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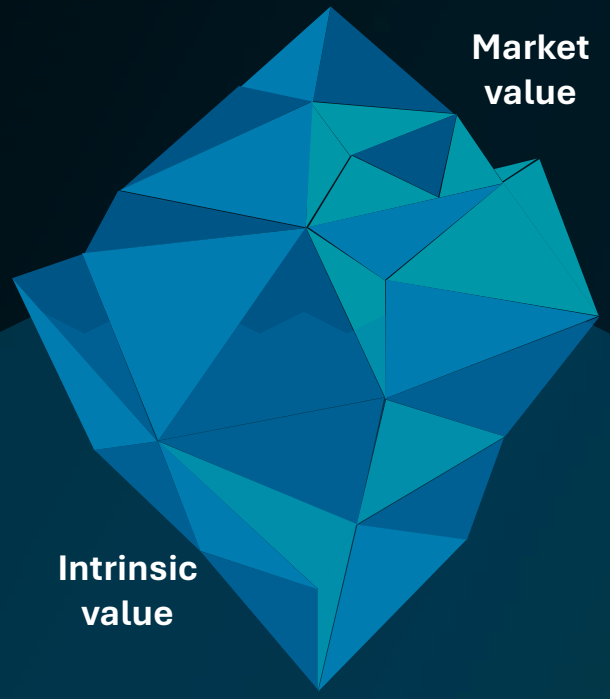
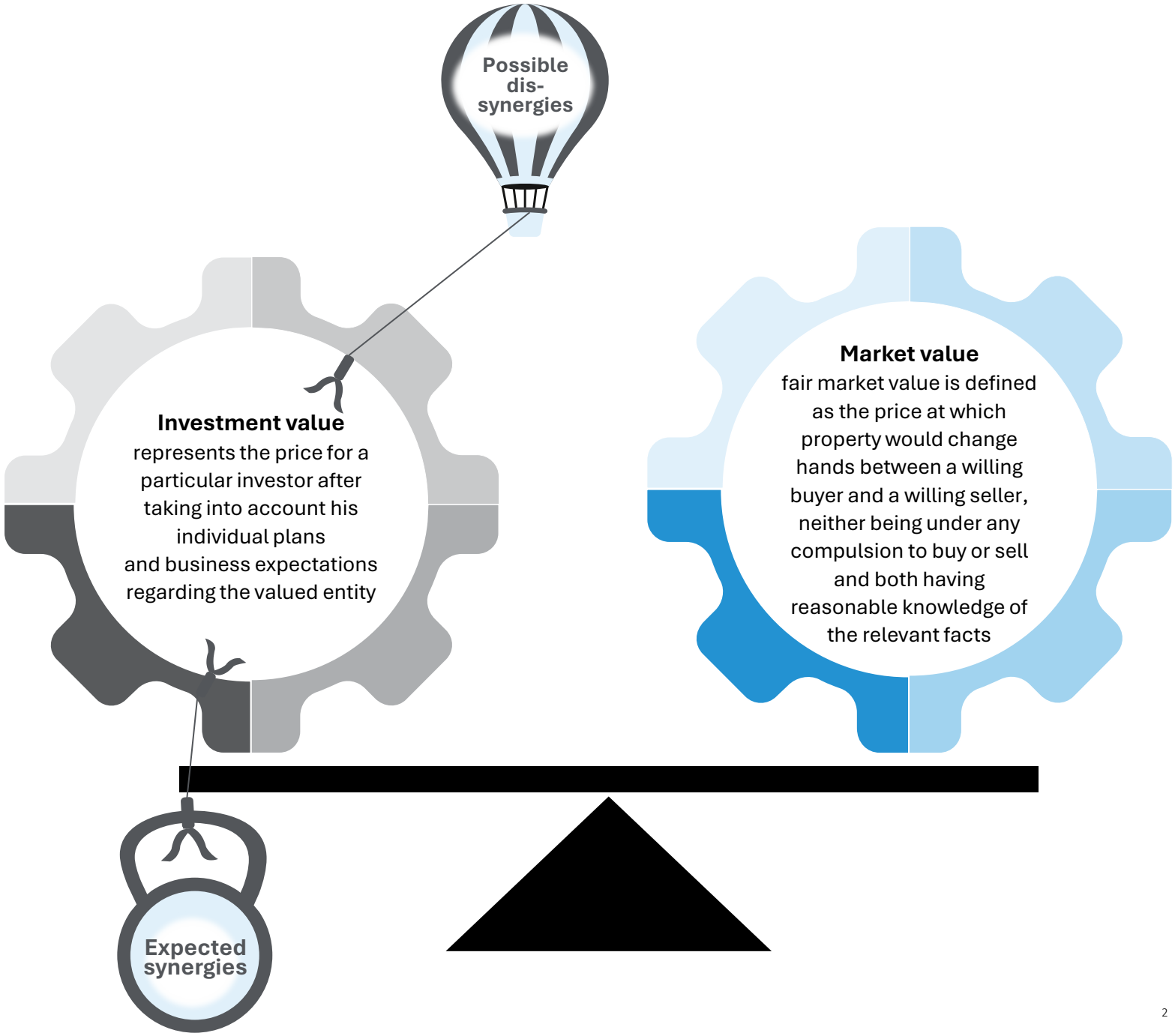
Together makes progress

Valuation: art, science, craft or magic?

Deloitte, 22.10.2025

When can a business be worth more?





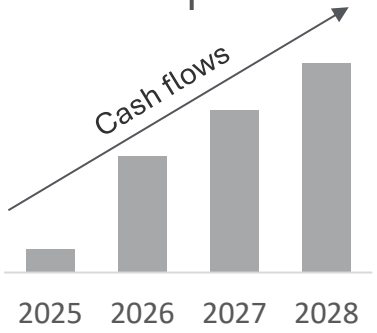
How to estimate the value of a company?

The most popular valuation methods used in practice

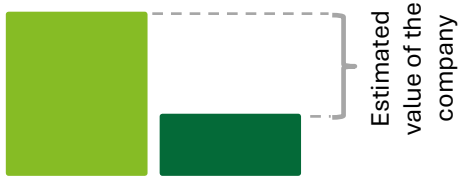
Market approach
(Multiplier method)

BASE (RESULT) x MARKET MULTIPLIER = VALUE

Income approach
(DCF method)



Cost approach
(Net asset method)



How often is it used?

Results of CFA Institute survey on the popularity of selected valuation methods among industry professionals

93%

79%

61%

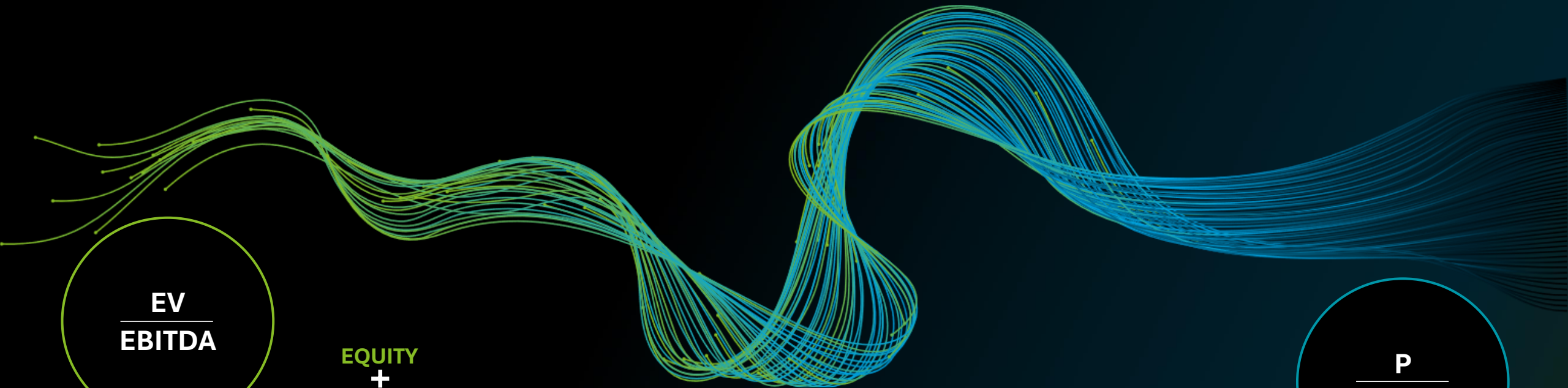
How much are similar companies worth?

How much is the business worth, considering its prospects?

How much is the company's net assets worth?

Market approach

Differences between EV-based multipliers and capitalization



EV / EBITDA

EQUITY + NET DEBT

NET PROFIT + TAX + DEPRECIATION + COSTS / - FINANCIAL REVENUES

P / E

EQUITY

NET PROFIT

- Elements belonging to shareholders
- Elements belonging to other capital providers

Market approach

Selected financial multipliers

Common

P / E = Capitalization / Net profit

Meaning: Indicates how much investors are willing to pay for 1 unit of net profit.

Higher = more expensive

Lower = potentially undervalued

P / BV = Capitalization / Equity

Meaning: Shows the relationship between the market price and the company's book value.

Useful when tangible assets drive value.

EV / EBIT = Enterprise value / Operating profit

Meaning: Reflects the company's valuation relative to its operating profit.

Good for comparing firms with different financing structures.

EV / EBITDA = Enterprise value / Operating profit + Depreciation

Meaning: Reflects the company's valuation relative to its operating profit plus depreciation and amortization.

Preferred for comparing companies with large non-cash expenses.

Specific

EV / User = Enterprise value / Number of users

Meaning: Measures the company's valuation relative to the number of active users or subscribers.

Useful for valuing companies where user base size drives future revenue potential.

EV / MV = Enterprise value / Installed capacity

Meaning: Indicates the company's valuation relative to installed or planned energy capacity (in MW).

Helps compare companies based on operational capacity rather than profit metrics.

EV / EBITDAR = Enterprise value / EBITDA + Cost of lease

Meaning: Reflects valuation relative to operating performance before rent expenses.

Provides a clearer comparison for businesses with different lease structures.

EV / EBITDAX = Enterprise value / EBITDA + Extraction costs

Meaning: Measures valuation relative to earnings excluding exploration expenses.

Useful for comparing exploration-focused companies with varying investment levels in resource discovery.

Market approach

Pros and cons of market approach

ADVANTAGES

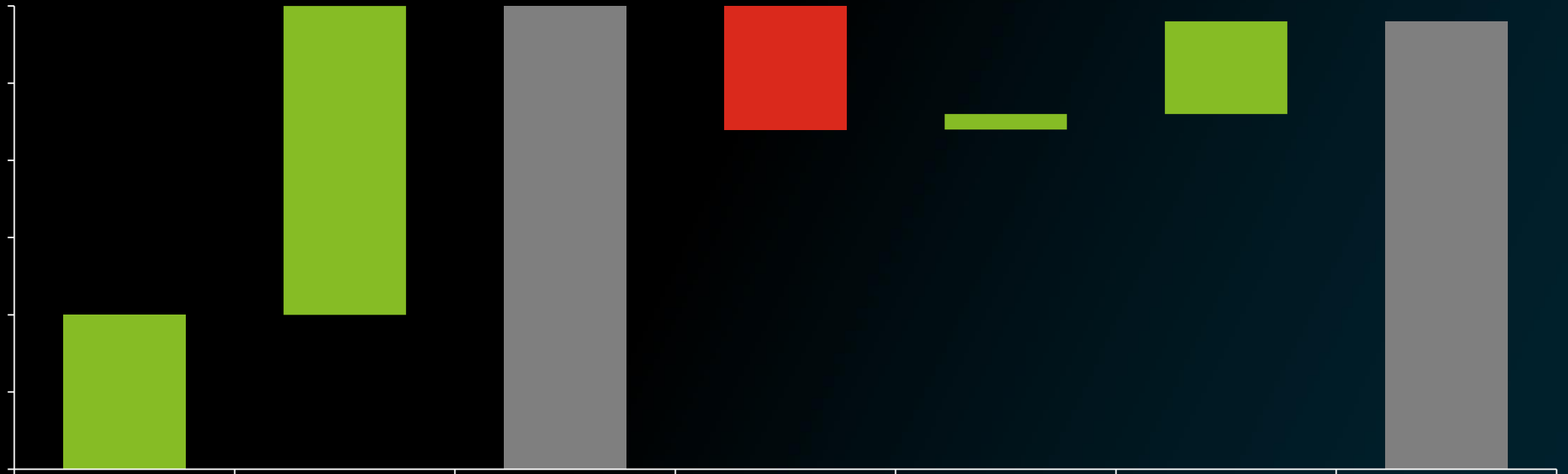
- **Based on market performance** – the data used in the valuation is based on current public market data, which reflects market expectations for growth and risk, as well as general sentiment.
- **Easily comparable** – multipliers are easily measurable and comparable with other companies.
- **Quick and convenient** – the valuation can be carried out based on quick and easy to collect and calculate data.
- **Based on current data** – uses current market data and agreed consensuses, which can be updated at any time.

DISADVANTAGES

- **Relying too much on market performance** – valuation may be distorted during periods of market fluctuations and unusual behavior.
- **Difficulty in finding comparable companies –** finding representative number of comparable companies may sometimes be difficult or even impossible, e.g. when the company operates in a niche sector.
- **Potentially unrelated to cash flows** – basing the valuation solely on other market entities does not focus due attention on the current condition and future forecasts for the company being valued.
- **May not take into account factors specific to the company being valued** – comparable companies may not reflect factors specific to the company being valued or the part of the market in which it operates.

Income approach

Key elements of value



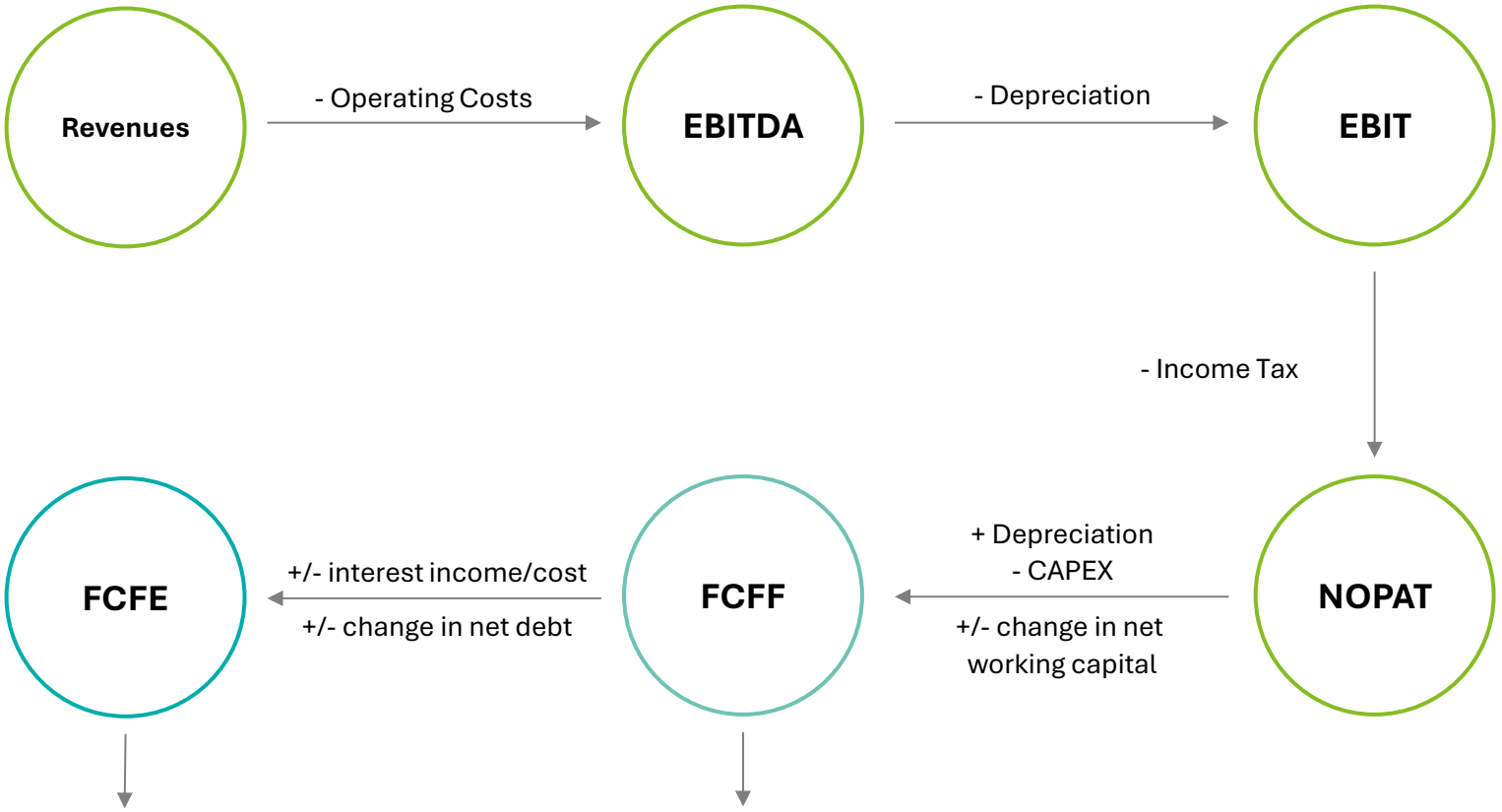
$$V = \sum \frac{CF}{(1+i)^t} + \frac{1}{(1+i)^n} \times \frac{(1+g)xCF_n}{i-g}$$

Net debt

Financial assets
+
Investment property
+
Unused fixed assets
+
Other investments

Income approach

Decomposition of FCFF and FCFE components



Equity value

$$V = \sum \frac{FCFE}{(1 + \boldsymbol{CoE})^t}$$

Enterprise value

$$V = \sum \frac{FCFF}{(1 + \boldsymbol{WACC})^t}$$

Discounted Dividend Model is commonly used for valuing publicly traded companies, particularly from a minority shareholder's perspective.

$$P_0 = \frac{D_1}{r - g}$$

Enterprise value

Present value of free cash flows

Residual value

+

Adjustments

Net debt

- Interest-bearing debt
- Non-operating cash

Non-operating assets

- Financial assets
- Investment property
- Non-operating fixed assets
- Other investments

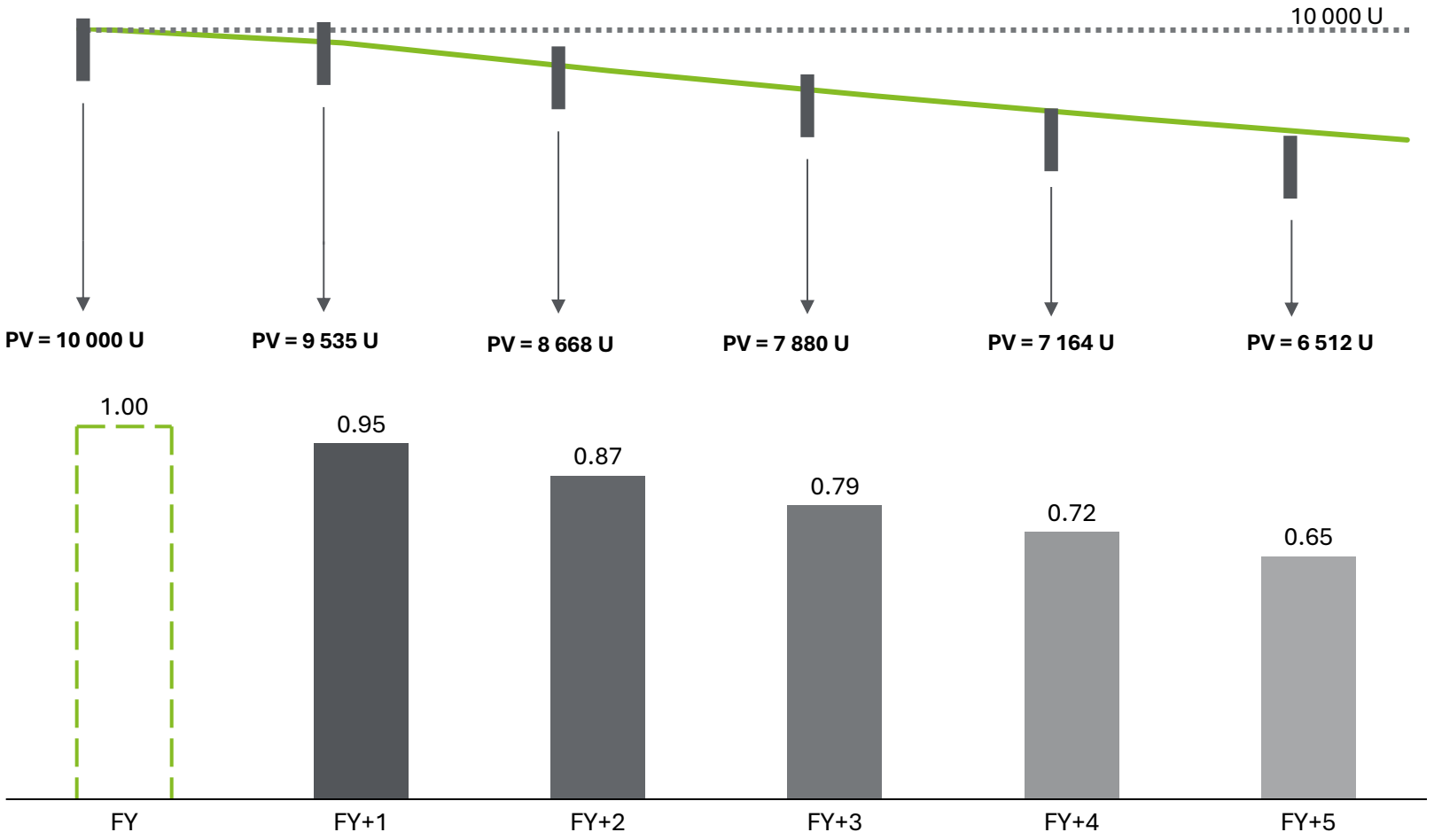
=

Equity value

Does cash flow depreciate over time?

Change in the value of discounted cash flows

Present value of future discounted cash flows



Assumptions

10 000 U	value of cash flows in all periods
10%	WACC
0.5	mid-period

$$\text{Discount factor} = \frac{1}{(1+10\%)^{(n-0{,}5)}}$$

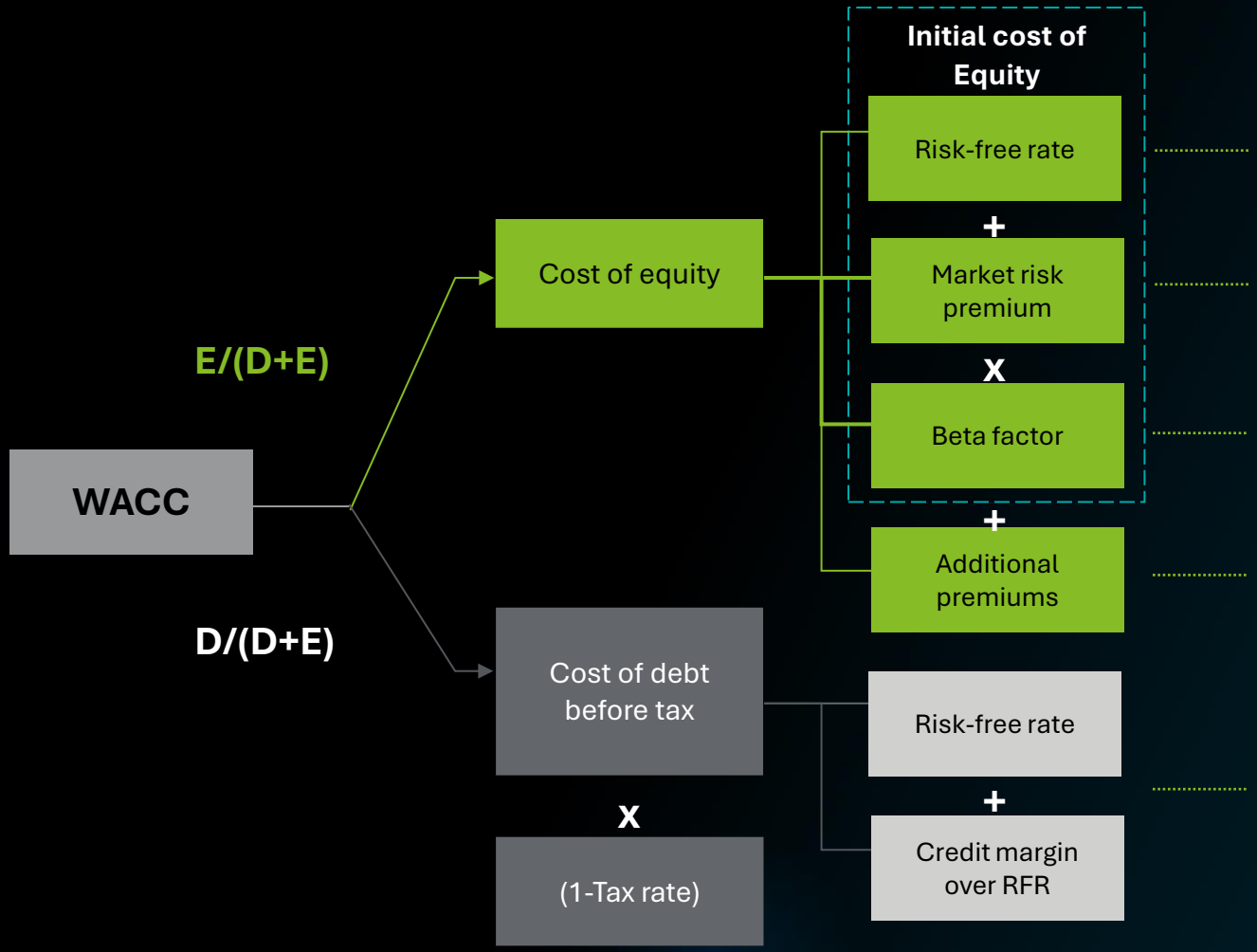
$$\text{PV} = \text{FV x discount factor}$$

Results

50 000 U	FCFF
39 758 U	DFCFF

How to calculate WACC?

Components of the weighted average cost of capital



Estimated on the basis of profitability (YTM) of 10-year government bonds.

Determines the number of percentage points by which the rate of return on investment in a market-representative equity portfolio exceeds and as expected, will exceed the risk-free rate.

A measure of systematic risk that determine changes in the returns of individual assets compared to the market as a whole.

In addition, depending on the specificity of the Company and the market environment, the following areas are taken into account:

a) the country risk premium
b) the size premium
c) a specific premium

The selected base reference rate and the margin for the financing provider shall be calculated on the basis of the credit conditions specific to the enterprise concerned. Due to the existence of a tax shield for incurring debt financing costs, the cost of debt after tax is taken into account in the calculation.

Income approach

Pros and cons of income approach

ADVANTAGES

- **Based on cash flows** – income approach reflects the FCF forecast, which represents a more fundamental approach to valuation than multiples-based methods.
- **Independent of the market** – less susceptible to market deviations such as speculative bubbles or periods of increased market uncertainty and anxiety.
- **Self-sufficient** – does not rely solely on other entities such as comparable companies or transactions; can be used in case of a small number or absence of comparable public companies.
- **Flexible** – allows for the introduction of various scenarios of the company's development and operations by modifying cash flows and their components.

DISADVANTAGES

- **Based on financial forecasts** – proper forecasting of cash flows is difficult or even impossible, especially with long forecast periods.
- **Highly sensitive to assumptions** – even small changes in key assumptions (such as discount rates, growth rates) can result in large changes in forecasts.
- **Subject to residual value inaccuracy –** the present value of the residual value represents no more than a few quarters of DCF valuation, which significantly affects the accuracy of the annual FCF forecast.
- **Assumes an unchanged capital structure –** the basic DCF model does not allow for flexibility in changing the company's capital structure during the forecast period

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