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# Valuation When Cash Flow Forecasts Are Biased

by Richard S. Ruback

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## Abstract

This paper focuses adaptations to the discount cash flow (DCF) method when valuing forecasted cash flows that are biased measures of expected cash flows. I imagine a simple setting where the expected cash flows equal the forecasted cash flows plus an omitted downside. When the omitted downside is temporary, the adjustment is to deflate the forecasts and to set the discount rate equal to the cost of capital. However, when the downside is permanent, the adjustment is to deflate the cash flows and to increase the discount rate so that it includes the cost of capital plus the probability of a downside.

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