

## **Basic Information for Firm Valuation**

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February, 2004

### **Some basic information that an analyst should at least think about**

1. Historical financial statements in order to “discover” some policies, such as inventory, account receivables, account payables, price determination in relation with inflation
2. Depreciation method
3. Tax rate
4. Unlevered cost of equity,  $K_u$  (unlevered beta) and inflation rate linked to it at the time of calculation. Probable you have to find levered betas.
5. Real and nominal growth rate for the economy and the industry.
6. Constant leverage policy for perpetuity
7. Expected inflation rate for last forecasted year and years to perpetuity.
8. Domestic inflation rate for the forecasted period
9. Devaluation rate for foreign exchange used
10. Exchange rate when the forecasting period starts
11. Foreign inflation rate for the countries involved in the project
12. Initial price of output units
13. Growth rate for real output prices
14. Initial price for input units
15. Growth rate for real prices of inputs
16. Overhead expenses in year 0
17. Growth rate for real Overhead expenses
18. Administrative, selling and operations payroll
19. Growth rate for real cost of payroll
20. Growth for real price of fixed assets
21. Sales commission (identify the basis for the calculation: orders, sales, accounts receivable AR, recovery...)
22. Advertising and promotions
23. Real rate of interest
24. Risk premium for cost of debt
25. Nominal Cost of debt  $K_d$ .
26. Inventory policy, for instance, months of sales as final inventory
27. AR policy, for instance, percent of sales received immediately, at 30 days, 60 days, ...
28. Average AR policy for the industry
29. Payment policy, for instance, percent of payments made immediately, at 30 days, etc.
30. Payout ratio
31. Increase in volume, units
32. Minimum cash balance required for operations
33. Price demand Elasticity for the output
34. Price discount for volume in the inputs
35. Average book leverage for the industry
36. Fraction of sales in foreign exchange
37. Fraction of financing in foreign exchange

**We recommend the reading of**

Penman, Stephen H, Financial Statement Analysis & Security Valuation, McGraw-Hill – Irwin, 2001, "Knowing the Business" pp. 486-487

(<http://sigma.poligran.edu.co/politecnico/apoyo/Decisiones/curso/Penman486-487.htm>)

Tham Joseph e Ignacio Vélez Pareja. Principles of Cash Flow Valuation (Academic Press, 2004)

([http://sigma.poligran.edu.co/politecnico/apoyo/Decisiones/principles/principles\\_toc.html](http://sigma.poligran.edu.co/politecnico/apoyo/Decisiones/principles/principles_toc.html))

Vélez Pareja, Ignacio, Guía para la proyección de estados financieros y valoración financiera de un plan de negocios y ejemplo, 2004

More information at [www.poligran.edu.co/decisiones](http://www.poligran.edu.co/decisiones)