Valuation 1

Valuation of Money is a concept the refers to the future value of current capital. We can apply this concept to Free Cash Flows (FCFs). The formula for FCF Valuation is as follows:

$$\sum_{i=1}^{\infty} = \frac{FCF_i}{(1 + WACC)^i}$$

where:

 FVF_c = is the sum of all future cash flows of a company FVF_i = is the estimated fcf of a firm at year i WACC = is the weighted average cost of capital

This formula works for both constant and variable rates of growth. But the Gordon Model makes constant growth valuation a breeze! The Gordon Model for constant valuation is:

$$P_0 = \frac{D_1}{k - g}$$

where:

 P_0 = current price g = expected growth k = expected return