Valuation Post-Mortem

Question	
1. Is the riskfree rate in a. the same currency as the cash flows b. in the same terms (real versus nominal) c. matched up to cashflows (equity cashflows -> cost of equity, firm cashflows -> cost of capital)	
2. Is the risk premium being used a historical, implied or a combination premium? a) If it is historical, are you comfortable with the assumption you are making (that the premium will move back to this historical average)? b) If it is a historical premium computed using a different basis (different currency, nominal or real), are you adjusting the premium to make it consistent with your riskfree rate? (As you go from a lower inflation currency like the dollar to a higher inflation currency like the peso, your premium should rise. If you are going to a real riskfree rate, it should decrease) c) If it is implied, is it updated?	
3. If the company operates in a risky country, is there an additional risk premium being charged? Is that risk premium being adjusted downwards as you move into future years?	
4. Is the beta a top-down or a bottom-up beta? a. If it is a top-down beta, why is a bottom-up beta not being used? b. If it is a bottom-up beta, are the comparables picked appropriately and weighted? c. Are you adjusting the bottom up beta to reflect the different businesses that your company is in and its debt to equity ratio?	
5. Is the cost of debt a reasonable number? a. If a synthetic rating is being used, is the EBIT used to compute it a normal number? b. If you are adjusting for the tax benefit, are you using a marginal tax rate and do you have the income to cover the interest expenses?	
6. How is the debt ratio being used to compute the cost of capital computed? a. Are operating leases being capitalized and treated as debt? b. If there is sufficient information, is the market value of debt being estimated? c. Is the debt ratio assumed to change over the valuation horizon and if so, towards what?	
7. Is the operating income being used as the base year number correctly estimated? a. Is the operating income cleansed of one-time effects and charges? b. Is the operating income adjusted for operating leases? c. Is the operating income adjusted for R&D expenses? d. If there are losses or NOLs, is the tax paid (and tax rate) adjusted to reflect the carry forward of these losses)?	
8. If the operating income is negative, what is being done to make it positive? a. If it is being normalized, what is it being normalized towards? (industry average, past etc,)	

b. How soon is the operating income being normalized and is the period sufficient? (Is the current operating income being changed or is it being changed over time)	
9. Is the net capital expenditure being estimated appropriately? a. Are acquisitions and R&D being included in the capital expenditures? b. Is the amortization from R&D included in depreciation? c. If capital expenditures are a very high percent of depreciation, is the difference being narrowed over the valuation period (by setting growth in cap ex higher than the growth in depreciation)? d. Are the net capital expenditures consistent with the growth rate being used? e. If the net capital expenditures during high growth are negative, what is the reason? (One reason may be that the firm has over invested in cap ex and will live off the fat)	
10. Is the working capital investment reasonable? a. Is the working capital requirement being normalized (or is the last year's change just being forecast)? b. If the working capital is negative, what is the reason and can it continue to be negative?	
11. How is the length of the growth period estimated and is it appropriate? a. If a high growth phase is included, how long is it? b. If it is longer than 10 years, what is the barrier to entry or competitive advantage possessed by the firm?	
12. What is the growth rate during the high growth phase and how is it estimated? a. What is the fundamental growth rate, based upon current fundamentals? b. What is the actual growth rate used? c. What would need to happen to the fundamentals for the actual growth rate to hold and is that assumption reasonable?	
13. Stable Growth and Terminal Value assumptions a. What is the stable growth rate? (If >5%, why is it set higher?) b. Is the beta being adjusted towards 1 (0.8-1.2) in stable growth? c. Is there sufficient reinvestment in the cash flow to generate growth? (For instance, is net cap ex being set to 0 or a negative number, while growth continues forever) d. Is there too much reinvestment for the estimated growth? (Is growth dropping, while net cap ex is left at current levels) e. What return on capital or equity are you assuming in perpetuity? (Divide your growth rate by your reinvestment rate to get this) f. Is working capital negative? (It cannot be negative in perpetuity)	
14. Post Valuation Questions a. Are you adding cash and marketable securities to this value of operating assets? b. Are you valuing minority cross holdings and adding them to operating asset value? c. If you have majority active interests are you subtracting out the value of the minority holdings in the holdings?	

d. Is the debt being subtracted out of value the same debt that went into the initial cost of capital computation? e. Does the firm have options outstanding, and is their value being subtracted out to get to the value of equity? f. Is the number of shares used to estimate value per share the actual number of shares outstanding?	