

Page one: the answer

Chapters 15 and 18. One number, the question it answers, and the single assumption that would change it most. If you cannot write the sentence, the valuation is not finished; the model is.

Company		Analyst	
Question answered		Date	

Which question?	Tick one	What it is worth answering it	Method that leads
What is a minority stake worth? (no control, plan as it stands)			Trading comparables
What is the business worth on its own plan? (going concern, no acquirer)			Discounted cash flow; trading set as a check
What is control worth to a buyer who will change something?			Precedent transactions, disciplined by the DCF

The sentence. "We value [company] at [multiple] EBITDA, or [value] enterprise value, equivalent to [growth] perpetual growth at a [rate] cost of capital. We would move to [higher figure] only against named, owned synergies of at least [amount] a year, being [per cent] of EBITDA."

Case	Enterprise value	Multiple	Implied growth	What would have to be true
Floor				
Recommended				
Ambition				

The assumption that moves it most	Range defended	Value at each end	Why that range

Band, if any (a band that spans a third of its midpoint is a refusal, not a recommendation). What diligence, answered which way, would narrow it?

The five pages, in order: the answer; the three methods with the growth each implies; the cost of capital built and stress-tested; the bridge to the seller's account; what is not in here. Everything else belongs in the file, not the document.

The bridge, dated, item by item

Chapters 2, 16 and 18. An enterprise value is a number; an equity value is a number and a date. Every item is an argument: have it early, in daylight, in the schedule and not in the multiple.

Company		Balance sheet date	
Mechanism: completion accounts / locked box		Prepared by	

Line	Sign	Amount	In or out, and why	Evidence
Enterprise value				
Gross borrowings	less			
Cash, of which genuinely surplus	add		operating balance defended how?	
Finance leases	less			
Unfunded pension obligation	less			
Deferred consideration on past acquisitions (expected, not maximum)	less			
Factored receivables	less		cash already drawn	
Tax payable beyond the ordinary cycle	less			
Accrued, unpaid bonuses	less			
Dilapidations on leased premises	less			
Capital expenditure the buyer must make in year one	less			
Dividend declared and unpaid	less			
Minority interests in consolidated subsidiaries	less		EBITDA includes 100 per cent of them	
Equity-accounted associates	add		no EBITDA, so no multiple applied	
Surplus assets: vacant land, investments, below-market property	add		not in the forecast	
Contingent liabilities: expected cost	less		size and probability, not a multiple	
Equity value	=			
Shares in issue, fully diluted				
Value per share				

The test for every line	Answer
Has the forecast that produced the enterprise value already paid for it? If not, it is in the bridge.	
Would it exist the day after completion, to be paid, collected or sold once? Bridge. Does it change what the business earns every year? Cash flow.	
Is the same net debt used in every column of every method?	

Each 1,000,000 of disputed net debt is 0.25 a share on Cawdrey's 4,000,000 shares, whichever method won. Net debt is negotiated in cash; the multiple in turns.

The forecast, claim by claim

Chapter 4. A forecast is a set of claims. For each line, write the one sentence that would have to be true for it to hold; if you cannot write it, the line is a habit, not an assumption.

Company		Plan version and author	
Years		Date	

Line	The sentence that must be true	Who in the business knows	Evidence seen
Revenue growth, and the fade			
Margin (split into gross margin and overhead)			
Capital expenditure, share of revenue			
Depreciation			
Working capital: level or increase?			
Anything else the page asserts			

Steady state at the last forecast year?	Year five	Terminal	Converged?
Growth has converged on the long-run rate			
The margin has stopped moving			
Capital expenditure has converged on depreciation			
The working capital ratio has stabilised			

The last three plans	Planned	Delivered	Miss, per cent
Plan 1			
Plan 2			
Plan 3			

Cawdrey fails two of the four steady-state tests: it exits growing at 4.0 per cent against 2.0 in perpetuity, and capital expenditure still exceeds depreciation by 382,841. Say so in the paper. Re-underwrite each claim rather than haircutting the output.

Free cash flow, line by line

Chapter 5. Six adjustments between the EBITDA a seller quotes and the number a discounted cash flow discounts. Each is trivial; each is where a valuation goes quietly wrong.

Company		Currency	
Basis: to the firm / to equity		Date	

Line	Year 1	Year 2	Year 3	Year 4	Year 5	Terminal year
Revenue						
EBITDA						
Less depreciation and amortisation						
EBIT						
Less tax on EBIT						
NOPAT						
Add back depreciation						
Less capital expenditure						
Less increase in working capital						
Free cash flow						
Conversion: FCF / EBITDA						
Discounted at the cost of capital						

Check	Answer	Evidence
The three places practitioners go wrong		
Tax: modelled charge reconciled to cash tax paid in the last three years? Losses, allowances, credits, jurisdictions?		
Capital expenditure set equal to depreciation? Only in a genuine steady state: is the asset base growing?		
Working capital: grows with revenue? Which convention, and does the balance sheet support it?		
Order and consistency		
Depreciation deducted before tax and added back after it?		
To the firm at the WACC, to equity at the cost of equity: never mixed?		
Is a flat conversion ratio a finding, or a consequence of fixed ratios?		

Cawdrey, year one: 8,904,000 of EBITDA becomes 4,664,000 of free cash flow, 52.38 per cent. The multiple describes what was paid; the conversion ratio describes what was bought.

The cost of capital, built

Chapters 6 and 18. Six positions, each with a basis, on the same page as the answer. A rate presented as a single cell cannot be attacked, which is why it never is.

Company		Analyst	
Rates taken on		Target gearing	

Line	Input	Basis: what it is	Source	Date taken	Defensible range
Risk-free rate (instrument, maturity)					
Equity risk premium (historical or implied)					
Relative risk measure (peers, unlevered, relevered at target)					
Cost of equity					
Pre-tax cost of debt (today, for this credit)					
After-tax cost of debt					
Equity weight at target					
Debt weight at target					
Weighted average cost of capital					

Add-ons	Basis points	Evidence specific to this company	Overlap with another add-on?
Size			
Illiquidity			
Company-specific			
Total			

Stress	Value	Change	Share of base	Against the spread between methods
Rate less 100 bp				
Base rate				
Rate plus 100 bp				
200 bp span				

Two rules. Do not apply the same risk twice: an illiquidity add-on in the rate and a marketability discount on the value are one charge levied twice. Adjustments made at the start stay the same at the end, whatever the answer. On Cawdrey, one 100 bp add-on removes 9,245,694, 12.65 per cent.

The terminal value, on its own line

Chapter 7. Report the enterprise value as two numbers with the share beside them. A share that climbs past three-quarters is a signal about the horizon or the denominator.

Company		Method: perpetuity / exit multiple	
Final forecast year		Date	

Component	Value	Share
Forecast years, discounted		
Terminal value, discounted		
Enterprise value		

Is the final year a normal year?	Answer	If not, what changes
Capital expenditure at the level that sustains the business, not a trough		
Working capital growing in line with revenue, not releasing		
Margin where it can be held, not at a peak		

The growth rate	Entry
Terminal growth used	
Long-run inflation assumed (below it: real decline for ever)	
Long-run nominal growth (at it: a constant share of the economy for ever)	
The sentence it stands for	

Cross-check	Value
Spread: cost of capital less growth	
Terminal flow capitalised at, times	
Exit multiple the perpetuity implies (report it; never use the trading median as the cross-check it was drawn from)	
Mid-year convention: applied from the first draft? Effect stated?	

Cawdrey: 19,884,106 from the forecast, 53,176,478 from the terminal value, 72.78 per cent. The perpetuity implies 7.63x year-five EBITDA. A year five flattered by 500,000 flatters the enterprise value by 4.7 million.

The sensitivity, ranked

Chapter 8. Not a grid: a ranking. Move each input by the width of a competent disagreement, record how far the answer travels, sort, and spend the remaining time in that order.

Company		Base value	
Base multiple		Date	

Input	Move tested	Why that width	Value, down	Value, up	Span	Share of base	Rank
Cost of capital							
EBITDA margin							
Terminal growth							
Capital expenditure							
Working capital							
Tax rate							

Rate \ growth	Low growth	Base growth	High growth
Low rate			
Base rate			
High rate			

Mark the coherent diagonal: low rate with low growth, high rate with high growth. The other two corners describe businesses that do not exist: arithmetic, not scenarios.

The sentence next to the headline: "At [rate] the business is worth [value]; [the top input] either way by [move] is worth [range], which is more than / less than the distance between the methods."

Cawdrey, recomputed: cost of capital 21,578,578; margin 11,955,368; terminal growth 8,159,608; capital expenditure and working capital 2,672,016 each; tax 2,258,236. The book prints the margin, capex and tax rows from a shortcut; the order is unchanged.

The comparable set, argued

Chapter 9. Selection is an argument, not a search. Read the set backwards: begin with the list and ask what it asserts. A set whose ordering you cannot explain is not finished.

Company		Screen used	
Adjustment policy written on		Date	

Peer	EV / EBITDA	Basis: historic / forward	Cash conversion	Top-three customers	Contracted revenue	Cycle position	Why it sits where it does

The set	Value
Lowest and highest, and the value range they support	
Median (the default for a set you cannot rank)	
Mean, and the gap to the median: is one member contaminated?	
Where the subject belongs on the axis that explains the ordering, and why	

Adjustment	Applied to every member?	Would it have been made if it pushed the other way?
Legitimate, decided before the multiples are computed		
One-off items normalised		
Fiscal periods calendarised		
Accounting treatment aligned: leases, capitalised development, inventory		
Never legitimate		
Any adjustment made after seeing the answer		

Five well-understood peers beat fifteen poorly understood ones. Historic and forward multiples may sit on the same page, labelled; never in the same median. The trading median prices a passive minority stake.

The precedent transactions, rebuilt

Chapter 11. Testimony, not measurement. Date every deal, rebuild each multiple from its components, strip the contingent consideration, and use the set to bracket the market for control rather than to locate a value inside it.

Company		Window set, and why	
Sources		Date	

Date	Target / buyer	Headline consideration	+ debt - cash + debt-like	Enterprise value	EBITDA basis: audited / TTM / run-rate	All cash at completion ?	Contingent share	Multiple	Mark

Bias	Direction	What you did about it
Staleness: the financing conditions of the day	either way	
Disclosure: equity reported as enterprise value; run-rate EBITDA	understates	
Selection: every observation is a winning bid	overstates	
Contingency: the earn-out counted as cash	overstates	

The bracket	Low	Median	High
Multiple			
Enterprise value			

Marks: E = enterprise value estimated; F = floor, contingent element stripped; X = excluded, kept in narrative. Cawdrey: a price reported at equity reads 9.07x instead of 10.40x; a fifth contingent and never paid turns 10.40x into 8.32x.

The control premium, as a synergy register

Chapter 12. Never accept a premium as a percentage. Convert it into the annual cash flow it demands, then ask who, by name, will produce it, from which line, starting when.

Target		Buyer	
Premium over the trading value		Date	

Conversion	Value
Premium (precedent value less trading value)	
Required after-tax flow: premium x (rate - growth)	
Required pre-tax flow: divided by (1 - tax)	
share of EBITDA / of revenue / of cost base	
If it starts in year [n]: the pre-tax flow required	

Synergy line	Owner	Amount a year	Starts	One-off cost	Exclusive to this buyer?	Durable?

Part of the premium that is not synergy	Evidence	Amount
Minority discount recovered	Governance and payout of the peer set	
Competitive tension	The underbidder's price	
Left for synergy to justify		

Cawdrey: 18,480,000 demands 1,293,600 a year after tax, 1,724,800 before, 20.53 per cent of EBITDA, for ever. Three years late, 2,233,667. Every 1,000,000 attributed elsewhere removes 93,333 a year of pre-tax requirement.

The reverse solve, and the honest range

Chapters 13 and 14. Put each value back into the same model and solve for the assumption that separates them. Then build the range from the drivers, not from the methods.

Company		Model version	
Cost of capital held at		Date	

Step	Comparables	DCF	Precedents	Your value
1. Target enterprise value				
2. Less the forecast years, discounted				
3. Rolled forward: $x(1 + WACC)^n$				
4. $g = (WACC \times TV - FCF_n) / (TV + FCF_n)$				
Check: the DCF returns its own growth				

Also solve for	Value implied	Who in the room can argue about it
The cost of capital (a disagreement about risk)		
The steady margin (a disagreement about operations)		
The exit multiple (a financial buyer's holding period)		

Driver	Range varied over, and its defence	Value at the low end, with its assumption	Value at the high end, with its assumption	Rank

Never show a range without showing what would move it. Cawdrey: 1.44, 2.00 and 3.41 per cent; the whole 26.8 per cent spread is 1.96 points of growth, and 200 bp of cost of capital moves 1.17 times as much.

The seller's net proceeds

Chapter 16. Build the seller's net position on the first day, not the last, and rebuild it at every material change in the offer. The price that maximises the headline is not reliably the one that maximises what arrives.

Seller		Offer	
Structure: share / asset		Date	

Line	Amount	When it arrives	Probability	Present value
Enterprise value (headline)				
Less net debt (the dated schedule)				
Equity value				
Less disposal costs: success fee, legal, vendor diligence, completion accountants				
Less transaction bonuses and retention pool				
Taxable gain: equity less costs less the tax base				
Less tax				
Of which deferred consideration				
Of which earn-out				
Of which escrow / holdback, and its release terms				
Completion-accounts adjustment against the working capital peg				
NET PROCEEDS				
Net proceeds plus net debt, as a multiple of EBITDA				

Comparing two offers	Offer A	Offer B
Headline multiple		
Paid at completion		
Deferred, and over how long		
Rate the seller discounts it at, and why		
All-cash equivalent multiple		

Cawdrey at 10.40x: 76,160,000 of equity becomes 64,109,440, 15.8 per cent less, or 8.97x through the bridge. Tax is the case's own assumption. An extra 1,000,000 of value leaves the seller 784,000.

What this valuation does not contain, and how to attack one

Chapters 17 and 18. Name each item, say which treatment was applied or that none was. Then the five questions to put to any valuation you are handed, in this order.

Company		Analyst	
Question answered		Date	

Item	Treatment: cash flow / rate / bridge / left out and said	Amount or "no value attributed"	Sentence that explains it
Customer concentration			
Key-person dependency			
Contingent liabilities			
Intellectual property with no revenue			
Option value: spare capacity, unexploited licence			
Other			

The five questions, ten minutes	Answer
1. Which question does it answer: minority or control, today's market or a strategic buyer, as it stands or as it could be run?	
2. What growth does each number imply, backed onto the same model at the common cost of capital? Above long-run nominal growth?	
3. What share of the value is the terminal value?	
4. What moves it most? Ask for the sensitivity before anything else.	
5. What is missing from the bridge: leases, deficit, earn-out payable, cash that is not surplus?	

Scenarios instead of a fudge	Probability	Value
Downside: the risk the add-on was meant to cover		
Base: the plan		
Upside: the option the plan ignores		
Weighted, at the same cost of capital		

If you cannot write the sentence explaining an adjustment, you have not made an adjustment; you have made a preference.