**Equities (Stocks):**

***DCF***

Uses the Weighted Average Cost of Capital (WACC) to discount free cash flows.

Free Cash Flow = EBIT(1− Tax Rate) + Depreciation & Amortisation – CapEx − Working Capital changes

WACC = E/V \* Cost of Equity + D/V \* Cost of debt \* (1 – t), Cost of debt = avg interest rate on debt, Cost of equity = R on equity = Risk-free rate + Beta (Return of the market – Risk-free rate) (i.e., CAPM)

TV = Free Cash Flow at last period \* (1 + g) / (WACC – g) – Terminal Value OR TV = EBITDA at last period \* Industry multiple (less preferred)

TV – discounted at the last period

The sum of discounted Free Cash Flows and TV = EV (enterprise value)

Intrinsic value of the equity/stock = (EV – Net Debt) / number of shares

***The BIG assumptions:***

Revenue growth rate

Long term-growth rate of free cash flows beyond the DCF’s forecast period = g

WACC won’t be constant in a 50-year forecast because you’ll likely raise more capital.

***Comps Model***

EV/EBITDA, EV = Market Cap + Total Debt (and some other things)

P/E ratio = Share Price / Earning per Share (EPS)

P/S ratio = Market Cap / Revenue