Managing Talent at Bertelsmann AG (A)

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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=D0(1+g) / (r-g) = D1/ (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

--Using the Constant Growth FCFF Valuation Model
FIRM VALUE= FCFF0(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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$$V = \frac{D_0(1+g)}{r-g} = \frac{D_1}{r-g}$$

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