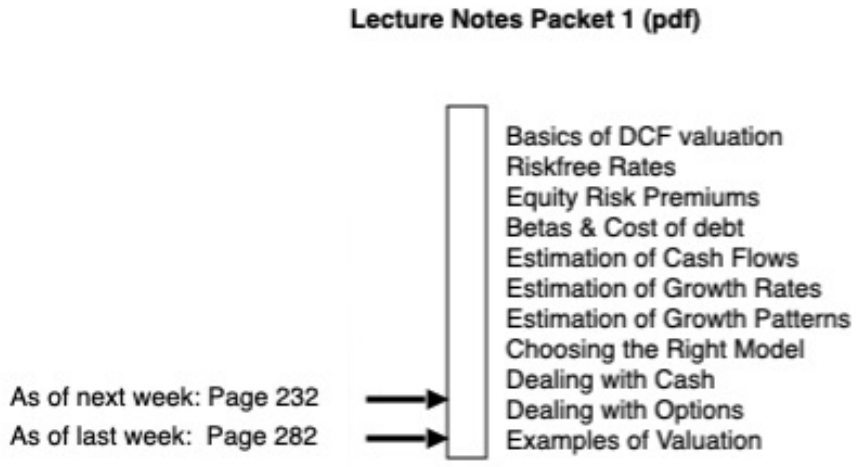
Valuation: Newsletter – March 9, 2024

Where we are in class…



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…

Last week, we looked estimating growth and the key issues in estimating terminal value, including the guardrails that keep them on track. I have five blog posts on terminal value that you might (or might not) find useful as you navigate your way through them:

1. http://aswathdamodaran.blogspot.com/2016/11/myth-51-if-you-don-believe-in-forever.html
2. http://aswathdamodaran.blogspot.com/2016/11/myth-52-as-g-rto-infinity-and-beyond.html
3. http://aswathdamodaran.blogspot.com/2016/11/myth-53-growth-is-good-more-growth-is.html
4. http://aswathdamodaran.blogspot.com/2016/11/myth-54-negative-growth-rates-forever.html
5. http://aswathdamodaran.blogspot.com/2016/11/myth-55-terminal-value-ate-my-dcf.html

We will continue with the loose ends in valuation this week, starting with complexity and debt, and then working our way to how to deal with stock-based compensation, a much-mangled aspect of both corporate finance and valuation.

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 spreadsheet or can I use one of the spreadsheets on the web?

I would rather that you use my spreadsheet, not because it is superior, but it will make my job of checking your valuation story easier.

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.