# Application of the continuing value to Spanish small and medium enterprises



| | |
|---|---|
| Ana Blasco<br>Departamento de Economía y Ciencias Sociales<br>Facultad de Administración y Dirección de Empresas.<br>Universidad Politécnica de Valencia<br><br>ablascor@upvnet.upv.es | Javier Ribal<br>Departamento de Economía y Ciencias Sociales<br>Escuela Técnica Superior de Ingeniería Agronómica y del Medio Natural.<br>Universidad Politécnica de Valencia<br><br>frarisan@esp.upv.es |



The discounted cash-flow model (DCF) is the most used methodology to value enterprises in Spain, as it is confirmed by the work from Rojo and García (2006). Enterprises generate a series of cash-flows and their values can be estimated by discounting these cash-flows by means of the weighted average cost of capital. The most widely used DCF model is usually broken down into two stages, a first stage of explicit cash flows and a second stage which calculates a terminal value using the Gordon formula. The terminal value or continuing value sums a great share of the enterprise value although this share is influenced by the length of the explicit cash flows period.

In 2006 Jennergren developed a model in order to estimate two components of the continuing value, the economic life and the capital intensity. The work analyzes deeply the influence of capital expenditures and tax savings due to depreciation of property besides other variables as the growth of sales revenue.

In this work the Jennergren model has been applied to Spanish small and medium-sized enterprises with a turnover from 2 to 50 million euros in the 2005-2008 period. Moreover different group of industries using the National Code of Economic Activities have been made.

The results of the economic life of the assets of each industry have been compared to the economic life gathered in the amortization tables of the Spanish law of enterprise taxes. This way it has been found that in most cases the estimations for the Spanish industries are in the legal range.