LUISS

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Course of Financial Statement Analysis

Valuation Challenges in Unprofitable Companies: The Reddit Case

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To my family, and to all the souls who have left a mark on this journey.

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1. Introduction

In recent years, the growing presence of companies reporting losses, along with companies going public despite lacking historical profitability, has raised fundamental questions about how such companies should be valued. Correctly assessing their value is essential for preserving market efficiency and avoiding long-term value destruction for investors. However, despite their negative earnings, these firms are still able to attract new capital from investors, driven by growth expectations and the potential to generate large returns over relatively short time horizons.

Negative earnings are often perceived as an indicator of financial distress. However, it is essential to first assess the underlying factors that ultimately lead to negative performance. Negative income may indeed reflect a weak financial performance or operational inefficiencies. However, in many cases, firms report losses due to other strategic decisions, such as R&D expenses, brand building or, more generally, other investments that potentially bring long-term value.

This thesis investigates both the theoretical and practical challenges associated with the valuation of such companies. The traditional approaches heavily rely on profitability, making it harder for the analyst to build a proper valuation model that can correctly reflect the target company's value. The analyst should first analyse the nature of the negative performance and the causes of unprofitability, to adjust the model and correctly define the assumptions on which it relies. Particular attention is placed on the accounting treatment of R&D expenses and its impact on profitability measurement and valuation.

Furthermore, I applied the theoretical analysis to a case study of Reddit Inc., a social media platform that successfully completed its IPO in 2024, despite never having been able to reach profitability over its 19-year history. This case illustrates how investor sentiment and forward-looking expectations can support high valuations, even in the absence of profitability, and highlights the importance of adjusting valuation models to account for such dynamics.

2. Negative Earnings Companies: Valuation Issues

2.1 Negative Earnings VS Financial Distress

It is a common belief that companies reporting negative earnings, especially if the unprofitability lasts for several years, are in financial distress. While these conditions are likely related, the two figures do not always pertain to the same company. Therefore, I am going to analyse the difference between the two, to properly identify the type of company that will be analysed in this study.

Over the years, several research studies have been dedicated to the analysis of financial distress, but no universally accepted definition exists. Instead, researchers have adapted their definitions according to the objective of their work. However, in general terms, financial distress can be seen as a company's inability to fulfil its obligations, which might ultimately prevent it from pursuing its two main objectives: generating a profit and surviving. Habib et al. (2020) identify four different elements within the concept of financial distress: failure, insolvency, default and bankruptcy. Although being very similar and often correlated, the above-mentioned elements are different. The first two might be seen as causes leading to financial distress, while the last two represent the effects. Thus, it is important to briefly explain them.

As the name suggests, failure occurs when a business cannot meet a certain objective, which generally includes being profitable and operating as a going concern entity; insolvency is strictly related to liquidity and a company's inability to manage its assets effectively to be materially able to pay its obligations. On the other hand, both default, which can be either technical (breaching a contractual close) or legal (which happens in several instances, such as failing to meet periodic payments), and bankruptcy (which in many jurisdictions implies filing a legal form involving the competent court) reflect a distressed situation.

Given the complexity of financial distress, it has become increasingly important for investors, regulators and researchers to identify proper risk measurement figures and define the key factors that cause distress and how they affect a company's health. As a result, an increasing number of studies have been conducted, aiming to develop a predictive model that would enable companies to prevent any distressed situation and

avoid failure or bankruptcy. Key findings derived from the meta-analysis conducted by Habib et al. (2020) and Primawan et al. (2023) can be summarised as follows:

- **Risk Measurements:** researchers have mainly used accounting-based figures to measure distress risk, such as the well-known Altman's Z-score and Ohlson O-score. However more complex and sophisticated market-based figures, like the distance-to-default, have also been developed;
- **Determinants:** the distress determinants are found to be both financial and non-financial. The former are usually based on financial data contained in company's reports, the latter, instead, refer to the macroeconomic context and the governance strategies implemented by the company.

As seen, financial distress occurrence reflects either operational or financial inefficiencies (or both) and it can eventually lead to failure or bankruptcy. Negative earnings are often considered the first signal of distress, and I will analyse this relation at the end of this paragraph. It is first necessary to deeply investigate the reason behind unprofitability in order to better understand it and how to manage it.

There are several reasons why a company reports negative earnings. The following are some notable cases:

- **Start-Up and Growth Companies**: companies in the very early stage of their life cycle, as well as already established corporates that have not yet reached an equilibrium, are very likely to report losses. In the first case, the company may still be launching a product or, if it already has, it might still be investing largely in R&D, marketing and other areas, sustaining high costs and preventing profitability. In the second case, while the company is already established, it might be spending in brand building or still incurring other fixed cost, which would finally erode the profits;
- **Seasonality**: in some industries, a large part of companies' sales and profit are generated within a relatively short period of time. Therefore, for these entities, it is extremely important to generate enough revenue to cover the expenses for the whole period. If they fail to do so, the company would be unprofitable;
- **Cyclicality**: cyclicality refers to revenue sensitivity to macroeconomic factors, such as GDP or inflation. Companies influenced by cyclicality might turn

unprofitable during an economic downturn or when, for example, the price of a certain key commodity fluctuates significantly over a given period;

- **R&D Investment**: companies with substantial R&D investment might ultimately see their earnings eroded, despite a strong core business operating performance. Due to its complexity and the significant role it can play, this factor will be deeply and independently analysed in another section of this study;
- **Extraordinary Items**: sometimes, companies face extraordinary expenses, such as lawsuits or damages deriving from natural disasters. In some cases, reserves might not be enough to cover the incurred losses, which can lead to negative results. However, such losses are usually temporary, meaning that the company is likely to fully recover starting from the following period;
- **Accounting Manipulation ("Big Bath" Accounting)**: when a company faces a negative year in terms of results, management might opt to artificially modify certain accounting items in order to make the following years' results appear better and more favourable to investors and eventually gain higher returns;
- **Government Related Companies**: government owned companies usually pursue objectives other than profit making, such as providing services to citizens at an affordable price. These kinds of companies are usually unprofitable as they prioritize their social goals and their losses are often covered by government funding or aid;
- **Strategic choices**: finally, a company might turn unprofitable due to poor strategic decisions made by management. The negative effects can last shortly or be long lasting, depending on how easy the company can abandon the wrong and unprofitable strategy and adopt a new and more profitable path.

Looking through each case, it is evident that in some of them, being unprofitable is a normal condition, which might even be necessary in order to become profitable in the future. However, for the purpose of this study, it is necessary to differentiate these cases, as they require different valuation approaches. In the last paragraph of this chapter, I will differentiate each unprofitability context. However, I will not focus on young companies or start-up, as they require a more detailed analysis, given their peculiar life cycle stage. Instead I will focus on already established companies, analysing the reason behind their

negative earnings and determining how to react accordingly when implementing a valuation process.

Finally, as anticipated, I will analyse the relation between financial distress and negative earnings. Tze Chuan (2015) conducted an analysis aiming to understand if negative Book Equity (BE) companies are in financial distress. His results can be summarised as follows: companies with a small magnitude of negative BE are very likely inefficient, often report persistent losses, which ultimately lead to a negative BE and they face a higher probability to default or fail, presenting a higher degree of financial distress; on the contrary, companies reporting a large magnitude of negative BE usually experience a one-off earning shock, since their performance, on average, recovers after the first year of reporting negative BE, reflecting better financial health and, therefore, a lower degree of financial distress.

The above-mentioned paper shows that while financial distress and negative earnings are related, they are distinct concepts that require separate analytical approaches. For the purpose of this study, I will focus on negative earnings companies. More specifically I will analyse their valuation, how the common techniques and standard approach must be adjusted in order to account for unprofitability.

2.2 Market Sentiment on Losses and Valuation Effect

Negative earnings companies exhibit a negative price-earning relationship, raising concerns about the validity of the simple earning capitalisation model, which seems to work well only for profit companies, where it reflects a positive relationship. Over the years, researchers have tried to address this issue and develop an adjusted model that could correctly reflect the relationship for both profit and loss firms.

In the previous paragraph, I presented several circumstances that might cause companies' profits to turn negative, either for a short or long period and investors try to forecast these changes and react accordingly. Indeed, it is important to assess the nature of losses, as these can be either permanent or transitory: researchers have applied two different categorisation approaches, the first based on the duration of negative earnings reporting, therefore on the expected future earnings, and the second on the probability of loss reversal.

In their study, Joos & Plesko (2005) applied the latter approach: their analysis, aiming to understand the factors determining investors' perception of losses and their reversal, showed that while market returns effectively capture information for companies with transitory losses, whereas the value effect for companies with persistent losses strictly depends on the financial metrics used in the analysis, resulting in mixed results, that do not make it possible to establish a proper pattern. In contrast, Li (2010) used the earnings forecast approach in his study on loss persistence perception and showed that investors generally underestimate the loss persistence and consider them to be transitory. This leads to abnormally negative returns for companies that report negative earnings in the following periods (while for transitory losses companies the returns are close to zero). This mispricing is corrected over time, with stock prices adjusting primarily around earnings announcements.

The literature on loss valuation from investors' perspective underscores the necessity of deeply investigating the proper metric when studying investors' perception of loss-making companies, loss reversal and their valuation, going well beyond simple earnings aggregates. It is possible to divide the key factors in the following categories: financial metrics (i.e. ROA, cash flows, R&D investments…), macroeconomic metrics (economy, industry condition…) and company specific measures (firm size, dividend policy, hidden

items…). Research consistently shows that integrating these metrics into an adjusted valuation model enhances our understanding of pricing trends and reduces the magnitude of the inconsistent negative price-earning relation observed for loss companies when applying the simple earning capitalisation model. For example, Xu et al. (2007) suggest using sales rather than earnings in the model, as they might be more value relevant and better able to correctly reflect pricing changes for certain assets.

The above-mentioned studies rely on the need to correct the model as the mispricing of loss-making company can affect the functioning of financial markets and make it difficult to reconcile market valuation with fundamental valuation based on accounting figures. In their study on market perceptions of loss-making companies, Mohrschladt et al. (2024) provide valuable insights on how investors perceive and react to loss companies. They notice that, while mispricing affects both profitable and loss-making companies, the magnitude for the latter is relatively greater. This result, again, confirms that loss companies are comparatively more difficult to evaluate. They also investigate the reasons why the mispricing effect is more relevant, more specifically by focusing on overvalued companies. They show that the overvaluation might be due to investors' biased beliefs about future growth or irrational preferences, i.e. investing in loss companies might be driven by personal preferences to invest in companies with a positive return skewness rather than utility maximisation. They also show that while professional investors might acknowledge the mispricing and try to earn a higher return in the options market, they might face limits to arbitrage, making it even more difficult for prices to adjust immediately.

Overvaluation of loss-making companies also arises in the context of IPOs. Zorgibiuel (2016) analyses this phenomenon showing that, when compared to both profit making companies and pre-listed companies, on average loss-making companies are overvalued during the listing process. However, over time, as information becomes available and asymmetries shrink, the price is significantly affected, leading to a long-term underperformance. In his study he identifies the venture capital efforts in marketing the process as the main driver for the mispricing. Additionally, other key factors were identified as drivers of this phenomenon, which are consistent with the findings from the previous studies, such as uncertainty, overconfidence and speculative sentiment.

2.3 The role of R&D in Valuation of Loss Firms

As seen in the first paragraph, R&D expenses can be extremely significant, sometimes exceeding a company's gross margin and leading to negative operating income. These expenses also play a key role in defining the nature of the losses incurred by an entity. However, R&D investments enable companies to differentiate their products from those of competitors or to develop new and unique offerings, resulting in market recognition and increased market share. Consequently, R&D expenditures can have a great and positive impact on future sales, by driving innovation and development. These expenses are particularly relevant in high-tech industries, such as IT, pharmaceuticals, aerospace and AI.

Despite the correlation between current costs and future revenue (which usually justifies cost capitalisation and asset recognition), in most accounting systems worldwide, companies are required to expense R&D costs in the period in which they are incurred due to the uncertainty associated with the future revenue generation. Some systems, however, allow capitalisation of the development costs, as the product feasibility becomes more certain at this stage. This accounting treatment significantly impacts operating profitability, margins and asset recognition, as it does not result in asset creation. It can pose challenges in comparing certain asset recognition treatment, particularly when considering patent issuance. Internally created patents, in fact, cannot be registered or amortised, whereas those externally acquired allow the creation of an intangible asset in the balance sheet and the related amortisation. To address this issue, companies often establish a separate entity mainly dedicated to R&D activities, which subsequently sells the developed patents to the parent company.

Damodaran (1999) analysed the various effects of reclassifying R&D expenses as capitalised costs, which are summarised as follows:

- **Assets:** the cumulative after-tax R&D expenses would generate a new asset, whose amortisation schedule and period would strictly depend on the nature of the activity. This new asset would, of course, also increase the book value of equity. However, this item has to be written off in two scenarios: project abandonment due to infeasibility, or the creation of a new asset, which would

exactly replace the R&D investment. The main challenge in estimating the value of the R&D asset lies in assessing the value of basic research;

- **Income:** the R&D would affect the income by an amount equal to the amortisation of the newly created asset. Depending on cumulative past R&D expenses and current-year investments, this amortization amount may be higher or lower than the annual R&D expense. Therefore, also the tax benefits would be affected by the reclassification, impacting the net income;
- **Profitability:** since R&D reclassification would impact both income and assets, all profitability measures would be affected. While both assets and capital increase, the effect on income remains uncertain.

Although the reclassification would not affect cash flows, it would make it possible to better distinguish among growth firms and to better assess their profitability. The latter is a direct effect of income computation, as large investments in R&D would be amortised over a given period. The impact on growth, however, is more evident when it is computed as Reinvestment Rate x Return on Capital. As seen before, the effects on profitability measures might depend on the variables used, however when evaluating the Return on Capital, this would likely face a reduction due to the higher capital in the formula. However, when a company heavily invests on R&D, its Reinvestment Rate would be much higher, allowing it to forecast a greater future growth rate than the ones with lower R&D investments.

I have previously highlighted that in most accounting systems R&D costs are expensed due to the uncertain relationship between current costs and future revenues. However, Lev et al. (1995), in their analysis of R&D value relevance, proved that R&D costs can predict future revenue and are strongly correlated with market valuation, contributing to long-term value. They further demonstrated that R&D capitalisation has significant implications for investors. Adjusted value of capital and earnings obtained through the reclassification are significantly correlated with stock prices, although those values are not fully reflected contemporaneously. Firms with high R&D capital often experience higher future stock returns, suggesting potential undervaluation**.** This can be associated with either mispricing of R&D-intensive companies, or the higher risk associated with such companies, which is compensated by higher abnormal returns.

The link between R&D and revenue growth was also highlighted by Lome et al. (2016). Their paper on R&D-intensive companies' resilience during economic downturns found that these expenses are positively associated with future revenue growth, with an average time lag of two years for the expenses to lead to growth, with an even more significant effect on the third one. Moreover, they showed that R&D-intensive companies react better to economic crises. In fact, they appear to be more flexible and capable of leverage innovation, adjust their resources and, as a result, better absorb economic shocks and adapt their strategy to the new market conditions. This adaptability has a significant impact on revenue growth, which has been proven to persist for these companies even during a downturn. Therefore, they outperform those who invest less financial resources in R&D, allowing for market share gains and a stronger competitive position at the end of the crisis.

The presence and accounting treatment of R&D investments have a significant influence on company valuation, as it can affect market perception, future growth expectations and resilience to adverse conditions. When dealing with valuation techniques, it is necessary to assess how to account for this item.

One approach is the reclassification of the expenses and the computation of adjusted earnings and capital, as suggested by Damodaran. This adjustment has significant effects on margin computation, which is particularly relevant when using multiples or a market valuation approach. In fact, ensuring consistent reclassification across the whole pool of comparable companies is essential for accurate and reliable valuation.

Regardless of reclassification, cash flow computation was shown to be unaffected by R&D recognition. However, when applying intrinsic valuation techniques, the growth rate estimation can be significantly influenced by the choice regarding these expenses. Moreover, different methods of margin computation affect some financial indicators, leading to a different risk associated with the target and, therefore, a potentially different cost of capital. While R&D expensing might increase earnings volatility due to fluctuations in the amount invested in each period, resulting in a higher cost of equity, R&D capitalisation inflates assets, impacting leverage, liquidity measures, and the cost of debt.

2.4 Valuation Techniques Adjustments

When evaluating a loss-making company, most valuation approaches must be adjusted, as their constructions are typically designed for profitable companies with positive cash flows. At this stage, it is important to highlight that, despite being unprofitable, a company may still generate positive cash flows due to non-cash expenses (i.e amortisation, depreciation). Therefore, cash flow-based approaches might not need any adjustments, but how certain values are computed, in order to properly account for negative earnings, as I will explain later in this section.

Key insights for this analysis are drawn from the work of Damodaran (2012), who examined how valuation techniques (particularly those estimating intrinsic value) should be adjusted for companies with negative earnings. Additionally, the best practices outlined in a professional publication by OIV (Organismo Italiano di Valutazione) (2025) provide valuable insights. While the OIV study primarily focuses on distressed companies, several of its findings can be applied to the valuation of loss-making firms as well.

The main issues arise during the assumption-making process, which would, of course, affect the model's construction. For example, the analyst cannot apply an estimated growth rate to negative earnings, as this would result in earnings getting worse over time. Tax computation becomes complex as well: not only do negative earnings not generate tax liabilities, but cumulated losses can be carried forward to offset future positive earnings. Therefore, the analyst must account for this factor when estimating earnings. More issues might arise regarding the going concern assumption: a company's survival cannot always be taken for granted. These factors make valuation more complex, as different scenarios must be considered, some of which might make terminal value computation meaningless.

Market-based approaches, such as multiples or comparable precedent transactions, offer analysts a useful tool to quickly determine a price range based on market perception and sentiment. This approach requires identifying a pool of comparable companies, which, for this study's purpose, would include unprofitable and negative earnings companies with similar characteristics, such as size, financial leverage and risk.

In this context, Damodaran's study provide interesting insight on how adjust multiples selection and computation to account for losses. A multiple-based approach, in fact, requires using ratios that allow for effective comparison. This implies that it is more efficient to use revenues-based multiples, which would not be affected by costs (regardless of their nature) when evaluating companies with abnormally low margins and operating inefficiencies. Also, if considering earnings-based multiples or margin-based multiples, such as EV/EBIT or EV/EBITDA, it is possible to normalise those value to avoid any impact from a one-off shock or abnormal/extraordinary items. The normalisation process is particularly relevant for intrinsic valuation approaches, as I will show later on in this section. Also, if the target company is highly leveraged, losses can erode company's capital and result in negative equity. In such a scenario, equity-based multiples (i.e. P/E) become unreliable as they are not able to provide a meaningful benchmark. Instead, enterprise value-based multiples (i.e. EV/Sales, EV/EBITDA) offer a better tool to account for debt and provide a perspective on the whole company's capital, including both equity and debt. Finally, when the company operates in cyclical industries (i.e. commodities), during an economic downturn or during a period of high prices fluctuation for a certain item, all comparable companies might report losses, or abnormally low earnings. In such cases, analysts should rely on historical sector-wide ratios. The valuation would then be more reliable and would not account for any temporary market condition.

The OIV agrees on Damodaran's perspective about preferring revenue-based multiples over earnings-based ones, especially when, despite earnings being negative, the company is still able to strongly generate revenues. Moreover, also the OIV suggests adjusting margins to account for one-time shock and use margin-based multiples in valuation, if possible. However, it specifies that due to higher risk and probability of failure of the restructuring plan, multiples should be discounted, by either considering a lower value or by applying a premium to the discount rates for future projections. An interesting analysis is made regarding stakeholders' interests: accounting for the probability of default, equity holders prefer revenue-based multiples, aligning with more optimistic recovery expectations, while debt holders and creditor prefer applying lower and more conservative multiples, reflecting the higher risk of losses they bear in such a scenario.

When implementing a DCF model to evaluate the intrinsic value, several adjustments have to be made. Damodaran's analysis differentiate each scenario according to the nature of the losses.

For companies facing temporary profitability problems, the general rule is to normalise earnings. This category usually includes both firm-specific problems and broader sector-wide or industry-wide problems. In case of the former, losses are often associated with a particular event: if so, the analyst should normalise earnings, computing them as they were before the event occurred. The adjusted earnings should be used to compute both cash flows and financial fundamentals, such as profitability ratios. If, instead, the problem is not clearly isolated and persists for multiple years, it is first necessary to confirm its temporary nature before proceeding with normalisation. An easy way to do so is to use the profitability margins from the year preceding the loss, to compare the information and check for any abnormal variations.

When analysing companies whose losses are better identified in the context of their market, such as, for example, cyclical firms, it is possible to either adjust the expected growth or normalise earnings, or both. In the first case, analysts should rely on economic forecast for the near future. However, this approach presents a weakness as the valuation reliability strictly depends on the accuracy of information available. Moreover, this approach requires analysts to understand how the target company reacted to macro-economic or industry changes in the past in order to understand how it would be affected by future changes and predict its performance. If analysts instead opt for earnings normalisation, two different approaches can be used. The first one is to average the company's total earnings over prior periods, ideally over a period long enough to cover a whole economic cycle, 5-10 years on average. However, this method cannot be applied if the company has undergone significant structural changes. Averaging profit margins, instead, allows scaling and account for changes in size.

Regardless of the nature of the losses, the normalisation process implies that earnings will normalise in the next period. However, if the analyst is better able to predict when exactly normalisation will occur, the easiest approach is to discount the value back by the number of periods that are necessary to earnings to stabilise. Normalisation is also useful when applying multiple-base methodologies. In fact, when comparing unadjusted ratios, such as price-to-earnings, the target company might appear largely overvalued compared to its

peers. However, the share price would reflect investors' perception that the event causing negative or low abnormal earnings is temporary.

Companies with long-term problems and persistent losses require a different analysis. The unprofitability has to be assessed and the analyst must understand whether some strategic changes need to be made for the earnings to become positive. Also, the probability of full recovery or failure need to be considered, leading to different valuation approaches and methodologies. The nature of losses is particularly relevant for these companies and the analyst needs to accordingly take different paths. I am going to analyse different scenarios.

The first scenario involves strategic problems, meaning the company has taken poor decision in terms of product, market or marketing strategy. A bad strategic decision might lead to declining earnings or negative ones and a loss of market shares. The analyst has to assess how quickly and effectively the company can recover, if it is even possible. If this shift is permanent, the valuation has to reflect new considerations, such as a lower growth rate, modified expected margins and the loss of shares in the market. On the opposite, if the company is forecasted to take a new and profitable path, the assumption on future performance should be more optimistic and reflect the new strategy.

If, instead, the company faces operating problems, the inefficiencies can be attributed to the cost management process: for example, the company might have failed in renewing its technology, incurring higher costs and lowering its margin. In such cases, the valuation should account for these inefficiencies and estimate the time required for the company to improve its margins towards industry averages and if this is practically possible. Several factors influence the pace of these improvements: larger companies often face greater inertia in changing their operations and they need an absolute larger effect to improve their margin; the nature of the inefficiency and the presence of any external constraints, such as supply chain dependencies, can limit or slow down the change process; management's inclination and ability to implement a turnaround are key factors for the process to be successful.

If the issue lies in the financial structure and the company is overleveraged, the turnaround will require not only operational changes, but also, and mainly, recapitalisation. The approach depends on the degree of the distress and, therefore, on the probability of bankruptcy:

- **Low Bankruptcy Probability**: the company is likely to survive and can keep operating as a going concern. Despite a high level of debt can impact both the cost of capital and the default risk, which ultimately lead to higher costs and negative implication for its operations (i.e. the suppliers might demand faster payments), the operating cash flows might be high enough to sustain these costs. The analyst can either compute the value of the firm, gradually adjusting both the leverage ratio (therefore the cost of debt and equity) and operating margins, or compute the unlevered firm value and incorporate debt-related benefits (usually tax benefits) and costs.
- **High Bankruptcy Probability**: since the going concern is one of the assumptions of the DCF, this method cannot be applied without adjustments. The main one is accounting for the probability of default. It can be computed through statistical techniques, company's bond rating or by backing up the probability from recently issued bond. The valuation should be a weighted average value of equity value obtained through the standard DCF model and equity value in default.

Although failure and bankruptcy are not the main objective of this study, when liquidation probability is extremely high, the DCF might even be the wrong approach. In such cases, other techniques can be more accurate. For example, when the company is likely to be liquidated, the analyst should compute the value of each asset on the market, net of transaction and legal cost, then subtract the outstanding debt. However, while implementing this method, the analyst needs to consider that when the company is in a hurry to liquidate, market value of assets usually decreases, often resulting in subpar returns.

OIV recognizes the need for adjustments in DCF application to enhance its reliability, particularly in distress scenarios. Similar to its approach with multiples, OIV emphasizes the importance of identifying the dominant stakeholder interest, as this significantly impacts valuation outcomes. This factor is highly influenced by the regulatory system in which the company operates, with some systems being more favourable to equity holders (such as in the UK or Germany) and others to debt holders (such as in the US and Italy).

Cash flow estimations should account for any liquidity constraints imposed by legal covenants in debt contracts. Additionally, both pre-restructuring and post-restructuring values should be accounted for according to the probability of distress. If the probability

of distress is low, the best approach is a probability-weighted scenario between a going concern value and a restructuring/liquidation one: to compute the latter it would then be necessary to use post-restructuring margins and cost of capital to reflect any changes.

The higher the probability of distress, the less reliable is the going concern assumption. This results in replacing terminal value with expected liquidation value if the scenario involves a high probability of distress. However, OIV suggests always using a multiple-stage discount approach to reflect the level of risk in each stage of the restructuring plan. To simplify, assuming only two stages, the analyst would use a pre-recovery cost of capital in the first stage of the plan, and a normalised post-restructuring rate to discount the cash flows after the recovery.

Thus far, the analysis of the DCF model construction has been mainly focused on the earnings. In the model, this item is the starting point for cash flows estimates, which, as mentioned above, can ultimately be positive. However, when analysing companies with negative earnings, the value obtained can be higher than the actual firm value. In fact, other factors have to be considered, requiring further adjustments to some key figures in the model. If the cash flows are also negative, it is impossible to apply a given growth rate (as it would make the cash flows even worse). Instead, it is first necessary to extend the forecasting period until two conditions are reached: margin stability and positive cash flows. Additionally, it is necessary to deeply investigate how the growth rate will evolve, according to the company's strategic recovery plan. The cost of capital also plays a critical role in discounting future cash flows. Loss-making firms carry higher risk due to financial instability, execution uncertainty, and potential distress scenarios. Consequently, the discount rate should reflect the risk, through a higher equity risk premium (ERP), or a distressed beta adjustment, or scenario-weighted probability factors.

Finally, beyond financial metrics, analysts must consider non-financial drivers such as market positioning, operational efficiency, and the credibility of management's turnaround strategy. A DCF model that solely relies on adjusted earnings may overlook critical business dynamics that influence the company's ability to return to profitability.

3 Reddit Valuation

In the following section, I'll introduce, analyse, and evaluate Reddit using the valuation framework from the previous chapter. Reddit makes for an interesting case: its recent IPO was considered a success, even though the company has a long track record of financial losses. This contrast paves the way for a deeper look at how value is perceived and calculated in the market.

3.1 Company Presentation

3.1.1 Company Description

Founded in 2005, Reddit is an American proprietary social media platform where users (or "redditors") can submit a wide variety of content, including text posts, images, videos or links. Designed as a network of communities, Reddit's structure is based around the so-called "subreddits", which can be defined as categories or forums where users can share content related to a given topic, interest or theme. Each subreddit has its own rules and the moderating activity implemented by volunteers offers a safe and decentralized environment.

The main feature of the platform is the voting system: posts' visibility depends on the votes (upvotes or downvotes) that it receives from users and most popular posts are usually displayed on other redditors' front page, increasing even more their visibility. On the opposite, less interacted posts can become less visible and are eventually archived over time, usually after six months. This system encourages high-quality publication and a self-curated community.

Post creation and activity on the platform allow redditors to earn a status called "karma", which reflects users' contribution to the community and in some subreddits it is a necessary requirement to post, implementing a measure to reduce spam, low-quality and bot activity.

Reddit is well known for its open nature, as it enables different users to interact, making it possible for even small subreddits to serve important purpose. Despite the competition from tech giants, such as Meta, for the social-media landscape, and Google, for information search, Reddit has gradually become a key hybrid platform for users. As of February 2025, according to Similarweb's analysis, Reddit ranks as the ninth most visited website worldwide.

In March 2024, Reddit successfully completed its IPO, raising over $700 million and achieving a market capitalisation of approximately $6.4 billions. Despite the success of the process, Reddit's valuation has significantly declined compared to 2021, when the company had reached an implied valuation of $10 billion during a private fundraising round. This decrease reflects both the profitability issue that affect company's performance and a different macroeconomic environment, with higher interest rates and, therefore, an higher cost of capital.

3.1.1 Business Model

Reddit's primary source of revenue is advertising. The platform offers a variety of solutions for advertisers, such as display ads, sponsored links and promoted posts. This advertising structure is implemented through a specialised algorithm that enhances both user experience and monetisation strategy. The highly segmented structure of the platform, through the subreddits, allows advertisers to target a specific audience, maximising the relevance and impact of their marketing activity. Thanks to this non-intrusive and targeted approach, Reddit has been able to optimise its appeal among users and advertisers and maintain their satisfaction.

Reddit has been able to implement other sources of revenue, diversifying its business model. These include premium membership sales (i.e. the "Reddit Gold" program), virtual goods offerings (i.e. "Reddit Coins", which can be purchased and used to award other users' content) and strategic partnerships and collaborations with other brands.

These sources of income not only contribute to the company's financial growth but also have a significant impact on brand building and awareness among customers.

In recent years, Reddit has also heavily invested in AI and information technologies, aiming to further enhance user experience, content moderation and targeting capabilities. These investments are expected to optimise the revenue generation process and enhance the company's performance and competitive position.

3.2 Reddit's Analysis

This section provides an analysis of Reddit's financial performance over the years. Data, sourced from the Refinitiv database, is expressed in millions of dollars. Moreover, since Reddit was only recently listed, the available data begin in 2020, limiting the analysis to a relatively short time span.

Reddit's financial history has been characterised by net losses since its foundation. As stated in the company's financial reports, "*We have a history of net losses and we may not be able to maintain profitability in the future*". The seasonality of the business, with stronger results in the last quarters, has never been enough to push the company into profitability on an annual basis.

However, over the past five years, Reddit has shown an upward trend in profitability metrics. The company has gradually enhanced its margins and ratios. Although FY2024 represents the only notable exception to this trend, mainly due to elevated costs related to the listing process, the company reported profits for the first time in the last two quarters of the year. These results were not enough to offset losses incurred in the first half of the period and were likely affected by both revenue seasonality and a higher visibility following the listing.

As shown in Table 1, each margin and profitability ratio has improved over the period 2020-2023. This trend reflects both strong revenue growth and an overall improved cost

management. As previously highlighted, FY2024 showed a significant deterioration of each ratio, with the exception of Gross Margin, which maintained its upward trend, confirming operational improvements. However, the key cost component for the surge in Operating Expenses of the period was stock-based compensation, accounting for over 40% of the overall expenses of the year and finally impacting bottom-line results.

The same trend is evident in the company's cash conversion cycle. Table 2 shows a gradual decrease in the number of days needed to convert the net working capital into cash over the first four years of the analysed period, with a slight increase in the last one. This trend reflects the company's ability to manage its working capital over time and enhance its operational efficiency.

It was shown that Reddit was never able to turn profitable. Despite a positive and increasing Gross Margin, the volume of Operating Expenses has always been higher than Sales. These expenses, expressed as a percentage of sales, ranged from 117,4% (in 2023) to 143,1% (in 2024). A significant portion of such expenses is R&D Expenses, which on average account for 44,2% of the total Operating Expenses. As discussed in paragraph 2.3, the treatment of such an item as an expense does not fully reflect its nature and is not able to fully capture its long-term value generation. If, as suggested, R&D costs are capitalised as a new asset, Reddit would show profitability, as well as improved assets and equity value. Table 3 illustrates how each ratio would change under this alternative accounting treatment: the company would be profitable and each margin or ratio would show a positive value. This change would not only alter financial perceptions but could also impact strategic decisions. For instance, Reddit does not present any debt in its capital structure, suggesting a conservative financial structure. However, in a profitability scenario, the company might have been able to issue debt to invest in new technologies and, therefore, accelerate revenue growth.

It was just mentioned that Reddit has no debt as of the last FY, which implies that Reddit relies heavily on its solid equity base, which is able to absorb losses and allows the company to keep investing and operating. Reddit also maintains a robust liquidity position, with Cash and Cash Equivalents accounting, on average, for 77,8% of Total Assets. The high level of liquidity is a common feature in the industry, as it provides a solid base to face losses, uncertainty and it is a meaningful source of financial resources to support growth, R&D costs and M&A activity.

In this context, Free Cash flows becomes a key metric. As shown before, due to the listing process, the company sustained higher costs, especially non-monetary ones due to a stock-based compensation program. These expenses worsened the company's profitability, but allowed the operating cash flow and, ultimately, the free cash flow to turn positive for the first time in FY2024.

3.3 Cash Flows Projection and Forecasts

In this section, I explain how Reddit's future performance was estimated, both in terms of profitability and cash flows. The latter, in fact, was computed using the indirect method: starting from net income, all non-monetary items were included as adjustments.

Revenue was estimated through two key metrics disclosed in the company's financials: "Daily Active Unique" (DAUq) and "Average Revenue per Unique" (ARPU). The former is defined as a user who has opened Reddit's webpage or application at least once a day, while the latter is calculated as quarterly revenue divided by the average quarterly DAUq. The future trends of these metrics were projected through an analysis of the market and Reddit's expected growth and expansion possibilities. Finally, revenues were obtained as the product of the above-mentioned metrics.

Operating expenses were estimated by breaking them down into their components, with a particular focus on the stock-based compensation. It was previously mentioned that Reddit was listed in 2024, resulting in a spike of the value of such an item. Therefore, I estimated the trend of each component excluding the stock-based element and then added it back in. This analysis allowed me to better estimate the trend of each net item over time. Moreover, I assumed that the significant 2024 surge was a one-time event, although the post-listing values remain significantly higher than the pre-listing ones, due to the higher stock liquidity. Within the Operating Expenses, the value of the so-called "Other non-cash items" was estimated by averaging the historical value of the items as a percentage of the Operating Expenses. Finally, the Operating Profit was computed as the

difference between projected Revenue and the total estimated value of Operating Expenses.

The value of "Other non-operating Income/(Expenses)" was estimated by averaging the historical value of the item expressed as a percentage of sales; while I maintained a neutral position on "Non-recurring Expenses", due to their extraordinary and unpredictable nature.

As of the end of FY2024, Reddit reported total Net Operating Loss carryforwards (NOLs) of $990,3 million, split between $590,4 million in Federal NOLs, to be used within 20 years, and $399,9 million in State NOLs, which can be used indefinitely, but are limited to offsetting 80% of taxable income. In order to account for NOLs in those years in which I estimated the company to reach profitability, I assumed the company would fully utilise each amount as soon as possible, prioritising the usage of Federal NOLs due to the limited amount of time associated with this item. Under this assumption, NOLs fully offset taxable income only in the first profitable year and are fully utilised within three years. Moreover, due to the limited disclosure of the actual tax rate applied to taxable income, taxes were computed by applying the U.S. federal corporate tax rate of 21%.

The obtained Net Income was then adjusted, accounting for non-monetary items, to compute the Free Cash Flow in each period. First, the stock-based components and "Other non-monetary items" are added. However, depreciation was autonomously estimated. In fact, Reddit discloses depreciation across different cost categories, therefore I averaged the value of depreciation expressed as a percentage of each category and applied the resulting value to the forecast period.

Net Working Capital (NWC) was analysed as a percentage of either sales or COGS. Like stock-based compensation, I identified anomalous values in 2024, therefore I estimated a gradual normalisation of such percentages over the years of the forecasting period, finally computing the changes in each year to estimate the cash flow effect.

Capital Expenditure was computed as a percentage of sales and its projection was set to align with that of depreciation, while remaining slightly higher. This approach supports a slow but steady growth in the future, especially in perpetuity calculations.

Finally, the amount of NOLs used in each year was added, as it reduces taxable income and increases cash flows by lowering tax outflows.

These forecasts are summarised in Table 4, which shows Reddit's projected Income Statement and Cash Flow computation over a 5-year horizon.

Finally, I compared my forecast with consensus estimates available on the Refinitiv database, which shows a summary of forecasts from market analysts and professional investors. This comparison helped validate my assumptions against broader market expectations, while still maintaining a degree of subjectivity in my projections.

3.4 DCF Model Valuation

The DCF model construction requires the analyst to identify a proper measure of the Weighted Average Cost of Capital (WACC). However, as mentioned in Paragraph 3.1, Reddit does not show any financial debt as of the end of FY2024, meaning that the company's WACC is equal to its Cost of Equity. This simplifies the model as there is no need to estimate the Cost of Debt and account for tax shields from interest expenses.

I applied the Capital Asset Pricing Model (CAPM) to estimate Reddit's Cost of Equity, using data available up to 04/04/2025. The Risk-Free rate was assumed to be equal to the 10-year US government bond yield, while the U.S. Equity Risk Premium was sourced from Professor Damodaran's database, which provides insightful and updated information regarding market trends.

Due to Reddit's recent listing, I chose not to use the company's observed beta. In fact, the relatively short post-listing period makes such a measurement potentially unreliable, as it may be influenced by market volatility, rather than long-term risk correlation. Instead, beta estimation was implemented through a peer-based approach (whose detailed analysis will be provided in the next paragraph). I sourced peers' levered betas, unlevered them to remove the impact of capital structure, and then calculated an average unlevered beta. Finally, I relevered it using Reddit's equity structure, to obtain the value used as input in the CAPM formula.

To further refine the risk assessment, I added a Company Specific Risk Premium (CSRP) to the CAPM output. This adjustment allows accounting for factors that are not fully reflected in the model such as strategic plan success uncertainty, ability to maintain positive cash flows in the future, market dynamics, competition and required investments. The final Cost of Equity derived was 10,88%.

The growth rate for perpetuity was set at 1%. The key factors included in the estimation of the growth rate are global population growth, internet penetration and technological development, particularly the possibilities to implement AI solutions to better personalise advertising and monetise revenue's strategies.

Using the above-mentioned values, I implemented a DCF model by discounting the cash flows, computed as described in the previous section. Table 5 presents the results of this valuation.

Finally, I implemented a sensitivity analysis to test the robustness of the model and better understand its sensitivity to key variables, more precisely the cost of capital and the growth rate. The results are shown in Table 6. As expected, the two variables have a significant role in the output estimation, as the sensitivity range spans approximately $10.97 per share.

Considering Reddit's lack of debt in its financial structure, I could not implement any other discounting model, such as the so-called "Adjusted Present Value Model" or the "Predetermined Debt Model". In fact, these models require the presence of debt to compute interest tax shields and add this value to the unlevered value of the company.

3.5 Multiples and Relative Valuation

In conducting a relative valuation of Reddit, I identified a pool of comparable companies that share key characteristics, such as industry sector, operational characteristics, client base, monetisation strategies. Among these, Pinterest, Snap and Meta represent the most relevant ones, due to their close similarity in terms of market presence, product offerings and a monetisation strategy mainly based on digital advertising. Moreover, Pinterest and Snap provide particularly valuable insights due to their relatively smaller scale compared to Meta, which allows for a better comparison regarding business size and growth dynamics. However, the three companies offer insight into the digital advertising landscape and how such companies perform and make their own strategic decisions.

Additionally, other internet companies were considered, in order to provide a broader context about platform- and user-based business models, which leverage user engagement and experience to collect data for monetisation. In fact, despite differences in scale and core offerings, companies like Alphabet (Google), Amazon, Etsy and Nextdoor were included in the pool of comparables due to their reliance on user interaction and data.

All the companies selected offer a digital platform and, despite the specific differences in characteristics, they enable a balanced analysis on key metrics for the industry and the results obtained can also offer insight into Reddit's valuation.

As per Reddit's financials, I downloaded key financial data and ratios for each of the comparables from the Refinitiv Database. This information was used in the Cost of Equity computation, as described in the previous paragraph, and in multiples-based valuation. The data spans a 5-year period, allowing for the smoothing of possible short-term shocks in performance and implementing a more robust historical analysis of market trends.

As suggested in Paragraph 2.4, the market-based valuation relies solely on Enterprise Value multiples. Reddit's performance, in fact, would not make it possible to utilise Equity-based multiples due to the negative value for the main inputs used in such multiples. Moreover, even within EV multiples, I selected only those applicable to Reddit's financials, since key metrics, such as EBIT or EBITDA, are negative. I selected three relevant EV multiples, respectively on Sales, Gross Margin and Free Cash Flows. These represent the most significant and relevant indicators of value for Reddit.

The analysis also confirmed Equity-based value to be less relevant in an unprofitability scenario: I also evaluated the company with the P/Sales multiple. However, the price was

significantly lower than the one obtained from other approaches, including the DCF model. This resulted in an exclusion of this ratio from the final valuation of the company.

3.6 Results Summary and Final Valuation

Based on the various methods I used to estimate Reddit's value, I calculated an average share price of $74.81. Table 7 presents the individual valuations derived from each method.

Since its listing, Reddit has experienced high volatility, with its stock price largely affected by earnings announcements and sector-related news. The most notable example of the latter was the release of the Chinese open-source AI model Deep Seek. Initially perceived as much more efficient and less costly than AI solutions developed by major tech companies, it triggered significant losses for companies in the tech sector. Reddit was no exception: after reaching an all-time high of $225,23 at the beginning of February 2025, its shares faced a sharp decline. However, this downward trend reversed at the end of March, with the share price reaching a value of $86,91 and starting to rise once again.

Reddit is currently valued higher than my estimate. As previously highlighted, such companies' valuations are highly sensitive to news and earnings announcements. After the crash caused by Deep Seek, which later showed technological flaws and security issues, even leading to bans in several countries, Reddit's stock began to recover. This growth was likely affected by quarterly earnings announcements (not included in my analysis), which revealed a positive net income for the first time in the first quarter of a given year.

The recent performance suggests that the company has maintained the improvements shown at the end of the previous fiscal year. Had this new data been incorporated into my analysis, it likely would have led to a higher forecast and final valuation.

4 Conclusions

The valuation of companies reporting losses, regardless of the nature of their unprofitability, presents several challenges for analysts. As shown in this thesis, many traditional methods often fail to provide a proper estimate if not properly adjusted, as they are built upon profitability-based metrics and assumptions. Particularly, R&D and other intangible assets, which may drive long-term value, play a critical role in the assumption-making process and in defining key variables in the model.

The review of the existing literature on loss-making firms allowed me to better understand the economic drivers of value in unprofitable firms. The nature of the losses is particularly relevant when evaluating a company and identifying the proper approach. Moreover, in the context of IPOs or public market transactions, other factors, such as macroeconomic trends and investor sentiment, can lead to temporary mispricing and further complicate the analysis.

The thesis also highlighted the importance of assessing the nature of the loss. The analyst needs to differentiate the companies accordingly, as the model construction and the assumption-making process are significantly affected by this factor. While normalisation can be enough for temporary losses, when analysing companies with persistent losses, several other elements have to be considered in the analysis, especially regarding the company's ability to survive as a going concern entity, given the actual operational and financial structure and how changes can be implemented.

The application of the theory to the Reddit case shows that, when correctly valued, a company can pursue a successful IPO process, creating value and enhancing the recognition of its brand in the market. Adjusting each methodology and choosing the proper financial metrics is fundamental to achieve a more precise and reliable valuation.

The case study also shows that when valuing a company, the analyst needs flexibility and contextual knowledge, especially at a time when the market is rapidly evolving and non-financial factors have a large impact on defining a company's value. Therefore, it is fundamental to adjust the models accordingly and adapt the approach to the changing economic context.

5 Appendix

Table 1

Ratio	2020	2021	2022	2023	2024
Gross Margin	75,96%	85,03%	84,28%	86,19%	90,49%
Profit Margin	-27,33%	-26,23%	-25,82%	-17,43%	-43,11%
Net Margin	-25,85%	-26,38%	-23,78%	-11,30%	-37,25%
ROA	-11,29%	-7,77%	-9,91%	-5,69%	-20,73%
ROE	-12,89%	-8,16%	-10,75%	-6,30%	-22,73%
ROI	-11,94%	-7,73%	-10,76%	-8,78%	-23,99%

Table 2

Focus Cash Conversion Cycle	2020	2021	2022	2023	2024
DSO	177,10	141,32	119,01	121,01	107,40
Average Payment Period	62,29	42,01	46,32	51,63	34,53
Cash Conversion Cycle	**114,81**	**99,31**	**72,69**	**69,38**	**72,87**

Table 3

Ratio	2020	2021	2022	2023	2024
Gross Margin	75,96%	85,03%	84,28%	86,19%	90,49%
Profit Margin	4,07%	9,26%	3,38%	5,43%	1,09%
Net Margin	4,42%	7,26%	4,35%	9,51%	5,44%
ROA	1,93%	2,14%	1,81%	4,79%	3,03%
ROE	2,20%	2,25%	1,97%	5,31%	3,32%
ROI	1,78%	2,73%	1,41%	2,73%	0,61%

Table 4

Income Statement - Standardized (Currency: US Dollar)	31-12-2020	31-12-2021	31-12-2022	31-12-2023	31-12-2024	2025E	2026E	2027E	2028E	2029E
Revenues										
Revenue from Goods & Services	228,9	484,9	666,7	804,0	1.300,2	1.857,3	2.551,8	3.417,8	4.503,0	5.815,0
Revenue from Business Activities - Total	**228,9**	**484,9**	**666,7**	**804,0**	**1.300,2**	**1.857,3**	**2.551,8**	**3.417,8**	**4.503,0**	**5.815,0**
Operating Expenses										
Cost of Operating Revenue	55,03	72,57	104,8	111,0	123,6	152,68	202,27	265,36	347,32	444,98
Gross Profit - Industrials/Property - Total	**173,9**	**412,4**	**561,9**	**693,0**	**1.176,6**	**1.704,6**	**2.349,5**	**3.152,4**	**4.155,7**	**5.370,0**
Selling, General & Administrative Expenses - Total	236,4	539,6	734,1	833,2	1.737,2	1.836,1	2.142,3	2.636,2	3.291,1	4.091,0
Selling, General & Administrative Expenses & Related Labour	118,9	282,6	368,9	389,3	795,9	800,1	987,0	1.211,6	1.517,8	1.881,9
Research & Development Expense	117,5	257,0	365,2	430,4	925,6	1.015,9	1.131,0	1.393,6	1.733,3	2.158,0
Depreciation in Selling, General & Administrative Expenses	1,93	2,81	8,00	13,55	15,64	20,1	24,3	31,0	40,1	51,1
Operating Expenses - Total	**291,5**	**612,1**	**838,9**	**944,2**	**1.860,8**	**1.988,8**	**2.344,6**	**2.901,6**	**3.638,4**	**4.536,0**
Stock-based components	21,3	48,7	55,3	47,6	801,7	536,8	559,3	609,7	675,9	755,2
Others Non-Cash Items	9,7	9,9	11,3	-15,6	-43,5	9,2	10,8	13,4	16,8	20,9
Operating Profit	**-62,55**	**-127,21**	**-172,16**	**-140,16**	**-560,56**	**-131,5**	**207,2**	**516,2**	**864,6**	**1.279,0**
Operating Margin	*-27,33%*	*-26,23%*	*-25,82%*	*-17,43%*	*-43,11%*	*-7,08%*	*8,12%*	*15,10%*	*19,20%*	*21,99%*
Other Non-Operating Income/(Expense) - Total	3,5	-1,2	10,8	53,1	75,4	52,16	71,89	96,46	127,15	164,31
Non-Recurring Income/(Expense) - Total	-	0,9	3,4	-	-	-	-	-	-	-
Earning Before Taxes	**-59,1**	**-127,55**	**-157,93**	**-87,02**	**-485,2**	**-79,4**	**279,1**	**612,6**	**991,7**	**1.443,3**
NOL Carryforward	-	0,0	0,0	-	-	-	279,11	502,27	712,56	-
Taxable Income						**-79,4**	**0,0**	**110,4**	**279,2**	**1.443,3**
Income Taxes	0,1	0,3	0,6	3,8	-0,9	-	-	23,18	58,62	303,08
Net Income	**-59,2**	**-127,89**	**-158,55**	**-90,82**	**-484,27**	**-79,4**	**0,0**	**87,2**	**220,5**	**1.140,2**
After-Tax Interests	-	-	-	-		-	-	-	-	-
Non-Cash Items - To Reconcile (excl. Depr. & Amor.)	30,96	58,6	66,6	32,0	758,2	545,94	570,15	623,15	692,73	776,12
Depreciation & Amortisation	1,93	2,8	8,0	13,6	15,6	20,07	24,26	30,99	40,06	51,12
Changes in NWC	-35,6	-63,7	-10,1	-30,0	-67,5	- 157,95	- 190,80	- 242,95	- 296,92	- 382,00
Capex	3,05	2,3	6,2	9,7	6,3	10,40	16,08	23,24	32,87	45,94
NOL Carryforward						-	220,50	396,80	562,92	-
Free Cash Flow	**-64,9**	**-132,48**	**-100,25**	**-84,98**	**215,82**	**318,3**	**608,0**	**871,9**	**1.186,5**	**1.539,5**

Table 5

DCF						
Periods	**0**	**1**	**2**	**3**	**4**	**5**
Cash Flows		318,30	608,03	871,93	1186,46	1539,48
Discount Factor		0,90	0,81	0,73	0,66	0,60
Discounted Cash Flows		287,1	494,54	639,59	784,88	918,47
Sum	3124,5					
Terminal Value	15734,14					
Discounted TV	9387,2					
Enterprise Value	**12511,7**					
Equity Value	14352,52					
Price per share	**79,34**					

Table 6

	10,28%	10,58%	10,88%	11,18%	11,48%
0,90%	83,88	81,25	78,77	76,44	74,25
0,95%	84,21	81,55	79,05	76,71	74,49
1,00%	84,54	81,86	**79,34**	76,97	74,74
1,05%	84,88	82,17	79,63	77,24	75,00
1,10%	85,22	82,48	79,92	77,52	75,25

Table 7

Method	Shareprice
DCF	79,34
EV/Sales	62,23
EV/FCF	74,00
EV/ Gross Margin	83,67
Valuation	**74,81**

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