

Cost of Capital Professional

Easily and affordably derive a cost of equity that can be used in the income approach to value a business.

\$295/year
(for first user and \$100 per additional user)

Based on principals of simplicity, transparency, and credibility, the Cost of Capital Professional platform provides appraisers and financial professionals with the most current cost of capital data available in an easy-to-use format. Quickly get risk-free rates, equity risk premia, size premia, and industry risk premia based on your subject company's valuation date, size, and industry. Use the build-up method or CAPM to create a cost of equity calculation you can use in your valuation, compute a weighted average cost of capital, access a summary document you can insert into your valuation report, and download all of your inputs, calculations, and sources to Excel.

Benefits of the Cost of Capital Professional:

- **Simple and easy-to-use** - The platform is a user-friendly, transparent tool that includes all charts and calculations
- **Always have the most current data** - The annual size premia and equity risk premia are published in the Cost of Capital Professional each January, before other competing sources
- **Access to historical data** - The platform accommodates valuation dates back to 2000 and provides complete control of the time period of historical return data
- **Trustworthy data sources** - The Cost of Capital Professional includes both CRSP data and Dr. Aswath Damodaran data

Year Introduced at BVR: 2018

Delivery Method:
Online platform

Source of information:
Center for Research in Security Prices (CRSP) data, Dr. Aswath Damodaran data, and Federal Reserve data (*Dr. Damodaran's data are used with his permission. Dr. Damodaran has no formal role or connection with BVR or the Cost of Capital Professional.*)

Update frequency:
Size premia, equity risk premia, and industry risk premia are updated annually and risk-free rates are updated daily

RFR	ERP	Size Premium	IRP	CoE	WACC	Summary
CRSP Equity Risk Premium						
<input type="checkbox"/>	6.31%	Historical ERP (10Y T-Bond) -- For Period:		1928-2015		
		S&P 500 Average Annual Return:		11.54%		
		10-Year T-Bond Average Annual Return: (Damodaran)		5.23%		
<input type="checkbox"/>	5.75%	Historical ERP (20Y T-Bond) -- For Period:		1928-2015		
		S&P 500 Average Annual Return:		11.54%		
		20-Year T-Bond Average Annual Return (Reconstructed):		5.79%		
Dr. Damodaran Equity Risk Premium						
<input type="checkbox"/>	7.94%	Implied ERP - As of:		2015		
<input type="checkbox"/>	6.98%	Implied ERP With Sustainable Payout - As of:		2015		
<input type="checkbox"/>	6.18%	Historical ERP -- For Period:		1928-2015		
		S&P 500 Average Annual Return:		11.41%		
		10-Year T-Bond Average Annual Return:		5.23%		
Custom Equity Risk Premium						
<input type="checkbox"/>	0.00%	Add Notes Here				

Equity Risk Premia

The Cost of Capital Professional offers various equity risk premia based on your selected start date and valuation date.



Cost of Capital Professional

RFR	ERP	Size Premium	IRP	CoE	WACC	Summary	
		Firms		Portfolio		Size Premium	
Decile	Count	Min size ('000)	Max Size ('000)	Annual Return	Beta	S&P 500	Beta Adjusted
<input type="checkbox"/> 1 - Largest	186	\$22,054,334	\$629,010,254	10.67%	0.92	(0.87%)	
<input type="checkbox"/> 2	197	\$9,621,534	\$22,035,313	12.58%	1.03	1.05%	
<input type="checkbox"/> 3	207	\$5,211,083	\$9,618,053	13.43%	1.10	1.90%	
<input type="checkbox"/> 4	235	\$3,206,637	\$5,205,841	13.55%	1.12	2.01%	
<input type="checkbox"/> 5	236	\$2,096,889	\$3,195,898	14.43%	1.17	2.90%	
<input type="checkbox"/> 6	256	\$1,410,216	\$2,090,566	14.64%	1.17	3.10%	
<input type="checkbox"/> 7	347	\$850,848	\$1,401,165	15.34%	1.25	3.80%	
<input type="checkbox"/> 8	382	\$450,624	\$849,874	15.95%	1.30	4.41%	
<input type="checkbox"/> 9	477	\$209,880	\$450,532	16.45%	1.34	4.91%	
<input type="checkbox"/> 10 - Smallest	794	\$1,963	\$209,406	19.69%	1.40	8.16%	
<input type="checkbox"/> 1 through 2	383	\$9,621,534	\$629,010,254	10.96%	0.94	(0.58%)	
<input type="checkbox"/> 3 through 5	678	\$2,096,889	\$9,618,053	13.64%	1.12	2.10%	
<input type="checkbox"/> 6 through 8	985	\$450,624	\$2,090,566	15.10%	1.22	3.56%	
<input type="checkbox"/> 9 through 10	1,271	\$1,963	\$450,532	17.37%	1.35	5.84%	
<input type="checkbox"/> 1 through 5	1,061	\$2,096,889	\$629,010,254	11.30%	0.96	(0.24%)	
<input type="checkbox"/> 6 through 10	2,256	\$1,963	\$2,090,566	15.31%	1.24	3.78%	

S&P 500 Annual Return for Period 1928 - 2015 : 11.54%

Size Premia

The Cost of Capital Professional offers various size premia based on your selected start date and valuation date.

RFR	ERP	Size Premium	IRP	CoE	WACC	Summary
						COPY
<p>The 12/31/2015 cost of capital analysis for the company was completed on 08/11/2022 using the Q4 2021 Cost of Capital Professional study. Returns were selected and calculated for the time period ranging from 1928 to 2015 using an arithmetic mean.</p> <p>Based on experience and professional judgment, the Build-Up Model was selected for the computation of the cost of equity capital. Given the components selected the formula used is as follows:</p> $\text{CoE} = \text{RFR} + \text{ERP} + \text{SP} + \text{IRP} + \text{CSR}$ $18.54\% = 2.67\% + 5.75\% + 8.16\% + 0.46\% + 1.50\%$ <p>A 2.67% Risk Free Rate (RFR) was selected, representing the 20-Year Treasury Constant Maturity Rate available on 12/31/2015 at the Federal Reserve Bank.</p> <p>A 5.75% Equity Risk Premium (ERP) was selected, representing the Historical ERP calculated using the S&P 500 average annual return of 11.54% derived from CRSP data for the 1928 - 2015 period and a 5.79% 20-year T-Bond average annual return (Reconstructed) for the same timeframe.</p> <p>A 8.16% Size Premium (SP) was selected. The Size Premium was based on CRSP decile 10 which included 794 firms with an equity market capitalization size ranging from \$1,963,000 to \$209,406,000 in Q4 2015. The CRSP decile 10 mean annual return reached 19.69% between 1928 and 2015. The mean annual return for the S&P 500 for the same period was 11.54%.</p> <p>An implied 0.46% Industry Risk Premium (IRP) was calculated using an industry beta of 1.08 selected based on professional judgment. The industry beta for 2015 US Advertising was sourced from Dr. Aswath Damodaran and included 44 firms. Implied Industry Risk Premium = (Industry Beta * ERP) - ERP = (1.08 * 5.75%) - 5.75%.</p> <p>A 1.50% Company Specific Risk Premium (CSR) was selected based on professional judgment.</p> <p>Cost of Capital Professional returned a 18.54% cost of equity capital for the company as of 12/31/2015 based on the Build-Up Model.</p> <p>Disclaimer: Items included in the analysis based on professional judgment were not provided by Cost of Capital Professional. Additionally, the cost of equity model (Build-Up or CAPM) is chosen by the professional based on professional judgment using skill, knowledge, experience, education, and training.</p>						

Summary Report

The platform provides a summary of your work, decisions, and results you can easily drop into your valuation reports.