To predict the expected earnings, we use a rolling earnings regression in line with the RI Model by Li and Mohanram (2014) with four independent variables, all estimated on per share level.

The **Earn\_share** variable represents the earnings per share and is calculated using the income before extraordinary items (IB) net special items (SPI) divided by the number of total shares outstanding in the appropriate year. The dependent variable **F1\_Earn\_share**is calculated the same way, but we use the values of income before extraordinary items (IB) and the special items (SPI) in yeat t+1 and deflate them by the number of total shares outstanding in year t, to obtain the forward earnings per share. **NegE**is a dummy variable indicating whether firm i made a loss in year t. The third independent variable **NegE\*Earn\_share** is an interaction term of the two previous variables. The variable **Bkeq** represents the per share book value of equity. The variable total accrulas (**TACC)** is calculated as the sum of the change in working capital (WC), the change in net non-current operating assets (NCO) and the change in net financial assets (FIN), all deflated by the number of common shares outstanding. The change in working capital (WC) represents the change in current assets, net of cash and short-term investments, less the change in current liabilities, net of short-term debt. The change in net non-current operating assets (NCO) is measured as the change in total non-current assets, net of long-term nonequity investments and advances, less the change in non-current liabilities, net of long-term debt. The change in net financial assets (FIN) is measured as the change in short-term investments and long-term investments less the change in short-term debt, long-term debt and preferred stock.

To calculate the earnings forecast we use the following regression:

***F1\_Earn\_sharei,t+1 = ß0 +ß1 NegEi,t +ß2Earn\_share i,t +ß3 NegE\*Earn\_share i,t +ß4Bkeq i,t +ß5TACC i,t***

In Task 3 we try to verify the hypothesis, that the Enterprise Value / Sales multiple is influenced by profitability, payout, risk and growth, using the following rolling window regression:

***= ß0 +ß1 Profitabilityi,t +ß2Payout i,t +ß3 Riski,t +ß4Growth i,t+ ε i,t***

To calculate the enterprise value, we calculate the sum of **market capitalization**, calculated as the number of common shares outstanding multiplied by the annual closing price per share, and total liabilities less cash and short-term investments. **Profitability** is measured as the division of the expected earnings calculated in Task1 and the total assets. **Payout** represents the dividends divided by the total assets. The **growth** variable is calculated by dividing the difference between expected earnings and the actual earnings by the actual earnings of the firm. R**isk** is represented by the firm’s CAPM beta, which has already been calculated in Task 2.