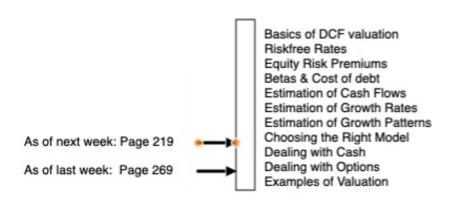
Valuation: Newsletter - March 8, 2025

Where we are in class...

Lecture Notes Packet 1 (pdf)



Where you should be in the project...

DCF Valuation portion of Project

Item

- 1. 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...

Last week, we looked estimating growth and the key issues in estimating terminal value, including the guardrails that keep them on track. I have five blog posts on terminal value that you might (or might not) find useful as you navigate your way through them:

- 1. http://aswathdamodaran.blogspot.com/2016/11/myth-51-if-you-don-believe-in-forever.html
- 2. http://aswathdamodaran.blogspot.com/2016/11/myth-52-as-g-rto-infinity-and-beyond.html
- 3. http://aswathdamodaran.blogspot.com/2016/11/myth-53-growth-is-good-more-growth-is.html
- 4. http://aswathdamodaran.blogspot.com/2016/11/myth-54-negative-growth-rates-forever.html
- 5. http://aswathdamodaran.blogspot.com/2016/11/myth-55-terminal-value-ate-my-dcf.html

We will start on the loose ends in valuation this week, starting with cash and cross holdings, and then working our way to how to deal with stock-based compensation, a much mangled aspect of both corporate finance and valuation.

Miscellaneous FAQs

How do I know whether my value is right?

I am afraid I do not know the answer to the question. No one knows what the true value of a stock is. Suffice to say, your estimate of value is as good as any other. How often do I need to update this valuation?

Constantly. New information about your firm and the economy will change your valuation. You need to keep track of the value changes.

Do I need to build my own spreadsheet or can I use one of the spreadsheets on the web?

I would rather that you use my spreadsheet, not because it is superior, but it will make my job of checking your valuation story easier.

What do I need to turn in?

You need to turn in the excel spreadsheet with your valuation, with the assumptions that underlie your value, the stock price on the day of the valuation. You can list your assumptions in the excel spreadsheet. There is no need for purple prose.