



Equity to Enterprise Value Bridge

FINANCIALEDGE⁷

Equity Value

Enterprise Value

The Bridge

Relative Valuation

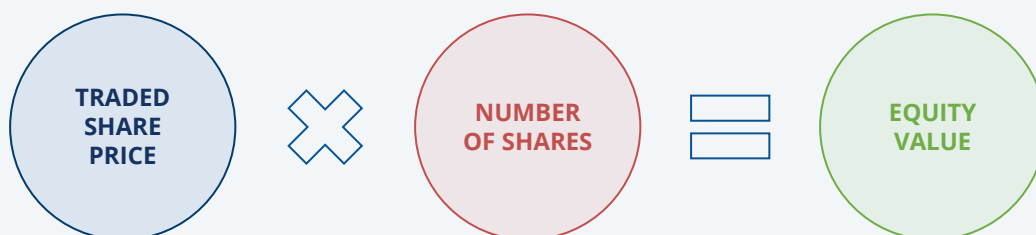
EV & Equity Multiples

The Impact of Leverage

Growth, Returns & Multiples

FINANCIALEDGE⁷

Equity Value



Also know as market value or market capitalisation (traded company)

Enterprise Value

ASSET VALUE

House
500,000

FINANCING

Mortgage
300,000



Equity Value
200,000

ASSET VALUE NOT AFFECTED BY FINANCING

The Bridge

VALUE OF OPERATING BUSINESS



Enterprise Value

VALUE OF DEBT

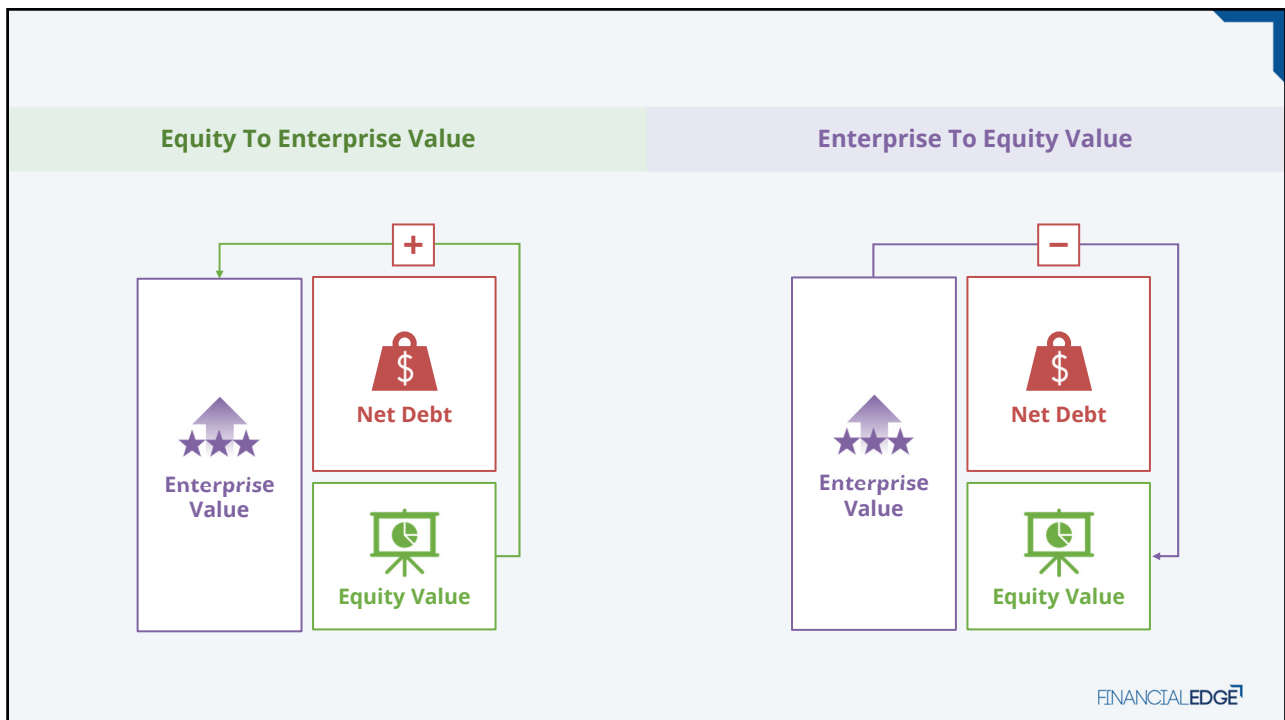
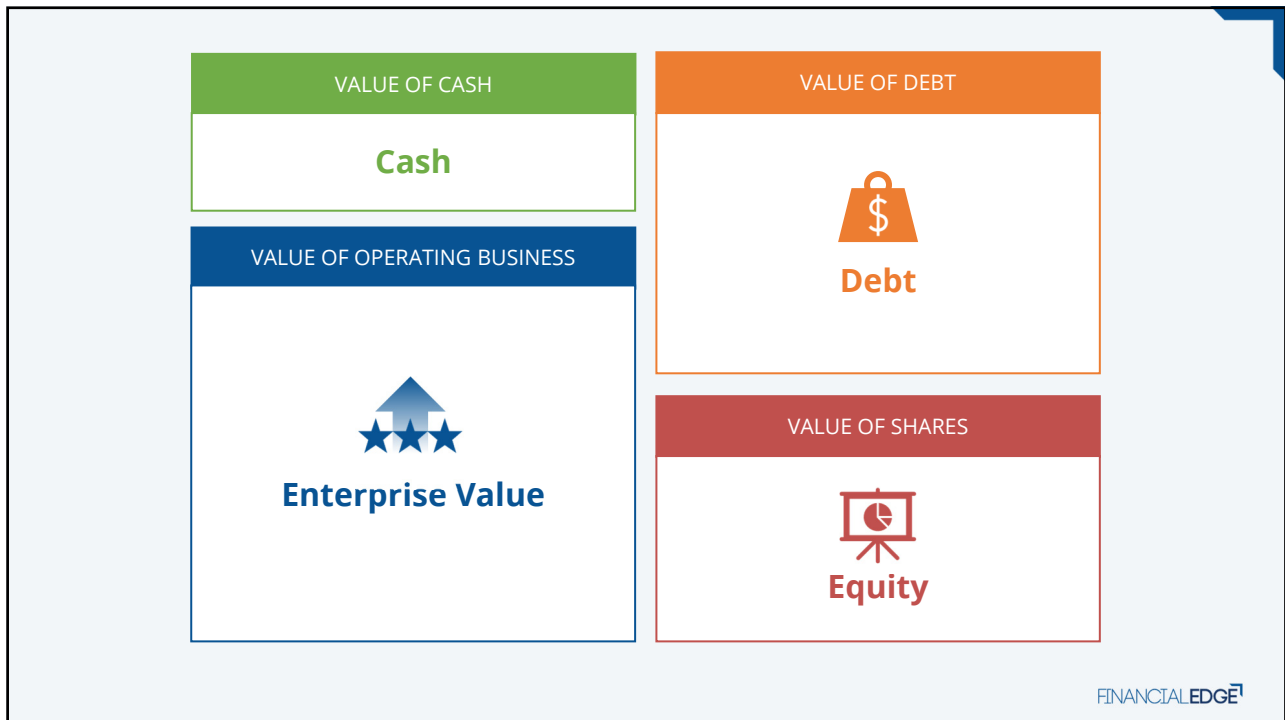


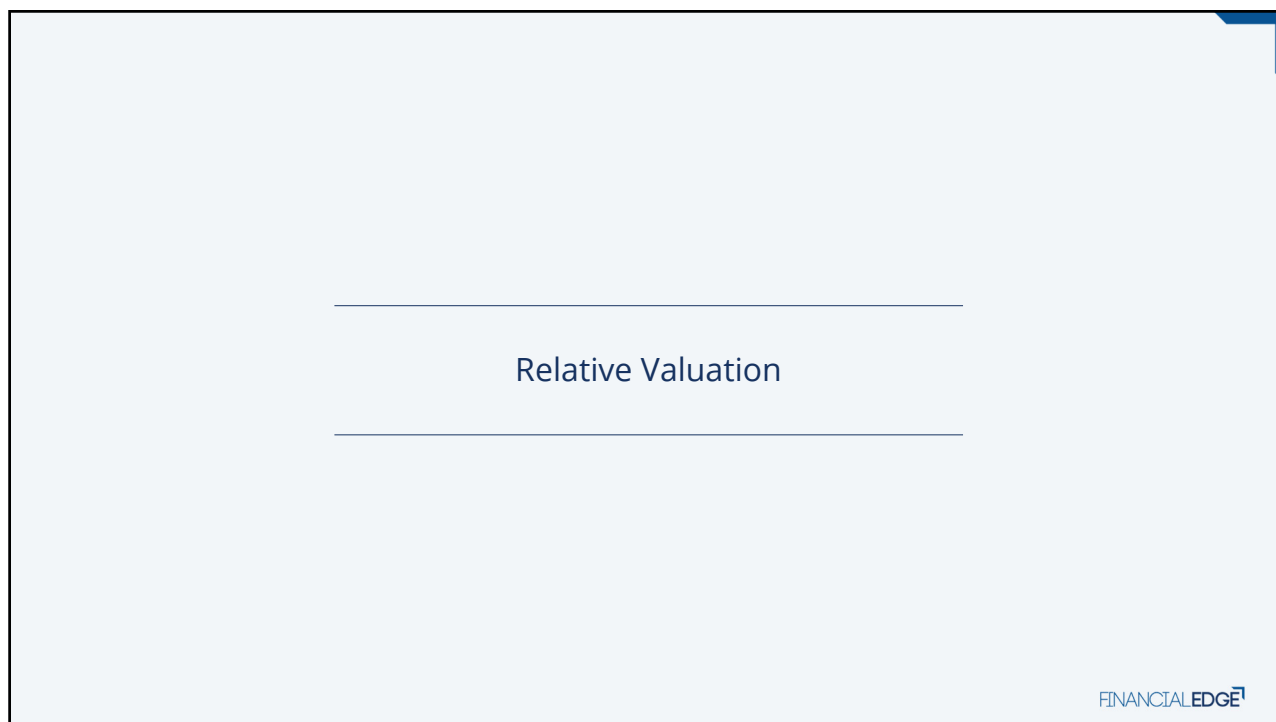
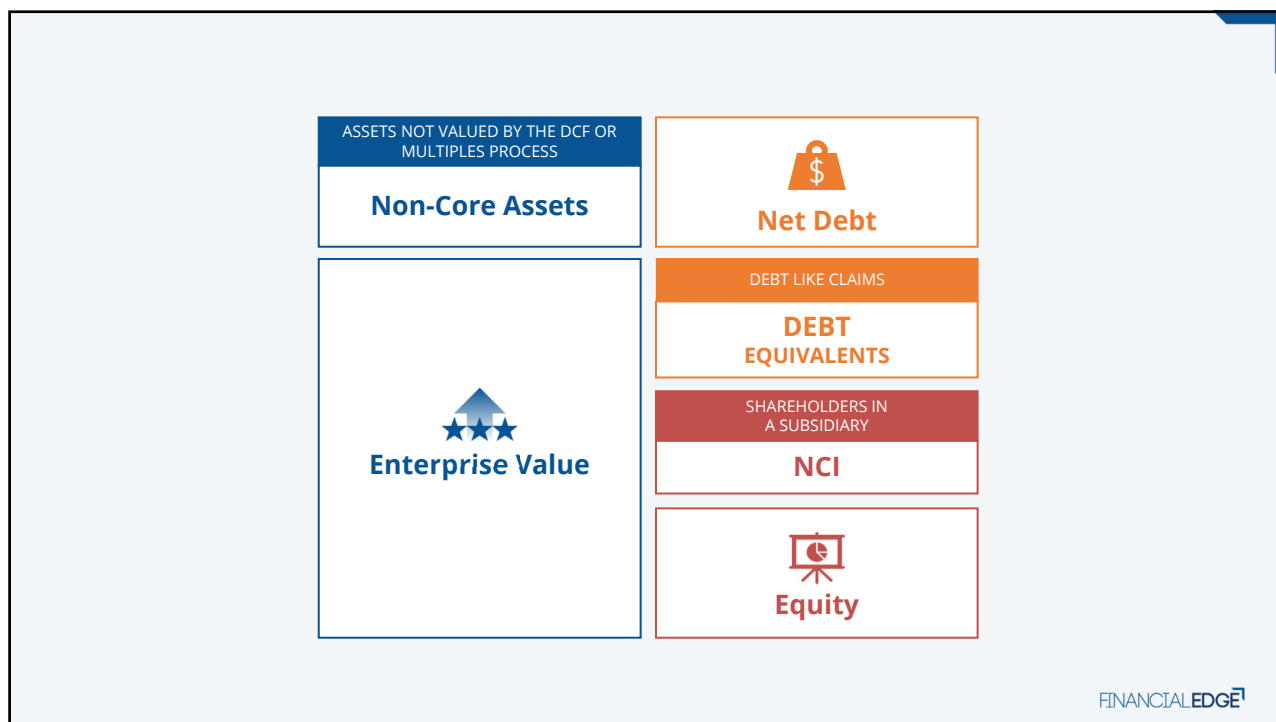
Net Debt

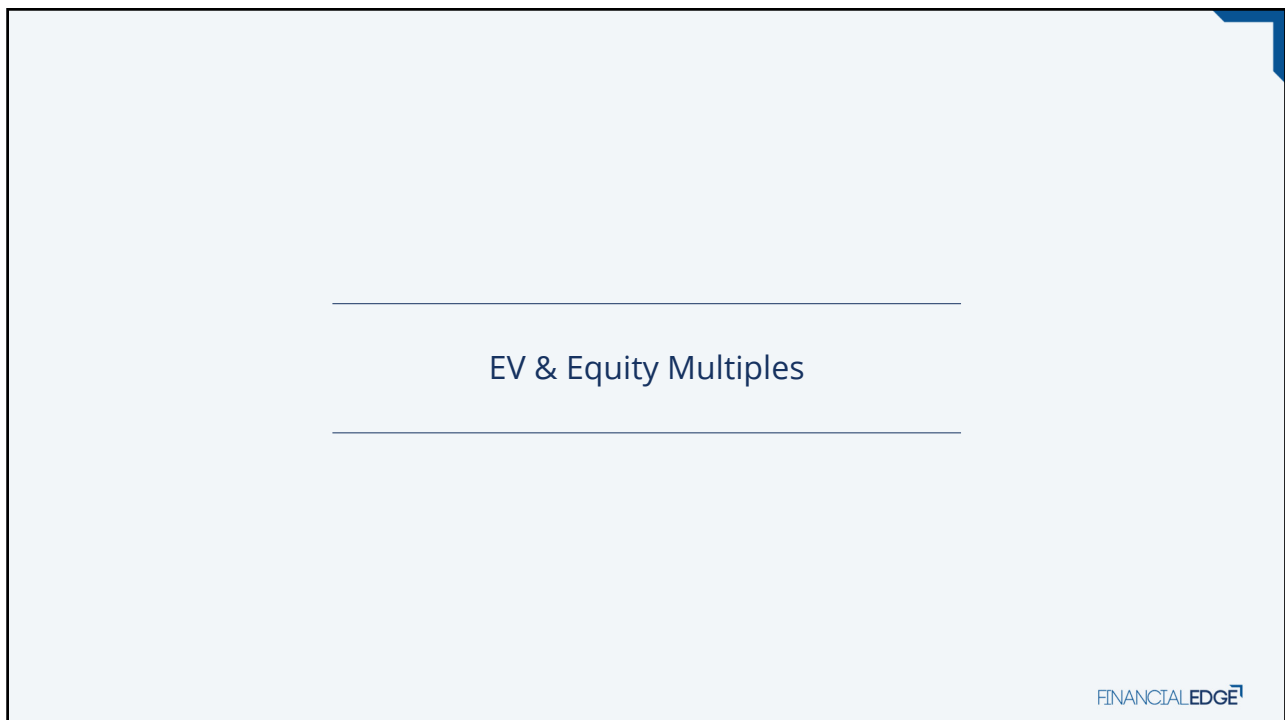
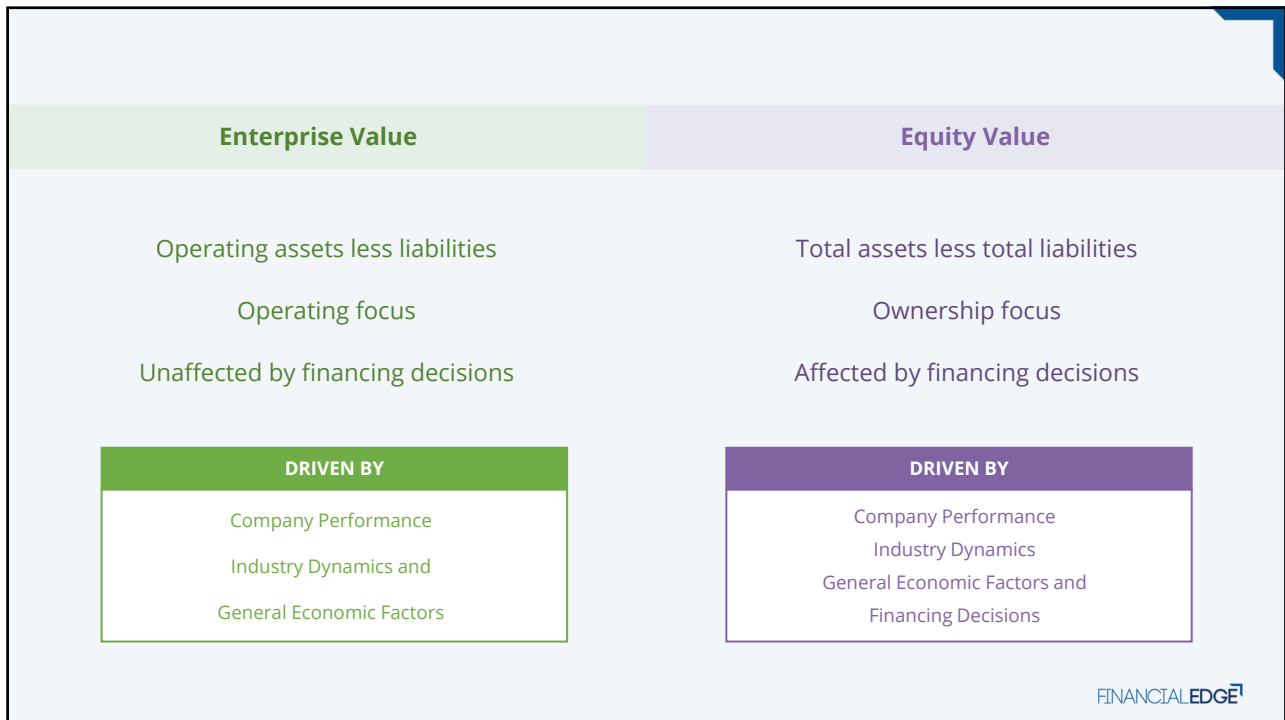
VALUE OF SHARES



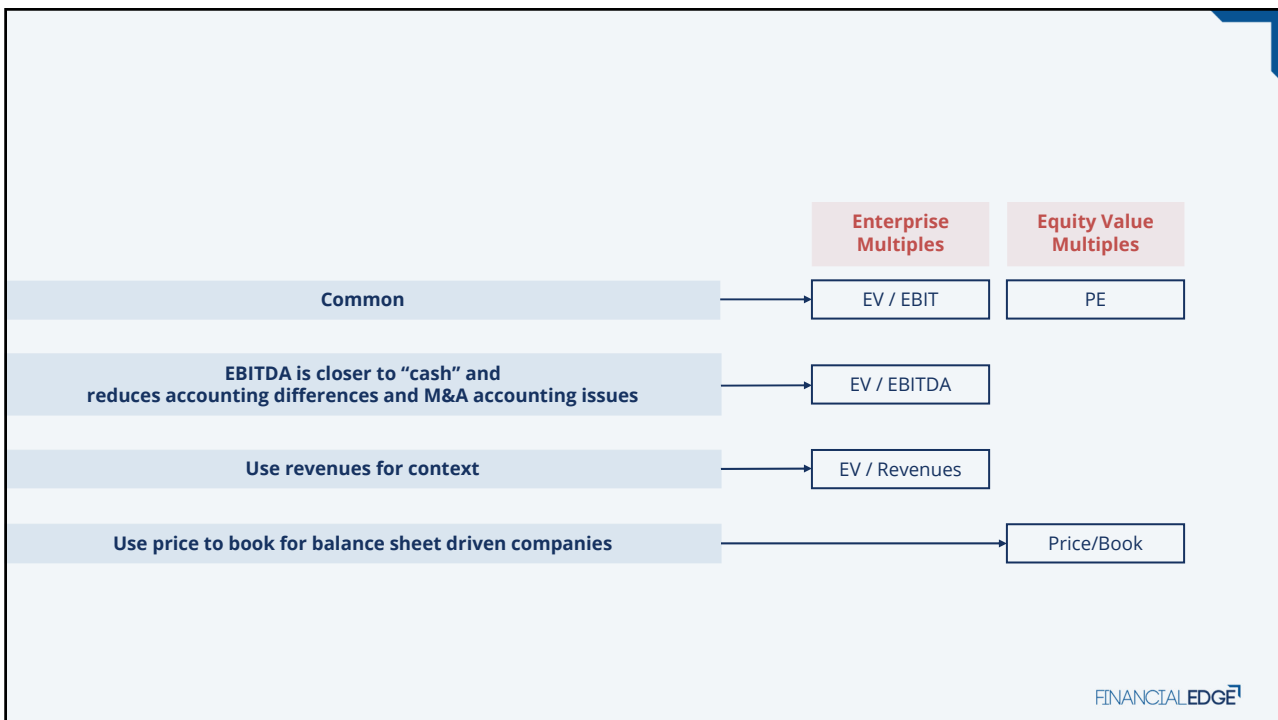
Equity







VALUE CONSISTENT WITH VALUE DRIVER				HOW MUCH INVESTORS PAY IN RELATIONSHIP TO A VALUE DRIVER	
Value		Value Driver		Multiple	
EV	1,000.0	EBIT	100.0	EV/EBIT	10.0 x
Cash	100.0	Interest income	1.0		
Debt	(300.0)	Interest expense	(15.0)		
		Tax expense	(25.8)		
Equity	800.0	Net income	60.2		
No shares	100.0	No shares	100.0		
Price	8.0	EPS	0.60	P/E	13.3 x



The Impact of Leverage

**In both cases,
the business is the same**

Only the capital structure changes

EV multiples remain unchanged

PE multiples change dramatically

HIGH LEVELS OF CASH	VALUE		VALUE DRIVER		RATIO
	EV	1,000.0	EBIT	100.0	10.0 x
	Cash	800.0	Interest income	8.0	
	Debt	0.0	Interest expense	0.0	
			Tax expense	(32.4)	
	Equity	1,800.0	Net income	75.6	
	No shares	100.0	No shares	100.0	
	Per share	18.0	EPS	0.8	23.8 x

HIGH LEVELS OF DEBT	VALUE		VALUE DRIVER		RATIO
	EV	1,000.0	EBIT	100.0	10.0 x
	Cash	0.0	Interest income	0.0	
	Debt	(800.0)	Interest expense	(40.0)	
			Tax expense	(18.0)	
	Equity	200.0	Net income	42.0	
	No shares	100.0	No shares	100.0	
	Per share	2.0	EPS	0.4	4.8 x

Growth, Returns & Multiples

		HIGHER ROC PRODUCES MORE VALUE		LOWER WACC PRODUCES MORE VALUE	
	Base	High ROC	High Growth	Low WACC	Return = WACC
Invested Capital (IC)	100.0	100.0	100.0	100.0	100.0
Return on Capital (ROC)	11.0%	15.0%	11.0%	10.0%	10.0%
WACC	10.0%	10.0%	10.0%	8.0%	10.0%
Growth (g)	3.0%	3.0%	6.0%	6.0%	6.0%
EBIAT = IC x ROC	11.0	15.0	11.0	10.0	10.0
EV = EBIAT x (1 - g / ROC) / (WACC - g)	114.3	171.4	125.0	200.0	100.0
Multiple	10.4 x	11.4 x	11.4 x	20.0 x	10.0 x
			HIGHER GROWTH PRODUCES MORE VALUE		GROWTH IRRELEVANT BECAUSE ROC = WACC

