

### Common Stock Valuation – Multiphase Model

Consider a firm with year end EPS projected to be \$2.00 and a required return of 12%. The firm is expected to have two high growth phases and then stabilize at a long run growth rate as outlined in the table below. Initially the plow back ratio ( $k$ ) is high but it is projected to decline to a long run value. Given the projections, what is the value of a share of this firm?

Phase	Duration	Assumptions	End-of-Phase EPS
I	5 years	$g=18\%$ $k=0.70$	$\$2 \times (1.18)^4$
II	4 years	$g=12\%$ $k=0.55$	$\$2 \times (1.18)^4 \times (1.12)^4$
III	Long Run	$g=7\%$ $k=0.40$	--