



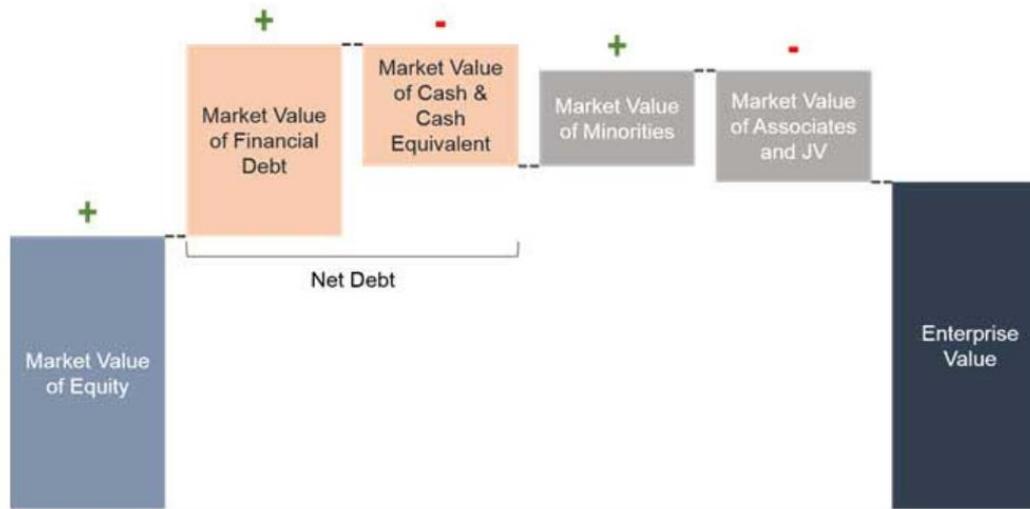
Financial Modelling Course

Enterprise Value

Enterprise Value

- Enterprise value or Firm Value considers much more than just the value of a company's outstanding equity. It tells you how much a business is worth. Enterprise value is the theoretical price an acquirer might pay for another firm, and is useful in comparing firms with different capital structures since the value of a firm is unaffected by its choice of capital structure.

Enterprise Value = (Market Capitalization + Market value of preferred equity + Market value of debt + Minority interest) – Cash and cash equivalents



Enterprise Value Continued

- Enterprise Value is a comprehensive measure of a company's total value.
- It is a refinement of Market Capitalization and takes into account, the claims by all claimants (creditors, both secured and unsecured as well as the shareholders, preferred and common, rather than just the market value of the equity.
- It is extremely useful to make investment decisions for retail investors as well as buyers of controlling interests.
- It is also used to compare a number of companies with diverse capital structures since it is a capital-neutral metric.

Enterprise Value Example

- What is Enterprise Value of XYZ if it has the following financial details?
 - Shares outstanding = 1,000,000
 - Stock price = \$ 20 per share
 - Market value of debt = \$ 10,000,000
 - Cash and cash equivalents = \$ 8,000,000
 - Market value of preferred equity = \$ 500,000
 - Minority interest = \$ 2,000,000

Solution

- **Enterprise Value = (Market Capitalization + Market value of preferred equity + Market value of debt + Minority interest) – Cash and cash equivalents**
 - The Market Capitalization will be equal to (Shares outstanding * Stock price)
= (1,000,000 * \$ 20) = \$ 20,000,000
 - EV= (\$ 20,000,000 + \$ 500,000 + \$ 10,000,000 + \$ 2,000,000) – \$ 8,000,000
= \$ 24,500,000