**Overview of HighGrowth Inc. Valuation Model**

1. **Purpose of the model:** The model is used to value each share of the company based on FCFE (Free Cash Flow to Equity) method. FCFE is the cash that is available to equity shareholders of the company after meeting all expenses, reinvestment and repayment of debt. Cost of equity has discounted the projected FCFE of the company and terminal value and the number of shares to find out intrinsic value of each share has divided the value thus obtained.
2. **Components of the model and their signification and use:** To ascertain the value of each share of the company the model includes the following sheets—Summary Sheet, Assumption Sheet, Profit & Loss Account, Balance Sheet, Cash Flow Statement, Revenue Built-Up Sheet, Cost Built-Up Sheet, Asset Schedule, Equity Schedule, Valuation Sheet, Altman Z-Score, DuPont Analysis, and Ratio Analysis. Besides, the model contains charts related to Income Statement, Balance Sheet, Ratio Analysis, DuPont Analysis, and Altman Z-Score.

The Income Statement, Balance Sheet, and Cash Flow statement provide projections of income, financial positions, and cash flows of the company, respectively, over the next eight years. The valuation sheet measures value of each share of the company by discounting projected FCFE and terminal value by cost of equity.

The assumption sheet includes various assumptions used in valuation. Revenue Built-Up sheets projects total revenue of the company and the figures calculated are used in income statement. Similarly, Cost Built-Up Sheet estimates various components of cost items and the figures calculated are used in the income statement. The Asset Schedule is used to work out the fixed assets, intangible assets, and accumulated depreciation and amortisation for the projection years and the figures worked out are incorporated in the balance sheet. The Equity Schedule has been used to work out stockholder’s equity over the projection period. Altman Z-Score has been used to predict the likelihood of bankruptcy of the company within the next two years. The Altman Z-Score has been calculated by using the formula:

Z-Score = 6.56 x (Working Capital/Total Assets) + 3.26 x (Retained Earnings /Total Assets) + 6.72 x (EBIT/Total Assets) + 1.05 x (Book Value of Equity/Total Liabilities)

If the score is less than 1.1, the likelihood of bankruptcy is high and if the score is more than 2.6, the firm is financially sound. DuPont Analysis has been used to ascertain the reasons of returns on equity earned by the firms. The Return on Equity is dissected into net profit margin, asset turnover, and financial leverage for analysis of return of equity.

1. **Use of the model:** In the model all the cells marked in in **blue** colour are input cells while all the remaining cells are formulas. The “Index and Summary” sheet provides hyperlinks to all the sheets in the model and it also provides summary of major items of profits and loss account and balance sheet. All the figures in the models are in 00,000’ $ unless otherwise stated.