Managing Financial Resources

Company value

Techniques (24)

Patrick Galig / HB41 / Henley Business School

Techniques for estimating company value

Section 10.2

8 steps to the strategic value of a company

1. Estimate value drivers
2. Using value drivers, estimate free cash flow in planning period
3. Discount free cash flow to PV
4. Estimare free cash flow from continuing period
5. Discount to present value
6. Add the present value of the FCF in the planning period and the continuing period to provide an estimation of business value
7. Add any investment and deduct any debt and other obligations to business value to estimate strategic value
8. Divide strategic value by the number of shares to estimate strategic value per share

7 cash flow drivers for strategic value analysis

- sales growth rate
- operating profit margin
- taxation
- fixed capital investment
- working capital investment
- planning period
- cost of capital

Planning period

- Length of period
- Uncertainty is increasing over time
- can be understood with reference to **Porters 5 forces**
  1. Potential market entrants
  2. Possibility of substitutes
  3. Power of supplier
  4. Power of buyers
  5. Competitive rivalry

Cost of capital

- Future cash flows are discounted at minimum the cost of capital rate
- should be prospective rather than retrospective
- Requires the calculation of WACC
  - gearing
    - Debt /Equity
  - cost of debt
    - is a percent
  - cost of equity
    - is a percent
  - WACC = (Debt * Cost of debt) * (Equity*Cost of equity)
  - Might be measured as book value or market value