The Implied Growth Rate

- **Terminal Value** = \[
\frac{\text{Final Year FCF} \times (1 + \text{FCF Growth Rate})}{(\text{Discount Rate} - \text{FCF Growth Rate})}
\]

- **Terminal Value** \times (\text{Discount Rate} - \text{FCF Growth Rate}) = \[
\text{Final Year FCF} \times (1 + \text{FCF Growth Rate})
\]

- **Terminal Value** \times \text{Discount Rate} - \text{Terminal Value} \times \text{FCF Growth Rate} = \[
\text{Final Year FCF} + \text{Final Year FCF} \times \text{FCF Growth Rate}
\]
The Implied Growth Rate

• Terminal Value * Discount Rate – Terminal Value * FCF Growth Rate = Final Year FCF + Final Year FCF * FCF Growth Rate

• Terminal Value * Discount Rate – Terminal Value * FCF Growth Rate – Final Year FCF – Final Year FCF * FCF Growth Rate = 0

• – Terminal Value * FCF Growth Rate – Final Year FCF * FCF Growth Rate = – Terminal Value * Discount Rate + Final Year FCF
The Implied Growth Rate

- Terminal Value * FCF Growth Rate – Final Year FCF * FCF Growth Rate = – Terminal Value * Discount Rate + Final Year FCF

- FCF Growth Rate * (–Terminal Value – Final Year FCF) = – Terminal Value * Discount Rate + Final Year FCF

- FCF Growth Rate * (Terminal Value + Final Year FCF) = Terminal Value * Discount Rate – Final Year FCF
The Implied Growth Rate

• FCF Growth Rate * (Terminal Value + Final Year FCF) = Terminal Value * Discount Rate – Final Year FCF

• FCF Growth Rate =

   \[
   \frac{(\text{Terminal Value} \times \text{Discount Rate} - \text{Final Year FCF})}{(\text{Terminal Value} + \text{Final Year FCF})}
   \]