



RFCI = Replace Fixed capital Investements=
 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