After-tax operating profit and FCFF

The bridge begins with operating profit after tax.

Add depreciation back, then deduct capital spending and the increase in operating working capital. This produces the cash available to lenders and shareholders before financing payments.

Original publication

Free Cash Flow Valuation

Jerald E. Pinto, Elaine Henry, Thomas R. Robinson and John D. Stowe

CFA Institute, 2026 Level II refresher reading. PDF page 23, equation (12); worked example on page 24.

https://www.cfainstitute.org/insights/professional-learning/refresher-readings/2026/free-cash-flow-valuation

Forecasting working capital from sales

A sales forecast can also drive the working-capital forecast.

One approach measures how much additional working capital past sales growth required. Multiplying that ratio by forecast incremental sales gives the projected cash requirement.

Original publication

Free Cash Flow Valuation

Jerald E. Pinto, Elaine Henry, Thomas R. Robinson and John D. Stowe

CFA Institute, 2026 Level II refresher reading. PDF page 28.

https://www.cfainstitute.org/insights/professional-learning/refresher-readings/2026/free-cash-flow-valuation

Inferring expectations from price

A market price can be used to infer an operating assumption.

Choose a model appropriate for the business, hold the other assumptions fixed, and solve for the input that makes the model value equal the observed share price. The answer depends on those fixed assumptions.

Original publication

Equity Valuation: Applications and Processes

Jerald E. Pinto, Elaine Henry, Thomas R. Robinson and John D. Stowe

CFA Institute, 2026 Level II refresher reading. PDF page 5.

https://www.cfainstitute.org/insights/professional-learning/refresher-readings/2026/equity-valuation-applications-and-processes

Explaining an investment recommendation

A recommendation should explain the source of mispricing.

When proposing a purchase or sale, connect that decision to the difference between the observed price and the analyst’s estimate.

Original publication

Equity Research Report Essentials

CFA Institute

Research Challenge guidance. PDF page 2.

https://www.cfainstitute.org/sites/default/files/-/media/documents/support/research-challenge/challenge/rc-equity-research-report-essentials.pdf#page=2

Cross-checking a valuation

The guide recommends checking value with another model.

Different methods can give different estimates. A second valuation gives the reader a way to assess how much the first estimate depends on the chosen approach.

Original publication

Equity Research Report Essentials

CFA Institute

Research Challenge guidance. PDF page 3.

https://www.cfainstitute.org/sites/default/files/-/media/documents/support/research-challenge/challenge/rc-equity-research-report-essentials.pdf#page=3

How written reports are scored

Valuation and financial analysis each receive 20 points.

The investment summary receives 15 of the 100 available written-report points. These are judging weights for the competition.

Original publication

CFA Institute Research Challenge Official Rules

CFA Institute

2026–2027 season, Appendix D. PDF page 19, Appendix D.

https://www.cfainstitute.org/sites/default/files/-/media/documents/support/research-challenge/challenge/research-challenge-official-rules.pdf#page=19

Choosing beta for Dom Development

The team selected a beta of 0.62.

It chose the highest of three estimates: a regression against Poland’s WIG index over five years, a peer-based estimate, and a sector beta.

Original publication

Dom Development S.A.

Kozminski University team

CFA Institute Research Challenge, 2025 winning report. PDF page 9.

https://www.cfainstitute.org/sites/default/files/docs/insights/events/research-challenge/rc-2025-winning-written-report-kozminski-university.pdf#page=9

Checking Dom Development against peers

The team compared two forward valuation multiples.

Its peer exercise used enterprise value relative to projected EBITDA and the share price relative to projected earnings.

Original publication

Dom Development S.A.

Kozminski University team

CFA Institute Research Challenge, 2025 winning report. PDF page 10.

https://www.cfainstitute.org/sites/default/files/docs/insights/events/research-challenge/rc-2025-winning-written-report-kozminski-university.pdf#page=10

From business analysis to a decision

The process starts with understanding the business.

The analyst forecasts company performance, chooses a suitable valuation method, converts those forecasts into an estimate of value, and uses the result to inform a decision.

Original publication

Equity Valuation: Applications and Processes

Jerald E. Pinto, Elaine Henry, Thomas R. Robinson and John D. Stowe

CFA Institute, 2026 Level II refresher reading. PDF page 8.

https://www.cfainstitute.org/insights/professional-learning/refresher-readings/2026/equity-valuation-applications-and-processes

Capital reinvestment in a growth forecast

Fixed assets and operating working capital both absorb cash.

In the reading’s sales-linked example, investment in fixed assets net of depreciation and the increase in working capital are estimated separately as proportions of incremental sales.

Original publication

Free Cash Flow Valuation

Jerald E. Pinto, Elaine Henry, Thomas R. Robinson and John D. Stowe

CFA Institute, 2026 Level II refresher reading. PDF page 28.

https://www.cfainstitute.org/insights/professional-learning/refresher-readings/2026/free-cash-flow-valuation

Building the VAT forecast by end market

The team built separate forecasts for semiconductor and display sales.

The appendix applies different annual growth assumptions to the semiconductor and flat-panel display lines. These inputs belong to the VAT Group case.

Original publication

VAT Group AG

University of Lausanne team

CFA Institute Research Challenge, 2018 winning report. PDF page 26.

https://www.cfainstitute.org/sites/default/files/-/media/documents/support/research-challenge/challenge/rc-2018-winning-written-report--university-of-laussane.pdf#page=26

Solving for Lightspeed’s price-implied growth

The team changed operating assumptions until value matched price.

It used margins of profitable peers as a reference, then varied sales growth and direct costs to see what the observed share price would require.

Original publication

Lightspeed Commerce Inc.

University of Waterloo team

CFA Institute Research Challenge, 2026 winning report. PDF page 19, Appendix 16.

https://www.cfainstitute.org/sites/default/files/docs/insights/events/research-challenge/rc-2026-winning-written-report-university-of-waterloo.pdf#page=19

How collections and payments affect cash flow

Cash timing can lift reported operating cash flow.

Selling receivables brings collections forward. Delaying payments to suppliers preserves cash during the current period. Either change can lift the reported figure without an improvement in underlying sales.

Original publication

Evaluating Quality of Financial Reports

Jack T. Ciesielski, Elaine Henry and Thomas I. Selling

CFA Institute, 2026 Level II refresher reading. PDF page 47.

https://www.cfainstitute.org/insights/professional-learning/refresher-readings/2026/evaluating-quality-financial-reports

Calculating a trailing earnings multiple

Trailing P/E uses the most recent four quarters of earnings.

Divide the current share price by earnings per share for that four-quarter period.

Original publication

Market-Based Valuation: Price and Enterprise Value Multiples

Jerald E. Pinto, Elaine Henry, Thomas R. Robinson and John D. Stowe

CFA Institute, 2026 Level II refresher reading. PDF page 7.

https://www.cfainstitute.org/insights/professional-learning/refresher-readings/2026/market-based-valuation-price-enterprise-value-multiples