Step-by-Step DCF Valuation

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COALESCENCE CAPITAL

Course Introduction – **Step-by-Step DCF Valuation**

01 **Core Principles of Valuation**

The Time Value of Money, Free Cash Flow & Net Present Value

02 **DCF Valuation Analysis**

Financial Forecasts, WACC, Assumptions & Excel Modeling

03 **DCF Sensitivity Analysis**

Most Common Sensitivity Drivers & Best-Practice Modeling

04 **Presentation Outputs**

Industry-Standard Valuation and Sensitivity Outputs

Overview of the WACC

- The Weighted Average Cost of Capital is the most commonly used discount rate in company valuations
- It takes into account the cost of equity financing (i.e. funds coming from the public markets through shares) and the cost of debt financing (i.e. bank debt, corporate bonds)

Equity as % of Total Capital

Debt as % of Total Capital

(1-Tax Rate) to Account for Tax Shield

Debt accrues interest expense, and these are a tax deduction – ***reducing the net cost of debt via this tax shield***

$$\mathrm{WACC} = \frac{E}{D+E}(r_e) + \frac{D}{D+E}(r_d)(1-t)$$

Cost of Equity

Cost of Debt