

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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TheCaseSolutions.com 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

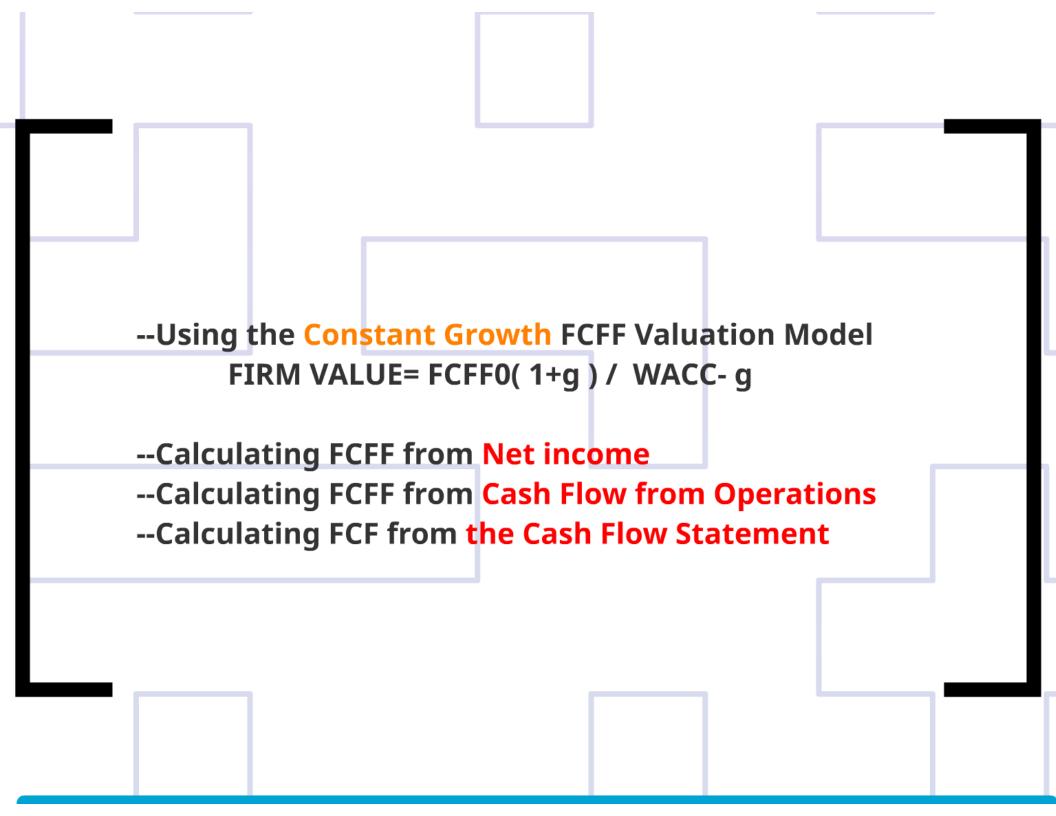
as the present value of future FCFF

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



Free Cash Flow to Firm Valuation approach