Valuing Non-Interest-Bearing Liabilities
Introduction

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In the white papers that follow we will place a value on a company's non-interest-bearing liabilities (NIBL). We will consider two valuation methods...

NIBL as an Offset to Balance Sheet Investment

Answath Domodaran made the following quote...

The debt in the cost of capital is the debt used to fund the operations and investments of the firm. Using this rationale, it should include all interest bearing debt, short term as well as long term. Non-interest bearing liabilities such as accounts payable, supplier credit and accrued items **should be incorporated into working capital and should not be counted as debt**.

Per Damodaran's quote above it is implicitly implied that the discount rate applied to NIBL should be the discount rate applied to total after-tax cash flow in a CAPM environment.

To value NIBL as an offset to balance sheet investment we can use the white papers on the valuation of perpetual debt (See references [1] and [2] below). In this case we would assume that NIBL is zero-coupon perpetual debt where the market debt yield is the company's risk-adjusted discount rate.

NIBL as Investable Funds

When using return models it is imperative that the return on assets is not upwardly skewed by subtracting non-interest bearing liabilities from the denominator (tangible assets). It is our opinion that in this case non-interest-bearing liabilities should be separately valued **and not subtracted from balance sheet investment**.

It is this method that we will analyze in the two white papers that follow (See references [3] and [4] below).

References

[1] Gary Schurman, *Perpetual Debt Valuation - Growth Rate and Debt Ratios Are Constants,* March, 2025

[2] Gary Schurman, *Perpetual Debt Valuation - Growth Rate and Debt Ratios Are Time-Dependent,* March, 2025

[3] Gary Schurman, *Valuing Non-Interest-Bearing Liabilities - Growth Rate is Constant,* May, 2025

[4] Gary Schurman, *Valuing Non-Interest-Bearing Liabilities - Growth Rate is Time-Dependent,* May, 2025