Joseph Fatzinger

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Project 3 Analysis

Throughout this exercise there was a wide price range of the stock price. The actual stock price of Columbia Sportswear (COLM) is $70.13, according to Yahoo Finance. From the Regression Growth analysis my calculations predicted that the stock price was worth a low $38.02, while the Average Growth Analysis forecasted a measly $24.10 per share. Because these estimates were quite below the actual stock price, I confidently believe that they are not a strong indicator of the stock price.

The reason why I believe that the Average Growth predicted a low stock price was because of the negative cash flows from 2016. From the company’s 10K, I learned that Columbia Sportswear was buying back some of its stock using cash on hand, this may be the reason for the decrease in cash flow. This same reason applies for the Regression Analysis. The cash inflow was negative, which lowered the present value of cash flows, which resulted in a low stock price. I believe the past year of 2016 was not the best year to base the future price, because of an instrumental decrease in cash flow.

Since there was a large variance in the price range, I was interested to see how sensitive the price was and how much it would be affected if I assumed different alternatives. The first assumption I made was when I observed that 2016 and 2015 had extremely similar Operating Income/Sales. Therefor I took the average of the two and the resulting stock price was $147.16, this surprised me since I made a slight change but got a completely different result. For my second assumption, I took the average of the WACC from the past 5 years and the resulting stock price was $67.77. This was in fact quite close to the actual stock price of $70.14, and far from the other predictions I had calculated. My final assumption was based on my observation that over the past 3 years the PPE/Sales was not changing as it was before. After taking the average of the past 3 years, the adjusted stock price was $95.76. This was relatively close to the actual stock price, but well above my unadjusted assumptions.

When using the discounted cash flow analysis, it is important to understand the uncertainty involved. Many assumptions are made that aren’t absolute guarantees. It is important to realize all the variables and to look at the entire picture when predicting future prices and growth. From my wide range of answers, I’ve learned that it is vital to consider a variety of assumptions and not to base findings on a sole source.

Were your percentages varying, so you were uncertain about whether using an average percent was appropriate. Also discuss in your paper your sensitivity analysis, and the consequences the gap between WACC and the Terminal Growth Rate has on the stock price. To frame this analysis, please answer the questions as outlined in the document called, “Elements of Thought and Standards Applied to the Finance Project. By answering these questions in your paper, it will help you to think critically about your analysis and how you should articulate the results of the analysis.