

1. operating income approach

cost of capital approach.

Estimates firm value based on expected operating income

Estimates firm value based on weighted average cost of capital

Focuses on earnings potential

considers both debt and equity costs

calculates value as:

$$(\text{operating income} \times (1 - \text{tax rate})) / (\text{Required return} - \text{growth rate})$$

(Free cash flow)
 (WACC - growth rate).

Sammy