

A Comparison of the APV, FTE, and WACC Approaches

These three methods for calculating the value of a proposed project should be viewed as complementary. The information below summarizes the similarities and differences between the three methods.

	APV	WACC	FTE
Initial Investments	All	All	Equity Portion
Cash Flows	UCF	UCF	LCF
Discount Rates	r_o	r_{WACC}	r_s
PV of financing effects	Yes	No	No

We suggest the following guideline for choosing between these models:

- Use the WACC or the FTE methods if the target debt ratio will be constant throughout the life of the project.
- Use the APV method if the debt ratio is expected to change over the life of the project, and there are additional financing side effects beyond the interest tax shield.