



CANCELLED

7 Common WACC Errors

Find Out How To Avoid Them

important notice (1)

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struggling to believe the weighted average cost of capital (“WACC”) your client tells you?

WACCFINDER

Hey,

You are not alone.

I've been meaning to share a bit of my journey in the subjective world of WACC calculation for financial reporting.

You know, it's been quite the rollercoaster, and if you've ever felt a bit lost in the maze of advice-seeking, you're not alone.

Picture this: me, a more than a decade back, frustrated and endlessly helping auditors searching for guidance on how to navigate the intricacies of fair value reporting.

Fast forward to today, and I'm excited to let you in on a little secret.

After years of trial and error, countless hours of research, and a fair share of "aha" moments, I've put together a blueprint and software that I wish I had when I was in your shoes.

It's not just about sharing theoretical knowledge; it's about giving you the practical insights and tips that I've gathered through hands-on experience.



I get it, my friend – the struggle is real.

Exhibit 1.1: WACC Formula

$$WACC = \underbrace{\frac{E}{D + E}}_{\text{weight of equity}} \times \underbrace{k_e}_{\text{cost of equity}} + \left(\underbrace{\frac{D}{D + E}}_{\text{weight of debt}} \times \underbrace{k_d}_{\text{cost of debt}} \times \underbrace{(1 - t)}_{\text{tax shield}} \right)$$

Legend:

D = market value of debt

E = market value of equity

k_d = cost of debt

k_e = cost of equity

t = tax rate

That's why I felt compelled to pay it forward and create something that simplifies the complex, demystifies the jargon, and puts you in the driver's seat when it comes to share-based payment valuation for financial reporting.

In this blueprint, I've distilled the lessons from my own journey and outlined a step-by-step guide that will not only save you time but also empower you to confidently advise your clients or complete your assignment.

Whether you're a seasoned professional or just dipping your toes into the waters of financial reporting, I guarantee you'll find valuable nuggets of wisdom that will transform the way you approach WACC estimation for fair value valuation.

Let's face it – success is sweeter when shared.

I genuinely believe that by passing on my learnings and experiences to you, we're building a community of empowered professionals who can elevate the standards in our field.

So, are you ready to take your fair value reporting game to the next level?

Let's dive into this blueprint together to find out how WACCFINDER™ helps you get a cost of capital that can pass an accounting regulator's review!

Looking forward to hearing your thoughts!

Cheers,

A handwritten signature in black ink, reading "Siong Yoong".

SIONG YOONG
FOUNDER AND CEO
Practice Leader, Deal Advisory

the starting line

Auditors, calculating WACC for fair value financial reporting can present several challenges. Perhaps you have discovered one or more of the following challenges:

I don't know where to find a number not in the financial statements

"How did I arrive at a 3% WACC? That's what I think the cost of funds should be for my risky business."

Determining the appropriate inputs for WACC calculation, such as the cost of equity, cost of debt, and the weights of each component, can be challenging. Companies often rely on historical data and subjective judgments to estimate these inputs, which can introduce errors or biases.

I asked my banker for the current loan interest rate

That's the wrong answer. Loan interest rates reflect credit risk. WACC reflects a cost demanded for (a higher) business risk.

My parent company is willing to lend/invest at much lower than market rate

Another common mistake. Fair value reporting requires you to find out what an unrelated third party is willing to lend/invest at an arm's length.



double your impact in half the time

I've got good news.

When you use the information we've pulled together, your path will be clearer than ever.

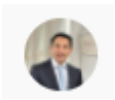
These approaches are inspired by our work advising successful companies that have withstood the test of time.

We have adapted them based on the experience we've gained working with over a thousand entrepreneurs and their companies as a consultancy and from the knowledge and firepower drawn from our network of fellow advisers around the world.

We know firsthand that by using these strategies successfully, you will get the financial confidence to Make Your Move™ to gain stakeholder trust.

In other words, you can double your business impact, and double your business growth.

testimonials



EVAN LAW, CHIEF EXECUTIVE

SINGAPORE ACCOUNTANCY COMMISSION

Mr. Mun Siong Yoong, Founder and CEO of WACCFINDER Deal Advisory Pte Ltd, was conferred the Chartered Valuer and Appraisers (CVA) designation in 2017 for his extensive industry experience in the field of Business Valuation (BV).

He is a current member of the Standards and Technical Working Group of the Institute of Valuers and Appraisers, Singapore (IVAS), an institute under the Singapore Accountancy Commission (SAC). The SAC is a statutory body under the Ministry of Finance.

The STWG provides oversight for the development and publication of practice guides on valuation matters. It also provides technical assistance to regulators such as the Accounting and Corporate Regulatory Authority (ACRA) and Singapore Exchange Regulation Company (SGX RegCo) on complex valuation issues.



1. blueprint



In this **blueprint**, you'll learn about

1. Incorrect Risk-Free Rate
2. Inconsistent Beta Estimation
3. Mismatched Market Risk Premium
4. Misjudging Cost of Debt
5. Inappropriate Capital Structure Weights
6. Neglecting Tax Effects
7. Overlooking Country Risk Premium



1.1 incorrect risk-free rate

Using an inaccurate risk-free rate can distort WACC calculations.

Financial Reporting Standard 36 ("FRS36") para A16 (a) states that the rate should consider 'the time value of money for the periods until the end of the asset's useful life '.

Ensure that the risk-free rate reflects the appropriate time horizon and is consistent with the currency of the valuation.

The screenshot displays the WACCFINDER web application interface. At the top, there is a dark navigation bar with the WACCFINDER logo on the left and a series of icons (bell, question mark, video, share, user) on the right, followed by a button labeled "Book An Advisory Session". Below the navigation bar, the main content area is divided into two sections. On the left, a progress indicator shows "1 of 3" and "Step 1 - Find your Cost of Equity or CAPM". Below this, a section titled "2 Select Duration of Cashflow" contains a dropdown menu labeled "Select Duration" and a "Next" button. A small note below the dropdown states: "If the cash flows belong to a going concern business, leave it at 5 years and above." At the bottom left of this section, it says "2 of 9 questions" with up and down arrow icons. On the right, a section titled "Your WACC Calculation" contains the instruction "Complete the questions and your calculation will appear here". Below this, there is a visual representation of the WACC formula:
$$\begin{matrix} \text{Cost of Equity} \\ \times \end{matrix} + \begin{matrix} \text{Cost of Debt} \\ \times \end{matrix} = \text{WACC}$$
 where "Cost of Equity" and "Cost of Debt" are in white circles, and "WACC" is in a larger brown circle. Below the formula, there are two smaller white circles labeled "% Equity" and "% Debt".

WACCFINDER™ allows you to select a duration that most closely matches that of your forecasted cashflows.

1.2 inconsistent beta estimation

Beta measures a stock's volatility relative to the market.

Errors in estimating beta, such as using betas from unrelated industries or using historical betas without adjusting for changes in business risk, can distort the cost of equity calculation.

The screenshot displays the WACCFINDER web application interface. At the top, there is a dark navigation bar with the WACCFINDER logo on the left and a series of icons (notifications, help, video, share, user) on the right, along with a button labeled "Book An Advisory Session". Below this, a light gray header bar indicates "2 of 3 Step 2 - Find your Cost of Debt". The main content area is divided into two sections. On the left, under the heading "5 Select your Industry", there is a dropdown menu currently showing "Advertising". Below the dropdown, a small text block explains: "Select the industry the business is in. If you are in more than one, please pick your principal industry, i.e. the industry that contributes most of your revenues or assets." There is also a "Watch The Video" link and a "Next" button. At the bottom left of this section, it says "5 of 9 questions" with up and down arrow icons. On the right, the section is titled "Your WACC Calculation" with the instruction "Complete the questions and your calculation will appear here". It features a visual calculation diagram: a circle labeled "Cost of Equity" with "9.5%" above it, followed by a multiplication sign "X", a plus sign "+", a circle labeled "Cost of Debt", followed by a multiplication sign "X", an equals sign "=", and a large brown circle labeled "WACC". Below the "Cost of Equity" circle is a smaller circle labeled "% Equity", and below the "Cost of Debt" circle is a smaller circle labeled "% Debt".

WACCFINDER™ allows you to estimate beta either by:

1. Industry (online); or
2. guideline public companies (PDF report)

1.3 mismatched market risk premium

The market risk premium represents the additional return investors demand for bearing market risk.

Using an outdated or mismatched market risk premium can lead to incorrect estimations of the cost of equity.

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1 of 3 Step 1 - Find your Cost of Equity or CAPM

3 Select your Country of operation

Singapore

Select based on geography of business operation, not country of incorporation. If you have more than one, please pick your principal country of operation, i.e. where the largest percentage of revenue arises.

When you checkout, select Subscription plan which allows you to input multiple countries. (2) Only AAA-rated countries are included in this list. To unlock WACCFINDER's full list of countries, i.e. AAA-rated and non-rated, please select Subscription plan at checkout.

Watch The Video

Next

3 of 9 questions

Your WACC Calculation

Complete the questions and your calculation will appear here

Cost of Equity 9.5% X + Cost of Debt X = WACC

% Equity % Debt

A common error when estimating a market risk premium is to select a country of incorporation, i.e. where the business is registered, vs a country of operation.

For example, a business registered in Singapore but whose customers are in Indonesia should select Indonesia.

1.4 misjudging cost of debt

Estimating the cost of debt incorrectly by using outdated interest rates or mismatched bond yields can lead to inaccurate WACC calculations.

Ensure that the cost of debt reflects the current market conditions and the company's credit risk.

The screenshot displays the WACCFINDER web application. At the top, the header includes the WACCFINDER logo, navigation icons (bell, question mark, video, share, user), and a button to "Book An Advisory Session". The main content area is titled "Step 1 - Find your Cost of Equity or CAPM" (1 of 3 steps). The current question is "What is your pre-tax Cost of Debt?", with a text input field and a "Please enter a value" prompt. Below the input field, a hint states: "You can find it under your balance sheet footnotes to long-term third-party debt, e.g. bank loan with a minimum of 5 year tenure." There is a "Watch The Video" link and a "Next" button. At the bottom left, a progress bar shows "7 of 9 questions" and navigation arrows. On the right, a section titled "Your WACC Calculation" explains that the calculation will appear after questions are completed. It features a visual formula:
$$\begin{matrix} \text{Cost of Equity} & & \text{Cost of Debt} \\ \downarrow & + & \downarrow \\ X & + & X \\ \hline & = & \end{matrix} \text{WACC}$$
 The "Cost of Equity" circle has a "9.5%" label, and the "Cost of Debt" circle has a "X" label. Below each circle are input fields for "% Equity" and "% Debt".

WACCFINDER™ provides you both text-based help and video tutorials to help you find the most appropriate input.

It's help when you need it. Be tutored by VALLARIS' expert business valuers on demand!

1.5 inappropriate capital structure weights

Using incorrect weights for debt and equity in the capital structure can skew the WACC calculation.

Ensure that the weights reflect the market values of debt and equity rather than book values, and consider adjusting for any impending changes in the capital structure.

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2 of 3 Step 2 - Find your Cost of Debt

9 What is your target's Debt as a percentage of Debt + Equity?

Please enter a value

Long term debt / (long term debt + equity). Equity = market capitalization + minority interest + preference shares (if listed under the equity section of the balance sheet of your business' financial statements.

Watch The Video

Submit

9 of 9 questions

Your WACC Calculation

Complete the questions and your calculation will appear here

12.0%

Cost of Equity

X

+

Cost of Debt

X

=

% Equity

% Debt

WACC

While users reference debt and *equity book values*, accounting regulators often demand *market values*.

WACCFINDER™ offers *market values* under the PDF report option.

1.6 neglecting tax effects

Ignoring the tax benefits of debt financing can lead to an overstated WACC. Incorporate the tax shield effect by adjusting the cost of debt for the tax-deductibility of interest expenses.

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2 of 3 Step 2 - Find your Cost of Debt

8 What is your Corporate Tax Rate?

17

Select your marginal tax rate. Do not use effective tax rate unless it represents a sustainable, long term rate.

Watch The Video

Next

8 of 9 questions

Your WACC Calculation

Complete the questions and your calculation will appear here

Cost of Equity 12.0%

Cost of Debt

% Equity

% Debt

WACC

A common error is to apply a tax rate other than the marginal corporate rate as the first choice. These include:

1. effective tax rate
2. withholding tax rate
3. goods and services ("GST") / Value added tax ("VAT") rate

WACCFINDER™ automatically applies the selected country's corporate tax rate so you don't have to!

1.7 overlooking small capitalization premium

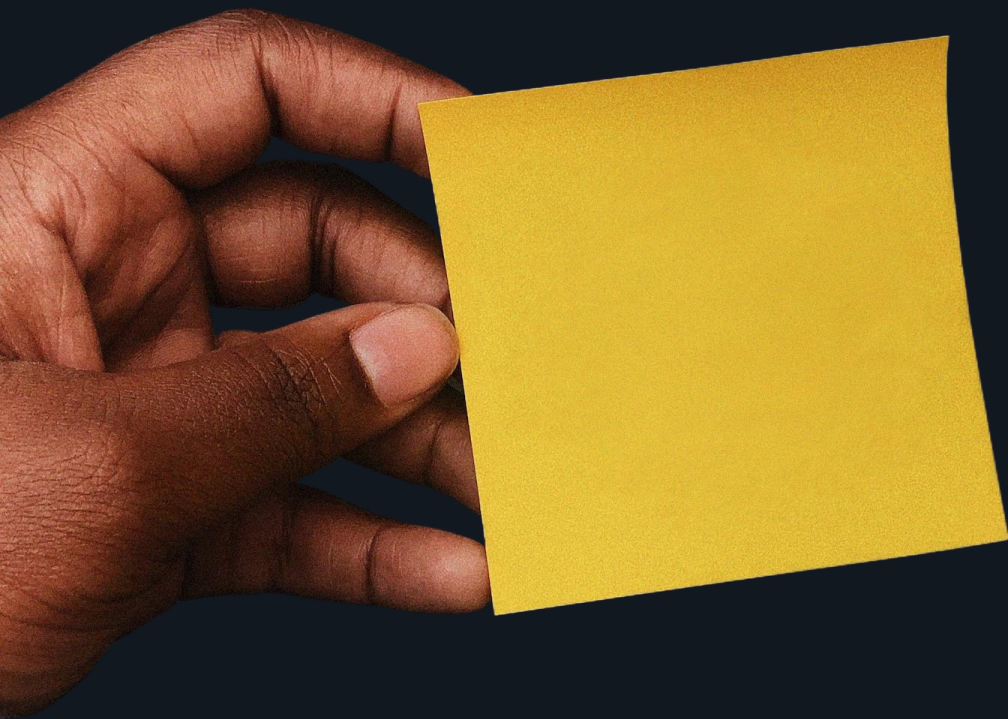
Overlooking country risk premiums can lead to understating the cost of equity. This leads to overstated asset values.

Consider incorporating country risk premiums to account for the additional risks associated with operating in certain jurisdictions.

The screenshot displays the WACCFINDER web application interface. At the top, there is a dark navigation bar with the WACCFINDER logo on the left and a series of icons (bell, question mark, video, share, user) on the right, followed by a button labeled "Book An Advisory Session". Below the navigation bar, a light gray banner indicates "1 of 3 Step 1 - Find your Cost of Equity or CAPM". The main content area is divided into two sections. On the left, a question "6 What is the Target Company's Market Capitalization (listed company)?" is displayed, followed by a dropdown menu labeled "Select Small Cap Premium". Below this, a note states: "If the target company is unlisted, reference its balance sheet net book value as at valuation date (from Step 1)." There is a "Watch The Video" link and a "Next" button. At the bottom left, a progress indicator shows "6 of 9 questions" with up and down arrow buttons. On the right, a section titled "Your WACC Calculation" contains the instruction "Complete the questions and your calculation will appear here". Below this, a visual calculation formula is shown: "Cost of Equity" multiplied by "X", plus "Cost of Debt" multiplied by "X", equals "WACC". Below each "X" is a circular input field labeled "% Equity" and "% Debt" respectively. The final result "WACC" is shown in a large orange circle.

By avoiding these seven (7) common errors and ensuring that inputs are accurately estimated, financial analysts can generate more reliable WACC calculations for fair value financial reporting.

2. checklist



2.1 checklist

No	Focus Area
1	Are the input parameters up-to-date and relevant to the risks of the cashflows?
Ans:	
2	Have changes in capital structure of comparable industry players been considered?
Ans:	
3	Was the cost of capital calculated using the extended capital asset pricing model ("CAPM")?
Ans:	
4	Have tax effects been accounted for?
Ans:	
5	How have country-specific risks impacted the WACC?
Ans:	

claim your **free** ^{WACCFINDER} discovery session to complete your project faster

The strategies outlined in this blueprint have given you everything you need to get started now. But if you have any questions, or would like our help implementing anything in this blueprint, get in touch.

Even better, take advantage of a FREE 30 min Discovery Session where we will discuss your business goals and challenges and draw up recommendations at no obligation. (total value: \$1,000).

Claim your 30-minute Discovery Session and get a customized blueprint that will help you move your business forward, whether you choose to hire us or not.

That being said, we ask that you be conscious of the fact that our services are designed for people who are serious about setting up their businesses for long-term success. We'll do the bulk of the work, but to truly set you up to double your impact and growth, we'll need your commitment and dedication too.

If you are serious about leading in your area of impact and moving to the top of your market, maximizing your stakeholder confidence, we're here to help. Let's kick your business into the next gear and up your impact together.

CLICK

Claim your FREE 30 min
Discovery Session



3. additional resources



3.1 social media (1)

VIDEO TUTORIALS

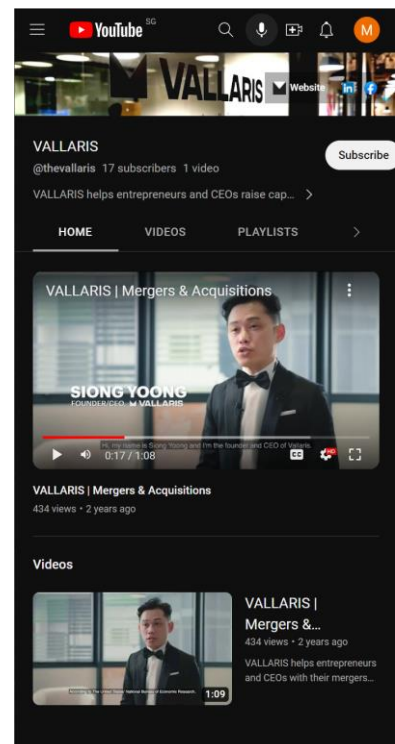
Are your mergers and acquisitions deals destroying value instead of creating it?

We get it, and we're here to assist.

With battle-tested experience and expert insights, VALLARIS' YouTube channel equips you with proven strategies to enhance your M&A success.

Let us help you maximize value.

Subscribe now to level up your M&A game.



Watch on YouTube

[CLICK HERE](#)

3.1 social media (2)

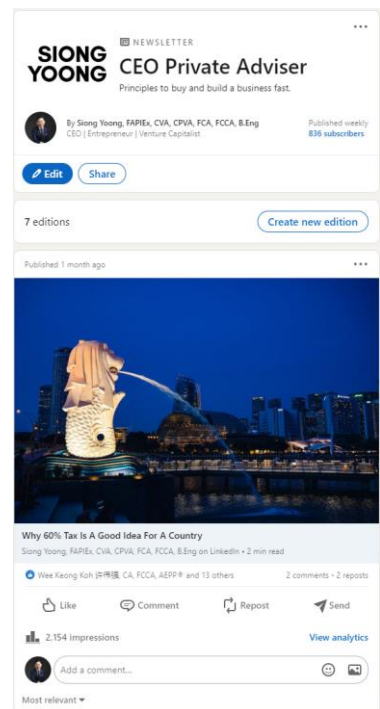
CEO PRIVATE ADVISER

Struggling to scale your business from \$500K to \$10 million in annual revenues?

We understand the challenges entrepreneurs and CEOs face.

Gain the edge you need with SIONG YOONG'S CEO Private Adviser newsletter.

Discover proven secrets to sales, cashflow and teams. Get the insider insights you need to thrive today!



Read on LinkedIn

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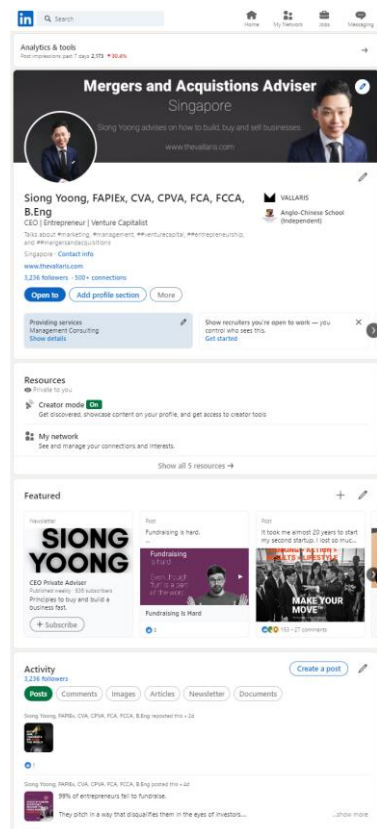
3.1 social media (3)

M&A IDEA OF THE WEEK

Are you an entrepreneur or CEO feeling overwhelmed, not knowing how to scale your business through raising capital, buying and selling other companies?

Discover the tips to mastering mergers and acquisitions, and venture capital through practical tips.

Level up your deal-making game today!



Follow on LinkedIn

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3.1 social media (4)

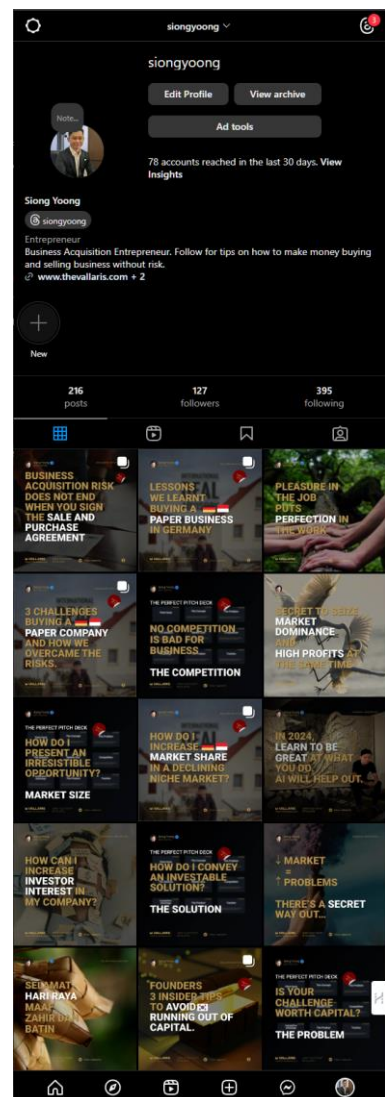
ENTREPRENEUR IDEA OF THE WEEK

Are you an entrepreneur or CEO feeling the weight of leadership, longing for inspiration in your solitary journey?

Discover a treasure trove of bite-sized business inspiration soundbites with SIONG YOONG'S curated collection.

Elevate your leadership game and find solace in the wisdom of seasoned entrepreneurs.

Subscribe now and fuel your inspiration.



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3.2 WACCFINDER™

ENTREPRENEUR IDEA OF THE WEEK

Auditors, are you signing off on financial statements without being 100% sure that the fair value line items are correctly stated?

Struggling to believe the Weighted Average Cost of Capital (WACC) your client tells you?

Client's calculations:

1. Do not appear reasonable e.g. they use cost of debt;
2. Are not verifiable e.g. its their view; and/or
3. Are hard to benchmark. WACC inputs come from both financial statements as well as third-party public and paid sources.

Auditors and professional accountants in business, your pain ends here. With WACCFINDER™, you can effortlessly determine the cost of capital without relying on costly business valuers.

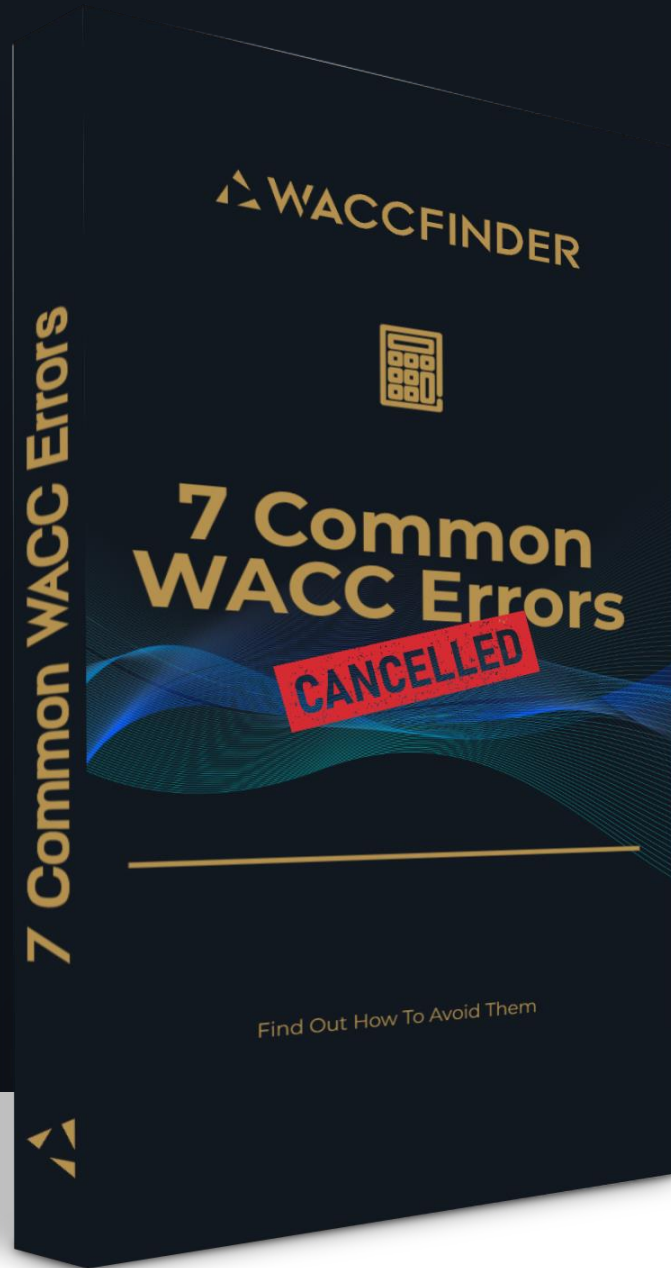
Save time and enhance your financial reporting process with confidence today!

If you have read this far, I have a special gift for you.

CLICK

Claim your 14 Day FREE Trial.
Worth up to **USD150.**





MAKE YOUR MOVE™



Ask questions,
say hello or
start a collaboration

ask@waccfinder.com