

What is Market Value Added - MVA?



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- ❖ Market Value Added is conceptually similar to Economic Value Added
- ❖ We measure the Market Value Added for investors created by the company since it was founded
- ❖ Its the difference between the current market value of the company less the initial capital contributed both by shareholders and bond holders

What is Market Value Added - MVA?

- ❖ Market Value can be calculated in a number of different ways
- ❖ For a public company we can use the market capitalisation determined by the share price
- ❖ If we compare this to the initial capital, we get a measure of the value added by the company since it was founded.

What is Market Value Added - MVA?

- ❖ This is not a measure of financial performance
- ❖ It is a measure of wealth creation
- ❖ The wealth is accumulated in the retained earnings from the profits of the company over time. As these accumulate, investors reward the company with an increasing share price

What is Market Value Added - MVA?

- ❖ The MVA formula is shown here
- ❖ The market value of shares is the share price multiplied by the outstanding number of shares
- ❖ If there are preference shares or bonds, these are added to the total book value of equity to get the total book value of Shareholders' Equity
- ❖ $MVA = \text{Market Value of Shares} - \text{Book Value of Shareholder's Equity}$

What is Market Value Added - MVA?

- ❖ A high MVA demonstrates that the company has created wealth for stockholders since its inception
- ❖ This suggests that it is performing well, and may continue to do so in the future.

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