CASH FLOWS - PART II

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Money Losing Companies

- You have a money-losing company to value and are thinking about normalizing earnings, by taking the average earnings over the last 5 years. Which of the following assumptions would have to hold for this to work in your valuation?
  a) The loss was unusual and the company has historically made money.
  b) The problems that caused the loss were temporary and have largely been resolved
  c) The business has not changed in fundamental ways
  d) The company has not not scaled up or down over the last five years.
  e) All of the above

Negative FCFE

- You are valuing equity in a company by projecting out FCFE for the future and you are expecting negative FCFE for the next five years. You discount these FCFE back to today at the cost of equity to get to the value of equity today. What are you implicitly assuming that the company will be able to do for the next five years?

- Is this a safe assumption?