



**RFCI** = Replace Fixed capital Investments = Money for replacement of assets to maintain current level

**IFCI** = Incremental Fixed capital investment = Money for new assets to increase production

**IWCI** = Incremental working capital investment = Money for additional WC like inventories etc.

Operating cash will be reduced by RFCI, IFCI, IWCI to ensure future cash flows and this leads to free cash flow

Operating cash flow vs. free cash flow

Present value of this is then (3 years, 12%)  
 $155.83 \times 1.12 \exp^{-3} = 110.92$

e.g. =  $18.7 \text{ mio} / 0.12$  (cost of capital 12%) = 155.83 mio

Residual value = Perpetuity Cash Flow / Cost of capital

Residual value =

Calculating Shareholder value

## Strategic financial management

Chapter 12 / Mills & Print

Shortcomings of accounting measures

Earnings calculated using different methods

No risk incorporated

time value of money ignored

1 year horizon - loss unacceptable

Shareholder value analysis (DCF analysis)

*Maximise value generated from the business in terms of the **projected cash flows that are discounted at the cost of capital***

Positive NPV's increase shareholder value

PE & Market book

Residual value = Perpetuity Cash Flow / Cost of capital