

The Talent Dividend

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Free Cash Flow valuation-to value a company and its securities

by valuing free cash flow to the firm FCF
by valuing free cash flow to equity FCFE
FCF Valuation approach estimate the value of the firm as the present value of future FCF discounted at the WACC
FCFE Valuation approach estimate the value of equity as the present value of future FCFE discounted at the required return on equity

The Gordon Growth Model

Assumption: dividends grow indefinitely at a constant rate
$$V = D_0(1+g) / (r - g) = D_1 / (r - g)$$

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Dividend discount model-
to value a stock

to value stock
formula
dividend next year
expected share price
required return
value of the stock

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Using the Constant Growth FCF Valuation Model
$$\text{FIRM VALUE} = \text{FCFE}_1 / (r - g)$$

Calculating FCFE from Net Income
Calculating FCFE from Cash Flow from Operations
Calculating FCFE from the Cash Flow Statement

Free Cash Flow to Firm Valuation
approach

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Free Cash Flow valuation-to value a company and its securities

-by valuing free cash flow to the firm FCFF
-by valuing free cash flow to equity FCFE

FCFF Valuation approach estimate the value of the firm as the present value of future FCFF discounted at the WACC

FCFE Valuation approach estimate the value of equity as the present value of future FCFE discounted at the required return on equity

The Gordon Growth Model

Assumption: dividends grow indefinitely at a constant rate

$$V = D_0(1+g) / (r-g) = D_1 / (r-g)$$

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*Dividend discount model-
to value a stock*

to value stock
formula
dividend next year
expected share price
required return %
=value of the stock

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--Using the Constant Growth FCFF Valuation Model
 $FIRM\ VALUE = FCFF_0(1+g) / WACC - g$

--Calculating FCFF from Net Income
--Calculating FCFF from Cash Flow from Operations
--Calculating FCF from the Cash Flow Statement

*Free Cash Flow to Firm Valuation
approach*

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Dividend discount model- to value a stock

to value stock
formula
dividend next year
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The Gordon Growth Model

Assumption: dividends grow indefinitely at a constant rate

$$V = D_0(1+g) / (r-g) = D_1 / (r-g)$$

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Free Cash Flow valuation-to value a company and its securities

-by valuing free cash flow to the firm **FCFF**

-by valuing free cash flow to equity **FCFE**

FCFF Valuation approach__estimate the value of the firm
as the present value of future FCFF
discounted at the WACC

FCFE Valuation approach__estimate the value of equity
as the present value of future FCFE
discounted at the required return on equity

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--Using the **Constant Growth** FCFF Valuation Model

$$\text{FIRM VALUE} = \text{FCFF}_0 (1+g) / \text{WACC} - g$$

--Calculating FCFF from **Net income**

--Calculating FCFF from **Cash Flow from Operations**

--Calculating FCF from **the Cash Flow Statement**

Free Cash Flow to Firm Valuation approach

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