Discounted Cash Flow

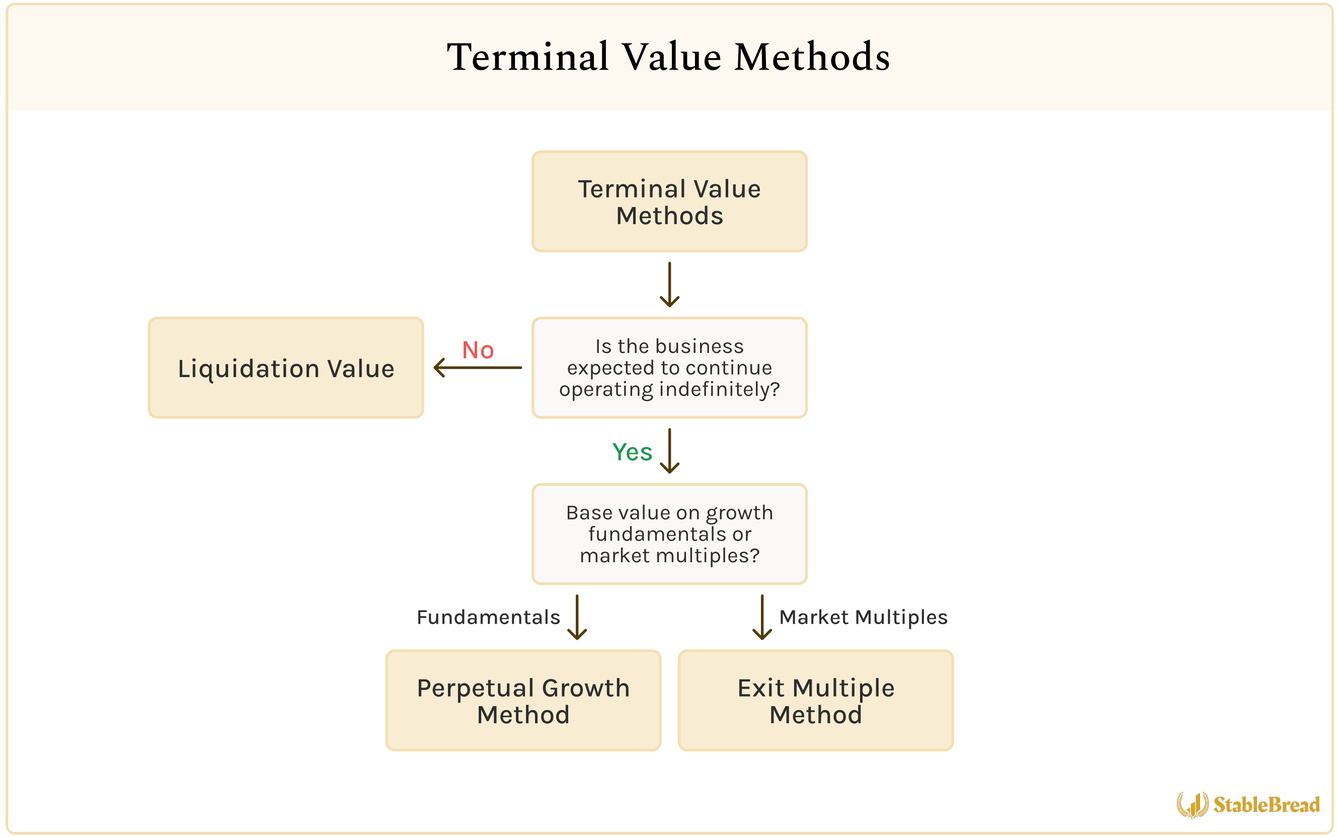
Terminal Value Explained

The DCF model calculates the present value of all future cash flows a company will generate. After estimating cash flows over an explicit forecast period, you need to calculate a **terminal value** to capture the company's worth beyond that point (as you cannot reasonably estimate cash flows forever).

Terminal Value Methods

There are three methods to estimate the TV:

1. **Liquidation Value**: TV based on selling firm's assets, calculated via inflation-adjusted book value or estimated sale proceeds.
2. **Exit Multiple Method**: Apply market multiples from comparable companies (e.g., EV/EBITDA) to final year metric to estimate TV.
3. **Perpetual Growth Method**: Values future cash flows by assuming stable growth at a rate equal to or below GDP growth forever.



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