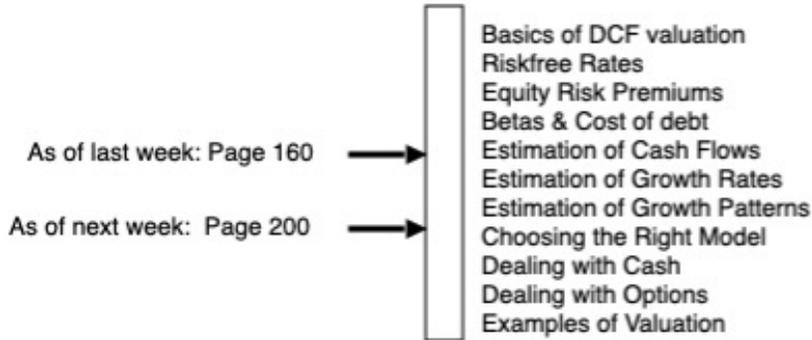


## Valuation: Newsletter – March 1, 2025

*Where we are in class...*

### Lecture Notes Packet 1 (pdf)



*Where you should be in the project...*

### DCF Valuation portion of Project

*Item*

1. Find a group & 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...*

Now that you have the fundamental inputs for valuing your firm - the cash flows, the growth rate, the discount rate - you have to pick a valuation model. The models below are the most adaptable, one for non-financial service firms and one for financial service firms (a dividend discount model):

Non-financial service:

<https://pages.stern.nyu.edu/~adamodar/pc/fcfsimpleginzu.xlsx>

Financial service: <https://pages.stern.nyu.edu/~adamodar/pc/divginzu.xlsx>

I had also promised you links to a couple of forensic accounting books. Here they are:

1. [http://www.amazon.com/Financial-Shenanigans-Accounting-Gimmicks-Reports/dp/0071703071/ref=pd\\_sim\\_b\\_8](http://www.amazon.com/Financial-Shenanigans-Accounting-Gimmicks-Reports/dp/0071703071/ref=pd_sim_b_8)
2. [http://www.amazon.com/Creative-Cash-Flow-Reporting-Sustainable/dp/0471469181/ref=pd\\_sim\\_b\\_2](http://www.amazon.com/Creative-Cash-Flow-Reporting-Sustainable/dp/0471469181/ref=pd_sim_b_2)

## *Miscellaneous FAQs*

*How do I decide on whether to use a stable growth, 2-stage or 3-stage model?*

The choice is ultimately a subjective one. While historical growth is one input, you should also look at the growth of the market your firm serves and your firm's market share.

*How do I know whether I should estimate FCFF or FCFE?*

You do not, until you have picked a DCF model that fits your firm. I would estimate both. Once you have picked a DCF model, you can decide which one is more appropriate.