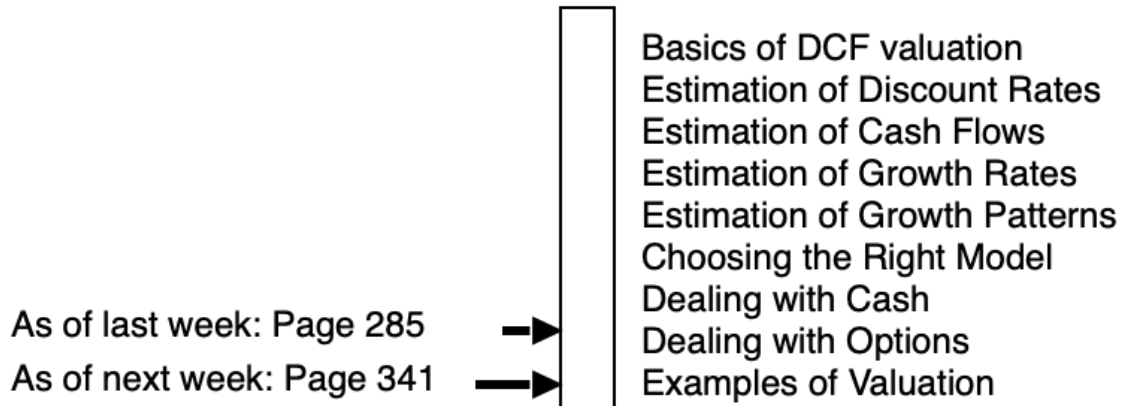


## Valuation: Newsletter – March 26, 2022

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 in a week or two, 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?*

If you don't hear by midweek, please send your valuation again and make sure that you enter "My perfect DCF" in the subject area.