

# DCF Valuation – Insurance Company



**Consolidated Income Statement**  
*(All values in USD, except per share data)*

| Particulars               | Historicals        |                    |                    |                    |                    | Projections        |                     |                     |                     |                     |
|---------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|---------------------|---------------------|---------------------|---------------------|
|                           | FY 2015            | FY 2016            | FY 2017            | YTD 2018           | TIM Oct-18         | FY 2018E           | FY 2019E            | FY 2020E            | FY 2021E            | FY 2022E            |
| <b>REVENUE</b>            |                    |                    |                    |                    |                    |                    |                     |                     |                     |                     |
| Income from Insurance     | 2,654,932.6        | 4,352,976.8        | 5,743,651.7        | 5,643,063.4        | 6,509,888.3        | 7,681,416.4        | 10,296,816.9        | 13,833,849.6        | 18,606,964.9        | 25,027,583.6        |
| Policy Fee Income         | 156,094.1          | 194,738.4          | 196,004.8          | 149,279.6          | 170,678.3          | 204,835.0          | 214,042.1           | 223,674.0           | 233,739.3           | 244,257.6           |
| Other Income              | 3,114.7            | 3,657.3            | 10,085.1           | 1,439.8            | 1,439.8            | 2,860.0            | 3,573.2             | 4,445.1             | 5,378.4             | 6,195.1             |
| <b>TOTAL REVENUE</b>      | <b>2,814,141.4</b> | <b>4,551,372.5</b> | <b>5,949,741.6</b> | <b>5,793,782.9</b> | <b>6,682,006.4</b> | <b>7,889,101.4</b> | <b>10,514,432.2</b> | <b>14,061,968.7</b> | <b>18,846,082.6</b> | <b>25,278,036.3</b> |
| <b>COMPENSATION</b>       |                    |                    |                    |                    |                    |                    |                     |                     |                     |                     |
| Salaries & Wages          | 546,306.8          | 661,808.7          | 761,503.3          | 613,352.1          | 776,421.2          | 805,619.5          | 1,073,668.0         | 1,442,008.5         | 1,944,680.1         | 2,623,934.7         |
| Simple Plan Expenses      | 3,764.9            | 5,827.7            | 8,929.8            | 6,357.4            | 10,422.3           | 9,331.7            | 12,435.9            | 16,796.8            | 22,838.9            | 31,055.4            |
| Payroll Taxes             | 50,264.8           | 56,852.3           | 66,020.0           | 51,234.2           | 63,724.7           | 71,762.8           | 95,640.1            | 128,424.7           | 173,140.4           | 233,549.7           |
| Benefits                  | 32,798.7           | 40,903.8           | 54,102.0           | 52,968.2           | 61,248.0           | 64,155.5           | 85,496.8            | 115,478.2           | 157,017.4           | 213,506.2           |
| <b>TOTAL COMPENSATION</b> | <b>633,135.2</b>   | <b>765,392.5</b>   | <b>880,555.1</b>   | <b>723,911.9</b>   | <b>911,816.3</b>   | <b>950,869.5</b>   | <b>1,267,240.8</b>  | <b>1,702,708.3</b>  | <b>2,297,676.8</b>  | <b>3,102,046.1</b>  |
| <b>SELLING</b>            |                    |                    |                    |                    |                    |                    |                     |                     |                     |                     |
| Advertising & Marketing   | 2,853.0            | 3,397.4            | 34,921.6           | 22,887.9           | 27,387.9           | 29,668.6           | 39,542.5            | 52,780.8            | 70,533.1            | 94,341.5            |
| Broker Commissions        | 1,655,769.9        | 2,517,704.5        | 3,281,328.0        | 3,209,774.3        | 3,686,747.9        | 3,916,259.7        | 5,219,611.2         | 6,967,070.4         | 9,310,364.2         | 12,453,079.2        |
| Travel & Entertainment    | 31,077.4           | 47,899.6           | 58,272.1           | 27,925.3           | 33,886.1           | 44,731.3           | 59,614.8            | 80,017.6            | 107,814.0           | 145,348.0           |
| <b>TOTAL SELLING</b>      | <b>1,689,700.2</b> | <b>2,569,001.4</b> | <b>3,374,521.7</b> | <b>3,260,587.5</b> | <b>3,748,021.8</b> | <b>3,990,659.6</b> | <b>5,318,768.5</b>  | <b>7,099,868.8</b>  | <b>9,488,711.3</b>  | <b>12,692,768.6</b> |
| <b>OCCUPANCY</b>          |                    |                    |                    |                    |                    |                    |                     |                     |                     |                     |
| Rent                      | 47,504.3           | 63,643.6           | 78,985.5           | 50,719.8           | 65,122.2           | 82,463.7           | 109,902.6           | 147,437.5           | 198,498.8           | 267,404.3           |
| Facilities and Equipment  | 73.6               | 467.2              | 313.7              | 40.4               | 79.0               | -                  | -                   | -                   | -                   | -                   |
| Maintenance & Repair      | 152.9              | 1,620.0            | 3,357.1            | 858.3              | 3,632.7            | 3,266.1            | 4,352.6             | 5,878.9             | 7,993.6             | 10,869.4            |
| Property Taxes            | -                  | -                  | -                  | -                  | -                  | -                  | -                   | -                   | -                   | -                   |
| Utilities                 | 8,422.0            | 9,093.0            | 10,493.2           | 9,216.0            | 10,779.8           | 10,036.6           | 13,376.4            | 17,916.4            | 24,065.1            | 32,346.8            |
| Other Occupancy Expenses  | 3,567.6            | 3,432.6            | 3,817.8            | 3,181.5            | 3,808.2            | 3,560.2            | 4,745.1             | 6,333.7             | 8,464.0             | 11,321.0            |
| <b>TOTAL OCCUPANCY</b>    | <b>59,720.4</b>    | <b>78,256.3</b>    | <b>96,967.3</b>    | <b>64,016.2</b>    | <b>83,421.9</b>    | <b>99,326.7</b>    | <b>132,376.7</b>    | <b>177,566.5</b>    | <b>239,021.4</b>    | <b>321,941.5</b>    |

| A<br>Discounted<br>Cash Flow<br>FY 2018E - FY 2022E | B<br>PV of Terminal Value at a<br>Perpetual Growth Rate of |              |              |              | C<br>Enterprise Value |              |              |              |              |              |
|---|--|--------------|--------------|--------------|-----------------------|--------------|--------------|--------------|--------------|--------------|
|   | 2.0%   | 3.0%         | 3.5%         | 4.0%         | 2.0%                  | 2.5%         | 3.0%         | 3.5%         | 4.0%         |              |
| 10,788,890  | 22,833,851.2   | 23,869,732.6 | 24,992,537.2 | 26,213,685.0 | 27,546,688.1          | 33,622,740.9 | 34,658,622.3 | 35,781,426.9 | 37,002,574.7 | 38,335,577.8 |
| 10,673,384  | 21,588,845.9   | 22,534,432.0 | 23,556,169.5 | 24,663,643.2 | 25,868,117.4          | 32,262,229.9 | 33,207,816.0 | 34,229,553.5 | 35,337,027.2 | 36,541,501.4 |
| 10,559,988  | 20,441,708.0   | 21,307,418.5 | 22,240,149.0 | 23,247,995.5 | 24,340,412.6          | 31,001,696.4 | 31,867,407.0 | 32,800,137.5 | 33,807,984.0 | 34,900,401.1 |
| 10,448,654  | 19,382,041.6   | 20,176,798.6 | 21,030,789.8 | 21,950,893.6 | 22,945,096.5          | 29,830,695.1 | 30,625,452.1 | 31,479,443.3 | 32,399,547.1 | 33,393,750.0 |
| 10,339,331  | 18,400,850.9   | 19,132,335.2 | 19,916,379.1 | 20,758,858.7 | 21,666,559.8          | 28,740,182.0 | 29,471,666.3 | 30,255,710.2 | 31,098,189.8 | 32,005,890.9 |
| 10,231,974  | 17,490,313.1   | 18,165,169.8 | 18,886,835.6 | 19,660,355.6 | 20,491,527.0          | 27,722,287.5 | 28,397,144.2 | 29,118,810.0 | 29,892,330.1 | 30,723,501.4 |
| 10,126,538  | 16,643,593.4   | 17,267,598.8 | 17,933,435.5 | 18,645,455.6 | 19,408,636.8          | 26,770,131.5 | 27,394,136.9 | 28,059,973.5 | 28,771,993.6 | 29,535,174.8 |
|   | Terminal Value as a % of Enterprise Value                  |              |              |              |                       |              |              |              |              |              |
|   | 2.0%   | 2.5%         | 3.0%         | 3.5%         | 4.0%                  |              |              |              |              |              |
|   | 67.9%  | 68.9%        | 69.8%        | 70.8%        | 71.9%                 |              |              |              |              |              |
|   | 66.9%  | 67.9%        | 68.8%        | 69.8%        | 70.8%                 |              |              |              |              |              |
|   | 65.9%  | 66.9%        | 67.8%        | 68.8%        | 69.7%                 |              |              |              |              |              |
|   | 65.0%  | 65.9%        | 66.8%        | 67.8%        | 68.7%                 |              |              |              |              |              |
|   | 64.0%  | 64.9%        | 65.8%        | 66.8%        | 67.7%                 |              |              |              |              |              |
|   | 63.1%  | 64.0%        | 64.9%        | 65.8%        | 66.7%                 |              |              |              |              |              |
|   | 62.2%  | 63.0%        | 63.9%        | 64.8%        | 65.7%                 |              |              |              |              |              |

## Request and Guidelines Provided

- A boutique investment bank requested to prepare a DCF valuation for an entity that provides insurance services and helps property and casualty insurance carriers settle claims
- In this case, the entity was a holding company and the client wanted a specific categorization of financial statement items into particular heads to maintain industry standards and consistency

## Methodology and Final Deliverable

- TresVista projected the financial statements and calculated the Free Cash Flow (FCF)
- The calculation of the discounting rate accounted for various factors including size premium adjustments
- Final deliverable consisted of an integrated sensitivity analysis table apart from a simple DCF valuation to portray changes in valuation vis-à-vis varied discounting rates, perpetual growth rates, and FCF figures

Provided a dynamic setup to ascertain entity valuation considering multiple factors