Calculation of Unlevered Cash Flow

Calculation of Unlevered Cash Flow

- This is such an important component of the DCF model that I want to be absolutely sure that you know how to calculate the correct cash flow

Calculation of Unlevered Cash Flow

- You can of course take the appropriate line from your Cash Flow Statement if this is unambiguous
- Not every spreadsheet is the same
- Not every spreadsheet makes this easy to identify
- So lets not assume…

Calculation of Unlevered Cash Flow

- Start with EBIT from your Income Statement

EBIT

\+ Amortisation of non-deductible goodwill

EBITA

\- Taxes on EBITA or EBITA x projected tax rate

Unlevered Net Income

\+ D&A and other non cash charges affecting EBIT

\+ Changes in deferred taxes

\- Capital Expenditure

\- Increase in non cash working capital

Unlevered Free Cash Flow

Calculation of Unlevered Cash Flow

- Add back amortised non-deductible goodwill to arrive at EBITA

EBIT

\+ Amortisation of non-deductible goodwill

EBITA

\- Taxes on EBITA or EBITA x projected tax rate

Unlevered Net Income

\+ D&A and other non cash charges affecting EBIT

\+ Changes in deferred taxes

\- Capital Expenditure

\- Increase in non cash working capital

Unlevered Free Cash Flow

Calculation of Unlevered Cash Flow

- Then deduct taxes on EBITA
- Alternatively multiply EBITA by the projected tax rate and deduct

EBIT

\+ Amortisation of non-deductible goodwill

EBITA

\- Taxes on EBITA or EBITA x projected tax rate

Unlevered Net Income

\+ D&A and other non cash charges affecting EBIT

\+ Changes in deferred taxes

\- Capital Expenditure

\- Increase in non cash working capital

Unlevered Free Cash Flow

Calculation of Unlevered Cash Flow

- This brings you to the Unlevered Net Income figure

EBIT

+ Amortisation of non-deductible goodwill

EBITA

- Taxes on EBITA or EBITA x projected tax rate

Unlevered Net Income

+ D&A and other non cash charges affecting EBIT

+ Changes in deferred taxes

- Capital Expenditure

- Increase in non cash working capital

Unlevered Free Cash Flow

Calculation of Unlevered Cash Flow

- Add back Deprecation and Amortisation and other non cash charges affecting EBIT

EBIT

\+ Amortisation of non-deductible goodwill

EBITA

\- Taxes on EBITA or EBITA x projected tax rate

Unlevered Net Income

\+ D&A and other non cash charges affecting EBIT

\+ Changes in deferred taxes

\- Capital Expenditure

\- Increase in non cash working capital

Unlevered Free Cash Flow

Calculation of Unlevered Cash Flow

- Add back changes in deferred taxes

EBIT

\+ Amortisation of non-deductible goodwill

EBITA

\- Taxes on EBITA or EBITA x projected tax rate

Unlevered Net Income

\+ D&A and other non cash charges affecting EBIT

\+ Changes in deferred taxes

\- Capital Expenditure

\- Increase in non cash working capital

Unlevered Free Cash Flow

Calculation of Unlevered Cash Flow

- Deduct capital expenditure

EBIT

\+ Amortisation of non-deductible goodwill

EBITA

\- Taxes on EBITA or EBITA x projected tax rate

Unlevered Net Income

\+ D&A and other non cash charges affecting EBIT

\+ Changes in deferred taxes

\- Capital Expenditure

\- Increase in non cash working capital

Unlevered Free Cash Flow

Calculation of Unlevered Cash Flow

- Deduct increases in non cash working capital - payables and receivables

EBIT

+ Amortisation of non-deductible goodwill

EBITA

- Taxes on EBITA or EBITA x projected tax rate

Unlevered Net Income

+ D&A and other non cash charges affecting EBIT

+ Changes in deferred taxes

- Capital Expenditure

- Increase in non cash working capital

Unlevered Free Cash Flow

Calculation of Unlevered Cash Flow

- This brings you to the Unlevered Free Cash Flow

EBIT
+ Amortisation of non-deductible goodwill

EBITA
- Taxes on EBITA or EBITA x projected tax rate

Unlevered Net Income
+ D&A and other non cash charges affecting EBIT
+ Changes in deferred taxes
- Capital Expenditure
- Increase in non cash working capital

Unlevered Free Cash Flow

Calculation of Unlevered Cash Flow

- To summarise UFCF is the cash flow after essential investments in the firm, adjustment for non cash charges and working capital adjustments but before financing
- The financing would be the "levered" element of the cash flow statement
- Once you understand the key components, you won't have further difficulty choosing the right cash flow line for your DCF model

Calculation of Unlevered Cash Flow