M&A / CORPORATE DEVELOPMENT

DCF Analyst Cheat Sheet

Build Order · 7 Critical Errors · Pre-Send Checklist

FinModelAI
Institutional-grade Excel models

CORRECT BUILD ORDER

1. **FCF Forecast**
   FCFF (→ WACC)
   or FCFE (→ Ke)
2. **WACC Build**
   Rf + ERP + Beta
   + capital structure
3. **Terminal Value**
   Gordon GGM or
   Exit Multiple
4. **Enterprise Value**
   PV(FCFs) + PV(TV)
5. **EV → Equity Bridge**
   − Net Debt
   − Minority Int.
   + Cash ± Other
6. **Implied Share Price**
   Equity Value
   ÷ Diluted Shares
7. **Sensitivity Tables**
   WACC × TGR
   Rev Growth × Margin

WHY SEQUENCE MATTERS

Each step's inputs are the outputs of the step before. Wrong order = errors that compound silently.

THE 7 ERRORS THAT BREAK A DCF

E1 FCF / Discount Rate Mismatch
FCFF discounted at Ke (or FCFE at WACC) systematically biases EV by leverage ratio — can be 15–30% off. **Fix: lock FCF type + matching rate in Start Here tab.**

E2 Terminal Value Dominates Without Disclosure
TV = 60–80%+ of EV. A 0.5% TGR change is the valuation, not a sensitivity. **Fix: add "TV as % of EV" line on dashboard. Flag if >70%.**

E3 Double-Counting Cash in the Bridge
Cash in WC changes in FCF + cash add-back in bridge = double-count inflates equity value. **Fix: FCF definition and bridge items must be mutually exclusive.**

E4 WACC Built on Shaky Foundations
Stale ERP, unadjusted raw beta, short-term Rf rate, wrong capital structure weighting. **Fix: WACC tab with each input sourced + dated. Hardcoded WACC = not auditable.**

E5 TGR Exceeds Long-Run Nominal GDP
TGR >3% for mature developed-market business implies outliving the economy. Benchmark: 2–2.5% for developed markets. **Fix: default 2–2.5%; justify anything higher with explicit sensitivity.**

E6 Mid-Year Convention Omitted
End-of-year discounting assumes all cash arrives Dec 31. Difference vs. mid-year: 5–10% on EV. **Fix: use (1+WACC)^(t−0.5) as discount factor. Label it as a named switch.**

E7 No Sensitivity Tables (or Irrelevant Ones)
Single output number = false precision. Correlated variable pairs give illusion of range without stress-testing. **Fix: always include WACC × TGR two-way table as minimum.**

PRE-SEND CHECKLIST

- [ ] FCF type (FCFF/FCFE) matches discount rate (WACC/Ke)
- [ ] TV as % of EV disclosed on dashboard
- [ ] No cash double-counted: FCF definition and bridge are mutually exclusive
- [ ] WACC tab: each input sourced, dated, and labeled
- [ ] TGR ≤ long-run nominal GDP (or explicitly justified)
- [ ] Mid-year convention documented as named assumption
- [ ] At minimum: 2-way WACC × TGR sensitivity table
- [ ] Model recalculates cleanly — no circulars, no broken links
- [ ] Color coding consistent: blue = input, black = formula, green = link

- FAST standard — no macros