

Abstract

Cost of equity is crucial information that enters business valuation. Yet, even after decades of academic research, consensus has not been reached regarding the appropriate cost of equity estimation. The aim of our thesis is to investigate the cost of equity estimation in practice. In other words, we aim to provide data on the popularity of individual cost of equity models and evidence on what techniques are used for the estimation of parameters entering the models. For this purpose, we use a specifically developed program and obtain a unique dataset of cost of equity values, estimation methods and parameters used by valuation experts in the Czech Republic in the period between 1997 and 2009. Our findings suggest that the most popular model for cost of equity estimation is CAPM, which is followed by the heuristic build up model. In the case of CAPM, risk premiums for unsystematic risks are often applied. Such premiums depend to large extent on expert's own experience and as such are rather qualitative in nature. Overall, in most points of the analysis, our results are consistent with previous, survey-based research on the US and the Western European data.