Volume 2: Cost of Capital: Expert Opinion of James Coyne- Capital Structure and Risk Profile

Q. Please confirm that any difference between the constant and multi-period DCF model is due to a difference between the short-term growth rate and the GDP growth rate used in the multi-stage (period) model and that the use of a multi-stage model is to temper any short-term analyst optimism. If not, why not?

A. Concentric agrees that the difference between the constant growth DCF model and the multi-stage DCF model is in the growth rate. The constant growth model uses the short-term growth rate in perpetuity, while the multi-stage model allows for the use of different growth rates in different stages. The multi-stage DCF model can be used to temper short-term growth rates, both high and low, by using a terminal growth rate such as GDP growth. See the response to Request for Information CA-NP-207.