STORY TELLING IN VALUATION

Value = Story

- Let's assume that you are looking at the valuation of a company, where the analyst has estimated a CAGR of 50% for the next ten years, an operating margin of 20% in year 10 (twice the industry average), a low reinvestment (given growth) and a cost of capital of 7% in year 10 (below the market average). On each of the following dimensions, what is your implicit story?
  a. Company size: Small or Large
  b. Total Market: Stable or Growing
  c. Competitive Advantages: Strong or Weak
  d. Capital Intensity of business: Low or High
  e. Nature of Product/Service: Discretionary or Non-discretionary

Story Changes?

- Every valuation has an embedded story in it. What might cause this story to change?
  a. Earnings reports from the company
  b. Macroeconomic changes (interest rates, inflation etc.)
  c. Regulatory changes
  d. Earnings reports from other companies
  e. All of the above
  f. None of the above. A good story should be timeless.

Life Cycle, Stories and Numbers

- Valuation is a combination of a story with numbers. As companies move through the life cycle from young start ups to declining companies, which of the following statements would you agree with about the mix of stories and numbers?
  - The mix should not change as companies age
  - The numbers are more important for young companies and stories for older companies
  - The stories are more important for young companies and numbers for older companies.
- Explain why.