accounting

- Both Deals and Public Markets

Prerequisites…

- Understand basic valuation + DCF

- Completed the valuation homework

- Understand accounting fundamentals

Valuation Case Study – Part 2

In this case study, you'll analyze ConAgra Food's $4.9 billion bid for Ralcorp Holdings and determine whether or not Ralcorp was correct in rejecting the offer.

Announced on May 4, 2011, ConAgra's bid represented a play to invest more heavily in private-label products and to consolidate product lines within the food & beverage industry.

ConAgra is a leading consumer food company with a focus in the generic products (private-label) segment; Ralcorp has diversified business lines, including pasta, generic cereals, snacks, bakery, and the Post line of cereals.

After a previous rejection by Ralcorp, ConAgra made another bid on May 4, offering $86.00 per share (a 32% premium above Ralcorp's share price on March 21 – the day before its first approach) in a bid valued at $4.9 billion.

In part 2 of this case study, you'll fill out information for the rest of the public comps, create a set of precedent transactions, build a DCF analysis, and answer the discussion questions.

Part 2 – Public Comps Analysis

Complete the 5 public comps using the following assumptions:

- Use the included links to each company's filings ("Public-Comps-Links.txt") and the included equity research for the required numbers.
- Where equity research does not exist, **you will make your own estimates** using the following assumptions:
  - **JM Smucker** – Assume 10.0% revenue growth in 9/30/2011 and 8.0% revenue growth in 9/30/2012; assume 17.4% EBITDA margins in 9/30/2011 and 9/30/2012 (all based on historical averages).
  - **Seaboard Corporation** – Assume 8.5% revenue growth in 9/30/2011 and 7.0% revenue growth in 9/30/2012; assume 6.7% EBITDA margins in 9/30/2011 and 9/30/2012.
  - **United Natural Foods** – Assume 5.7% revenue growth in 9/30/2011 and 4.0% revenue growth in 9/30/2012; assume 3.7% EBITDA margins in 9/30/2011 and 9/30/2012.
- All revenue and EBITDA figures should be **calendarized** to end on September 30 rather than ending on each company's normal fiscal year end.

Part 2 – Precedent Transactions

Use the included links to press releases and deal profiles ("Precedent-Transactions-Links") as well as the PDF file (Folgers deal info. listed on page 7) to complete the M&A comps.

Do not worry about making everything precise – just use the numbers listed in press releases. You don't have time to be scientific in real case studies.

Also do not worry about getting both enterprise value and equity value for everything – all you need for multiples is enterprise value.

Part 2 – Discounted Cash Flow (DCF) Analysis

Fill out the partially completed DCF analysis template using the Credit Suisse equity research report on Ralcorp that you received in Part 1 of this case study.

Use the following assumptions for the parts where CS does not provide numbers:

- For the taxes, use Ralcorp's effective tax rate of 36% in all future periods.
- Make the decrease or increase in working capital a percent of revenue – do a 3-year average from 2008 – 2010 and use that percentage each year going forward.
- The WACC assumptions have already been provided in the WACC worksheet.
- Use a baseline Terminal EBITDA Multiple of 9x and a baseline Terminal Growth Rate of 4.0%.
- The sensitivities should range from a 6% to 10% Discount Rate, a 1% to 6% Terminal Growth Rate, and a 6x – 11x Terminal EBITDA Multiple.

Part 2 – Discussion Questions

Use your completed valuation and the valuation summary graph to answer the following questions:

1. Based on the numbers, was it correct for Ralcorp to reject ConAgra's improved $86.00 / share offer?
2. If the offer price looks reasonable according to your valuation, why did Ralcorp still reject the offer?
3. If the offer price does *not* look reasonable according to your valuation, why would ConAgra low-ball them?
4. Would any other valuation methodologies have been appropriate to use here?
5. A few months after the rejected offer, Ralcorp announced plans to spin off its Post Foods division – do you think that was a good idea? How could you assess whether or not they're more valuable in separate parts or with all their divisions intact?

Game Plan:

- Review Comps and Multiples

- Public Comp Analysis – Example

- Precedent Transactions Overview

- DCF Analysis

- Valuation Summary & Conclusions

- Discussion Answers

Why These Comps?

Ralcorp Holdings - Comparable Public Companies (Food & Beverage Sector)
($ In Millions)

Name	Ticker	Sub-Industry within Food & Beverage	Revenue	Market Cap
Campbell Soup Company	CPB	Diversified	$ 7,676	$ 10,890
The J.M. Smucker Company	SJM	Diversified	4,826	8,730
Seaboard Corporation	SEB	Diversified	4,262	3,010
Ralcorp Holdings, Inc.	RAH	Diversified	4,049	4,730
United Natural Foods, Inc.	UNFI	Diversified	3,757	2,160
TreeHouse Foods Inc.	THS	Diversified	1,817	1,860

Screening Criteria: US-Based, Diversified Food & Beverage Companies with Between $1 Billion and $10 Billion in Revenue .

Pop Quiz

Q: Which of the following would NOT be a valid screen when picking comps?

A) Enterprise Value

B) Enterprise Value AND Revenue

C) Revenue Growth AND EBITDA Margin

Which Multiples to Use?

- "Standard" Product Company, so…

- Revenue and EBITDA always work

- P / E has issues; EV / EBITDA better

- Could include others (FCF, etc.) but **time is limited** so don't go overboard

- Check equity research to confirm

Finding Information for Comps

Completed Public Comps

Comparable Companies - US-Based, Diversified Food and Beverage Companies with Between $1 Billion and $10 Billion in Revenue

($ in Millions Except Per Share Data)

Operating Statistics:

Company Name	Share Price	Equity Value	Enterprise Value	Revenue 9/30/2010	Revenue 9/30/2011	Revenue 9/30/2012	EBITDA 9/30/2010	EBITDA 9/30/2011	EBITDA 9/30/2012	Revenue Growth 9/30/2011	Revenue Growth 9/30/2012	EBITDA Margin 9/30/2010	EBITDA Margin 9/30/2011	EBITDA Margin 9/30/2012
Campbell Soup Company	$ 33.72	$ 11,397	$ 14,189	$ 7,645	$ 7,735	$ 7,919	$ 1,582	$ 1,560	$ 1,520	1.2%	2.4%	20.7%	20.2%	19.2%
The J.M. Smucker Company	72.21	8,553	9,317	4,601	5,061	5,466	1,061	881	951	10.0%	8.0%	23.1%	17.4%	17.4%
Seaboard Corporation	2,212.00	2,694	2,142	4,140	4,492	4,806	306	301	322	8.5%	7.0%	7.4%	6.7%	6.7%
United Natural Foods, Inc.	42.97	1,938	2,126	3,925	4,149	4,315	147	154	160	5.7%	4.0%	3.7%	3.7%	3.7%
TreeHouse Foods Inc.	54.82	1,994	2,867	1,712	1,986	2,115	214	293	327	16.0%	6.5%	12.5%	14.8%	15.5%
Maximum	$2,212.00	$ 11,397	$ 14,189	$ 7,645	$ 7,735	$ 7,919	$ 1,582	$ 1,560	$ 1,520	16.0%	8.0%	23.1%	20.2%	19.2%
75th Percentile	72.21	8,553	9,317	4,601	5,061	5,466	1,061	881	951		7.0%	20.7%	17.4%	
Median	$ 54.82	$ 2,694	$ 2,867	$ 4,140	$ 4,492	$ 4,806	$ 306	$ 301	$	8.5%	6.5%	12.5%	14.8%	15.5%
25th Percentile	42.97	1,994	2,142	3,925	4,149	4,315	214	293	322			7.4%		6.7%
Minimum	33.72	1,938	2,126	1,712	1,986	2,115	147	154	160	1.2%	2.4%	3.7%	3.7%	3.7%
Ralcorp Holdings	$ 65.31	$ 3,669	$ 6,233	$ 4,049	$ 4,721	$ 4,907	$ 672	$ 862	$ 91	16.6%	3.9%	16.6%	18.3%	18.6%

Valuation Statistics:

Company Name	Share Price	Equity Value	Enterprise Value	Enterprise Value / Revenue 9/30/2010	Enterprise Value / Revenue 9/30/2011	Enterprise Value / Revenue 9/30/2012	Enterprise Value / EBITDA 9/30/2010	Enterprise Value / EBITDA 9/30/2011	Enterprise Value / EBITDA 9/30/2012
Campbell Soup Company	$ 33.72	$ 11,397	$ 14,189	1.9 x	1.8 x	1.8 x	9.0 x	9.1 x	9.3 x
The J.M. Smucker Company	72.21	8,553	9,317	2.0 x	1.8 x	1.7 x	8.8 x	10.6 x	9.8 x
Seaboard Corporation	2,212.00	2,694	2,142	0.5 x	0.5 x	0.4 x	7.0 x	7.1 x	6.7 x
United Natural Foods, Inc.	42.97	1,938	2,126	0.5 x	0.5 x	0.5 x	14.5 x	13.8 x	13.3 x
TreeHouse Foods Inc.	54.82	1,994	2,867	1.7 x	1.4 x	1.4 x	13.4 x	9.8 x	8.8 x
Maximum	$2,212.00	$ 11,397	$ 14,189	2.0 x	1.8 x	1.8 x	14.5 x	13.8 x	13.3 x
75th Percentile	72.21	8,553	9,317	1.9 x	1.8 x	1.7 x	13.4 x	10.6 x	9.8 x
Median	$ 54.82	$ 2,694	$ 2,867	1.7 x	1.4 x	1.4 x	9.0 x	9.8 x	9.3 x
25th Percentile	42.97	1,994	2,142	0.5 x	0.5 x	0.5 x	8.8 x	9.1 x	8.8 x
Minimum	33.72	1,938	2,126	0.5 x	0.5 x	0.4 x	7.0 x	7.1 x	6.7 x
Ralcorp Holdings	$ 65.31	$ 3,669	$ 6,233	1.5 x	1.3 x	1.3 x	9.3 x	7.2 x	6.8 x

TreeHouse – EBITDA Calculation

	Year Ended December 31,		
	2009	2008	2007
	(In thousands, except per share data)		
Net sales	$ 1,511,653	$ 1,500,650	$ 1,157,902
Cost of sales	1,185,283	1,208,626	917,611
Gross profit	326,370	292,024	240,291
Operating expenses:			
Selling and distribution	107,938	115,731	94,636
General and administrative	80,466	61,741	53,931
Amortization expense	13,381	13,528	7,195
Other operating (income) expenses, net	(6,224)	13,899	(415)
Total operating expenses	195,561	204,899	155,347
Operating income	130,809	87,125	84,944

TREEHOUSE FOODS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2009	2008	2007
	(In thousands)		
Cash flows from operating activities:			
Net income	$ 81,314	$ 28,224	$ 41,622
Loss from discontinued operations	—	336	30
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	33,962	32,326	27,791
Amortization	13,381	13,528	7,195
Stock-based compensation	13,303	12,193	13,580

In Equity Research:

Year	12/10A	12/11E	12/12E	12/13E
EPS (CS adj.) (US$)	2.78	2.95	3.40	3.65
Prev. EPS (US$)	—	3.08	3.50	3.75
P/E (x)	21.0	19.8	17.2	16.0
P/E rel. (%)	160.3	172.0	165.1	173.6
Revenue (US$ m)	1,817.0	2,042.5	2,138.5	2,224.0
EBITDA (US$ m)	264.0	302.7	335.1	352.9
OCFPS (US$)	6.81	5.10	5.64	6.02
P/OCF (x)	7.5	11.5	10.4	9.7
EV/EBITDA (current)	11.5	10.1	9.1	8.6
Net debt (US$ m)	971	971	971	971
ROIC (%)	6.60	6.82	7.19	7.15

Source: Company data, Credit	35.50	IC (current, US$ m)		1,949.07
BV/share (current, US$)	27.5	EV/IC (x)		1.4
Net debt (current, US$ m)	950.5	Dividend (12/10A, US$)		—
Net debt/tot. cap. (current, %)	45.8	Dividend yield (%)		—

Source: Company data, Credit Suisse estimates.

- (1/4) * $1,817.0 + (3/4) * $2,042.5 = Sep. to Dec. 2010 + Jan. to Sep. 2011 = Sep. 2010 to Sep. 2011 = $1,986.1

More on Calendarization

Jan. – Mar.	Mar. – Jun.	Jun. – Sep.	Sep. – Dec.	Jan. – Mar.	Mar. – Jun.	Jun. – Sep.	Sep. – Dec.
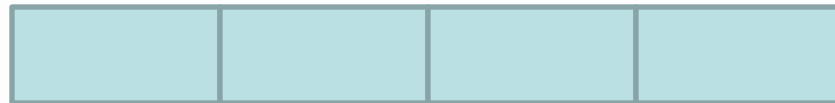
Ralcorp Holdings:

Sep. – Dec.	Jan. – Mar.	Mar. – Jun.	Jun. – Sep.

- For TreeHouse, 9/30/2010 Figures = 1/1/2009 to 12/31/2009 + 1/1/2010 to 9/30/2010 – 1/1/2009 to 9/30/2009

Pop Quiz

Q: But the deal was announced in early 2011! Shouldn't we calendarize to 12/31/2010 or 3/31/2011?

A) Yes, everything should be calendarized to one of those – we just skipped it to simplify.

B) Ideally the trailing numbers should be – but the forward numbers should still be 9/30 figures.

C) No – you should always calendarize to the company's fiscal year end.

Precedent Transactions

Food & Beverage M&A Transactions with US-Based Sellers and Enterprise Values Between $1 Billion and $10 Billion Since 1/1/2008
($ in Millions Except Per Share Data)

Ralcorp Holdings - Comparable M&A Transactions					Operating Metrics		Valuation Multiples	
Acquirer Name	Target Name	Date	Equity Value	Enterprise Value	Trailing Revenue	Trailing EBITDA	EV / Trailing Revenue	EV / Trailing EBITDA
Diamond Foods	Pringles (Proctor & Gamble)	4/5/2011	$ 1,500	$ 2,350	$ 1,400	$ 240	1.7 x	9.8 x
KKR, Centerview Partners and Vestar Capital	Del Monte Foods	11/25/2010	3,935	5,240	3,731	510	1.4 x	10.3 x
Carlyle Group	NBTY	7/15/2010	3,497	3,723	2,782	462	1.3 x	8.1 x
Ralcorp	American Italian Pasta	6/21/201	N/A	1,200	628	164	1.9 x	7.3 x
Pinnacle Foods	Birds Eyes Foods	11/19/200	N/A	3,300	921	145	1.4 x	9.0 x
The J.M. Smucker Company	Folgers Coffee	6/4/2008		3,300	1,737	384	1.9 x	8.6 x
	Maximum		$ 3,935	$ 5,240	$ 3,731	$ 510	1.9 x	10.3 x
	75th Percentile		3,607	3,617	2,521	442	1.8 x	9.6 x
	Median		$ 3,223	$ 2,825	$ 1,568	$ 312	1.5 x	8.8 x
	25th Percentile		2,588	1,563	1,041	183	1.4 x	8.2 x
	Minimum		1,500	1,200	628	145	1.3 x	7.3 x

- Industry + Geography + Size + TIME (Really important in changing market conditions)

Transactions – Finding Info.

WSJ BLOGS

Deal Journal

An up-to-the-minute take on deals and deal makers.

| "deal profile" food beverage | SEARCH |

Search Results for "deal profile" food beverage
1 - 2 of 2

Dec 2, 2010
11:57 AM

Deal Profile: Pepsi to Acquire Wimm-Bill-Dann for $5.8 Billion

By Stephen Grocer

PepsiCo is buying OAO Wimm-Bill-Dann in a deal valuing the Russian dairy products and fruit-juice maker at as much as $5.8 billion, marking one of the biggest foreign investments in Russia outside the energy sector.

These are
GENERATIONAL ASSETS

NBTY, based in Ronkonkoma, N.Y., on Long Island, was formerly known as Nature's Bounty and sells products under a variety of brands including Solgar, Rexall and MET-Rx.

Carlyle agreed to buy NBTY for $55.00 a share, a premium of approximately 57% over NBTY's average closing share price during the 30 trading days ended July 14.

Below is Dealogic's profile of the deal.

THE WALL STREET JOURNAL.   **dealogic**

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DCF: What's the Point of FCF?

RALCORP HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Year Ended September 30,		
	2010	2009	2008
Cash Flows from Operating Activities			
Net earnings	$ 208.8	$ 290.4	$ 167.8
Adjustments to reconcile net earnings to net cash flow provided by operating activities:			
Depreciation and amortization	166.8	144.7	99.5
Impairment of intangible assets			—
Stock-based compensation expense	17.9	13.4	11.5
Gain on forward sale contracts	—	(17.6)	(111.8)
Gain on sale of securities	—	(70.6)	(7.1)
Equity in earnings of Vail Resorts, Inc.	—	(15.4)	(21.7)
Deferred income taxes	(2.6)	(40.3)	13.1
Sale of receivables, net	—	(50.0)	4.2
Contributions to qualified pension plan	(30.0)	(5.0)	—
Other changes in current assets and liabilities, net of effects of business acquisitions:			
(Increase) decrease in receivables	(47.7)	9.2	(86.)
Change in due to/from Kraft Foods Inc.	(13.6)	62.6	(49.0)
Increase in inventories	(2.8)	(9.8)	(6.6)
Increase in prepaid expenses and other current assets	(1.1)	(2.2)	(1.1)
(Decrease) increase in accounts payable and other current liabilities	(38.4)	(19.6)	121.2
Other, net	4.7	36.9	(.8)
Net Cash Provided by Operating Activities	301.9	326.7	132.
Cash Flows from Investing Activities			
Business acquisitions, net of cash acquired	(1,312.0)	(55.0)	(20.3)
Additions to property and intangible assets	(128.9)	(115.0)	(62.)
Proceeds from sale of property	.5	.1	.2
Purchases of securities	(22.8)	(16.2)	(38.8)
Proceeds from sale or maturity of securities	24.8	95.9	50.4

- Approximate cash flow, but leave out capital structure-related and non-recurring items.

CF Projections: Use Research

Ralcorp Holdings - Projections	Historical					Projected		
	9/30/2008	9/30/2009	9/30/2010	9/30/2011	9/30/2012	9/30/2013	9/30/2014	9/30/2015
Revenue:	$ 2,644	$ 3,892	$ 4,049	$ 4,721	$ 4,907	$ 5,152	$ 5,410	$ 5,680
Revenue Growth Rate:		47.2%	4.0%	16.6%	3.9%	5.0%	5.0%	5.0%
EBITDA:	309	629	672	862	913	974	1,023	1,074
EBITDA Margin:	11.7%	16.1%	16.6%	18.3%	18.6%	18.9%	18.9%	18.9%
Operating Income:	209	484	505	637	682	744	781	820
Less: Taxes	(75)	(174)	(182)	(229)	(246)	(268)	(281)	(295)
Plus: Depreciation & Amortization:	100	145	167	225	231	231	242	254
Decrease / (Increase) in WC:	(23)	77	(99)	(21)	(22)	(23)	(24)	(25)
% Revenue:	(0.9%	2.0%	(2.4%	(0.4%	(0.4%	(0.4%	(0.4%	(0.4%
Less: Capital Expenditures				(157)	(187)	(187)	(187)	(152)
Unlevered Free Cash Flow	$ 211	$ 531	$ 391	$ 455	$ 459	$ 497	$ 531	$ 602
Present Value of Free Cash Flow				439	411	414	412	434
Normal Discount Period:				1.000	2.000	3.000	4.000	5.000
Mid-Year Discount:				0.500	1.500	2.500	3.500	4.500
Free Cash Flow Growth Rate:				16.4%	0.9%	8.3%	6.9%	13.3%

Pop Quiz

Q: What's the flaw with the Mid-Year Discount we just applied?

A) You can't apply a mid-year discount when the company has a fiscal year that ends 9/30.

B) You can't use the mid-year discount when it's a combination of equity research projections and our own.

C) We're already less than 1 year away from 9/30/2011 as of this valuation date, so we should use a stub period to be more accurate.

WACC – Same as Always

Discount Rate Calculation - Assumptions	
Risk-Free Rate:	4.20%
Equity Risk Premium:	7.00%
Interest Rate on Debt:	6.20%

Comparable Companies - Unlevered Beta Calculation					
Name	**Levered Beta**	**Debt**	**Equity Value**	**Tax Rate**	**Unlevered Beta**
Campbell Soup Company	0.29	$ 3,080	$ 11,397	35.0%	0.25
The J.M. Smucker Company	0.63	1,300	8,553	35.0%	0.57
Seaboard Corporation	0.71	156	2,694	35.0%	0.68
United Natural Foods, Inc.	0.71	198	1,938	35.0%	0.67
TreeHouse Foods Inc.	0.45	877	1,994	35.0%	0.35
Median	**0.63**				**0.57**

Ralcorp Holdings	0.27

Ralcorp Holdings - Levered Beta & WACC Calculation					
	Unlevered Beta	**Debt**	**Equity Value**	**Tax Rate**	**Levered Beta**
Ralcorp Holdings	0.57	$ 2,465	$ 3,669	36%	0.82

Cost of Equity Based on Comparables:	9.94%
Cost of Equity Based on Historical Beta:	6.09%

WACC = Cost of Equity * % Equity + Cost of Debt * % Debt * (1 - Tax Rate) + Cost of Preferred Stock * % Preferred Stock

WACC	**7.54%**

Terminal Assumptions & Output

Ralcorp Holdings - DCF Assumptions & Output

Use Multiples Method?		Yes
Discount Rate:		7.5%
Terminal EBITDA Multiple:		9.0 x
Terminal Growth Rate:		4.0%
Terminal Value:	$	9,668
PV of Terminal Value:		6,722
Sum of PV of Cash Flows:		2,110
Enterprise Value:	$	**8,832**
Terminal Value % EV:		76.1%
Enterprise Value:		8,832
Balance Sheet Adjustment:		(2,564)
Implied Equity Value:	$	**6,267**
Diluted Shares Outstanding:		57.251
Implied Share Price:	$	**109.47**

Ralcorp Holdings - Net Present Value Sensitivity - Terminal EBITDA Multiples

		Discount Rate								
		6.0%	6.5%	7.0%	**7.5%**	8.0%	8.5%	9.0%	9.5%	10.0%
Terminal EBITDA Multiple	6.0 x	$ 78.41	$ 76.07	$ 73.79	$ **71.57**	$ 69.40	$ 67.30	$ 65.24	$ 63.24	$ 61.30
	7.0 x	92.05	89.39	86.80	**84.28**	81.83	79.44	77.11	74.84	72.63
	8.0 x	105.69	102.72	99.82	97.00	94.25	91.58	88.98	86.44	83.97
	9.0 x	**119.34**	**116.04**	**112.84**	**109.72**	**106.68**	**103.72**	**100.84**	**98.04**	**95.30**
	10.0 x	132.98	129.37	125.85	122.43	119.10	115.86	112.71	109.63	106.64
	11.0 x	146.62	142.69	138.87	**135.15**	131.53	128.00	124.57	121.23	117.98

Valuation Summary

Valuation Summary - Ralcorp Holdings
($ in Millions Except Per Share Data)

Valuation Statistics - Ralcorp Holdings	Ralcorp Holdings - Range of Valuation Multiples / Premiums						Ralcorp Holdings - Implied Per Share Value Range				
Methodology Name	Minimum Multiple	25th Pecentile Multiple	Median Multiple	75th Pecentile Multiple	Maximum Multiple	Applicable Ralcorp Holdings Figure	Minimum Multiple	25th Pecentile Multiple	Median Multiple	75th Pecentile Multiple	Maximum Multiple
Public Company Comparables:											
09/30/2010 EV / Revenue:	0.5 x	0.5 x	1.7 x	1.9 x	2.0 x	$ 4,049	$ -	$ -	$ 74.58	$ 87.08	$ 98.70
09/30/2011E EV / Revenue:	0.5 x	0.5 x	1.4 x	1.8 x	1.8 x	$ 4,721	-	-	75.19	106.57	107.07
09/30/2012E EV / Revenue:	0.4 x	0.5 x	1.4 x	1.7 x	1.8 x	$ 4,907	-	-	72.44	101.51	108.80
09/30/2010 EV / EBITDA:	7.0 x	8.8 x	9.0 x	13.4 x	14.5 x	$ 672	38.40	59.65	61.77	112.20	124.95
09/30/2011E EV / EBITDA:	7.1 x	9.1 x	9.8 x	10.6 x	13.8 x	$ 862	63.62	92.58	102.68	114.33	162.18
09/30/2012E EV / EBITDA:	6.7 x	8.8 x	9.3 x	9.8 x	13.3 x	$ 913	62.62	95.46	104.32	111.43	166.03
Precedent Transactions:											
Trailing EV / Revenue:	1.3 x	1.4 x	1.5 x	1.8 x	1.9 x	$ 4,049	$ 51.25	$ 56.13	$ 65.68	$ 86.30	$ 90.85
Trailing EV / EBITDA:	7.3 x	8.2 x	8.8 x	9.6 x	10.3 x	$ 672	42.08	52.78	59.64	68.80	76.67
Discounted Cash Flow Analysis:											
6.5-8.5% Discount Rate, 7-11x Terminal Multiple:							$ 89.39	$ 99.82	$ 109.72	$ 119.10	$ 128.00

Valuation Conclusions?
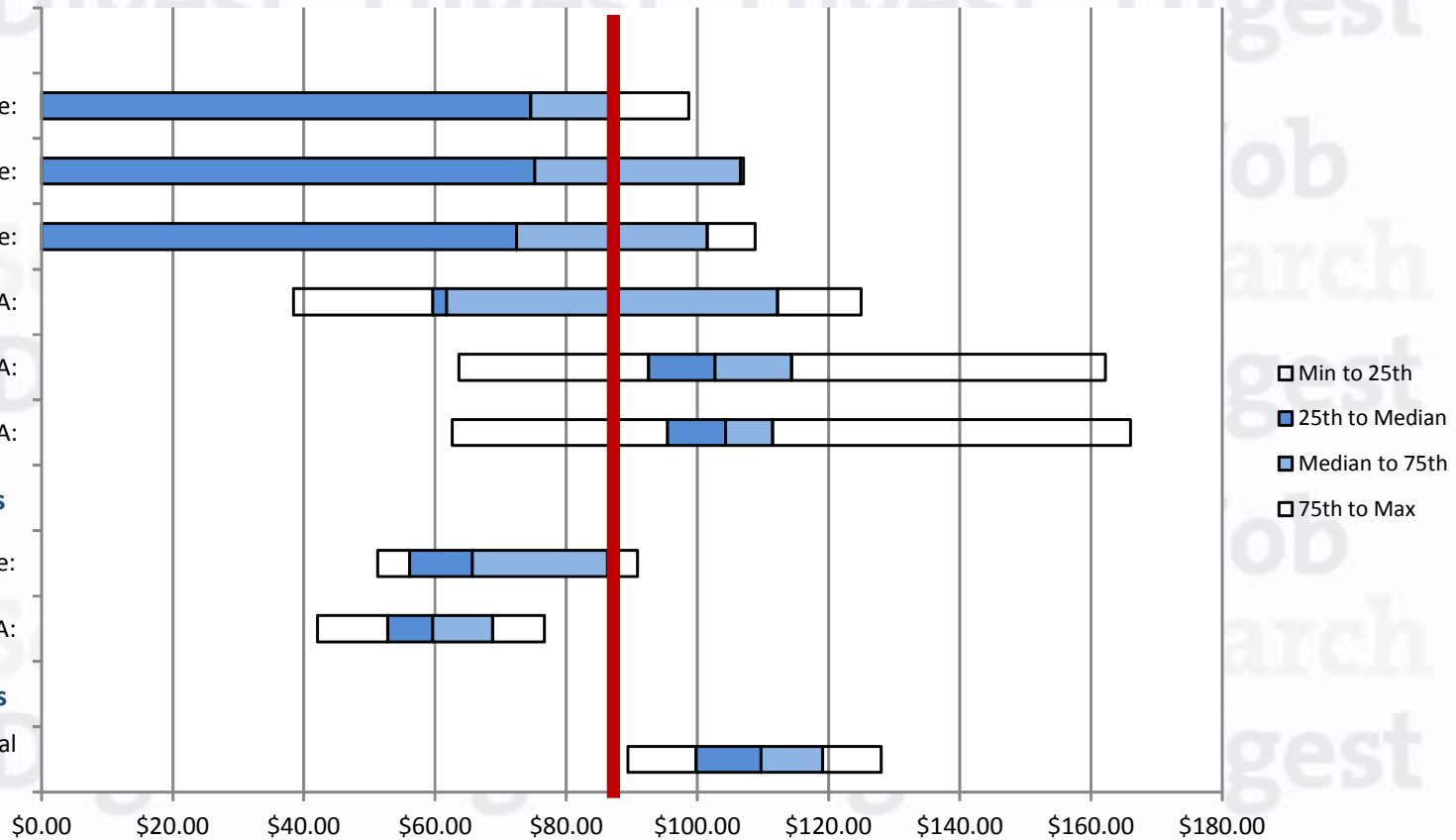
Back to the Case Study...

Part 2 – Discussion Questions

Use your completed valuation and the valuation summary graph to answer the following questions:

1. Based on the numbers, was it correct for Ralcorp to reject ConAgra's improved $86.00 / share offer?
2. If the offer price looks reasonable according to your valuation, why did Ralcorp still reject the offer?
3. If the offer price does *not* look reasonable according to your valuation, why would ConAgra low-ball them?
4. Would any other valuation methodologies have been appropriate to use here?
5. A few months after the rejected offer, Ralcorp announced plans to spin off its Post Foods division – do you think that was a good idea? How could you assess whether or not they're more valuable in separate parts or with all their divisions intact?

Reasonable Price?

- Based on this valuation, **yes** – within the range for the public comps, above the precedent transactions, but well below the DCF implied value
- So, why reject the offer?
  - Even better "upside" case?
  - Possibility of spinning off divisions?
  - Negotiating tactic?
  - Investor support
  - Ego / politics?

Other Valuation Methodologies?

- **Sum-of-the-Parts** would have been most helpful here; others (LBO, Liquidation, Future Share Price, etc.) not as applicable
- Value each division separately – time-consuming and data-intensive, but can be very helpful:

	EBIT F11	D&A	Corporate	EBITDA	Multiple	EV
Pasta	126	48	0	174		1,380
Post Cereal	223	60	12	271	9.0x	2,435
Private Label	333	117	38	412	8.5x	3,499
Value of cost savings						154
Total	681	225	50	856	8.7x	7,468

Spin-Off a Good Idea?

- Need a **Sum-of-Parts** valuation to accurately assess – might result in higher value, but presents other issues

- Based on CS equity research, "maybe, but not a dramatic game-changer"

	EBIT F11	D&A	Corporate	EBITDA	Multiple	EV
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Post Cereal	223	60	12	271	9.0x	2,435
Private Label	333	117	38	412	8.5x	3,499
Value of cost savings						154
Total	681	225	50	856	8.7x	7,468

Less Net Debt:	2,600
Curent Equity Value	4,868
Shares Outstanding	55
Valuation	$88.51
Change of control premium	15%
Value per share	$101.79

What Next?

- Go Practice Yourself

- Download the Model and Files

- Learn More Advanced Topics

A Success Story

- **Adrian:** IB → PE?

- Completed M&A internship at boutique

- Accepted full-time offer there… but really wanted to do PE

- Applied and got interview at MM PE fund – but only had a weekend to prepare!

- Had experience, but not *modeling experience*

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FAQ's

- **We focused on investment banking and valuation today. Is the full program helpful for fields outside of IB?**

- **Do I need to go through everything?**

- **I'm still not sure this is for me. Do you have a guarantee?**

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  – Must sign up by this **Friday, August 5 at 5pm New York time** – price goes up after that

  – Backed by a **100% Money Back Guarantee**

It Worked for Them

Re: More New Stuff for You

| ☆ ● [REDACTED] to Breaking | show details Apr 7 | ↩ Reply ▼ |

Hello, Brian

I think you've done a phenomenal job in putting this all together, thank you. It is educational and entertaining to say the least... and from my perspective, your training program is superior to the competition out there.

I'm an aspiring investment banker (from a non-target school in South Florida) and have worked in commercial real estate for the better part of my career (6+ yrs). I am using your material to stay current, and to refine my modeling and understanding of corporate finance and valuation. I've enrolled and completed two other modeling programs in the past and feel your teaching platform here is much more effective and friendly.

Specifically, I am impressed with how you sift through the various sources of information (sec filings, equity research, press releases, etc) to extract what you need and break-down complex financial scenarios - as it should be interpreted - for the rest of us to better understand.

To gain this level of proficiency and be able to think through complex transactions at an intuitive/high-level is another aim of mine as I am endeavoring to source my own consulting work as a means to "break-in" to the industry.

I would very much like to keep our line of communication open as I may have more specific financial inquires in the future and or be able to just bounce off ideas.

Many thanks and kind regards,

It Worked for Them

Dear Brian,

I hope the year has started well for you. As you may remember, we wrote each other a couple of emails some months ago (it was in May 2009 to be precise), as I was asking you some suggestions to strengthen my profile for IB recruiting, before starting my MBA at ████████████ in September 2009. Now I am writing you after quite a long time to let you know how much your website has been useful for me.

After months of preparation and hard work, I am very glad to say that last week I received an offer for a summer internship in Credit Suisse in ████████ However, the hours spent during the Christmas break on Breaking Into Wall Street's website have been extremely rewarding, and your insightful and practical way of explaining concepts and giving details has been an invaluable source of learning for me. After going through some accounting classes and through your course, I have been able to discuss fluently with people coming from the sector, and I felt to have had a distinctive advantage over other career changers. So, simply, thank you.

I would also like to add that from my (obviously biased) perspective, I think that a great addition to the website could be the PowerPoint tutorials that you were mentioning. I feel that I really lack a primer on the subject before starting my internship in June, and I am reluctant to pay for the classes offered by other training firms, as I had the opportunity to follow one of them in the fall and I was quite disappointed by their superficiality.

I hope that my feedback will be useful for you, and I would like to thank you again for making such a big difference in my success in the IB recruiting process.

████████

It Worked for Them

Thank you Inbox |X Testimonials |X

⭐ ▇▇▇▇▇ to Breaking   show details Apr 20 (3 days ago)   ↩ Reply ▾

Brian,

Today my 2 month money-back guarantee expires. I just wanted to thank you for putting together these videos and the entire tutorial. You have been simply awesome in your teaching and commitment to answer related queries. Your knowledge and grip on the topic is superb and that makes you an excellent teacher (and I'm sure an equally good banker). If you ever need me to write a testimonial for your course, don't hesitate to ask me (I am sure many others would be willing to do the same as well). I just want to you to know that I am not only continuing with the membership but also signing up for Banking and Oil & Gas courses in the next few days. I have learnt a lot from this course and from the question-answers with you. I wish to continue our relation and hope to learn a lot more from you in the coming days.

Thanks a lot.

Cheers,
▇▇▇▇▇▇▇

Special Early Bird Bonus

- Enroll by **Wednesday, August 3rd** and get invited to a free, private teleconference with Brian and David

- You'll learn exactly what to do in the first 30 days to get **maximum results with minimum time** when you sign up for the course

- How to prepare for **interviews**, **case studies**, **internships**, and **full-time work** as quickly as possible and what to focus on in the course

- Your **only** chance to ask Brian and David live questions – they don't offer consulting

How to Enroll

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