

Relative Valuation (Enterprise Value and Equity Value Multiples)

Objective: The objective of this assignment is to apply the concept of total enterprise value (TEV) and also equity market value (EMV) multiples to a real world company. This assignment should be done after you have finished reading Chapter 14 through Chapter 16 in Damodaran, *Investment Valuation*.

Company: Genzyme (Ticker: GENZ, <http://www.genzyme.com/>) Genzyme is a biotechnology company that develops products. The firm is also involved with human healthcare and provides services for major unmet medical needs. The company has three operating divisions. Genzyme Molecular Oncology is developing a new generation of cancer products focused on cancer vaccines and angiogenesis inhibitors through the integration of its genomics, gene and cell therapy, small-molecule drug discovery and protein therapeutic capabilities. Genzyme Biosurgery primarily makes orthopedic and cardiothoracic (heart disease) medical and surgical products. The company's primary division, Genzyme General, develops and markets



therapeutic products and diagnostic products and services with a focus on genetic disorders and other chronic debilitating diseases. Among Genzyme General's main products are Cerezyme and Ceredase, leading (and pricey) treatments for Gaucher's disease, a rare enzyme-deficiency condition. Genzyme General also includes drug development and genetic testing and other services. As part of plans to simplify its structure, Genzyme consolidated its tracking stocks under its primary GENZ ticker in 2003.

Competitors: Amgen¹ (AMGN), Biogen (BGEN), Cephalon (CEPH), Chiron (CHIR), Genentech (DNA), IDEC Pharmaceuticals (IDPH). For purposes of this analysis, we have excluded other major drug companies such as Novartis (NVS) due to lack of information on their financial statements.

Assignment: Download the file, EliLilly.xls from my website and do all your work on this spreadsheet. This is an *individual* assignment. Although you can discuss this case with your classmates, you are responsible for doing the case yourself. Students caught cheating will be able to experience depression first-hand since they'll be given an F on this assignment. The assignment/questions can be found after the assumptions.

¹We exclude Amgen in our analysis since it recently acquired Immunex and are still accounting for the merger in their financial statements.

Warning: The financial statements are quarterly. Make the necessary adjustments to these quarterly numbers to obtain the trailing twelve-month (TTM) figures. Income statement numbers are “flow” numbers while balance sheet items are “stock” numbers.

Assignment:

- Using the Valuation Template provided in the Genzyme.xls file, complete the template by filling in each cell that is highlighted in yellow by linking the worksheets containing the various financial statements in the Genzyme workbook to the valuation template worksheet. What is the justified average **equity** value for Genzyme – mean price per share and median price per share - based on the various multiples (please highlight in yellow on the spreadsheet)?
- Based on news stories in Lexis-Nexus and other sources as of July 17, 2003 which firms should be excluded as comparables? Why? Are there any other firms that should be excluded as a comparable? Use the remaining comparables to calculate the justified average **equity** value for Genzyme – mean price per share and median price per share - based on the various multiples (please highlight in yellow on the spreadsheet). Tip: To save some time, make a copy of your answers in another worksheet using Edit Move or Copy Sheet ... highlight the sheet you wish to make a copy of click the box labeled “Create a copy” click OK.
- What multiple(s) appear to be the most reliable in terms of enterprise value multiples for your answer in question 1 above if you use the lowest standard deviation as the criteria? Which are the most reliable equity multiples? Why? On the basis of economic intuition (rather than using the lowest standard deviation as the selection criteria), which multiples should you focus on? Please explain.
- Do you agree or disagree with the analyst recommendations for Genzyme given your answers in questions 1 and 2 above? Why or why not? Please discuss.

<u>Date</u>	<u>Firm</u>	<u>Action</u>	<u>Details</u>
17-July-03	Robert W. Baird	upgrade:	from Neutral to Outperform
01-July-03	Prudential Equity	reiterate	Buy
01-July-03	UBS	reiterate	Buy 1
26-June-03	Jefferies & Co	initiated:	at Buy

Sources: <http://biz.yahoo.com>, Investext

Please turn in a hard copy of the spreadsheet together with your disk containing the spreadsheet with all the appropriate calculations. This is an **individual** assignment. Any person caught cheating will receive an F on this project.