Your Roll Number: GMAY08IB104
Your Company Name: Pfizer Inc.

Suggest the best assumptions (or methods to be used) for …

Company Name: Pfizer Inc.

Discount at Cost of Capital

Risk-free Rate: The risk free rate is taken as the 360 day US Treasury bill which is 3.66%
Beta: Beta is calculated by regressing the past 5 year weekly returns with 5 year weekly returns of NYSE (where Pfizer is listed)
Risk Premium: Risk premium is calculated using last 30 year NYSE returns – 30 year T-bills in US
Cost of Debt: Last three years interest costs/Average Debt on balance sheet – Average tax rates of past three years
Weights: weights used is calculated using weight of market values of equity and debt

Estimating Future Cash Flows to Firm:

Operating Income: Past three years average operating profit margins. For this purpose sales have been grown at a rate of 2.72%, which is the terminal growth calculated using RoE * RR
Current Cash Flow: Cash flows used are Future cash flows to firm as the dividend payout rate is 78% which is below 80% for which FCFF is a better measure
Reinvestment rate OR Average Reinvestment Rate: Average reinvestment rates are 22%
Expected Growth: estimated g=2.72% calculated using RoE * RR
Return on Capital: For this purpose debt/equity ratio is assumed to be constant as it has not changed over the past 5 years. Hence management is maintaining this stable capital structure which we can assume would continue going forward.
Stable Growth: One stage growth rate is used as firm is large and mature. Hence g=2.72%

From Operating Asset Value to Equity Value:

Value of operating assets of the firm (suggested method):Free cash flow to firm as the dividend payout rate is 78% which is below 80% for which FCFF is a better measure.
Cash and marketable securities: This has not been used in computation as cash levels are not very high for the company compared to its sales
Value of minority holdings in other companies: The value for 2007 is 42 mn US$. However this has been grown at the last three CAGR assuming the company will make acquisitions' in the future.
Value of idle or unutilized assets: No idle assets
Value of interest bearing debt: This has been taken as average debt of past two years as the company may have raised debt during the period of the fiscal. Hence to average it out we take past 2 year debt average.
Present value of operating lease commitments: Taken from notes to accounts. US$230mn
Any unfunded retirement and similar obligations:
Expected litigation payouts: Values have not been mentioned in the annual report, hence due to lack of information we have not used this

Comments on Value of Equity:

Any Other Remarks (or missing items you would like to mention):