

West Teleservices Case Questions

This case examines valuation in a context where there is limited information. When valuing the equity of a firm that is not public and which may have limited operating history, you will be forced to make and defend your assumptions. The fact that the industry is new or influx will complicate the valuation procedure, although in theory it doesn't change the basic method. West Teleservices is a private company that is planning its first issue of public equity (its initial public offering) for the end of November. They intend to sell 5.7 million shares of stock to the public.

- 1) What price should Ms. Little recommend to West Teleservice's management? Use a multiples approach to value West Teleservice. Explain thoroughly. You should consider when a multiples approach to valuation make sense in general? Think about why bankers use this approach to value firms.
- 2) Why did the multiples change over time in this industry? Do these change make sense?
- 3) Using a discounted cash flow approach, calculate the correct value for West Teleservices Inc as of the end of 1996. Use a discount rate of 13.5 percent and a risk free rate of 5.5 percent. Assume the firm will grow at 6 percent after 2001. You will need to make additional assumptions. It may be helpful to think about the size of the industry and the current value of the other teleservice firms. Remember, valuations are the market's guess of the future cash flows that these assets will generate. You can use S&P's valuation of 21½ as a target if you choose. Based on this information, what price should Ms. Little recommend to West Teleservice's management?
- 4) Should West Teleservices Inc. sell equity at this time? Explain completely.