

Revised DCF 2010

Investment Committee Presentation

April 2010

What's new?

- 1) We are now bug-free!
 - Formulae have been corrected and faulty coding has been removed
- 2) Introduction of more complex sensitivity analysis
 - Base, High and Low Case Scenarios

What does this mean for you?

- 1) Being bug-free
- You can now rest assured that your DCF values are not being corrupted by errors in coding
- ***It also means that you should STOP OVERWRITING the code!
- There is almost no reason why you should be hardcoding your own values over existing formulae.

Let me say that again

- If you ever feel the urge to overwrite code, stop!
- Usually it means you:
 - A) have done something wrong
 - B) are just being lazy
 - C) do not understand certain things
 - D) are trying to cheat your way to a presentable model

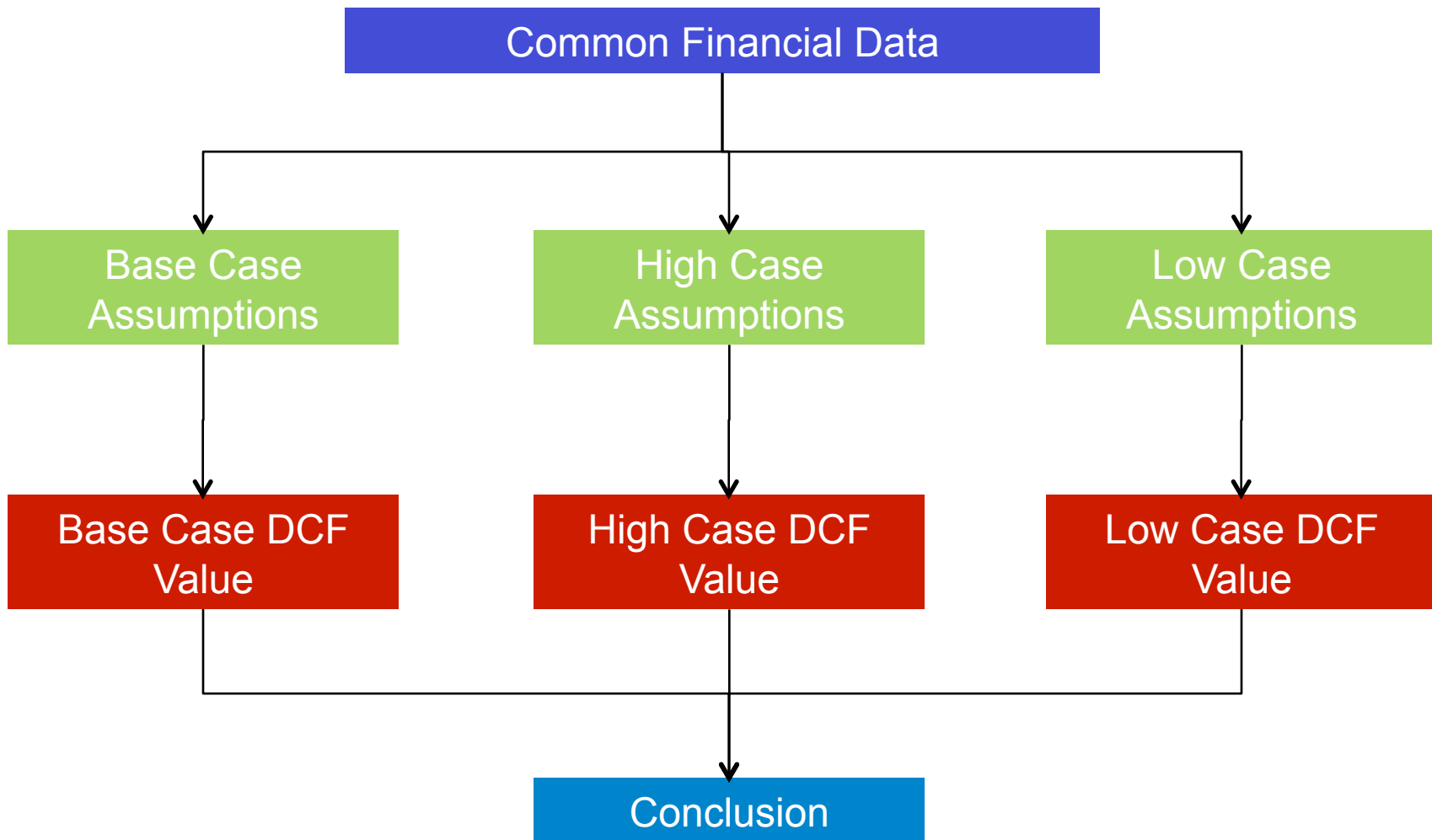
What does this mean for you?

- 2) Introduction of sensitivity analysis
- The basic sensitivity analysis in the current iteration of the DCF model is basic and underutilized
- We have introduced a slightly more interesting sensitivity analysis

How does it work?

- Scenario-driven analysis
- Introduction of Base, High and Low Cases
- Base Case: Standard assumptions, what you predict will be the most likely scenario
- High Case: Bullish assumptions, what you predict to be the best case scenario
- Low Case: Bearish assumptions, what you predict to happen when everything that can go wrong does go wrong

How does it work?



Advantages

- Builds confidence in the model by studying uncertainties in our assumptions
- Encourages critical thinking of performance forecasting
- Demarcates upper and lower bounds for price predictions
- Establishes reference points for future stock evaluation
- Highlights parameters most important to valuation and encourages sectors to scrutinize said parameters closely

Disadvantages

- More work
- May be confusing initially
- Output values are meaningless if assumptions are input in a random or careless fashion

Step-by-step guide to the new DCF

- 1) Download the clean template from the TBC website
- 2) Fill out the 'Base Case' tab as per normal
- 3) Fill out the 'Assumptions' tab
- 4) Fill out the 'Upside' tab
- 5) Fill out the 'Downside tab'
- 6) Check 'CashFlow Calculations'
- 7) Check 'DCF Output'
- 8) Admire your 'Football Data'

Step 1: Download

- The new DCF model will be uploaded to the new TBC website: www.chicagobluechips.com

Step 2: Base Case

- Fill out this tab as per normal
- You will NOT enter any assumptions on this tab
- Color legend:
 - BLUE – Inputs = You enter (aka hardcode) data here
 - WHITE – Output = The Excel model calculates these values for you
 - GREEN – Output = Same as white but highlighted to indicate that data is drawn from the ‘Assumptions’ tab

Step 3: Assumptions

- Enter all your assumptions here
- Utilize the 'Historical Financials' data as a reference for your assumptions

Step 4: Upside

- Update/change WACC, beta, terminal growth, etc assumptions here
- Only inputs to be made here are at the bottom of the sheet (WACC, Terminal Value Data, DCF Valuation Sensitivity Analysis)
- Don't feel the need to change assumptions if you cannot justify it

Step 5: Downside

- Same as 'Upside' tab, only with bearish assumptions

Step 6: CashFlow Calculations

- No inputs required here
- But please do a sanity check on the outputs on this page
 - Eg if your cashflow is higher in your Low Case than in your High Case, something may be wrong!

Step 7: DCF Output

- No inputs required here
- Your predicted DCF values for all three cases are presented on this page

Step 8: Football Data

- No inputs required here
- Admire your football field
- You may have to manually change your x-axis minimum and maximum points to get an ideal display range

Ceteris Paribus

- Everything else should remain unchanged
- Complete the model as you would normally

Discussion

- Theoretical issues: do you see value in the new sensitivity analysis? Do you have potential objections?
- Practical issues: Is this too complicated? What could be done to make it easier?