FCFE STABLE GROWTH MODEL

This model is designed to value the equity in a stable firm on the basis of free cashflows to equity, especially when they are different from dividends paid.

Assumptions in the model:

1. The firm is in steady state and will grow at a stable rate forever.

2. The firm does not pay out what it can afford to in dividends, i.e., Dividends ≠ FCFE.

User defined inputs

The user has to define the following inputs to the model:

1. Current Earnings per share
2. Capital Spending and Depreciation per share
3. Change in working capital per share
4. Desired debt level for financing working capital and capital spending needs.
5. Cost of Equity or Inputs to the CAPM (Beta, Riskfree rate, Risk Premium)
6. Expected Growth Rate in free cashflows to equity forever.

FCFE Stable Model

Please enter inputs to the model:

Current Earnings per share =	$0.40	(in currency)	*{You can input all the numbers for the aggregate company, if you so desire}*
Capital Spending/share =	($1.40)	(in currency)	
Depreciation / share =	$0.14	(in currency)	
Chg. Working Capital/share =	$2.70	(in currency)	
Desired debt financing ratio =	17.00%	(in percent)	
Do you want to offset capital expenditures by depreciation in the future?	No	(Yes or No)	
The reinvestment rate based upon your inputs is computed to be	239.65%		
Do you want to recompute this reinvestment rate based upon fundamentals?	Yes		
If yes, enter the return on equity that you expect this firm to have in perpetuity	12%		
Desired debt financing ratio =	17.00%	(in percent)	
Are you directly entering the cost of equity? (Yes or No)	No		
If yes, enter cost of equity =		(in percent)	
If no, enter the inputs for the CAPM			
Beta of the stock =	1.93		
Riskfree rate =	4%	(in percent)	
Risk Premium=	5.50%	(in percent)	
Expected Growth Rate =	5%	(in percent)	*The expected growth rate for a stable firm cannot be significantly higher than the nominal growth rate in the economy in which the firm operates. It can be lower.*

This is the output from the Gordon Growth Model

Firm Details: from inputs on prior page

Current Earnings per share =		$0.40
-(1- Desired debt fraction) *	83.00%	
(Capital Spending - Depreciation)	($2.50)	($2.08)
-(1- Desired debt fraction) *	83.00%	
∂ Working Capital	$2.70	$2.24
Free Cashflow to Equity =		$0.24

Cost of Equity = **14.87%**

Expected Growth rate = **5.00%**

Gordon Growth Model Value = $2.51

Growth rate	*Value*
9.00%	$4.38
8.00%	$3.71
7.00%	$3.21
6.00%	$2.82
5.00%	$2.51
4.00%	$2.26
3.00%	$2.05
2.00%	$1.87
1.00%	$1.72