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DCF Model Step-by-Step Approach

- Plug-ins:
  - Growth rate
  - Discount Rate (WACC)
  - Number of diluted shares
  - Year 1 of cash flows
- Step 1: Calculating cash flows
  - With **Year 1** of cash flows, multiply it by 1 + the growth rate to get **Year 2**
  - With **Year 2** of cash flows, multiply it by 1 + the growth rate to get **Year 3**
  - Do this for **Year 4** and **Year 5**
  - After Year 5, use the formula (Year 5 x (1 + growth rate)) / (Discount rate - growth rate) to get Terminal Value
- Step 2: Discounting cash flows at present value
  - With Years 1-5 and the terminal value, you will calculate the discounted rate
  - With **Year 1** of cash flows, divide it by (1 + discount rate)^1 to get **Year 1 discounted**
  - With **Year 2** cash flows, divide it by (1 + discount rate)^2 to get **Year 2 discounted**
  - With **Year 3** cash flows, divide it by (1 + discount rate)^3 to get **Year 3 discounted**
  - Do this for **Year 4** and **Year 5**
  - With the **Terminal Value**, divide it by (1 + discount rate)^5 to get the **Terminal Value discounted**
- Step 3: Calculating the intrinsic price per share
  - With Years 1-5 discounted and the Terminal Value discounted, add them up and divide the sum by the diluted share outstanding
- Step 4: Mispricing
  - The intrinsic value is the true price
  - If the intrinsic price per share is greater than the market price, the stock is **undervalued**
  - If the intrinsic price per share is less than the market price, the stock is overvalued