What is Modified Book Value?

What is Modified Book Value?

- Modified Book value derives a valuation from the assets and liabilities of a company and changes them to reflect fair market value

What is Modified Book Value?

- This method can be effective in the Real Estate market where the book value of a property may not reflect market value changes over time.

What is Modified Book Value?

- For trading businesses, it is more problematic, it often used in distressed situations when the modified value is lower than the book value, not higher
- We will review the method to understand why

What is Modified Book Value?

- There are three groups of assets which need to be reviewed:
  - Cash and Debt
  - Receivables and other Assets
  - Fixed Assets

What is Modified Book Value?

- Cash and Debt are relatively straightforward and do not need further adjustment

What is Modified Book Value?

- Accounts Receivable - money owed to you from your customers - needs review to understand its age
- How likely is it that this debt to the firm will be paid?
- This is all about identifying bad debts

What is Modified Book Value?

- Inventory - stock - needs to be carefully reviewed
- How has the book value been calculated;
- LIFO - Last in, First Out; or
- FIFO - First in, First Out
- LIFO can result in older stock remaining on the shelves and not being sold
- FIFO results in a more natural flow of inventory, with less likelihood of old stock being left behind

What is Modified Book Value?

- Fixed Assets - Property, Plant and Equipment may need significant adjustments, despite adequate depreciation policies
- Property and land, which has a ready market may have a higher value
- Used equipment may have a lower value

What is Modified Book Value?

- There are other assets which need to be reviewed such as
  - Intangible assets
  - Contingent liabilities
  - Deferred tax assets

What is Modified Book Value?

- Once you have calculated the modified book values for all the assets you can deduct them from the liabilities to arrive at the Modified Book Value of the company
- Most of this information can be obtained from the company's financial statements

What is Modified Book Value?

- It is worth touching on Liquidation values which is a more extreme case of MBV

What is Modified Book Value?

- In the case of a distressed sale, assets often go for far below their market value
- This requires a much more aggressive discounting of assets when modifying book values.
- Debt should be subtracted at book value to arrive at the liquidation value
- This is a worst case scenario calculation

What is Modified Book Value?