# Definitions Document

## Supporting Definition Document Alongside Land Governance Strategy Report

# Purpose of Document

This document is meant to provide readers with a supporting glossary of financial and land development terms found within the PwC Recommended Disposal Report and Summary and most definitions are in specific relation to this analysis.

## Financial Analysis Terms[1]

### Compound Annual Growth Rate (CAGR)

Compound annual growth rate, or CAGR, is the mean annual growth rate of an investment over a specified period of time longer than one year.CAGR is a mathematical formula that provides a "smoothed" rate of return, assuming that the proceeds of the investment are compounded periodically. Compound Annual Growth Rate can both be calculated on historical returns as well as for forward-looking pro forma estimates to determine the implied rate of return on an investment.

### Cost of Capital / Weighted Average Cost of Capital (WACC)

Cost of capital is the required return necessary to make a capital budgeting project worthwhile. In corporate finance, typically cost of capital refers to the weighted average of a firm's cost of debt and cost of equity blended together - Weighted Average Cost of Capital (WACC). Many corporate entities use a combination of debt and equity to finance their businesses and, for such entities, the overall cost of capital is derived from the weighted average cost of all capital sources.

### Cumulative Cash Flows

Cumulative cash flows are the total net cash earnings received at any given time, beginning from the analysis start date (2019). Net cash earnings can be calculated by subtracting any future costs of development and historical land costs from gross sales of land/lots. The book value of the land (inflated by the carrying cost inflation rate) is included as a negative cash flow in 2019 to begin the analysis.

### Discount Rate

Discount rate refers to the interest rate used in discounted cash flow (DCF) analysis to determine the present value of future cash flows. In determining an appropriate discount rate, a corporate entity which is attempting to value a project will likely use the weighted average cost of capital (WACC) as a discount rate, which is the average cost the company pays for capital from borrowing or issuing its equity.

[1] Descriptions developed based on material from Investopedia

### Discounted Cash Flow (DCF)

Discounted cash flow (DCF) is a valuation method used to estimate the value of an investment or project based on its future cash flows. DCF analysis finds the present value of expected future cash flows using a discount rate. By discounting the value of future cash flows back to a present value, investments or projects can be analyzed under current conditions.

### Disposable Cash Proceeds

Disposable cash proceeds refer to the net sales revenue of land and/or lot sales. This is calculated by subtracting any future costs of development from gross sales of land/lots. Note, the cost of the land is not considered in this calculation, as it is meant to measure future cash profits - where the cost of the land in this lens is considered a historical/sunk cost.

### Inflation Rate

Inflation rate is a quantitative measure of the rate of which a basket of goods and services increases in value over time. The inflation rate is the amount by which the revenues and costs relating to this analysis grow year-over-year relative to the period prior, all else equal.

### Internal Rate of Return (IRR)

The internal rate of return on an investment or project is the "annualized effective compounded return rate" or rate of return that sets the net present value of all cash flows from the investment equal to zero. IRR is a widely used metric in capital budgeting used to estimate the profitability of forecasted investment returns. While IRR alone can not determine the relative profitability of a project or investment, it is a useful tool to compare expected returns of multiple investments, or to measure profitability against a threshold or “hurdle”.

### (Land) Carrying Cost

Carrying cost is the inflationary rate attributed to the book value of the land holdings annually. This carrying cost is applied as a conservative measure to act as a proxy for interest costs of holding land, which Industry would often encounter as debt is typically utilized in land acquisition transactions. From Enterprise Land Development’s perspective, this artificial carrying cost represents a rate of inflation on the holding value of the land.

### Land Enterprise Dividend

Pursuant to the Land Enterprise Dividend Policy (C516B), Land Enterprise will pay an annual dividend to the City of Edmonton. The Dividend is based on 25 percent of actual net income of the land development activity of the Land Enterprise and paid in the second quarter of the following year.

### Market Driven Development

Development of lands at a pace comparable to that typically undertaken by private industry developers. Historically Enterprise Land Development has taken a “slow & steady” approach to residential community development, regardless of market conditions. Under a market driven approach Enterprise Land Development will accelerate lot development to shorten the time horizon to align with industry.

### Net Present Value (NPV)

Net present value (NPV) is the difference between the present value of cash inflows and the present value of cash outflows over a period of time. NPV is used to analyze the profitability of a projected investment or project by calculating today’s value of a future stream of payments. It accounts for the time value of money and can be used to compare investment alternatives that are similar in nature. The NPV relies on a discount rate of return that may be derived from the cost of the capital required to make the investment.

### Net Proceeds / Net Income

Net proceeds refer to the net sales revenue of land and/or lot sales, inclusive of historical land costs. This is calculated by subtracting any future costs of development and historical land costs from gross sales of land/lots. This calculation is important in determining the annual Enterprise Land Dividend, as funds available for dividend disbursement are based on the net proceeds of any land sold.

### Range of Certainty

Range of certainty refers to the levels of sensitivity in values for the disposition options for each land holding. The sensitivity ranges found within the Land Governance analysis are as follows:

- Quick Sale of any/all lands - +/- 5 percent
- Development of Aster and/or Schonsee - +/- 10 percent
- Development of Goodridge Corners - +/- 15 percent

### Special Dividend

The special dividend is a recommendation made by PwC to utilize proceeds/retained-earnings generated by Enterprise Land Development, over-and-above the Land Enterprise Dividend. The special dividend payout formula is equal to the amount by which Enterprise Land Development’s retained $30M in any year, with the $30M threshold determined as the amount sufficient to fund future Enterprise Land Development projects and operations.

### Tax Revenue

Tax revenue represents municipal taxation dollars that are payable to the City of Edmonton. These payable tax amounts are calculated based on the assumed zoning of the land in question, with AG (Agricultural Zone) zoned land accruing a much lower nominal tax base than up-zoned residential parcels. The analysis takes tax revenue into account to illustrate the potential cash flow shortfalls related to delayed development timelines, specifically in developing AG land into residential at a pace consistent with that of Industry.