lean_valuation

August 24, 2023

All Simulated Cashflow Paths
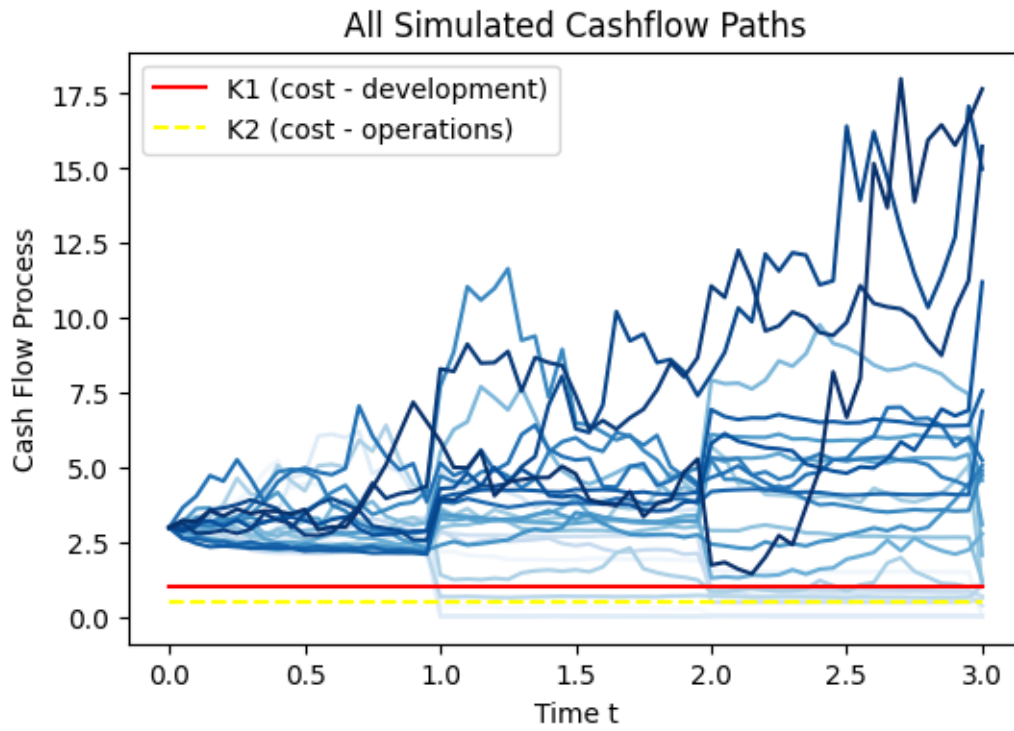
Trials: 25, Drift: 0.02, Vol: 1.0

8.19579872526898

All Simulated Paths and Possible Exercises

All Simulated Paths with Early Exercise
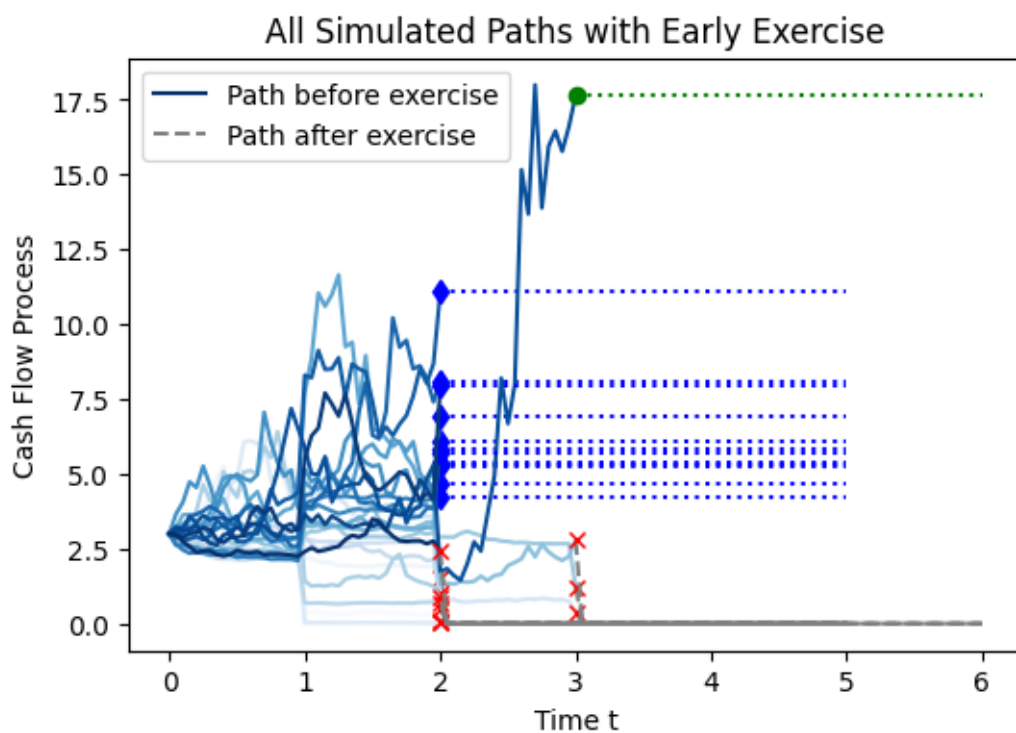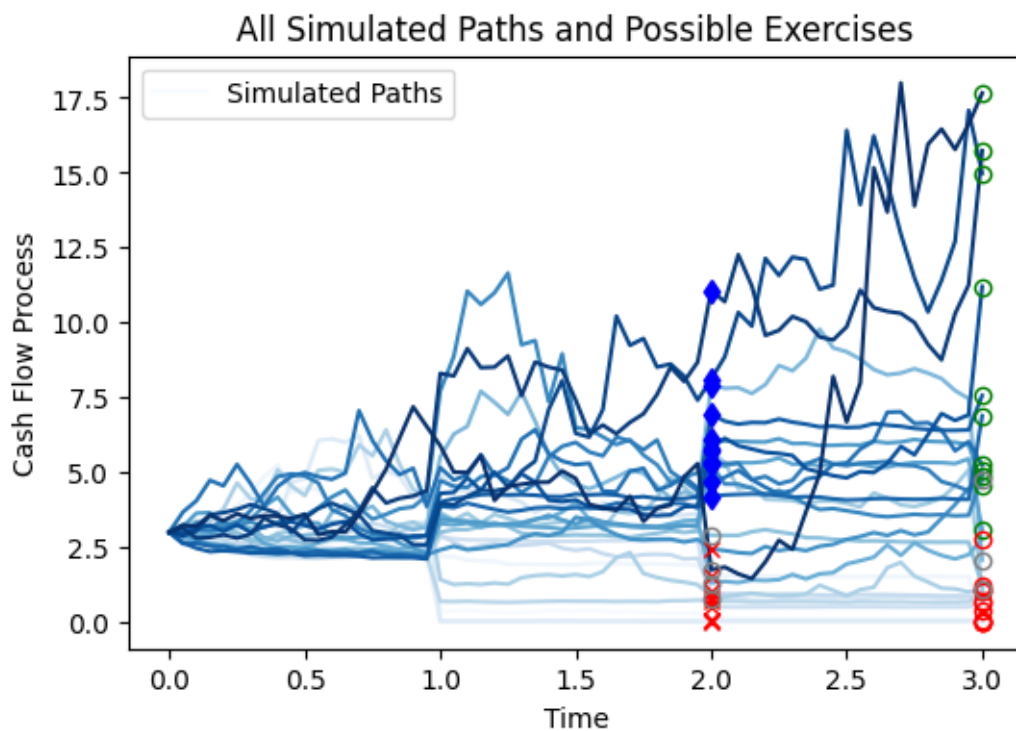
1 Valuation

To calculate the valuation of the project - We note that the cost of each path is an annuity until completion. That is, we can calculate the present value of an annuity with a coupon of the development cost rate (continuous compounding). - For successful paths we add to that the cost of operations as well as the three-period cashflow annuity from the project.

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Value of the project is: $8.19579872526898
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2 Sensitivity Analysis

Now we vary our parameters, calculate new cashflows, and generate valuations. - r (drift) - sigma (volatility)

Sensitivity Analysis: Sigma (cashflow volatility)