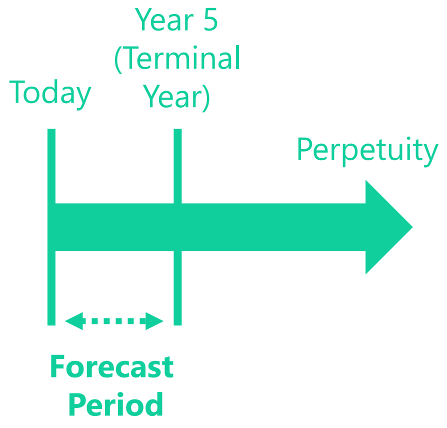
Determining the Number of Forecast Years

> A DCF valuation model contains two important time-related concepts:
>> **Forecast Period:** refers to the time period that your financial projections cover
>>> Best practice is ~5 years, however some mature or steady-state businesses can incorporate longer forecasts (e.g. infrastructure, utilities, mining)
>> **Terminal Year:** refers to the year after which the business is forecast to generate cash flows at a constant, stable rate into perpetuity / forever – *covered in the next lecture!*
>>> A Terminal Value is calculated in the Terminal Year to account for the value derived thereafter



Number of Forecast Years

> MarketScreener provided broker consensus numbers until FY2023F (three forecast years), at which time the business appears to have stabilized in terms of growth; we will forecast for an additional two years using our judgement to account for any medium-term changes in the business
>> In this case, we are assuming flat growth and margins from FY23 onwards

> **This results in a Forecast Period of 5 years (FY2021F – FY2025F)**

Forecast Period:
Until FY2025F