CVP™ news
Corporate Finance Insights

More on MVIC

My last newsletter described Market Value of Invested Capital ("MVIC") and how to calculate it. In this newsletter I'd like to explain MVIC a little more, and show some other ways it can be used.

First of all, it's important to remember that MVIC can go by different names. So if you hear someone talk about Corporate Value or Enterprise Value they're just using a different name for MVIC. They all mean the same thing – the market value of the equity and debt of a business. If we make it into a formula, it looks like this:

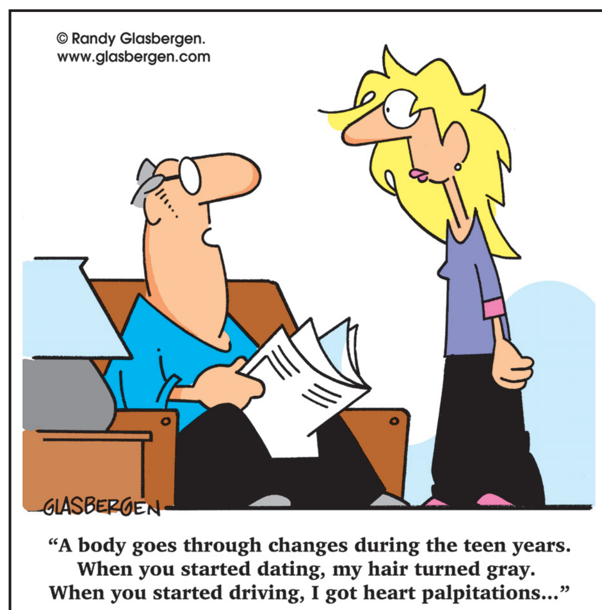
MVIC = MVD + MVE

(MVD is the Market Value of Debt, and MVE is the Market Value of Equity)

Or, if you want, we can describe it in terms of a fair market value balance sheet, like this:

Assets:	Liabilities & Equity:	
Current assets	Current liabilities	*Operating liabilities only*
Fixed assets	Interest-bearing debt	= MVD
Other assets	Shareholders' equity	= MVE
Total assets	Total liabilities & equity	

When we use financial valuation techniques to value a business, we're valuing the right hand side of a fair market value balance sheet – the claims against the assets. Oddly enough, we don't value the assets directly (unless we're using an asset approach to value). This distinction is important, and it can cause some confusion when we're talking about the value of a company's assets.



"A body goes through changes during the teen years. When you started dating, my hair turned gray. When you started driving, I got heart palpitations..."

Corporate Value Partners, Inc.

Corporate Value Partners is a corporate finance consulting firm. Services include:

- Assisting with the acquisition or sale of a business, business unit or product line;
- Assisting with the placement of debt financing;
- Preparing business valuations;
- Assisting creditors in corporate bankruptcies;
- Assisting attorneys with the financial aspects of lawsuits.

Corporate Value Partners
Ronald D. DiMattia
President
1340 Depot Street,
Suite 102
Rocky River, OH 44116
(440) 333-1910 Office
ron@corporatevaluepartners.com
www.DealDesk.com

Corporate Value Partners, Inc.
1340 Depot Street, Suite 102
Rocky River, OH 44116

Corporate Finance Insights

Asset Value

The idea of asset value comes up commonly in small business acquisitions, because they're generally structured as an asset deal (purchasing the assets without assuming any liabilities generally) not as a stock deal (purchasing the shareholders' equity which generally includes the assumption of liabilities). There are a number of reasons why many small business acquisitions are structured as asset deals and not stock deals, but it all basically boils down to one factor – risk. An asset deal is a less risky proposition for a buyer than a stock deal. Calculating asset value is also useful for your CPA firm when they're testing goodwill for impairment.

But you can see from the summary balance sheet above, MVIC doesn't capture the total value of the right hand side of the balance sheet; it's missing a part, namely the current operating liabilities. And the way balance sheets work, if I know the total of the right hand side, then I know the total of the left hand side because they have to balance. So now we have a tidy way to estimate the value of a company's assets. In terms of formulas, it looks like this:

MVIC = MVD + MVE

-and-

Market value of liabilities & equity = MVIC + book value of current operating liabilities

-and-

Market value of assets = market value of liabilities & equity

(To simplify things, we generally assume that the value of the current operating liabilities equals their book value.)

Or we can put it another way by adjusting the multiple method we went over in my last newsletter. Here's how it looks:

	EBITDA
x	Multiple
	Operating value
+	Non-operating assets
	Market value of invested capital
+	Current operating liabilities
	Market Value of Liabilities and Equity

Working with MVIC gives us great flexibility when valuing a business. But it also keeps us close to some important principles, which we'll discuss in the next newsletter.

Please contact Ronald DiMattia at Corporate Value Partners at (440) 333-1910 or ron@corporatevaluepartners.com with any questions or to discover how CVP can help you get the most out of your assets.