

### What is wrong with this valuation? FCFE Stable

- If you get a low value from this model, it may be because
  - capital expenditures are too high relative to depreciation
  - working capital as a percent of revenues is too high
  - the beta is high for a stable firm
- If you get too high a value, it is because
  - Capital expenditures are lower than depreciation
  - Working capital ratio as % of revenue is negative
  - the expected growth rate is too high for a stable firm

### *Solution*

Use a smaller Cap Ex or use the 2-stage model.

Normalize this ratio, using historical averages.

Use a beta closer to one

Estimate a reinvestment rate, given growth

Set equal to zero

Use a growth rate less than or equal to GNP growth.