

Calculations.

Prolonging a Competitive Advantage (CA).

A company with a CA that lasts for the next 5 years may be worth £50m valuation to its business owner shareholders. But if the CA could be prolonged for an extra 2 years, the same company is worth £53m.

£40m assets earning 13% RoIC	= £5.2m annual profit.
7% CoC	= <u>£2.8m annual cost of capital</u>
	= £2.4m economic profit

Discount back to the present the future £2.4m annual economic profits:

Years	7% discount rate (Cost of Capital).		
1	£2.4	0.935	£2.2 (£2.4m x 0.935)
2	£2.4	0.873	£2.1
3	£2.4	0.816	£2.0
4	£2.4	0.763	£1.8
5	£2.4	0.713	£1.7
			£10
6	£2.4	0.666	£1.6
7	£2.4	0.623	£1.5
			£13

£40m assets + £10m Economic Value Added = £50m company valuation.

Prolong the Competitive Advantage for **another 2 extra years**
 = £40m + £13m = £53m valuation.