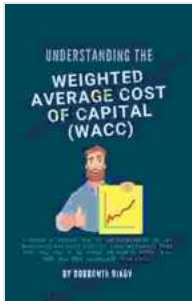


Quick Introduction to WACC and How to Calculate It in Excel



Weighted Average Cost of Capital (WACC): A quick introduction to the concept of WACC, and how to calculate it within Excel, illustrated with a case study

by Dobromir Dikov

★★★★★ 5 out of 5

Language : English
File size : 2320 KB
Text-to-Speech : Enabled
Screen Reader : Supported
Enhanced typesetting : Enabled
Word Wise : Enabled
Print length : 42 pages
Lending : Enabled



What is WACC?

Weighted Average Cost of Capital (WACC) is a financial metric that represents the average cost of a company's capital, taking into account the cost of debt and equity. It is a key metric used in capital budgeting and financial analysis, as it helps companies make informed decisions about investment projects.

Importance of WACC

- Helps companies determine the appropriate discount rate for future cash flows

- Enables companies to compare the cost of capital with the expected return on investment projects
- Assists companies in making optimal capital structure decisions

Components of WACC

WACC is calculated using the following formula:

$$\text{WACC} = (E / V) \times Re + (D / V) \times Rd \times (1 - T)$$

- **E** = Market value of equity
- **V** = Total value of the firm (E + D)
- **Re** = Cost of equity
- **D** = Market value of debt
- **Rd** = Cost of debt
- **T** = Tax rate

How to Calculate WACC in Excel

Follow these steps to calculate WACC using Excel:

1. Open a new Excel workbook.
2. Enter the following data into the worksheet:
 - Market value of equity (E)
 - Total value of the firm (V)
 - Cost of equity (Re)

- Market value of debt (D)
 - Cost of debt (Rd)
 - Tax rate (T)
- Select a cell in the worksheet and enter the following formula:

$$=((E/V)*Re)+((D/V)*Rd*(1-T))$$

- Press Enter to calculate the WACC.

Example

Consider the following example:

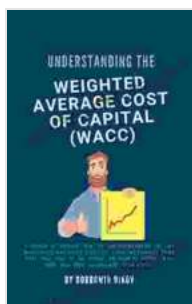
	Value
Market value of equity (E)	\$100 million
Total value of the firm (V)	\$150 million
Cost of equity (Re)	10%
Market value of debt (D)	\$50 million
Cost of debt (Rd)	8%
Tax rate (T)	30%

To calculate WACC using Excel, enter the data into the worksheet and use the following formula:

$$=((100/150)*10%)+((50/150)*8%*(1-30%))$$

Press Enter to calculate the WACC. The WACC for this example is 9.2%.

WACC is a crucial financial metric that helps companies make informed decisions about capital budgeting and investment projects. By understanding the components of WACC and how to calculate it using Excel, financial professionals can effectively evaluate the cost of capital and make optimal financial decisions.



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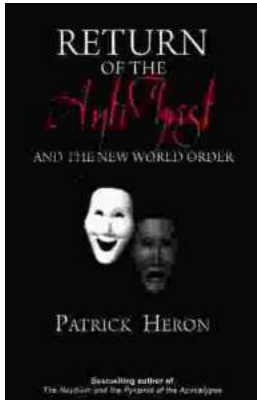
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