

What a company is worth

Lesson: zerotoinvest.com/en/lesson/company-valuation/

Name _____

Date _____

EXERCISE 1

What is \$1,000 that you receive in ten years worth today if you use 8 percent?

Your answer

EXERCISE 2

For five years you receive \$500 at the end of each year. What is that worth today at 6 percent?

Your answer

EXERCISE 3

A stock has a P/E of 25. What is the earnings yield?

Your answer

EXERCISE 4

A payment of \$1,000 a year is to flow forever. What is it worth today at 5 percent?

Your answer

Tip: the calculators on zerotoinvest.com help you check your answers.

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Solutions: What a company is worth

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Exercise 1. $\$1,000 \div 1.08^{10} = \$463.19$.

Exercise 2. Sum of $\$500 \div 1.06^t$ for $t = 1$ to $5 = \$2,106.18$.

Exercise 3. $1 \div 25 = 4$ percent.

Exercise 4. $\$1,000 \div 0.05 = \$20,000$. Just 4 instead of 5 percent gives \$25,000, the assumption decides everything.

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