

# 15.535 Business Analysis Using Financial Statements Spring 2003

## Assignment #1

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### **VALUATION EXAMPLE: DELL COMPUTER**

In the first three classes, we have been exposed to a number of real-world techniques used in company valuation. This course is about the application of these techniques to valuing actual (vs fictitious) companies in today's markets. Therefore, I would like you to dive right in and perform a "quick and dirty" analysis of Dell Computer!

Please develop a prediction of the "fair value" of Dell Computer for each of the following valuation techniques:

### **APPROACH 1: DCF using analysts' forecasts of EPS as proxies for future cash flows**

(Please follow the equity valuation example for Compaq Computer example that we covered in Class #2.)

#### Necessary Data

- a) Forecasted EPS in year 1 (Jan 2002).
- b) Forecasted EPS in year 2 (Jan 2003).
- c) Forecasted 5 year growth rate in EPS.
- d) Assume that equity "free cash flow" per share equals forecasted EPS  
---> working capital acccruals equals zero  
---> annual depreciation charge is a good approximation of annual investment cash flows
- e) DELL equity Beta.
- f) Rf (risk free rate) (Use 30 year Treasury Constant Maturity):  
Link <http://www.stls.frb.org/fred/data/irates.html>
- g) Rm= Expected Market return = 15%

### **APPROACH 2: Relative PE analysis (comparing multiples)**

#### Necessary Data:

- a) Current EPS (ttm= trailing 12 months) for Dell Computer.
- b) P/E ratio (ttm) for Computer Industry.

### **APPROACH 3: Relative PEG analysis (comparing multiples)**

#### Necessary Data:

- a) Current EPS (ttm= trailing 12 months) for Dell Computer.
- b) 5 year projected earnings growth for Dell.
- c) PEG ratio for Computer Industry.

#### **APPROACH 4: Relative M/B analysis (comparing multiples)**

##### Necessary Data:

- a) Current book value of equity (per share) for Dell Computer.
- b) You can calculate the average M/B ratio in the computer hardware industry by taking the average (or median) M/B of several of Dell's competitors.

After completing your analysis using each of the 4 approaches, please write a memo summarizing your analysis.