

Methods to Calculate the Terminal Value (TV)

	Description	Example
1	<p>Gordon Growth Method</p> <ul style="list-style-type: none"> The more common, preferred method of calculating terminal values Assumes FCF is generated at a constant rate into perpetuity after the terminal year (n): "<i>Terminal Growth Rate (TGR)</i>" $TV = (FCFn \times (1 + TGR)) / (WACC - TGR)$ 	<ul style="list-style-type: none"> Terminal Year FCF: \$10M Terminal Growth Rate: 2% p/a WACC: 8% $TV = (\$10M \times 1.02) / (0.08-0.02) = \$170M$ <p>→ Accounts for the value of all Future FCF into perpetuity after the Terminal Year</p>
2	<p>Exit Multiple Method</p> <ul style="list-style-type: none"> Assumes the business is sold at the terminal year for a multiple of a financial metric, based on comparable trading (or transaction) multiples $TV = \text{Financial Metric} \times \text{Valuation Multiple}$ <u>We will be using the Gordon Growth Method from hereon, given it is preferred</u> 	<ul style="list-style-type: none"> Terminal Year: FY2025F Terminal Year EBITDA: \$20M Exit EBITDA Multiple: 8.0x $TV = (\$20M \times 8.0x) = \$160M$ <p>→ Accounts for the value of all Future FCF into perpetuity after the Terminal Year</p>