



Equity to Enterprise Value

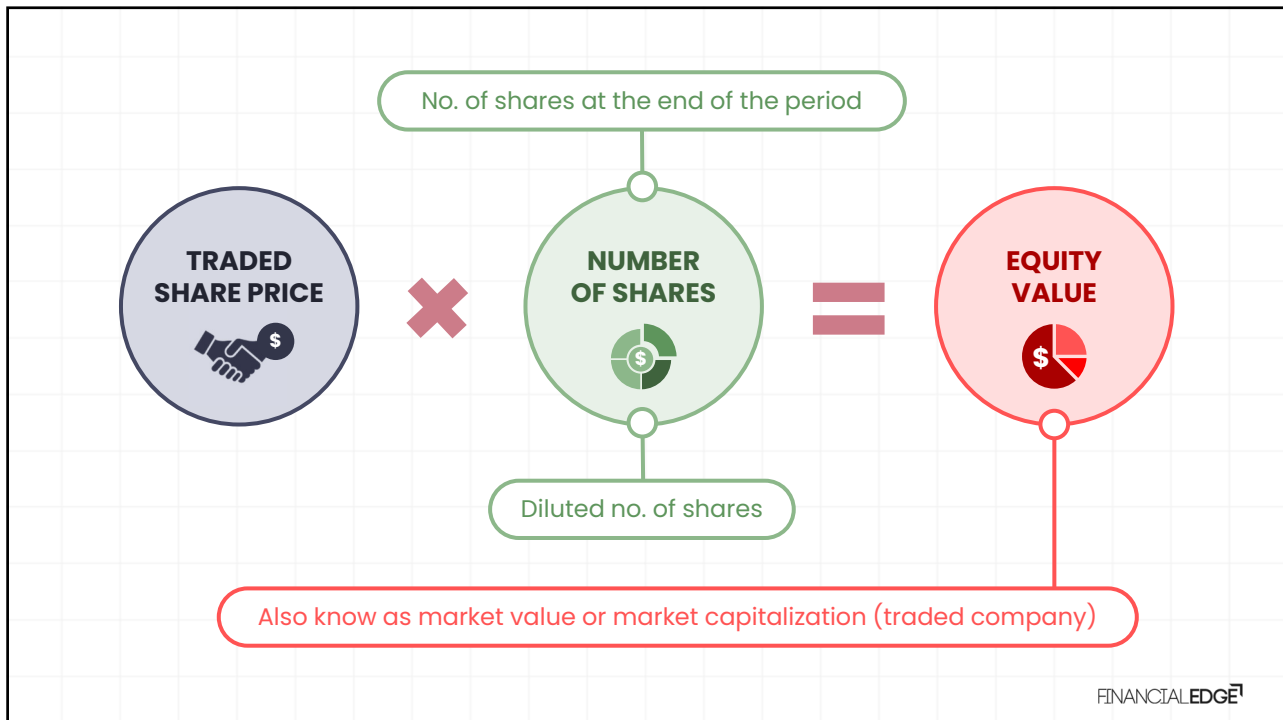
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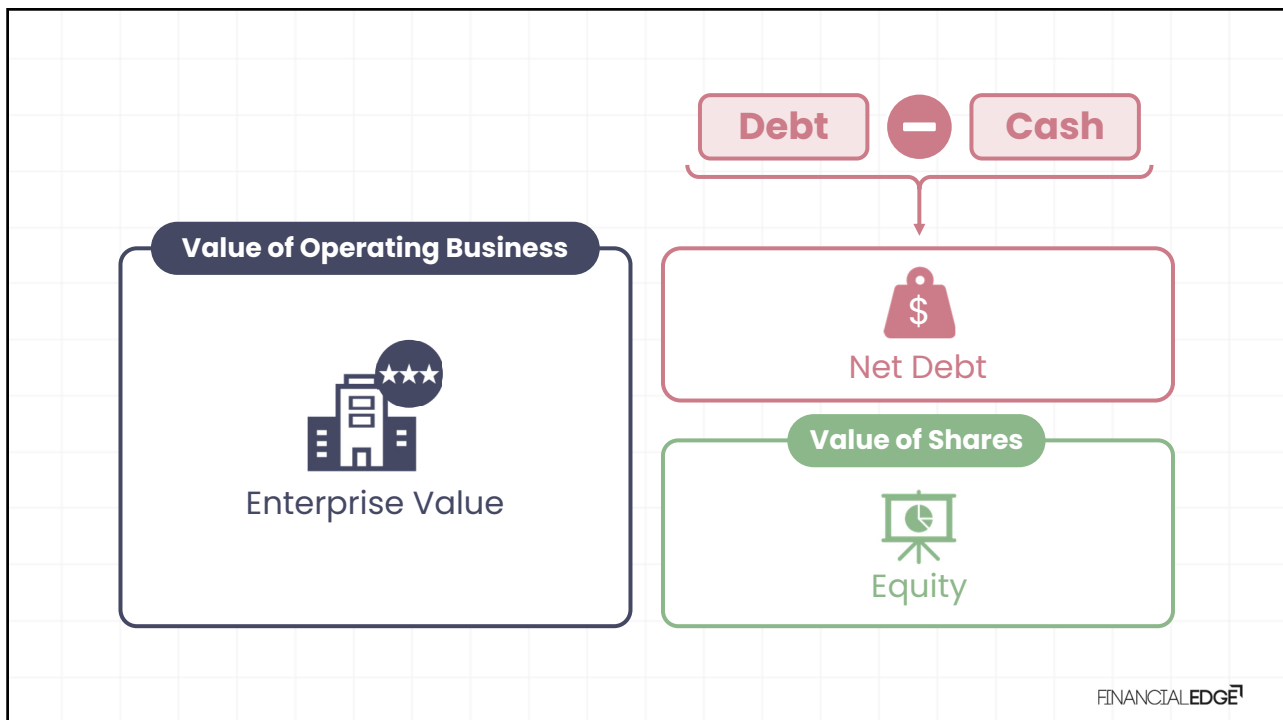
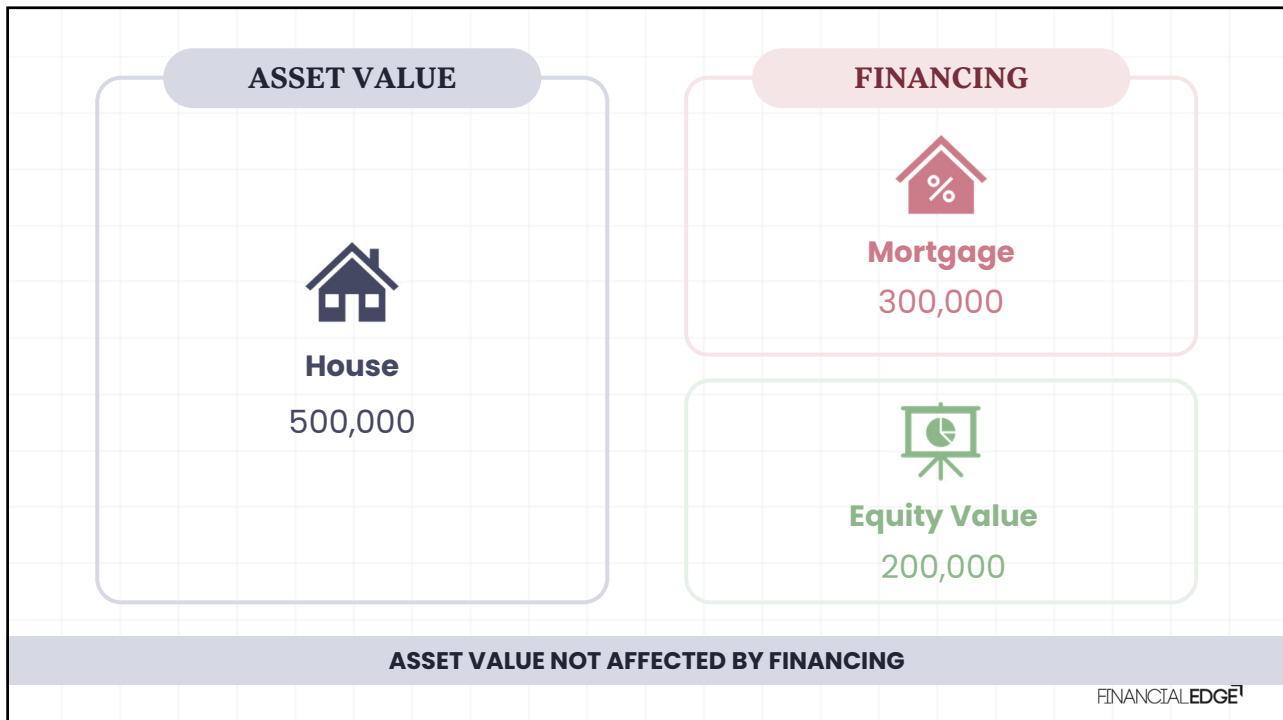
Calculating Equity Value

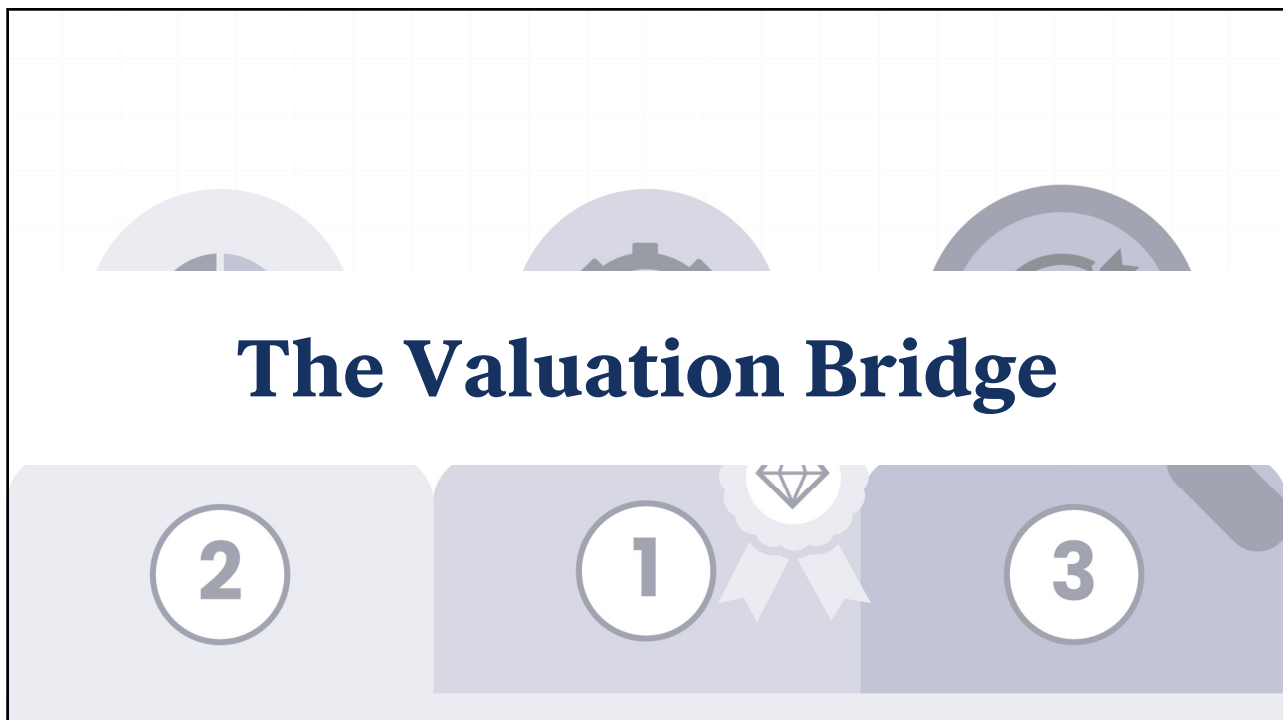
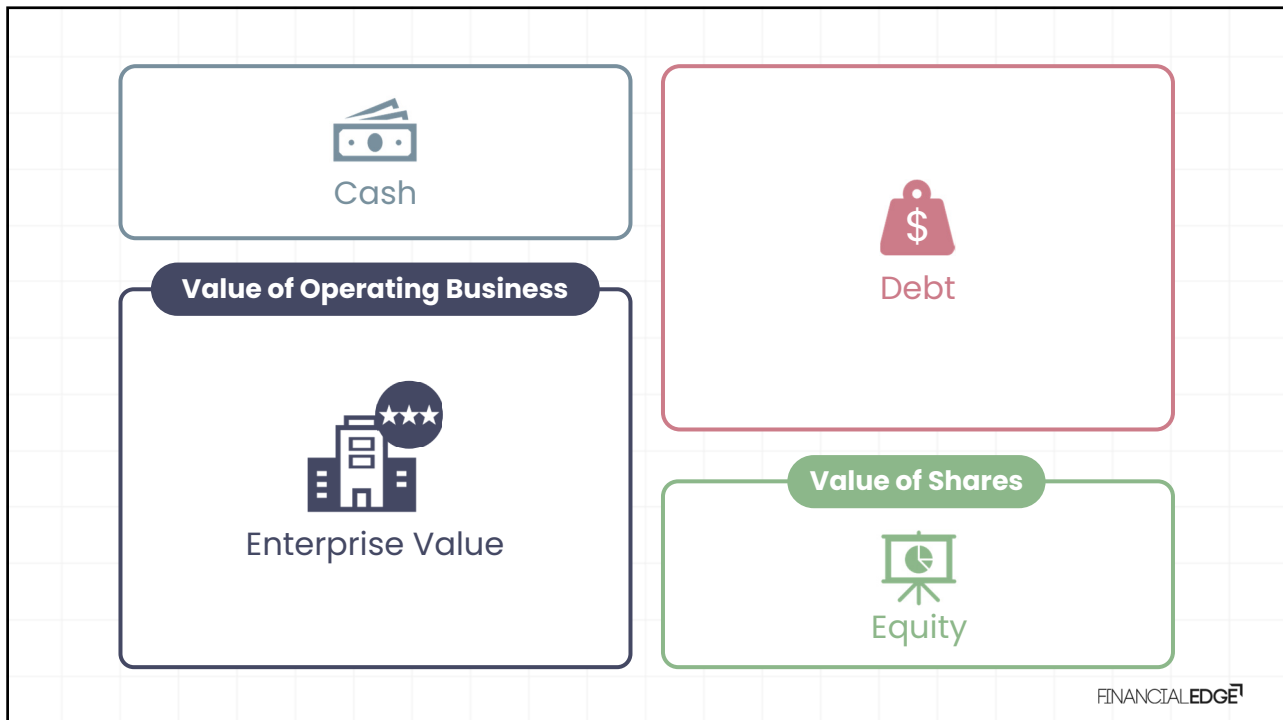
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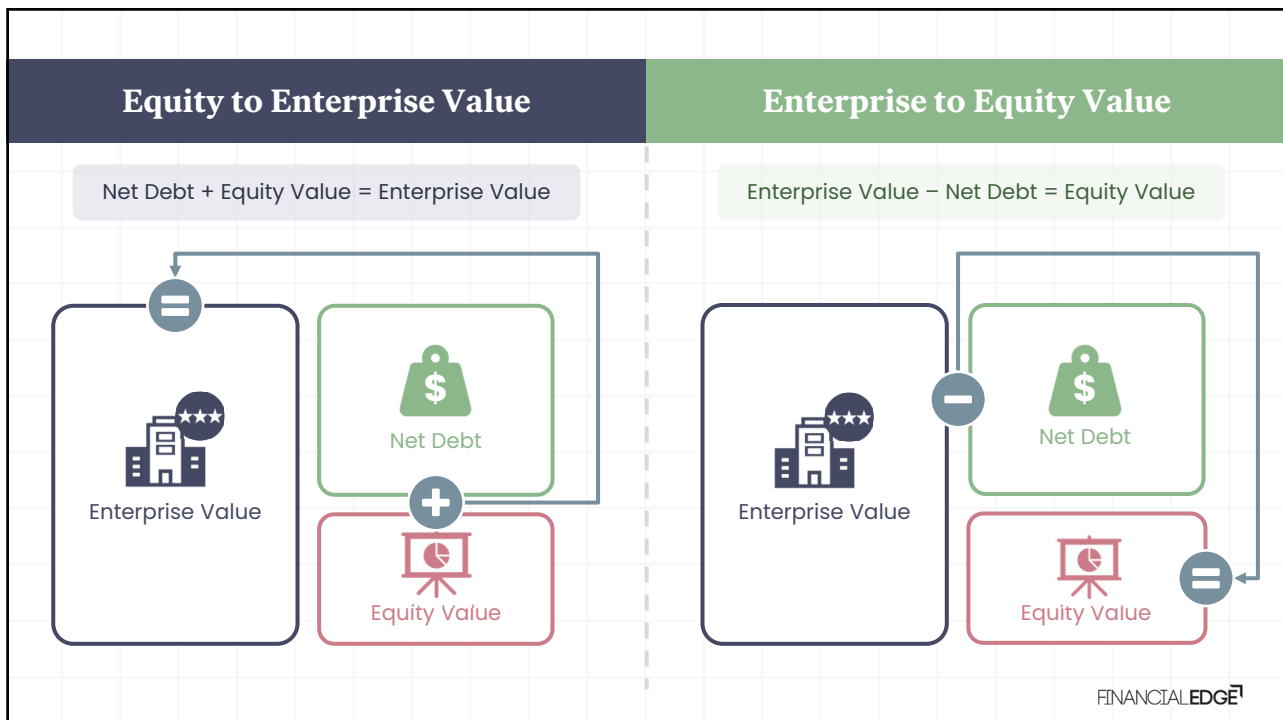
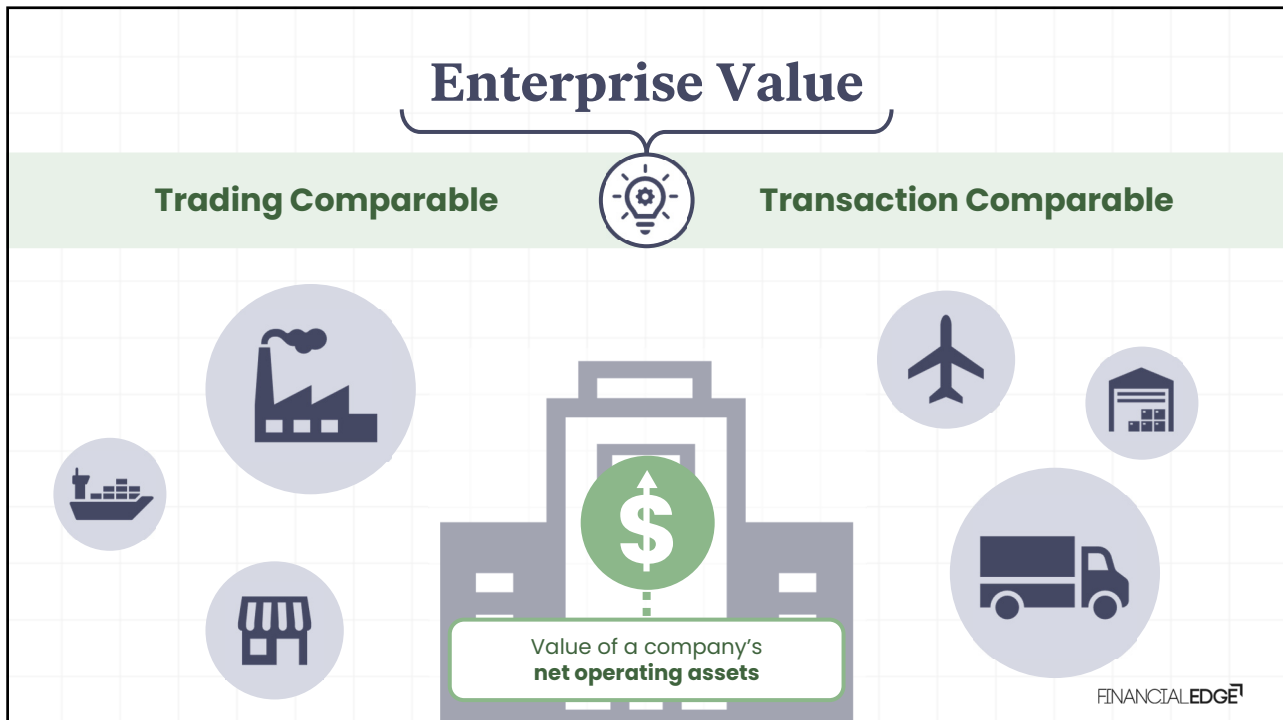
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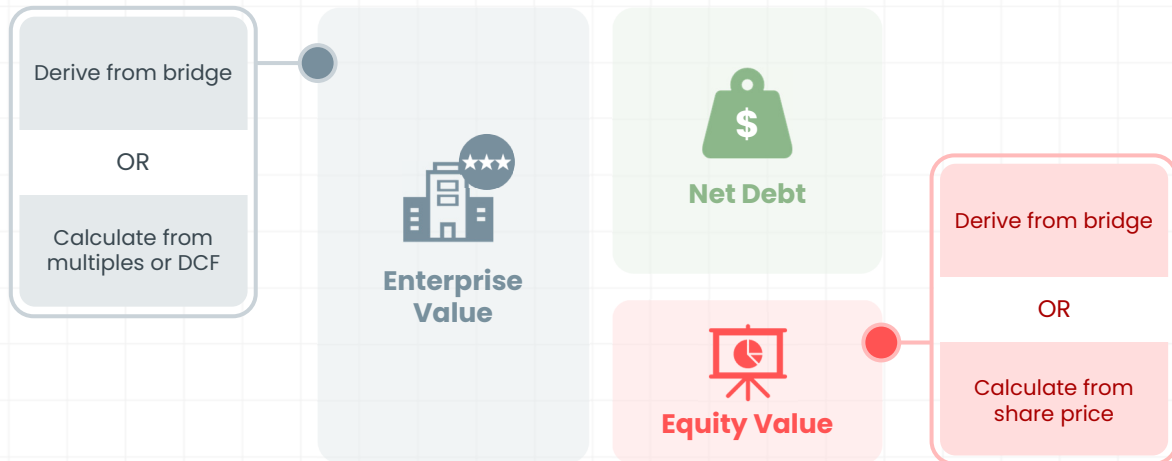








The Bridge – Calculating EV and Equity Value

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Relative Valuation

2

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Enterprise Value



Total operating assets minus
total operating liabilities



Operating focus



Unaffected by financing decisions

Driven By

Company Performance

Industry Dynamics

General Economic Factors

Equity Value



Total assets minus total liabilities



Ownership focus



Affected by financing decisions

Driven By

Company Performance

Industry Dynamics

General Economic Factors

Financing Decisions

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EV & Equity Multiples

2

1

3

Value consistent
with value driver

and EBIT are thus **joined together**

How much investors
pay in relation
to a value driver

Value	
EV	1,000.0
Cash	100.0
Debt	(300.0)
Equity	800.0
No Shares	100.0
Price	8.0

Value Driver	
EBIT	100.0
Interest Income	1.0
Interest Expense	(15.0)
Tax Expense	(25.8)
Net Income	60.2
No shares	100.0
EPS	0.60

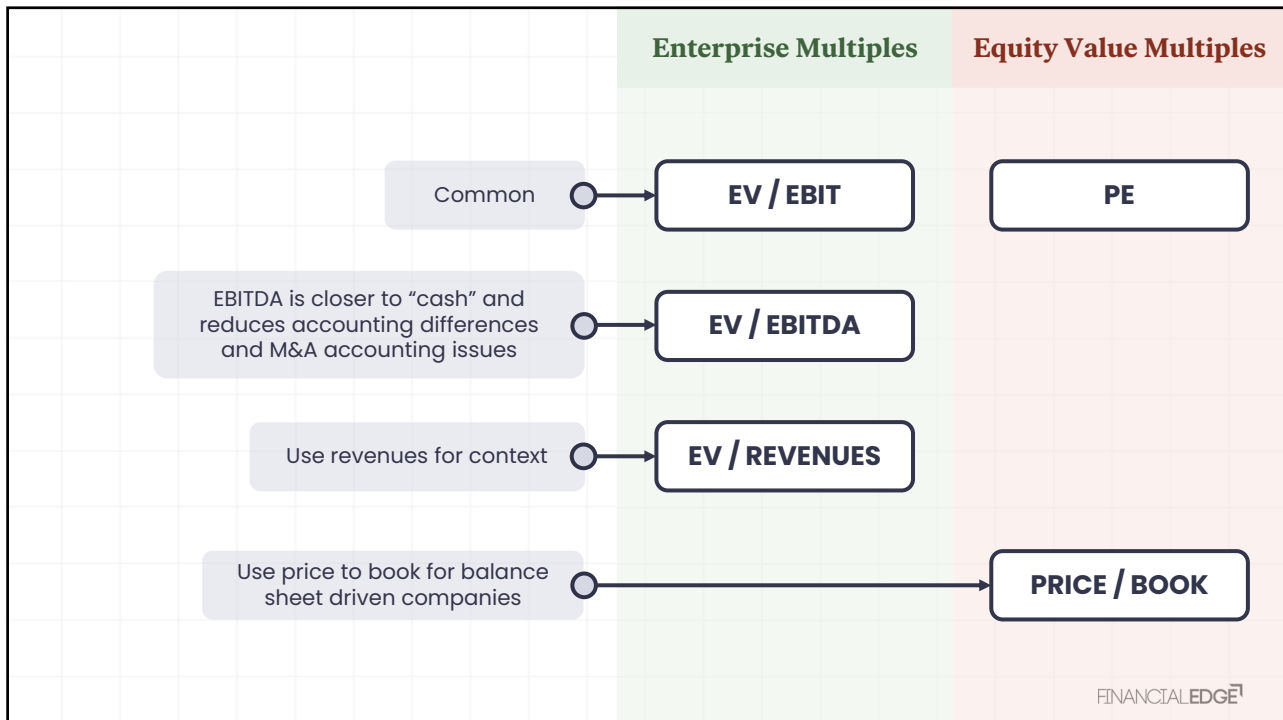
Multiple	
EV/EBIT	10.0 x
P/E	13.3 x

EV & Equity Multiples – Range of Multiples

2

1

3



The Impact of Leverage

2

1

3

High Levels Of Cash

VALUE		VALUE DRIVER		RATIO
EV	1,000.0	EBIT	100.0	10.0 x
Cash	800.0	Interest income	8.0	
Debt	0.0	Interest expense	0.0	
		Tax expense	(32.4)	
Equity	1,800.0	Net income	75.6	
No shares	100.0	No shares	100.0	
Per share	18.0	EPS	0.8	23.8 x

High Levels Of Debt

VALUE		VALUE DRIVER		RATIO
EV	1,000.0	EBIT	100.0	10.0 x
Cash	0.0	Interest income	0.0	
Debt	(800.0)	Interest expense	(40.0)	
		Tax expense	(18.0)	
Equity	200.0	Net income	42.0	
No shares	100.0	No shares	100.0	
Per share	2.0	EPS	0.4	4.8 x

In both cases, the business is the same



Only the capital structure **changes**



EV multiples remain **unchanged**



PE multiples **change dramatically**

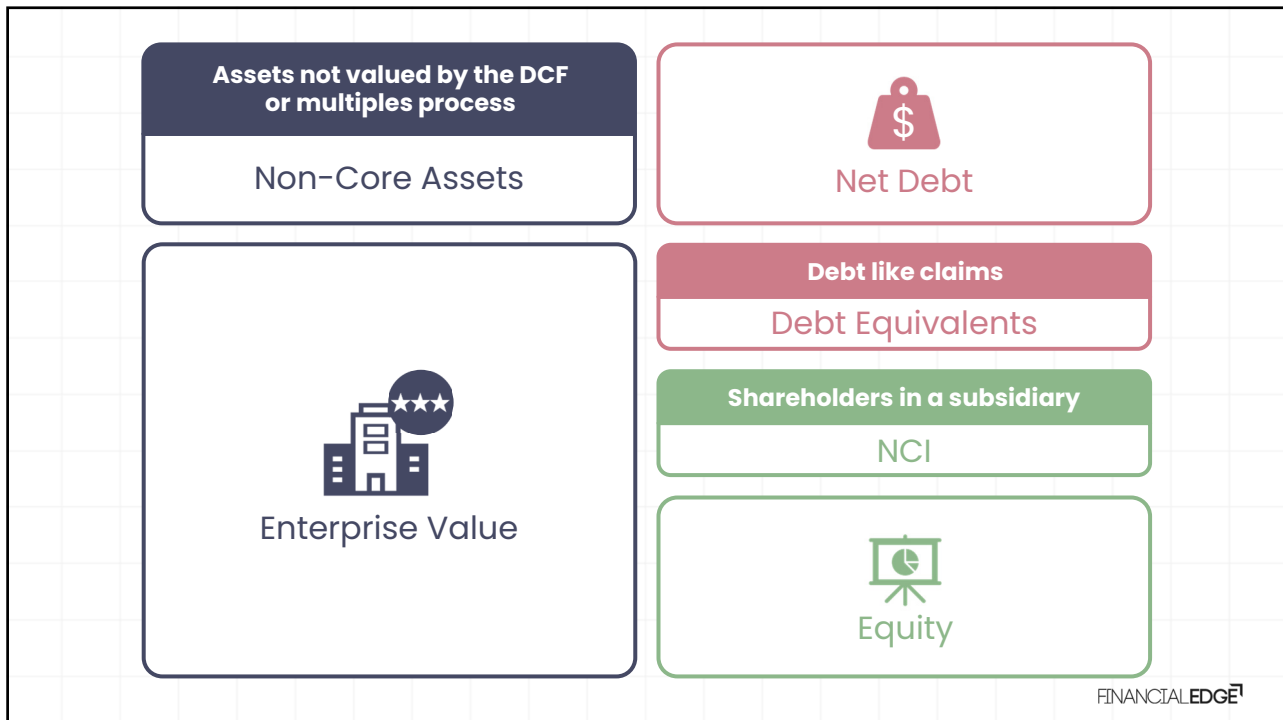
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The Bridge – More Detail

2

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Impact of Leverage on Multiples

2

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In both cases, the
business is the same



Only the **capital structure** changes



EV multiples remain unchanged



PE multiples change dramatically



Financing mix (capital structure) affects equity multiples, not EV multiples

High levels of cash	Value		Value Driver		Ratio
	EV	1,000.0	EBIT	100.0	10.0x
	Cash	800.0	Interest Income	8.0	
	Debt	0.0	Interest Expense	0.0	
			Tax Expense	(32.4)	
	Equity	1,800.0	Net Income	75.6	
	No. Shares	100.0	No. Shares	100.0	
	Per Share	18.0	EPS	0.8	23.8x

High levels of debt	Value		Value Driver		Ratio
	EV	1,000.0	EBIT	100.0	10.0x
	Cash	0.0	Interest Income	0.0	
	Debt	(800.0)	Interest Expense	(40.0)	
			Tax Expense	(18.0)	
	Equity	200.0	Net Income	42.0	
	No. Shares	100.0	No. Shares	100.0	
	Per Share	2.0	EPS	0.4	4.8x

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Impact of Growth & Returns on Multiples

2

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		Higher ROC produces more value		Lower WACC produces more value	
	Base	High ROC	High Growth	Low WACC	Return = WACC
Invested Capital (IC)	100.0	100.0	100.0	100.0	100.0
Return on Capital (ROC)	11.0%	15.0%	11.0%	10.0%	10.0%
WACC	10.0%	10.0%	10.0%	8.0%	10.0%
Growth (g)	3.0%	3.0%	6.0%	6.0%	6.0%
EBIAT = IC x ROC	11.0	15.0	11.0	10.0	10.0
EV = EBIAT x (1 - g / ROC) / (WACC - g)	114.3	171.4	125.0	200.0	100.0
Multiple	10.4x	11.4x	11.4x	20.0x	10.0x

Higher growth
produces
more value

Growth
irrelevant
because
ROC = WACC

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