In Class Case 3

Distress Investing

Appraising the <u>going concern</u> value of assets and equity of a company using the Public Comps Multiples methodology, using relationships between multiples

We shall be using Capital IQ to perform the first step to the Pure Going Concern Valuation for the companies at hand.

1. Calculate P/B and P/E ratios for Spirit Airlines for the year ended December 31, 2019 by using what you learn on page 93 of the MSA book about the relationship between P/B and P/Es. (I will cover in class) What is the implied ROE needed to make the too ratios consistent? Is the implied ROE an actual or expected ROE?
2. On a public "comp" basis (use Southwest, Alaska, and Hawaiian as comps and use Capital IQ to do the analysis), by looking at the most recently calculated EV/EBITDA multiple, is Spirit Airlines enterprise overvalued, fairly valued or undervalued? Use most recent comparable ratios for Southwest, Alaska, and Hawaiian as presented on Capital IQ. Think about this comparison and reflect as to whether it is a valid way of comparing valuations.
3. Do the same thing you did in the previous question but this time, use EBITDAR and adjusted EV. Do the results change in any way?
4. Compare the EBITDA margin (%) for Spirit, Southwest, Alaska and Hawaiian. Use the most recent fiscal year data.
5. Using your answers to question 2, what would be the implied EV / Sales multiples for each company? Based on this metric, is Spirit relatively overvalued, fairly valued or undervalued?
6. Using the simplified DCF framework that we developed in class, and a growth rate in EBITDA assumption of 5% per year, and a cost of unlevered equity of 10%, what conclusion do you arrive at with respect to the pricing of Spirit Airlines common stock shares, excluding the value of cash per share. Use 2019 fiscal year information to perform your calculations.
7. What is the growth rate in EBITDA implied by the current share pricing for Spirit Airlines if we assume that the unlevered cost of equity is 10%. Use the Goal Seek function in Excel.
8. Use the simplified DCF model to imply the growth rates in EBITDA for Alaska and Southwest using also a 10% cost of equity.
9. What is the Fiscal year 2019 leverage ratio and what does that tell you about Spirit Airlines credit capacity when one includes the capitalized value of leases? Run the SDCF model answering Yes (1) to the EBITDAR analysis. Compare with Southwest, Alaska and comment about the relative leverage of Spirit against its peers.
10. What would be the DCF Price to Book ratio for each of the three valuations?