



DCF VALUATIONS I



The DCF Value: Timing Question

- Assume that you discount expected cash flows to equity at a cost of equity to get a value per share of \$150 for 3M. That value is as of
 - a. Right now
 - b. A year from now
 - c. At the start of this calendar year
 - d. At the start of the next calendar year

From Current to Future Value

- Now assume that given your valuation of \$150/share for 3M, you want to estimate what the value will be a year from now. Assuming that the cost of equity for 3M is 8% and that the company is expected to pay a dividend of \$2.00/share, estimate the expected value a year from today.
 - a) \$148; Dividends reduce the price
 - b) \$150; Intrinsic value is timeless
 - c) \$160; Value increased by cost of equity but reduced by expected dividends
 - d) \$162; The value increased by the cost of equity
 - e) Cannot be done. You need to do a DCF with just cash flows beyond year 1

Expected Dilution?

- Assume that you value a high growth company and that you discount the cash flows to equity back at the cost of equity to arrive at an equity value of \$ 100 million. The firm has 10 million shares outstanding but you expect it to have to issue more shares (2.5 million) over the next few years to cover growth needs. The value per share for this company is:
 - a. \$10/share ($-\$100/10$)
 - b. \$ 8 /share ($=100/12.5$)
 - c. Between \$8 and \$10
 - d. More than \$10
 - e. Less than \$8