Corporation Valuation Model
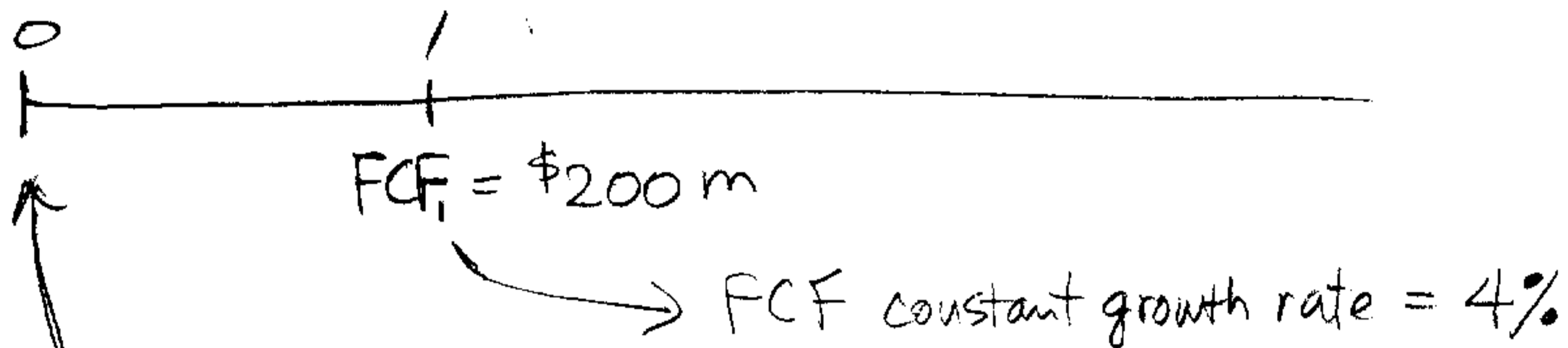
→ Similar to the constant growth model
  but use free cash flows instead of dividends.

Ex) Please take a look at the Corporate valuation example
    in chapter 9 ppt slides.

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|——————————————|————————————————————————
         FCF_1 = $200m
                    ↘
                     → FCF constant growth rate = 4%
```

Step 1: Find the firm's value today using the constant growth model.

$$V_0 = \frac{FCF_1}{WACC - g} \quad (\Rightarrow \text{similar to } \frac{D_1}{r-g}), \quad WACC = \text{weighted average cost of capital}$$

$$= \frac{\$200m}{.08 - .04} = \$5,000m = \$5 \text{ billion}$$

Step 2: The firm's equity value = V_0 − Debt − Preferred stock
        (Common)

$$= 5,000m - 600m - 400m$$

$$= 4,000m \ (= 4 \text{ billion})$$

Step 3: Stock price per share today $= \dfrac{\text{Equity}}{\# \text{ of shares}} = \dfrac{4,000m}{80m} = \boxed{\$50}$

Preferred stock valuation

→ With perpetual dividends, preferred stock price
  is equal to the PV of perpetuity.

So, Preferred stock price $= \dfrac{D}{r}$

Look at the Preferred stock valuation example in ch 9 ppt slides.

Preferred stock price $= \dfrac{3}{.15} = \boxed{\$20}$