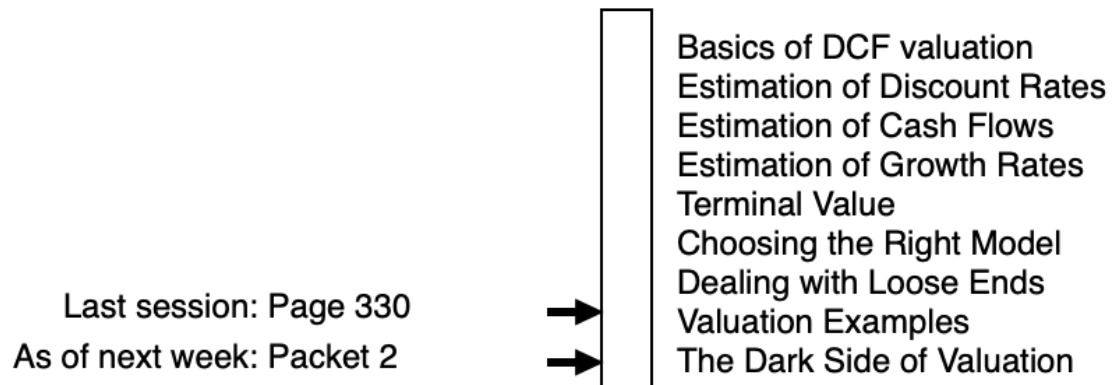


Valuation: Newsletter – April 4, 2020

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...

As we start on relative valuation/pricing 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 either have got a response back from me with comments or will be getting one by this weekend or very early next week.

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 by mid-week?

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