

# [Good example of finance for google or microsoft report](https://assignbuster.com/good-example-of-finance-for-google-or-microsoft-report/)

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## Section 1

Free cash flow calculation for Google can be done in three different ways. This will be a cash flow which will be available for all the investors of Google, its shareholders and also bondholders. It will be obtained after Google makes all its investments that are required to sustain the demands of its products. The second formula that will be applied for this case is the WACC. It will be calculated asWACC= SS+BrS+BS+BrB1-TC   
Therefore, the WACC = $ 1255/ ($ 1255 + $ 1380) \* 0. 12 + $ 1380/ ($ 1255 + $ 1380) \* 0. 15 (1 – 0. 35) = 0. 055   
The other method to obtain this value will be the use of Net Operating Profit after Taxes (NOPAT). In this case, all the Net investment in operating capital will be deducted from Net Operating Profit after Taxes (NOPAT). In this formula, the value of NOPAT will be equivalent to the value of Sales Revenue - Operating Costs and also Taxes. The formula will be = $ 134890 - $ 87345 - $ 26, 713 = $ 20, 832.   
Another method that is applicable for Google is deduction of all capital expenditures from Net Cash Flow from Operations. For this formula, Google will obtain the net cash flow from operations from the first section of its income statement. In addition, the capital expenditures will have come from all the increases in fixed assets off the balance sheet. By choosing any of these three methods, the same answer has to be obtained. Therefore, each may serve as a test of accuracy of another method. Section 2   
In Comparable Companies Analysis Valuation, one of the ratios to be applied is the P/E ratio. This ratio implies the price/ earnings ratio. For value investors, this ratio is very crucial for determining the relative attractiveness of the stock price of a particular company. In the application of this ratio, must investors appreciate that P/E ratios vary with the industry. Across the different industries, these ratios depict different values. An example of this case is the contrast between technological and textile sectors. Due to the difference in expectations between these industries, variances in the P/E ratios are established. In the technology sector, high valuations will be observed due to high growth rates and high returns on equity. On the other hand, the textile industry may have low P/E ratios based on profit margins and also low growth rates. The P/ E ratio will be $ 876. 45/ $ 65. 04 = 13. 48.   
The other ratio that is applied is the P/ CF ratio. These initials stand for price/ cash flow ratio. The price will be the current share price for Google. In a view to counter the volatility of the price, a 30 or 60 day moving average is applied. The cash flow for Google will be applied on a per share basis. It is obtained by a calculation of the trailing 12 month cash flows generated by the firm. These cash flows are then divided by the number of shares issued by the firm. It should be applied to comparable companies. The main advantage of this ratio is that it is a concrete metric of measuring performance since cash flows are difficult to manipulate. Both the P/E and P/CF ratios are applied by comparison with several firms in the same industry. Flat figures may not make sense without a complete comparison with other firms. Section 3   
In valuing Google, the dividend growth model is a useful tool for determining the intrinsic value of such a company. The actual values that will be needed are the dividend per share and the expected growth in these dividends. One of the applicable models in this case is a constant growth model. It will be based on a number of assumptions for Google. The first is that Google will have a constant dividend growth rate. In addition, there is a condition that this growth rate will not be equal neither exceed the required rate of return . The second applicable model for Google is a multi stage dividend growth model. It allows for flexibility in the patterns of future growth of dividend rates.   
In the dividend discount model, Google will hold that any stock is worth a higher amount than the value of all its dividends in the present and the future. The basis calculation of this model holds that the value of Google’s stock will be equal to the value of all the future cash flows which are discounted at a specific risk adjusted rate. To add onto this, the dividend discount model requires many speculations in forecasting of Google’s future dividends. The model calls for such assumptions which imply that any inaccuracy in the assumptions will lead to inaccuracy in the estimation. It is seen as a failure in that the dividends are to grow at a constant rate indefinitely. However, even for those companies that are stable and reliable in income, making such predictions may be difficult since the Google may change its dividend payment policies hence rendering the valuation impractical.

## Works Cited

Ryan, Bob. Corporate Finance and Valuation. Stamford: Thomson Learning, 2007.   
Wood, Arthur. " Analyzing The Price-To-Cash-Flow Ratio." Forbes Magazine (2012): 76-79.