Valuation 1: DCF

Creating a Discounted Cash Flow Analysis

Summary

This hands-on course is focused on the practical implementation of a Discounted Cash Flow ("DCF") valuation analysis.

The skills required to build a DCF analysis will be discussed and incorporated into a financial model.

Participants will learn to recognize and avoid the most common errors that finance professionals make when creating a DCF analysis.

This course will also include a number of Excel tips and skills to help a user check and audit a financial model.

Prerequisites

This course builds on "Building a Financial Model (of a Company)", so participants may want to complete that course prior to taking the Valuation 1: DCF session.

Timing

This course requires 8 hours.

Learning Topics

1. Review Valuation Concepts

- ✓ Discuss various valuation methodologies and the appropriateness of using a discounted cash flow methodology to value a business
- ✓ Use two common styles to create a DCF analysis
- ✓ Discuss various methodologies to value the terminal period

2. Incorporate a DCF Analysis

- ✓ Properly calculate a company's levered or unlevered free cash flows
- ✓ Build a terminal year in the model to create a steady-state perpetual cash flow
- ✓ Review critical terminal year assumptions including Capex, depreciation, working capital, margins and income taxes
- ✓ Calculate the tax impact of unlevering a company's cash flows
- ✓ Calculate the company's cost of capital and choose an appropriate weighted average cost of capital ("WACC") range
- ✓ Discount the cash flows in the forecast period and ensure that the cash flows are discounted to the correct period
- ✓ Discuss common discounting errors and review the magnitude of discounting the cash flows to the wrong time period

3. Understand the DCF Analysis

- ✓ Use a number of powerful Excel tools to sensitize the outputs
- ✓ Incorporate appropriate ratios and performance metrics
- ✓ Create "flags" to warn the user if a covenant has been tripped
- ✓ Conditionally format output tables to highlight specific results