What is a DCF Valuation?

What is a DCF Valuation?

- Discounted Cash Flow is a method of valuation which is used to arrive at the value of an investment or an asset based on its expected future cash flows

What is a DCF Valuation?

- In simple terms we aim to arrive at the value today based on the cash flows of tomorrow

What is a DCF Valuation?

- The model can be applied to a range of cash flows:
  - Dividends
  - Earnings
  - Operating Cash Flow
  - Free Cash Flow (the most common)

- Dividend Discount Model
- Discounted Asset Model
- Discounted Residual Income
- Discounted FCF

What is a DCF Valuation?

- In all cases the model required a “rate of return” or discount with which to discount the future cash flows to present day values

What is a DCF Valuation?

- This takes account of the time value of money
- The basis of which is a dollar or a pound in your pocket today is more valuable to you than a dollar or a pound in your pocket in 12 months time.

What is a DCF Valuation?

- The following steps are required to arrive at a DCF Valuation

- Project unlevered FCFs
- Calculate the Terminal Value
- Establish the Discount Rate or Rate of Return
- Calculate the Enterprise value by discounting the projected unlevered FCFs and Terminal Value to Present Value
- Calculate the Equity Value by subtracting net debt from Enterprise Value

What is a DCF Valuation?

- If you are calculating the value of a company, the DCF will give you an “absolute” value based on your initial assumptions

What is a DCF Valuation?

- If you are using the method to evaluate an investment, the investment will be profitable if the DCF value exceeds the initial cost of the investment

What is a DCF Valuation?

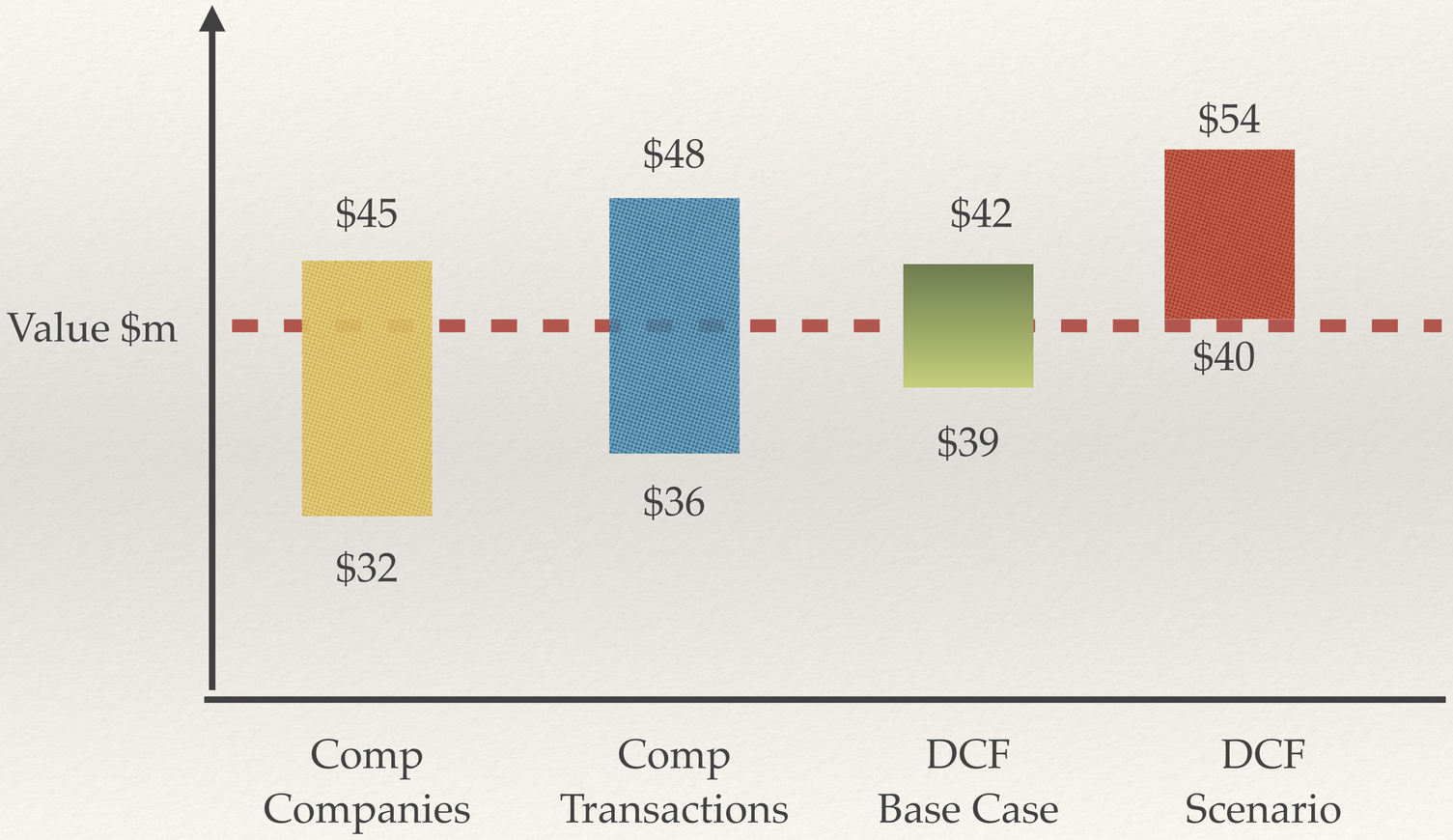
- If you are evaluating a listed company, the DCF valuation can be compared to the company's current stock price to understand whether the company is undervalued or overvalued in the market

What is a DCF Valuation?

- A DCF valuation should seldom be used on a standalone basis
- It is advisable to balance this approach with market based methods such as Comparable Companies and Comparable Transactions

What is a DCF Valuation?

- This enables you to arrive at a range of values for your asset
- You can then adjust your modelling assumptions to test different scenario outcomes to evaluate their impact on the valuation



What is a DCF Valuation?

- A DCF valuation is not without its challenges and we will examine this method in detail to gain a better understanding of its advantages and disadvantages, as well at the implications of the assumptions and decisions made in its preparation

What is a DCF Valuation?