

3. Calculating WACC

Apply the usual WACC principles such as:

- Determining the cost of equity
- Determining the after cost of debt
- Determining a weighting based on the target structure / market values of invested capital

4. Determining cashflows

Operational cashflow free for distribution to all providers of capital (independent from finance):

- **Exclude** - Non-operational cash inflow and finance related cash outflows
- **Include** - Effects of capital expenditure and working capital investment and tax

2. The Steps

- Calculate the WACC (MV on valuation date) adjusted for enterprise factors
- Project expected future free cashflows over a period
- Calculate the continual value / terminal value
- Discount cashflows using WACC

5. The continual / terminal Value

$$CV_t = FC_{t+1} / (WACC - g)$$

- CV_t = Continual value
- FC_{t+1} = Estimated free cashflow 1 year after the final year of forecast
- g = Expected constant growth rate

1. Increased Reliability

- Enterprise is a Going Concern
- Cashflow can be reliably forecasted
- Maintainable capital structure based on target level
- Non-operating assets are valued separately
- Multi-business entities are treated separately

6. Things to remember

- Add value of non-operating assets and excess cash to value as calculated
- Deduct the fair market value of debt
- Deduct a marketability discount for (Pty)'s
- Adjust the value for the % equity to be valued

**Discounted
CASHFLOW
VALUATION**