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The Engineering Economist >

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Original Articles

FREE CASH FLOW (FCF), ECONOMIC VALUE ADDED (EVA™), AND NET PRESENT VALUE (NPV):. A RECONCILIATION OF VARIATIONS OF DISCOUNTED-CASH-FLOW (DCF) VALUATION

RONALD E. SHRIEVES & JOHN M. WACHOWICZ JR.

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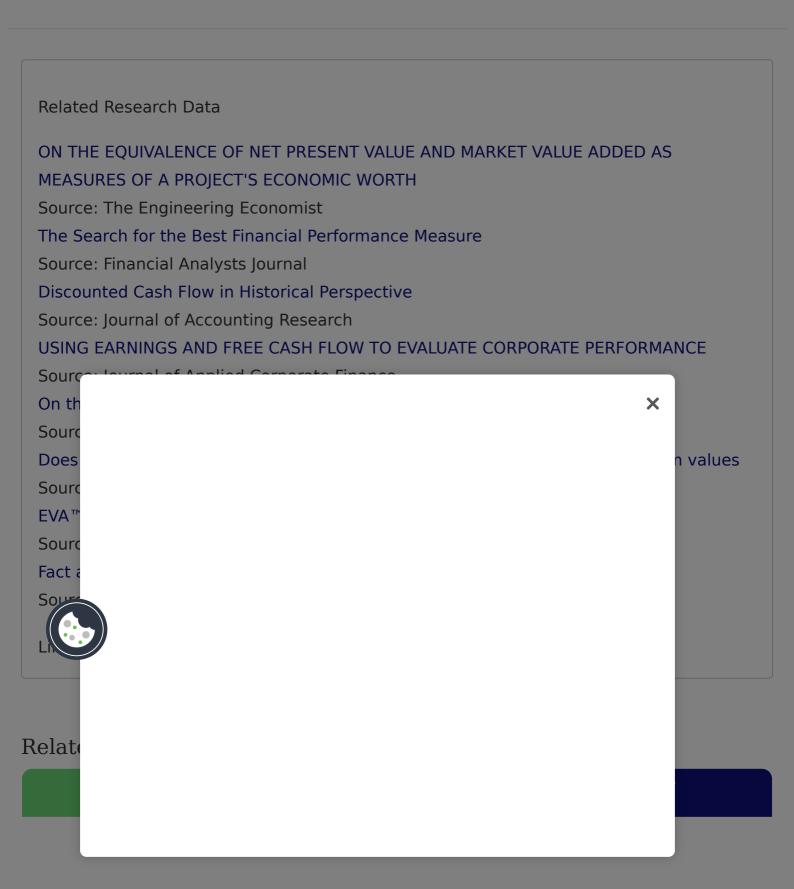
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by adding after-tax interest payments to net profit after taxes, is central to both

approaches, but there the computational similarities end. The FCF approach focuses on the periodic total cash flows obtained by deducting total net investment and adding net debt issuance to net operating cash flow, whereas the EVA $^{\text{TM}}$ approach requires defining the periodic total investment in the firm. In a project valuation context, both FCF and EVA $^{\text{TM}}$ are conceptually equivalent to NPV. Each approach necessitates a myriad of adjustments to the accounting information available for most corporations.



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