What is Market Value?

What is Market Value?

- What do we mean by Market Value?
- When conducting valuations, its important to use these terms accurately

What is Market Value?

- Market value refers to the worth of a business or an asset in a financial market
- Market value equals price ONLY when there is a fair market for the asset
- When circumstances are stressed or normal market conditions do not prevail, this is not the case

What is Market Value?

- For Market Value to equal Market Price there needs to be a free exchange based on supply and demand
- A willing buyer and a willing seller

What is Market Value?

- The following criteria should also apply
  - No Distress - distressed buyers or distressed sellers will distort the price

What is Market Value?

- Sufficient time, information and market exposure so that the buyer and seller can make an informed decision

What is Market Value?

- Mutually agreed price - no force applied to either party to accept a price

What is Market Value?

- Fair market conditions are not always present when transactions take place
- The circumstances particularly of the buyer and seller may vary
- External factors may be depressing the market or causing it to over value businesses

What is Market Value?

- How do we measure Market Value?

What is Market Value?

- The most common ways to measure market value are through Ratios
  - EPS - Earnings per share
  - Book value per share
  - Market value per share
  - Market value per share / Book Value per share
  - Price Earnings Ratio

What is Market Value?

Market Value?

- How do we calculate Market Value?
- Market Value is one of the three methods for arriving at a valuation

What is Market Value?

- Income Approach
  - Discounted Cash Flow (DCF)
  - Capitalised Earnings - the net operating income over a period is divided by a capitalisation rate - an estimate of the potential ROI

Market Value?

DCF

Forecast Future Cash Flow

What is Market Value?

- Assets Approach
  - Fair Market Value is estimated by adjusting the book value of assets and liabilities of a firm
  - This includes intangible assets, off balance sheet assets and unrecorded liabilities

Market Value?

DCF

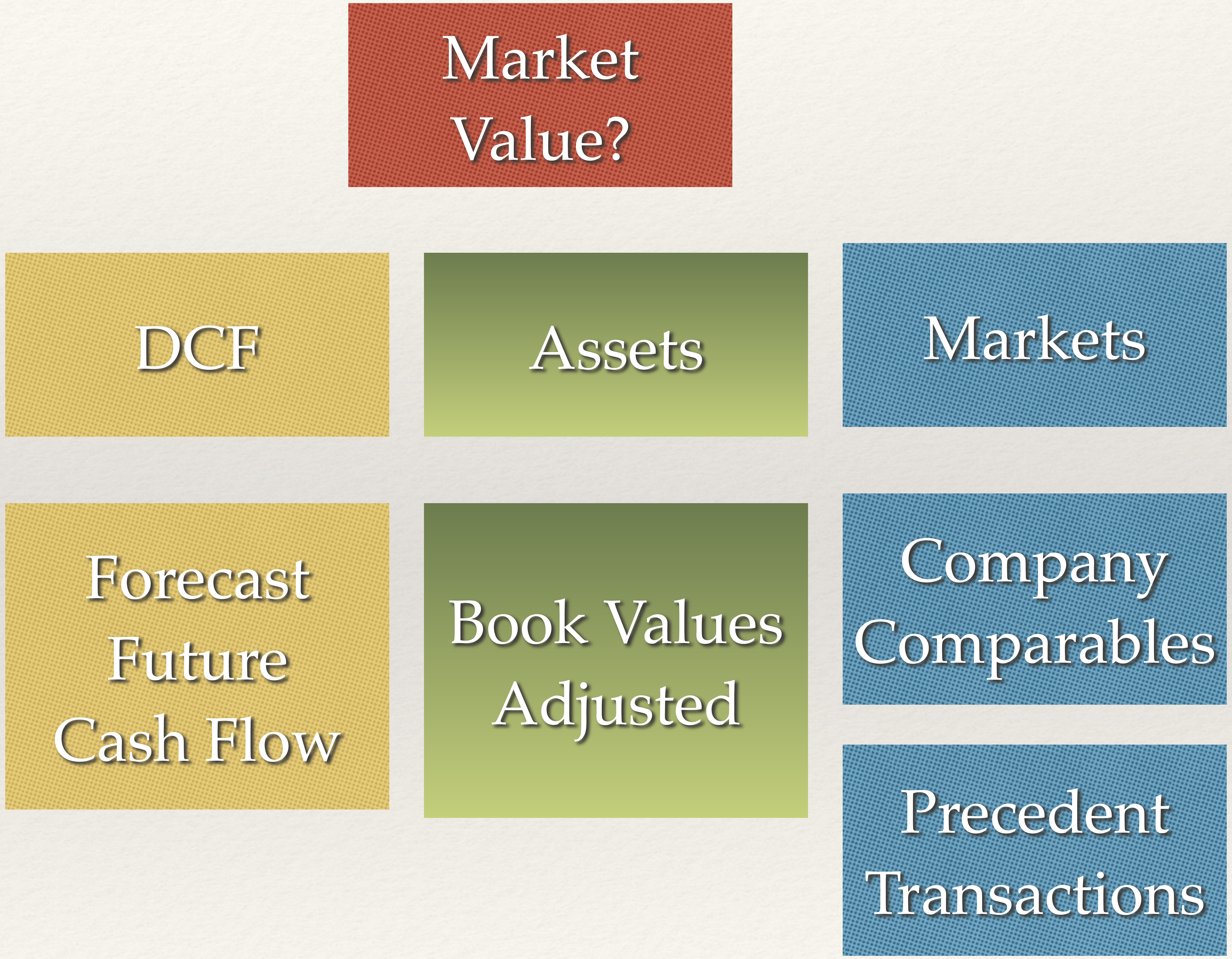
Assets

Forecast Future Cash Flow

Book Values Adjusted

What is Market Value?

- Market Approach
  - Public Company Comparables - compare market ratios for a peer group and apply it to a target company
  - Precedent Transactions - based on M&A transactions using profit ratios of actual deals to arrive at a valuation range



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