

# Simple Intrinsic Value Calculation for the Everyday Value Investor

Intrinsic value is the perceived true worth of an asset, independent of its current market price. It is a fundamental concept in value investing, a strategy that aims to identify and invest in stocks that are trading below their intrinsic value, with the belief that they will eventually rise to their fair value over time.

Calculating intrinsic value can seem daunting, but it doesn't have to be. Here is a simple and effective method that can help you get started:



## Simple Intrinsic Value Calculation for the Everyday Value Investor by Joosr

★★★★☆ 4 out of 5

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## 1. Determine the Company's Future Cash Flows

The core of intrinsic value calculation is estimating the future cash flows that a company is expected to generate. This can be done using a variety of methods, including:

- **Historical Cash Flow Analysis:** Examine the company's past cash flow statements to identify trends and patterns that can inform future cash flow projections.
- **Discounted Cash Flow (DCF) Analysis:** Forecast future cash flows based on assumptions about the company's growth, margins, and capital expenditures. These cash flows are then discounted back to the present to determine their present value.

## 2. Calculate the Terminal Value

The terminal value represents the company's value beyond the explicit forecast period. It is typically estimated using a perpetuity growth model, which assumes that the company's cash flows will grow at a constant rate after the forecast period.

## 3. Determine the Weighted Average Cost of Capital (WACC)

WACC is the rate at which a company incurs capital. It represents the cost of both debt and equity financing and is used to discount future cash flows to their present value.

## 4. Calculate Intrinsic Value

Once you have these inputs, you can calculate the intrinsic value using the following formula:

**Intrinsic Value = Present Value of Future Cash Flows + Terminal Value**

### Factors that Influence Intrinsic Value

Intrinsic value is influenced by a range of factors, including:

- **Earnings Power:** The company's ability to generate earnings and cash flows
- **Growth Potential:** The company's prospects for future growth
- **Competitive Advantage:** The company's ability to maintain a competitive advantage in its industry
- **Interest Rates:** Higher interest rates increase the discount rate, which reduces the present value of future cash flows

## Using Intrinsic Value in Investment Decisions

Once you have calculated the intrinsic value of a stock, you can compare it to its current market price. If the intrinsic value is significantly higher than the market price, it may indicate that the stock is undervalued and could be a potential investment opportunity.

However, it's important to note that intrinsic value is not an exact science. It is based on assumptions and projections that may not always be accurate. Therefore, it should be used as a tool to guide investment decisions, not as a definitive determination of a stock's true value.

Calculating intrinsic value is a valuable skill for value investors. By understanding the key factors that drive intrinsic value and following the steps outlined above, you can improve your ability to identify potential investment opportunities that are trading below their true worth.

Remember, the purpose of intrinsic value calculation is not to predict the future with precision. Rather, it is to provide an informed estimate of a

company's potential value, which can help you make more informed investment decisions over time.



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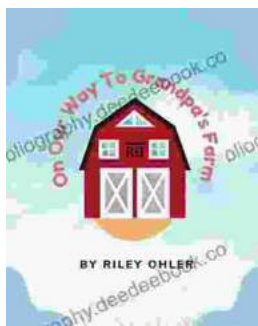
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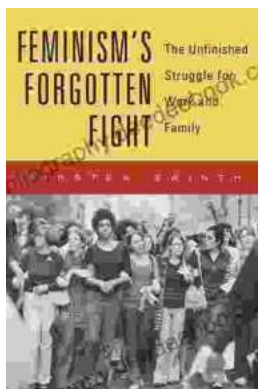
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