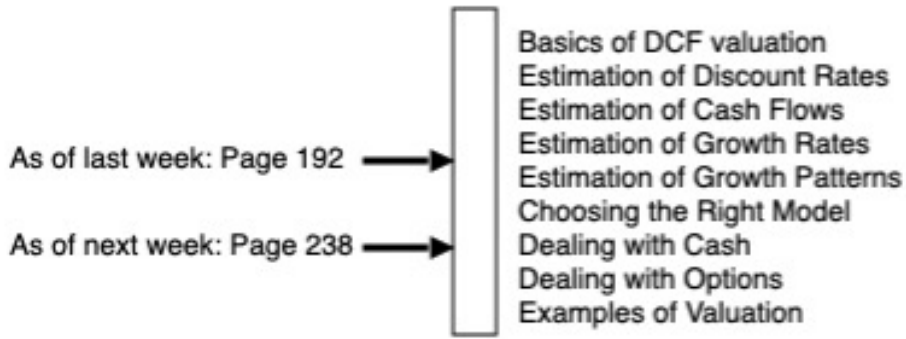


## Valuation: Newsletter – March 2, 2024

*Where we are in class...*

### Lecture Notes Packet 1 (pdf)



*Where you should be in the project...*

### DCF Valuation portion of Project

- | <i>Item</i>  |
|--|
| 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 soon 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.

For your company, try the pre-built spreadsheets on my site, not because they are advanced (they are not), but because they reflect the intrinsic value thinking in this class and save you some time. The models below are the most adaptable, one for non-financial service firms and one for financial service firms (a dividend discount model):

Non-financial service: <https://pages.stern.nyu.edu/~adamodar/pc/fcffsimpleginzu.xlsx>

Financial service: <https://pages.stern.nyu.edu/~adamodar/pc/divginzu.xlsx>

## *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 excel spreadsheet with your valuation, with the assumptions that underlie your value, the stock price on the day of the valuation. You can list your assumptions in the excel spreadsheet. There is no need for purple prose.