Figure 35.8: Discounted Cashflow Models

1. Can you estimate cash flows?
   - Yes
   - No
     - Use dividend discount model

2. Is leverage stable or likely to change over time?
   - Stable leverage
   - Unstable leverage
     - FCFE
     - FCFF

3. Are the current earnings positive & normal?
   - Yes
   - No
     - Use current earnings as base

4. Is the cause temporary?
   - Yes
   - No
     - Replace current earnings with normalized earnings

5. Is the firm likely to survive?
   - Yes
   - No
     - Adjust margins over time to nurse firm to financial health

6. What rate is the firm growing at currently?
   - < Growth rate of economy
   - > Growth rate of economy
     - Stable growth model

7. Does the firm have a lot of debt?
   - Yes
   - No
     - Value Equity as an option to liquidate

8. Are the firm’s competitive advantages time limited?
   - Yes
   - No
     - 2-stage model
     - 3-stage or n-stage model

9. Estimate liquidation value