CHOOSING THE RIGHT VALUATION MODEL

This program is designed to help in choosing the right model to use for any occassion.

		Inputs to the model	
Level of Earnings		(in currency)	
Are your earnings positive ?	Yes	(Yes or No)	
If the earnings are positive and normal, please enter the following:			
What is the expected inflation rate in the economy?	3.00%	(in percent)	
What is the expected real growth rate in the econom	2.00%	(in percent)	
What is the expected growth rate in earnings (revenues) for this firm i	15.00%	(in percent)	
Does this firm have a significant and sustainable advantage over comp	Yes	(Yes or No)	

Differential Advantages: High growth comes from a firm earning excess returns on its projects, which in turn comes from some differential advantage possessed by the firm over its competitors. This differential advantage can be legal (as is the case with legal monopolies like telecom), or technological,or a strong brand name (as is the case with many consumer product firms) or economies of scale. The question that is being asked relates not just to the existing differential advantage but also to the future.

If the earnings are negative, please enter the following:		
Are the earnings negative because the firm is in a cyclical business ?		(Yes or No)
Are the earnings negative because of a one-time or temporary occurrence?		(Yes or No)
Are the earnings negative because the firm has too much debt?		(Yes or No)
If yes, is there a strong likelihood of bankruptcy?		(Yes or No)
Are the earnings negative because the firm is just starting up?		(Yes or No)
Financial Leverage		
What is the current debt ratio (in market value terms) ?	4.00%	(in percent)
Is this debt ratio expected to change significantly ?	Yes	(Yes or No)
Dividend Policy		
What did the firm pay out as dividends in the current year?	$100.00	(in currency)
Can you estimate capital expenditures and working capital requireme	Yes	(Yes or No)
Enter the following inputs (from the current year) for computing FCFE		
Net Income (NI)	$200.00	
Depreciation and Amortization	$50.00	

Capital Spending (Including acquisitions)	$100.00
Δ Non-cash Working Capital (ΔWC)	$25.00

FCFE = NI - (Capital Spending - Depreciation) *(1- Debt Ratio) - Δ WC (1-Debt Ratio) = $128.00

OUTPUT FROM THE MODEL

Based upon the inputs you have entered, the right valuation model for this firm is:

Type of Model (DCF Model, Option Pricing Model):	**Discounted CF Mode**	1*
Level of Earnings to use in model (Current, Normalized):	**Current Earnings**	
Cashflows that should be discounted (Dividends, FCFE, FCFF) :	**FCFF (Value firm)**	
Length of Growth Period (10 or more, 5 to 10, less than 5)	**10 or more years**	
Appropriate Growth Pattern (Stable, 2 stage, 3 stage):	**Three-stage Growth**	2*

1* If option pricing model, first do a DCF valuation

2* In an n-stage model, you will estimate target operating margins (if valuing the firm) or net margins (if valuing equity) and revenue growth each year.