Managing Talent at Bertelsmann AG (A)
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- The Case Solutions.com
  - Dividend discount model to value a stock
    - Assumption: Dividends grow at a constant rate
  - Free Cash Flow to Firm Valuation approach
    - Assumption: Free cash flows are reinvested in the firm

TheGordonGrowthModel
- Assumption: Dividends grow at a constant rate

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Dividend Discount Model:
To value a stock
- Value of stock = dividend next year / (discount rate - growth rate)

Free Cash Flow to Firm Valuation Approach:
- Using the Constant Growth FCFE Valuation Model
  \[ \text{Firm Value} = \frac{\text{FCFE}}{\text{WACC} - \text{g}} \]
- Calculating FCFE from Net Income
- Calculating FCFE from Cash Flow from Operations
- Calculating FCFE from the Cash Flow Statement

The Gordon Growth Model:
- Assumption: dividends grow indefinitely at a constant rate
  \[ V = \frac{D_1}{r - g} \]
- \( V \): value of the stock
- \( D_1 \): dividend next year
- \( r \): required return on equity
- \( g \): growth rate
Dividend discount model - to value a stock

to value stock
formula
dividend next year
expected share price
required return%
=value of the stock
The Gordon Growth Model

Assumption: dividends grow indefinitely at a constant rate

\[ V = \frac{D_0(1+g)}{(r-g)} = \frac{D_1}{(r-g)} \]
Free Cash Flow valuation-to value a company and its securities

- by valuing free cash flow to the firm FCFF
- by valuing free cash flow to equity FCFE

FCFF Valuation approach estimate the value of the firm as the present value of future FCFF discounted at the WACC

FCFE Valuation approach estimate the value of equity as the present value of future FCFE discounted at the required return on equity
--Using the **Constant Growth** FCFF Valuation Model
FIRM VALUE = FCFF0 \( \times (1+g) \) / WACC - g

--Calculating FCFF from **Net income**
--Calculating FCFF from **Cash Flow from Operations**
--Calculating FCF from **the Cash Flow Statement**
Free Cash Flow to Firm Valuation approach