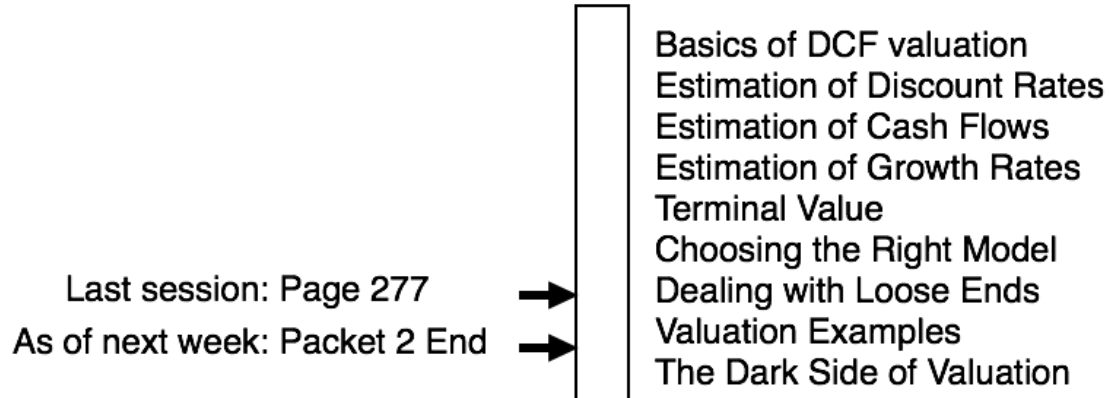


Valuation: Newsletter – October 29, 2016

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...

As we start on relative valuation next week, 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?

Send your valuation again and make sure that you enter "My perfect DCF valuation" in the subject area.