# Step 4: Value the company (Uber)



*Uber: Intrinsic valuation - June 8, 2014 (in US $)*

**Stable Growth (after year 10)**
Expected growth rate = 2.50%
Cost of capital = 8%
Return on capital= 25%
Reinvestment Rate= 2.5%/25% = 10%

Terminal Value$_{10}$= 793/(.08-025) = $14,418

Term yr
EBIT (1-t) $881
- Reinv 88
FCFF $793

Global taxi market is $100 billlion currently, expected to grow 6% a year for next ten years.

Uber will keep 20% of the gross cab receipts as its revenues

Uber's market share of this market will increase to 10% over the next 10 years.

Uber's operating expenses will amount to 60% of its revenues. (Operating margin=40%)

Uber will pay a tax rate of 30% on its income, increasing to 40% over the next 10 years

Uber will generate $5 in incremental revenues for every dollar of incremental capital.

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| Overall market | $106,000 | $112,360 | $119,102 | $126,248 | $133,823 | $141,852 | $150,363 | $159,385 | $168,948 | $179,085 |
| Share of market (gross) | 3.63% | 5.22% | 6.41% | 7.31% | 7.98% | 8.49% | 8.87% | 9.15% | 9.36% | 10.00% |
| Revenues as percent of gross | 20.00% | 20.00% | 20.00% | 20.00% | 20.00% | 20.00% | 20.00% | 20.00% | 20.00% | 20.00% |
| Annual Revenue | $769 | $1,173 | $1,528 | $1,846 | $2,137 | $2,408 | $2,666 | $2,916 | $3,163 | $3,582 |
| Operating margin | 7.00% | 10.67% | 14.33% | 18.00% | 21.67% | 25.33% | 29.00% | 32.67% | 36.33% | 40.00% |
| Operating Income | $54 | $125 | $219 | $332 | $463 | $610 | $773 | $953 | $1,149 | $1,433 |
| Effective tax rate | 31% | 32% | 33% | 34% | 35% | 36% | 37% | 38% | 39% | 40% |
| - Taxes | $17 | $40 | $72 | $113 | $162 | $220 | $286 | $362 | $448 | $573 |
| After-tax operating income | $37 | $85 | $147 | $219 | $301 | $390 | $487 | $591 | $701 | $860 |
| Sales/Capital Ratio | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| - Reinvestment | $94 | $81 | $71 | $64 | $58 | $54 | $52 | $50 | $49 | $84 |
| Free Cash Flow to the Firm | -$57 | $4 | $76 | $156 | $243 | $336 | $435 | $541 | $652 | $776 |

*Based on the investment of $1.2 billion made by investors, the imputed value for Uber's operating assets, in June 2014 ,was $17 billion.*

*Discount back the cash flows (including terminal value) at the cumulated cost of capital.*

**Value of operating assets = $6,595**

Adust for probability of failure (10%)
Expected value = $6,595 (.9) = $5,895

Cost of capital for first 5 years = Top decile of US companies = 12%

Cost of capital declines from 12% to 8% from years 6 to 10.

# Step 5: Keep the feedback loop open…



1. Not just car service company.: Uber is a car company, not just a car service company, and there may be a day when consumers will subscribe to a Uber service, rather than own their own cars. It could also expand into logistics, i.e., moving and transportation businesses.
2. Not just urban: Uber can create new demands for car service in parts of the country where taxis are not used (suburbia, small towns).
3. Global networking benefits: By linking with technology and credit card companies, Uber can have global networking benefits.

# Valuing Bill Gurley's Uber narrative

| | *Uber (Gurley)* | *Uber (Gurley Mod)* | *Uber (Damodaran)* |
|---|---|---|---|
| Narrative | Uber will expand the car service market substantially, bringing in mass transit users & non-users from the suburbs into the market, and use its networking advantage to gain a dominant market share, while maintaining its revenue slice at 20%. | Uber will expand the car service market substantially, bringing in mass transit users & non-users from the suburbs into the market, and use its networking advantage to gain a dominant market share, while cutting prices and margins (to 10%). | Uber will expand the car service market moderately, primarily in urban environments, and use its competitive advantages to get a significant but not dominant market share and maintain its revenue slice at 20%. |
| Total Market | $300 billion, growing at 3% a year | $300 billion, growing at 3% a year | $100 billion, growing at 6% a year |
| Market Share | 40% | 40% | 10% |
| Uber's revenue slice | 20% | 10% | 20% |
| Value for Uber | $53.4 billion + Option value of entering car ownership market ($10 billion+) | $28.7 billion + Option value of entering car ownership market ($6 billion+) | $5.9 billion + Option value of entering car ownership market ($2-3 billion) |

# Different narratives, Different Numbers

| *Total Market* | *Growth Effect* | *Network Effect* | *Competitive Advantages* | *Value of Uber* |
|---|---|---|---|---|
| A4. Mobility Services | B4. Double market size | C5. Strong global network effects | D4. Strong & Sustainable | $90,457 |
| A3. Logistics | B4. Double market size | C5. Strong global network effects | D4. Strong & Sustainable | $65,158 |
| A4. Mobility Services | B3. Increase market by 50% | C3. Strong local network effects | D3. Semi-strong | $52,346 |
| A2. All car service | B4. Double market size | C5. Strong global network effects | D4. Strong & Sustainable | $47,764 |
| A1. Urban car service | B4. Double market size | C5. Strong global network effects | D4. Strong & Sustainable | $31,952 |
| A3. Logistics | B3. Increase market by 50% | C3. Strong local network effects | D3. Semi-strong | $14,321 |
| A1. Urban car service | B3. Increase market by 50% | C3. Strong local network effects | D3. Semi-strong | $7,127 |
| A2. All car service | B3. Increase market by 50% | C3. Strong local network effects | D3. Semi-strong | $4,764 |
| A4. Mobility Services | B1. None | C1. No network effects | D1. None | $1,888 |
| A3. Logistics | B1. None | C1. No network effects | D1. None | $1,417 |
| A2. All car service | B1. None | C1. No network effects | D1. None | $1,094 |
| A1. Urban car service | B1. None | C1. No network effects | D1. None | $799 |

# Step 6: Be ready to modify narrative as events unfold



| Narrative Break/End | Narrative Shift | Narrative Change (Expansion or Contraction) |
|---|---|---|
| Events, external (legal, political or economic) or internal (management, competitive, default), that can cause the narrative to break or end. | Improvement or deterioration in initial business model, changing market size, market share and/or profitability. | Unexpected entry/success in a new market or unexpected exit/failure in an existing market. |
| Your valuation estimates (cash flows, risk, growth & value) are no longer operative | Your valuation estimates will have to be modified to reflect the new data about the company. | Valuation estimates have to be redone with new overall market potential and characteristics. |
| Estimate a probability that it will occur & consequences | Monte Carlo simulations or scenario analysis | Real Options |

# Let the games begin… Time to value companies..

Let’s have some fun!

# Equity Risk Premiums in Valuation



- The equity risk premiums that I have used in the valuations that follow reflect my thinking (and how it has evolved) on the issue.
  - Pre-1998 valuations: In the valuations prior to 1998, I use a risk premium of 5.5% for mature markets (close to both the historical and the implied premiums then)
  - Between 1998 and Sept 2008: In the valuations between 1998 and September 2008, I used a risk premium of 4% for mature markets, reflecting my belief that risk premiums in mature markets do not change much and revert back to historical norms (at least for implied premiums).
  - Valuations done in 2009: After the 2008 crisis and the jump in equity risk premiums to 6.43% in January 2008, I have used a higher equity risk premium (5-6%) for the next 5 years and will assume a reversion back to historical norms (4%) only after year 5.
  - After 2009: I have used updated equity risk premiums, as of the time that I did the valuations.

# The Valuation Set up



- With each company that I value in this next section, I will try to start with a story about the company and use that story to construct a valuation.
- With each valuation, rather than focus on all of the details (which will follow the blueprint already laid out), I will focus on a specific component of the valuation that is unique or different.

# Training Wheels On?

Stocks that look like Bonds, Things Change and Market Valuations

# *Training Wheels valuation: Con Ed in August 2008*

**Test 1: Is the firm paying dividends like a stable growth firm?**
Dividend payout ratio is 73%
In trailing 12 months, through June 2008
Earnings per share = $3.17
Dividends per share = $2.32

**Test 2: Is the stable growth rate consistent with fundamentals?**
Retention Ratio = 27%
ROE =Cost of equity = 7.7%
Expected growth = 2.1%

*Growth rate forever = 2.1%*

Value per share today= Expected Dividends per share next year / (Cost of equity - Growth rate)
= 2.32 (1.021)/ (.077 - ,021) = $42.30

Cost of Equity = 4.1% + 0.8 (4.5%) = 7.70%

Riskfree rate
4.10%
10-year T.Bond rate

Beta
0.80
Beta for regulated power utilities

Equity Risk Premium
4.5%
Implied Equity Risk Premium - US market in 8/2008

**On August 12, 2008 Con Ed was trading at $ 40.76.**

**Test 3: Is the firm's risk and cost of equity consistent with a stable growith firm?**
Beta of 0.80 is at lower end of the range of stable company betas: 0.8 -1.2

**Why a stable growth dividend discount model?**
1. Why stable growth: Company is a regulated utility, restricted from investing in new growth markets. Growth is constrained by the fact that the population (and power needs) of its customers in New York are growing at very low rates.
Growth rate forever = 2%
2. Why equity: Company's debt ratio has been stable at about 70% equity, 30% debt for decades.
3. Why dividends: Company has paid out about 97% of its FCFE as dividends over the last five years.

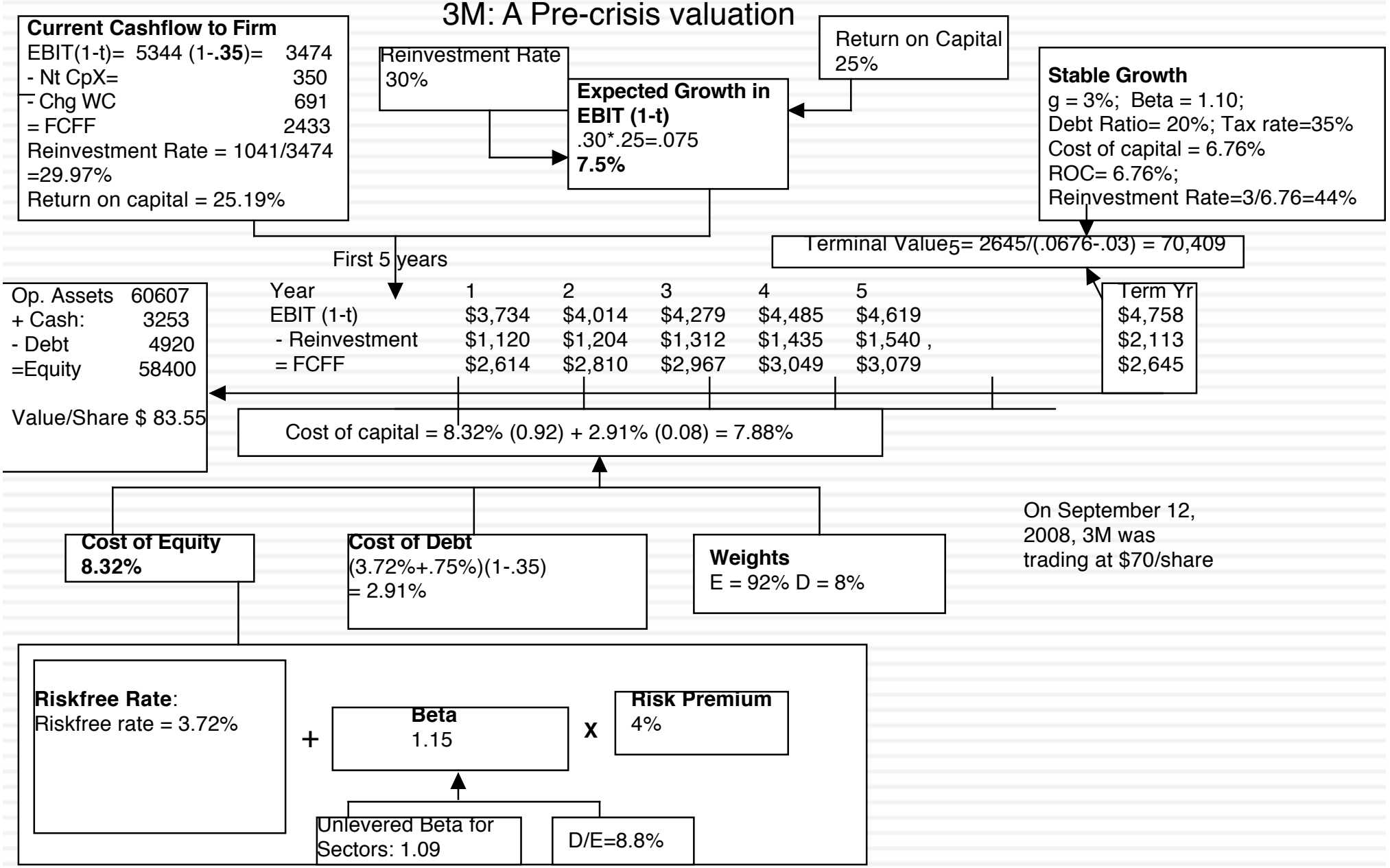
# From DCF value to target price and returns…



- Assume that you believe that your valuation of Con Ed ($42.30) is a fair estimate of the value, 7.70% is a reasonable estimate of Con Ed's cost of equity and that your expected dividends for next year (2.32*1.021) is a fair estimate, what is the expected stock price a year from now (assuming that the market corrects its mistake?)

- If you bought the stock today at $40.76, what return can you expect to make over the next year (assuming again that the market corrects its mistake)?

# 3M: A Pre-crisis valuation



# 3M: Post-crisis valuation

*Lowered base operating income by 10%*

**Current Cashflow to Firm**
EBIT(1-t)= 4810 (1-**.35**)= 3,180
— Nt CpX= 350
- Chg WC 691
= FCFF 2139
Reinvestment Rate = 1041/3180 =33%
Return on capital = 23.06%

Reinvestment Rate 25%

*Reduced growth rate to 5%*

**Expected Growth in EBIT (1-t)**
.25*.20=.05
**5%**

Return on Capital 20%

*Did not increase debt ratio in stable growth to 20%*

**Stable Growth**
g = 3%; Beta = 1.00;; ERP =4%
Debt Ratio= 8%; Tax rate=35%
Cost of capital = 7.55%
ROC= 7.55%;
Reinvestment Rate=3/7.55=40%

Terminal Value$_5$= 2434/(.0755-.03) = 53,481

First 5 years

| Year | 1 | 2 | 3 | 4 | 5 | Term Yr |
|---|---|---|---|---|---|---|
| EBIT (1-t) | $3,339 | $3,506 | $3,667 | $3,807 | $3,921 | $4,038 |
| - Reinvestment | $835 | $877 | $1,025 | $1,288 | $1,558 | $1,604 |
| = FCFF | $2,504 | $2,630 | $2,642 | $2,519 | $2,363 | $2,434 |

Op. Assets 43,975
+ Cash: 3253
- Debt 4920
=Equity 42308

Value/Share $ 60.53

Cost of capital = 10.86% (0.92) + 3.55% (0.08) = 10.27%

*Higher default spread for next 5 years*

**Cost of Equity**
**10.86%**

**Cost of Debt**
(3.96%+.1.5%)(1-.35)
= 3.55%

**Weights**
E = 92% D = 8%

On October 16, 2008, MMM was trading at $57/share.

**Riskfree Rate**:
Riskfree rate = 3.96%

*Increased risk premium to 6% for next 5 years*

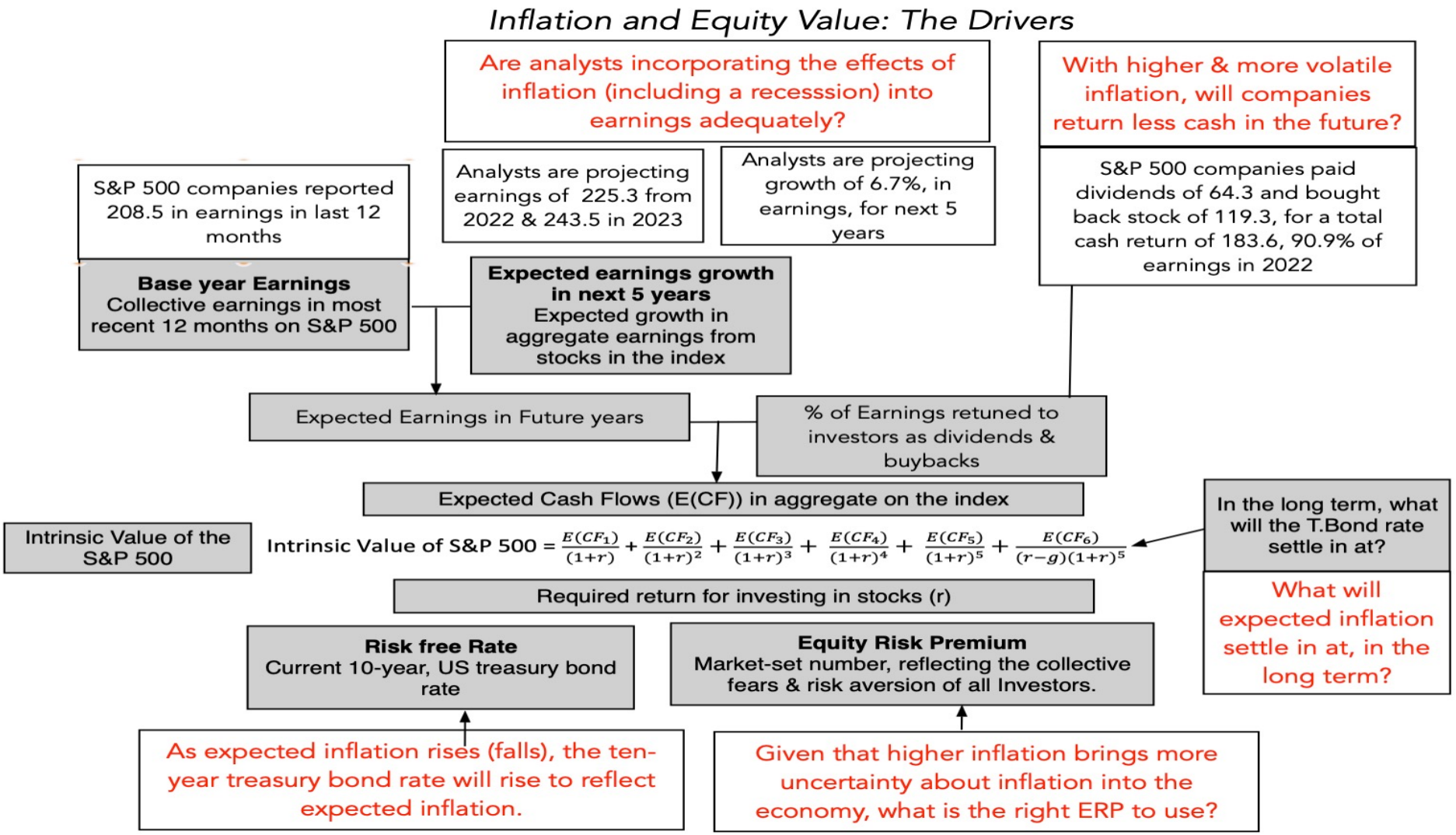
\+ **Beta**
1.15

Unlevered Beta for Sectors: 1.09

D/E=8.8%

x **Risk Premium**
6%

# Valuing the S&P 500 Index (September 2022)



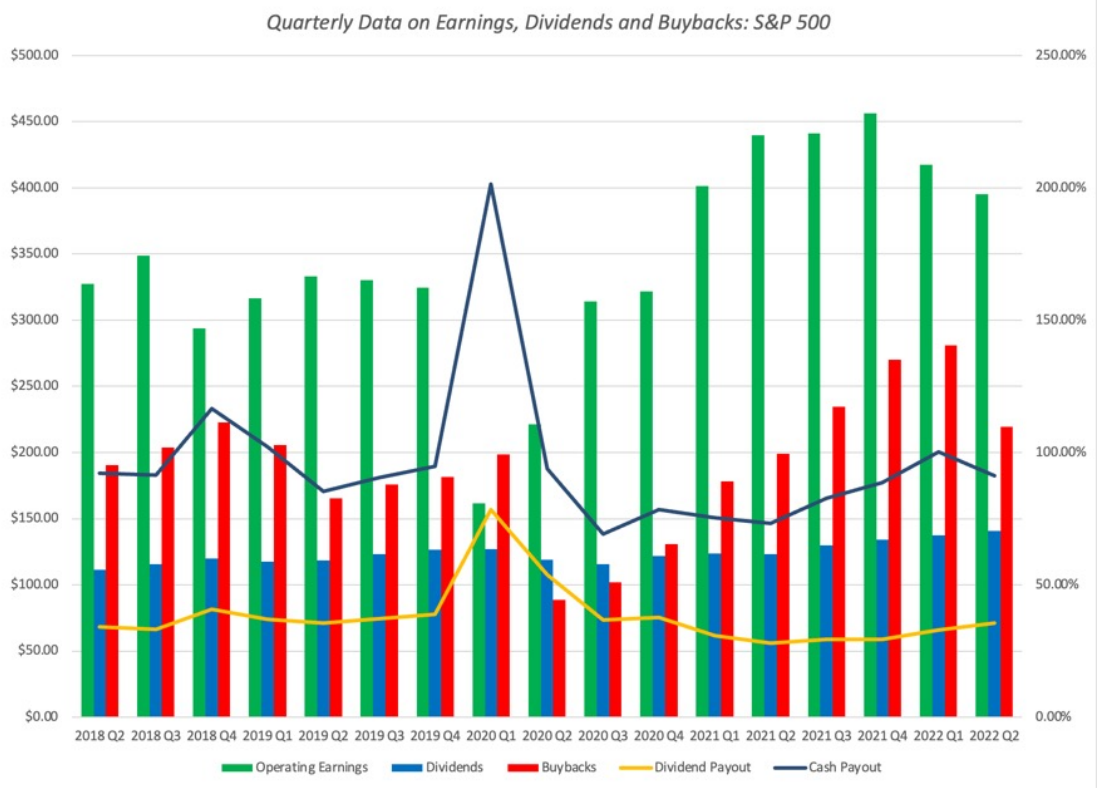
# 1. Earnings

| *Start of Month* | *Expected Earnings in 2022* | *% Change over prior month* | *% Change over start of year* | *Expected Earnings in 2023* | *% Change over prior month* | *% Change over start of year* |
|---|---|---|---|---|---|---|
| 01/01/22 | 223.34 | | | 244.94 | | |
| 02/01/22 | 223.78 | 0.20% | 0.20% | 245.93 | 0.40% | 0.40% |
| 03/01/22 | 225.43 | 0.74% | 0.94% | 247.94 | 0.82% | 1.22% |
| 04/01/22 | 227.3 | 0.83% | 1.77% | 249.52 | 0.64% | 1.87% |
| 05/01/22 | 227.29 | 0.00% | 1.77% | 250.11 | 0.24% | 2.11% |
| 06/01/22 | 228.03 | 0.33% | 2.10% | 248.96 | -0.46% | 1.64% |
| 07/01/22 | 229.57 | 0.68% | 2.79% | 251.99 | 1.22% | 2.88% |
| 08/01/22 | 228.27 | -0.57% | 2.21% | 248.35 | -1.44% | 1.39% |
| 09/01/22 | 225.36 | -1.27% | 0.90% | 243.64 | -1.90% | -0.53% |
| 09/20/22 | 225.34 | -0.01% | 0.90% | 243.46 | -0.07% | -0.60% |

# 2. Cash Return

S&P 500 Aggregate Earnings, Dividends and Buybacks: 2001-2021

| Year | Earnings | Dividends | Buybacks | Dividend Payout | Cash Payout |
|---|---|---|---|---|---|
| 2001 | 38.85 | 15.74 | 14.34 | 40.51% | 77.43% |
| 2002 | 46.04 | 15.96 | 13.87 | 34.67% | 64.78% |
| 2003 | 54.69 | 17.88 | 13.70 | 32.69% | 57.74% |
| 2004 | 67.68 | 19.01 | 21.59 | 28.09% | 59.99% |
| 2005 | 76.45 | 22.34 | 38.82 | 29.23% | 80.01% |
| 2006 | 87.72 | 25.04 | 48.12 | 28.55% | 83.40% |
| 2007 | 82.54 | 28.14 | 67.22 | 34.09% | 115.53% |
| 2008 | 49.51 | 28.45 | 39.07 | 57.46% | 136.37% |
| 2009 | 56.86 | 21.97 | 15.46 | 38.64% | 65.82% |
| 2010 | 83.77 | 22.65 | 32.88 | 27.04% | 66.28% |
| 2011 | 96.44 | 26.53 | 44.75 | 27.51% | 73.91% |
| 2012 | 96.82 | 31.25 | 44.65 | 32.28% | 78.39% |
| 2013 | 104.92 | 34.90 | 53.23 | 33.26% | 84.00% |
| 2014 | 116.16 | 39.55 | 62.44 | 34.04% | 87.79% |
| 2015 | 100.48 | 43.41 | 64.94 | 43.20% | 107.83% |
| 2016 | 106.26 | 45.70 | 62.32 | 43.01% | 101.66% |
| 2017 | 124.51 | 48.93 | 60.85 | 39.30% | 88.17% |
| 2018 | 152.78 | 54.39 | 96.11 | 35.60% | 98.51% |
| 2019 | 157.18 | 58.50 | 87.81 | 37.22% | 93.08% |
| 2020 | 139.76 | 57.00 | 61.66 | 40.78% | 84.90% |
| 2021 | 205.35 | 60.65 | 104.61 | 29.53% | 80.48% |
| Average | | | | 35.56% | 85.05% |
| 1st Quartile | | | | 29.53% | 73.91% |
| Median | | | | 34.09% | 83.40% |
| 3rd Quartile | | | | 39.30% | 93.08% |



# My S&P 500 Story

*An Intrinsic (and Personal) Valuation of the S&P 500 on September 23, 2022*

**My Earnings Estimates**

Analysts are underestimating the effect of a recession on future earnings, and I am reducing their 2023 estimates by 15%, with ripple effects on earnings beyond. (I am leaving 2022 estimates untouched, because the bulk of the year is behind us.

**Cash Return**

While companies have collectively returned 90.5% of earnings as dividends and buybacks in the most recent 12 months, recession fears and uncertainty will lead them to reduce this cash returns to 80% of earnings (consistent with growth in long term), over time.

**Intrinsic Value Estimate (based on your choice of ERP)**

| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | *Terminal Year* |
|---|---|---|---|---|---|---|---|
| Analyst Estimate of Earnings | 208.53 | 225.34 | 243.46 | 259.79 | 273.70 | 284.65 | 296.03 |
| My Estimate of Earnings | $208.53 | 225.34 | 206.94 | 225.03 | 243.13 | 252.85 | 262.97 |
| Expected Earnings Growth Rate | | 8.06% | -8.16% | 6.71% | 5.35% | 4.00% | 4.00% |
| Expected cash payout as % of earnings | 90.50% | 90.50% | 87.88% | 85.25% | 82.63% | 80.00% | 80.00% |
| Expected Dividends + Buybacks = | $188.72 | $203.93 | $181.85 | $191.84 | $200.89 | $202.28 | 210.37 |
| Expected Terminal Value = | | | | | | $4,207.49 | |
| Riskfree Rate | 3.69% | 3.75% | 3.81% | 3.88% | 3.94% | 4.00% | 4.00% |
| Required Return on Stocks | 8.69% | 8.75% | 8.81% | 8.88% | 8.94% | 9.00% | 9.00% |
| Present Value = | | $187.52 | $153.67 | $148.90 | $143.12 | $2,882.41 | |
| **Intrinsic Value of Index =** | **3515.63** | | | | | | |
| **Actual Index level =** | **3693.23** | | | | | | |
| **% Under or Over Valuation =** | **-4.81%** | | | | | | |

**Ten-year Treasury Bond Rate**

I will assume that the bulk of the rise in rates has already occurred, and that the T.Bond rate will converge to 4%, over the next five years.

**Equity Risk Premium**

The equity risk premium is 5%, close to both the historical average risk premium earned on stocks from 1928 - 2022 and the average implied equity risk premium over the last decade. Adding it to the ten-year bond rate yields the required return on stocks.

*In my overarching story for equities, I am building in the assumption that there will be a recession that creates both short term & long term damage to corporate earnings, but helps in restraining inflation, bringing it down from 2022 levels to about 3% in the long term (above the 2011-2021 average of 1.73%).*

# What if?

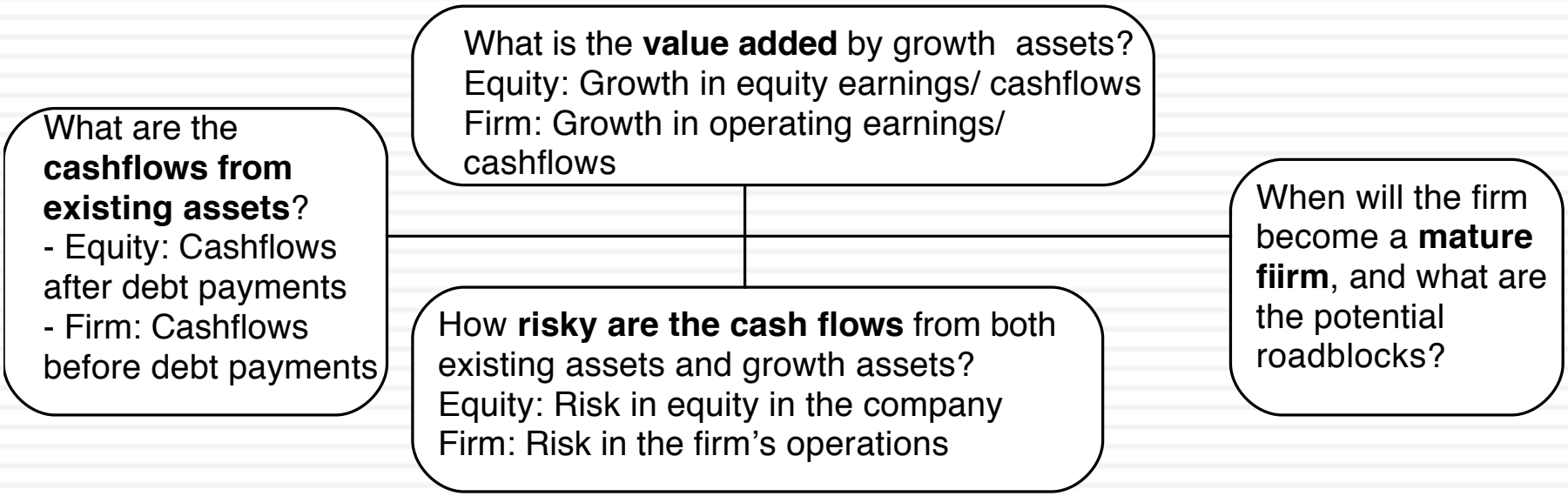
| | Valuing the S&P 500 on Sept 23, 2022 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | *Earnings = 30% below Estimates* | | | *Earnings = 15% below Estimates* | | | *Earnings = Estimates* | | |
| **Riskfree Rate** | *ERP =4%* | *ERP =5%* | *ERP =6%* | *ERP =4%* | *ERP =5%* | *ERP =6%* | *ERP =4%* | *ERP =5%* | *ERP =6%* |
| **2%** | 4276 | 3416 | 2842 | 4677 | 3737 | 3110 | 5449 | 4348 | 3615 |
| **3%** | 4132 | 3303 | 2750 | 4519 | 3613 | 3009 | 5169 | 4129 | 3436 |
| **4%** | 3979 | 3183 | 2653 | 4352 | 3482 | 2903 | 4889 | 3910 | 3257 |
| **5%** | 3819 | 3058 | 2551 | 4176 | 3345 | 2790 | 4609 | 3690 | 3078 |
| **6%** | 3650 | 2926 | 2443 | 3991 | 3200 | 2672 | 4328 | 3471 | 2899 |
| *Index was trading at 3693 on 9/23/22. Shaded cells are higher than 3693* | | | | | | | | | |

# The Dark Side of Valuation

Anyone can value a company that is stable, makes money and has an established business model!

# The fundamental determinants of value…





# The Dark Side of Valuation…



- Valuing stable, money making companies with consistent and clear accounting statements, a long and stable history and lots of comparable firms is easy to do.
- The true test of your valuation skills is when you have to value "difficult" companies. In particular, the challenges are greatest when valuing:
  - Young companies, early in the life cycle, in young businesses
  - Companies that don't fit the accounting mold
  - Companies that face substantial truncation risk (default or nationalization risk)

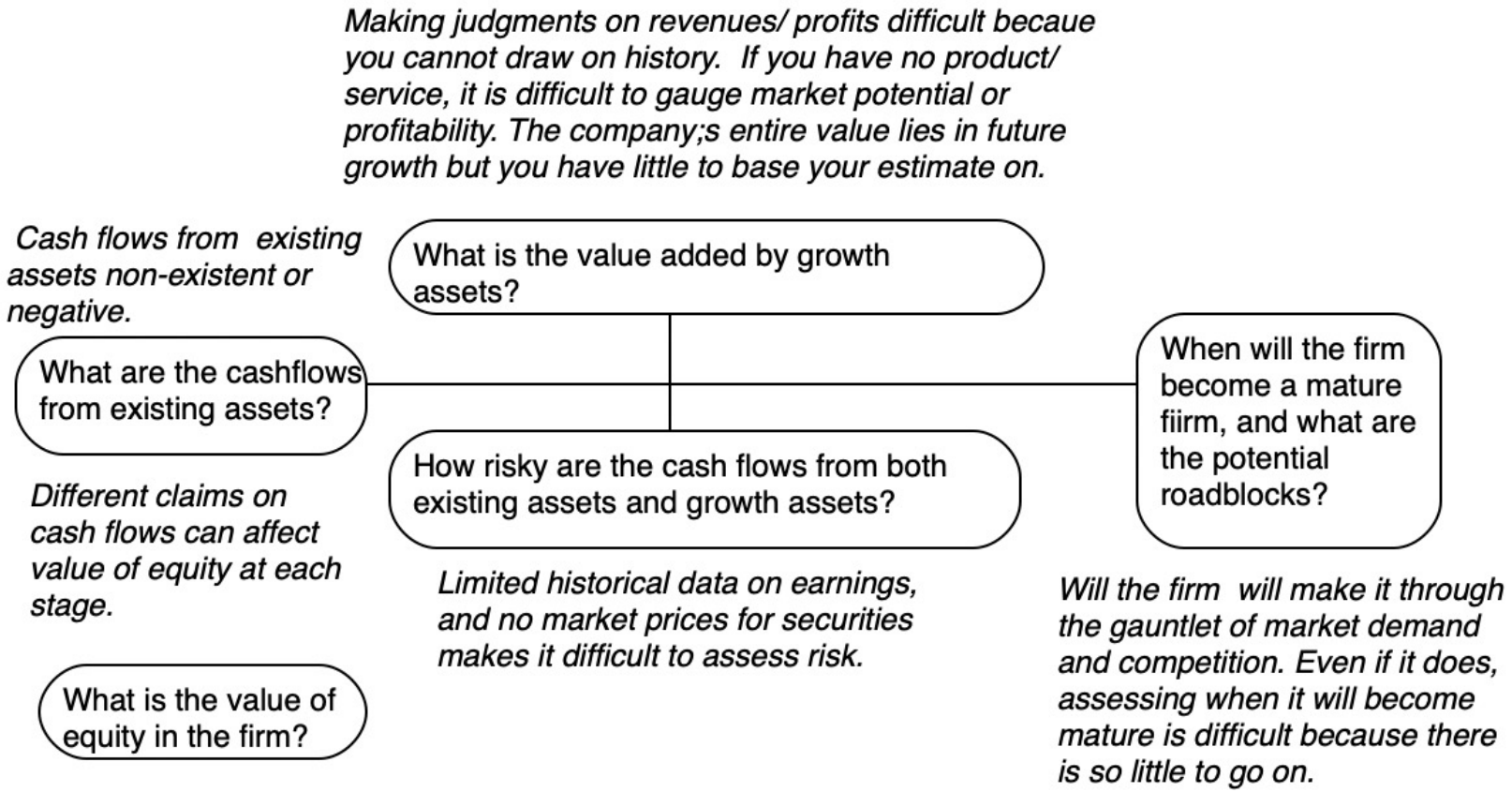
# Difficult to value companies…



- Across the life cycle:
  - Young, growth firms: Limited history, small revenues in conjunction with big operating losses and a propensity for failure make these companies tough to value.
  - Mature companies in transition: When mature companies change or are forced to change, history may have to be abandoned and parameters have to be reestimated.
  - Declining and Distressed firms: A long but irrelevant history, declining markets, high debt loads and the likelihood of distress make them troublesome.
- Across markets
  - Emerging market companies are often difficult to value because of the way they are structured, their exposure to country risk and poor corporate governance.
- Across sectors
  - Financial service firms: Opacity of financial statements and difficulties in estimating basic inputs leave us trusting managers to tell us what's going on.
  - Commodity and cyclical firms: Dependence of the underlying commodity prices or overall economic growth make these valuations susceptible to macro factors.
  - Firms with intangible assets: Accounting principles are left to the wayside on these firms.

# I. The challenge with young companies…

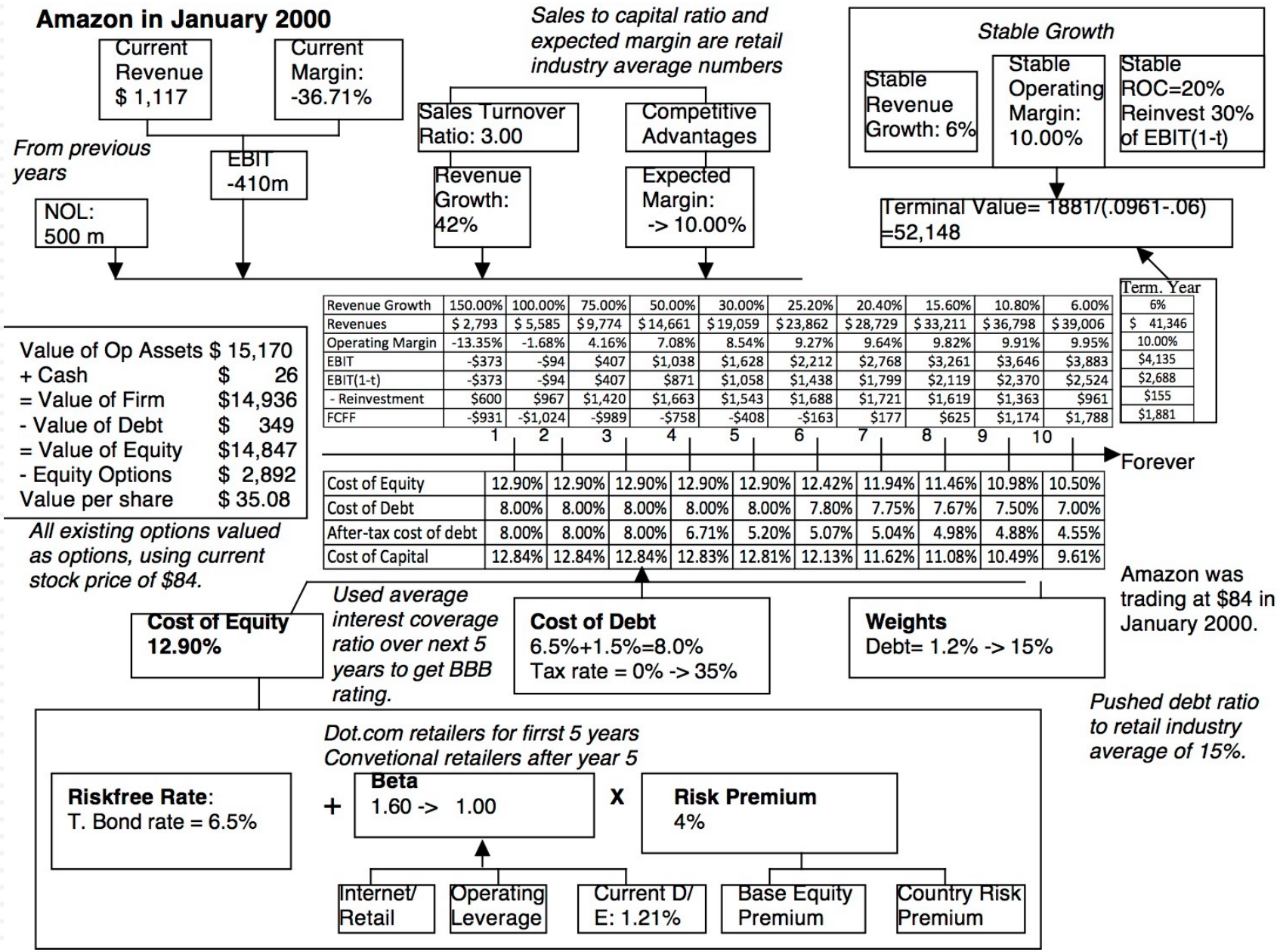




# Upping the ante.. Young companies in young businesses…



- When valuing a business, we generally draw on three sources of information
  - The firm's current financial statement
    - How much did the firm sell?
    - How much did it earn?
  - The firm's financial history, usually summarized in its financial statements.
    - How fast have the firm's revenues and earnings grown over time?
    - What can we learn about cost structure and profitability from these trends?
    - Susceptibility to macro-economic factors (recessions and cyclical firms)
  - The industry and comparable firm data
    - What happens to firms as they mature? (Margins.. Revenue growth… Reinvestment needs… Risk)
- It is when valuing these companies that you find yourself tempted by the dark side, where
  - "Paradigm shifts" happen…
  - New metrics are invented …
  - The story dominates and the numbers lag…


Amazon in January 2000
Current Revenue $ 1,117
Current Margin: -36.71%
From previous years
EBIT -410m
NOL: 500 m
Sales to capital ratio and expected margin are retail industry average numbers
Sales Turnover Ratio: 3.00
Competitive Advantages
Revenue Growth: 42%
Expected Margin: -> 10.00%
Stable Growth
Stable Revenue Growth: 6%
Stable Operating Margin: 10.00%
Stable ROC=20% Reinvest 30% of EBIT(1-t)
Terminal Value= 1881/(.0961-.06) =52,148
Term. Year
6%
$ 41,346
10.00%
$4,135
$2,688
$155
$1,881
Revenue Growth 150.00% 100.00% 75.00% 50.00% 30.00% 25.20% 20.40% 15.60% 10.80% 6.00%
Revenues $ 2,793 $ 5,585 $9,774 $14,661 $19,059 $23,862 $28,729 $33,211 $36,798 $39,006
Operating Margin -13.35% -1.68% 4.16% 7.08% 8.54% 9.27% 9.64% 9.82% 9.91% 9.95%
EBIT -$373 -$94 $407 $1,038 $1,628 $2,212 $2,768 $3,261 $3,646 $3,883
EBIT(1-t) -$373 -$94 $407 $871 $1,058 $1,438 $1,799 $2,119 $2,370 $2,524
- Reinvestment $600 $967 $1,420 $1,663 $1,543 $1,688 $1,721 $1,619 $1,363 $961
FCFF -$931 -$1,024 -$989 -$758 -$408 -$163 $177 $625 $1,174 $1,788
1 2 3 4 5 6 7 8 9 10
Forever
Value of Op Assets $ 15,170
+ Cash $ 26
= Value of Firm $14,936
- Value of Debt $ 349
= Value of Equity $14,847
- Equity Options $ 2,892
Value per share $ 35.08
All existing options valued as options, using current stock price of $84.
Cost of Equity 12.90% 12.90% 12.90% 12.90% 12.90% 12.42% 11.94% 11.46% 10.98% 10.50%
Cost of Debt 8.00% 8.00% 8.00% 8.00% 8.00% 7.80% 7.75% 7.67% 7.50% 7.00%
After-tax cost of debt 8.00% 8.00% 8.00% 6.71% 5.20% 5.07% 5.04% 4.98% 4.88% 4.55%
Cost of Capital 12.84% 12.84% 12.84% 12.83% 12.81% 12.13% 11.62% 11.08% 10.49% 9.61%
Amazon was trading at $84 in January 2000.
Cost of Equity 12.90%
Used average interest coverage ratio over next 5 years to get BBB rating.
Cost of Debt 6.5%+1.5%=8.0% Tax rate = 0% -> 35%
Weights Debt= 1.2% -> 15%
Pushed debt ratio to retail industry average of 15%.
Dot.com retailers for firrst 5 years
Convetional retailers after year 5
Riskfree Rate: T. Bond rate = 6.5%
+
Beta 1.60 -> 1.00
X
Risk Premium 4%
Internet/ Retail
Operating Leverage
Current D/ E: 1.21%
Base Equity Premium
Country Risk Premium