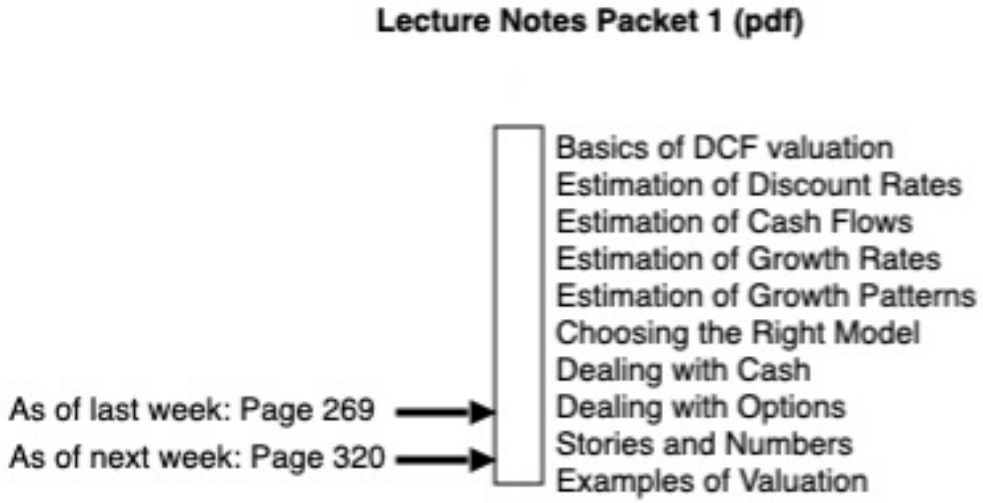
Valuation: Newsletter – March 23, 2024

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…

As we start on relative valuation in a week or two, there are a number of different sources for multiples but the numbers you may get for your firm will not always match up because of differences in way the same multiple is defined by different sources. Here are a few:

Morningstar: http://www.morningstar.com

This is a good site. There is a premium section of the site, which costs more than a hundred dollars a year but is worth it if you want to screen data for specific variables. With your access to Capital IQ, you will not need this.

Zacks: http://www.zacks.com

This is the mother lode for everything related to analyst forecasts (for what they are worth) and best of all, it is still free. You can also get your hands on equity research reports on companies. Almost all of them are based upon multiples and comparables and they will give you insight into how analysts use multiples.

Miscellaneous FAQs

What happens with my DCF valuation that I turn in by email?

If you turn in a DCF valuation, you should have got a response back from me with comments and in many cases. your excel spreadsheet, with comments in it.

What do I do with these comments?

Read them and incorporate them, if you feel that they make sense. If you disagree, stay with your basic valuation. This is your valuation.

What if I don't hear back from you?

If you don't hear within four days of sending your valuation, please send your valuation again and make sure that you enter "My perfect DCF" in the subject area.