

What is wrong with this valuation? FCFE 2 Stage

- If you get an extremely low value from the 2-stage FCFE, the likely culprits are
 - earnings are depressed due to some reason (economy...) Use normalized earnings
 - capital expenditures are significantly higher than depreciation in stable growth phase Reduce the difference for stable growth period
 - the beta in the stable period is too high for a stable firm Use a beta closer to one.
 - working capital as % of revenue is too high to sustain Use a working capital ratio closer to industry
 - the use of the 2-stage model when the 3-stage model is more appropriate Use a three-stage model
- If you get an extremely high value,
 - earnings are inflated above normal levels Use normalized earnings
 - capital expenditures offset or lag depreciation during high growth period Capital expenditures should be set higher
 - the growth rate in the stable growth period is too high for stable firm Use a growth rate closer to GNP growth