

Equity Instruments: Newsletter – March 22, 2014

Where we are in class...

Lecture Notes Packet 1 (pdf)

As of last session: Page 204



As of next week: Page 275



Basics of DCF valuation
Estimation of Discount Rates
Estimation of Cash Flows
Estimation of Growth Rates
Estimation of Growth Patterns
Choosing the Right Model
Dealing with Cash
Dealing with Options
Examples of Valuation

Where you should be in the project...

DCF Valuation portion of Project

Item

1. Pick a firm
2. Obtain its financials
3. Find out the businesses that your firm operates in
4. Obtain a riskfree rate
5. Estimate a market risk premium
6. Estimate a bottom-up unlevered beta
7. Estimate the market value of equity and debt
8. Estimate a bottom-up levered beta
9. Estimate a pre-tax cost of debt (using actual or synthetic ratings)
10. Convert operating leases into debt
11. Estimate a tax rate
11. Estimate a cost of capital
12. Capitalize R&D expenses
13. Estimate an adjusted operating income
14. Estimate net capital expenditures
15. Estimate non-cash working capital
16. Estimate Free Cash Flow to Firm
17. Estimate Free Cash Flow to Equity
18. Estimate a historical growth rate in earnings
19. Obtain analyst forecasts of growth in earnings for your firm
20. Estimate growth in earnings from fundamentals
21. Choose a length for the high growth period
22. Choose a DCF model
23. Value the firm/stock



Data Notes...

We will start on full valuations of companies this week and speed through more than a dozen, using each company to focus on a different aspect of valuation. You can

also look at the excel spreadsheets containing the valuations of the companies that we analyze in class by going to company valuations on the web site for the class... Play with the spreadsheets and get a sense of what drives value with each company.

Miscellaneous FAQs

How do I know whether my value is right?

I am afraid I do not know the answer to the question. No one knows what the true value of a stock is. Suffice to say, your estimate of value is as good as any other.

How often do I need to update this valuation?

Constantly. New information about your firm and the economy will change your valuation. You need to keep track of the value changes.

Do I need to build my own spreadsheets or can I use one of the spreadsheets on the web?

Building your own spreadsheet is a great way to learn valuation but work within your time constraints. You can use one of my spreadsheets or adapt it to meet your needs.

What do I need to turn in?

You need to turn in the assumptions that underlie your value, the stock price on the day of the valuation and the details of the cash flows. You can do it electronically as an attachment to an email, if you want. There is no need for purple prose.