Estimated Market Value of a Company Based on Future Investment Projects

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Abstract: Market value is a representation of exchange value, that amount of money that a property would bring if it were offered for sale on a free market, at the evaluation date, as required to meet the definition of market value. At one point a company may have a market value superior or inferior to its accounting value. If raising the capital investors considers this as benchmark for future investment. Through this work, I plan to demonstrate methods to estimate market value and its practical uses.

Keywords: capital , evaluation, investment market value

1 Introduction

The evaluation process is useful for reliable estimates of the defined value, based on analysis of all available information (especially in the diagnosis of the enterprise).

The assessor will estimate the value of the company by specific methods and techniques that reflect three distinct approaches in the assessment: comparison approach, income capitalization approach, active approach.

In principle, an assessor can use in an evaluation report, all three approaches, all estimates of enterprise value. Using methods that are part of that approach depends on the type of business, its situation assessment on the quality and quantity of information available, the purpose of evaluation.

2 Comparison approach

In this approach, the assessor evaluated subject compare with other similar companies, with holdings and shares were sold on the market. Approach the market sets the limits of market value by analyzing prices paid shares, normally for actions that competitors evaluated. Sale must be investigated to see the motivation of both parties (Stan, 2006). Selling prices, which reflects another motivation than that typical market participants, must be eliminated on the basis of reference for comparison.

Market approach has broad applicability but it is convincing only when sufficient information is available from the market.

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2.1 Income through capitalization approach

According to IVS GN 6 - Business Valuation, income-based approach is finite as a "general way of estimating the value of an enterprise, participates or shares, using one or more methods by which value-added services is estimated by converting the benefit or (gains / hour) expected in the amount of capital "(through technical updating / capitalization).

The two methods given in this approach are:

- Net cash flow method update - CFN_{act};
- Capitalization income method.

According to IVS GN 6, the essence of the two methods included in the income-based approach is the method's CFN_{act} net cash flow is estimated for each year of the explicit revision (5-10 years). This cash-flow is converted into capital value by updating techniques, using a discount rate.

The income capitalization method, a representative level of this is divided by a capitalization rate is multiplied by a factor or multiplier to convert the property value.

The similarity between the two methods is that if both theoretical methods were applied to evaluate a company, the resulting values should be equal.

The difference between the two methods addresses two different situations in which each method, respectively:

- CFNact method applies only assessed if the undertaking will generate an explicit forecast period (5-10 years) an annual net cash flow of unequal size (even negative in a year or more years);
- Capitalization of income method applies only where the company has reached the stage assessed (stage) of economic stability, characterized by the following features:
    - Return on invested capital reached the average level of profitability achieved in the field of activity;
    - Allocate a constant share of net investment income, annual investment capital that is equal to annual depreciation and net cash flow is approximately equal to net profit;
    - Annual income reproducible under capitalization, will be a constant annual flow (constant annuity) or an annual rate increases steadily to infinity (symbolized by g). Therefore, one can say that the income capitalization method is a short version CFN_{act} method.
- An income approach is founded on utility theory, according to which the investor will spend a certain amount of money, according to the future satisfaction hope for it, that will result from the operation's investment (International Valuation Standards Committee; International Valuation Standards, 2007). For investor satisfaction is reflected in the revenue they will get, which may be expressed in several forms:
    - gross operating profit;
    - Net operating profit;
    - Current gross or net profit;
    - dividends;
    - gross or net cash flow.

The size and duration of annual production projected income is high, with both generating income and property value will be higher in the eyes of an investor. Therefore, the approach is in optical income investor who is interested to acquire future income generation capacity of an enterprise.

3 Active approach

Active approach, also known as the **patrimonial approach**, the approach based on cost and replacement cost approach, is to correct (adjust) (Isfanescu, 2009)the carrying amounts of individual assets and liabilities towards transforming their enterprise market value.
In this approach included two evaluation methods - adjusted net asset method (NAM)
- method asset liquidation or value net of liquidation (VNL).
According GN6 - "Business Valuation", asset-based approach is to "estimate the value of a business and / or using the equity method based on market value of their individual enterprise's assets, minus debts."
The above definition corresponds with the essence of the ANC method. This method directly calculates the amount of capital to shareholders (ACS). Therefore:

ANC = market value of assets - market value of debt

The method involves several steps and the NAM, of which most important are: getting the balance sheet or trial balance, the date of valuation;

- valuation of assets and liabilities, which could mean:
  - taking a book value if corrections are not justified on that value,
  - be the transformation of a book value of assets and liabilities in market value;
- developing "economic balance" and the calculation of net asset Corrected.

The method involves hiring an NAM large volume of work from the evaluation team, it involves dividing an enterprise distinct fractions, which must be evaluated individually.

4 Summary of the method NAM – ECOSULTING Company

After browsing all stages of evaluation categories of assets, requiring corrections to their book value as of debts, and calculate net asset synthesis Corrected corrections will be made into a table.
Some synthetic conclusions deducted from asset-based approach are:

- Corrected net asset method (NAM) was applied on the assumption that the company evaluated its normal operation will continue in the foreseeable future. The other method of assessment, included in the asset-based approach, but in the event of closure, called net asset liquidation method (VNL).
- The NAM method to calculate the amount of capital to shareholders and not the amount of capital invested.

NAM value reflects a control, a control value of capital to shareholders because the buyer has the opportunity to decide the sale of assets or all assets acquired.

Table 1: Net Asset Accounting to 31/08/2010

INDICATOR	**31.08.2010**
A.NON CURRENT ASSETS	
II. TANGIBLE ASSETS	**1.923.987**
III. FINANCIAL ASSETS	**1.477**
NON CURRENT ASSETS - TOTAL	**1.925.464**
B.LIQUID ASSETS	
I. STOCKS	**3.092**
II. RECEIVABLE DEBS	**357.152**
IV.PETTY CASH AND BANK ACCOUNTS	**31.617**
LIQUID ASSETS - TOTAL	**391.861**
D. DEBTS: SUMELE CARE TREBUIE PLĂTITE ÎNTR-O PERIOADĂ DE PÂNĂ LA UN AN	**1.007.423**
E. NET LIQUID ASSETS / NET CURRENT DEBTS	**-615.562**
F. TOTAL ASSETS LESS CURRENT DEBTS	**1.309.902**
J. CAPITAL AND RESERVES	
I. CAPITAL (rd.22 + 23 + 24), WHICH:	**1.029.600**
- SUBSCRIBED CAPITAL PAID	**1.029.600**
III. REVALUATION RESERVES	**1.201.716**
IV. RESERVES	**45.826**
V. PROFIT OR LOSS REPORTED(Ă) BALANCE D	**995.671**
VI. PROFIT OR LOSS FINANCIAL YEAR BALANCE C	**28.431**
EQUITY OWNERHIP – TOTAL	**1.309.902**
CAPITALS - TOTAL	**1.309.902**
TOTAL ASSETS	2.317.325
Current debts	**1.007.423**
The net asset accounts	1.309.902
Number of shares	**80.000**
Action Value (accounting) - Lei / Action	16,37
Action value accounting – (EURO)	3,84
Nominal Value - (RON)	12,87
NominalValue - (EURO)	3,02

*To determine the correct accounting net assets (ANCC) techniques were used appropriate balance of nature elements reviewed. The analysis results are presented in annexes property assessed. Corrections have been applied to balance sheet values of the elements relates to the revaluation of fixed assets and debts *, as follows:*

Table 2: Ajusted Net Asset Accounting

Denumirea elementului	Nr. Rd	Balance 31.08.2010	Corrections	Values corrected
A.NON CURRENT ASSETS				
II. TANGIBLE ASSETS	2	1.923.987	395.090	2.319.077
III. FINANCIAL ASSETS	3	1.477	0	1.477
NON CURRENT ASSETS - TOTAL (rd. 01 AT 03)	4	1.925.464	395.090	2.320.554
B.LIQUID ASSETS				
I. STOCKS	5	3.092	0	3.092
II. RECEIVABLE DEBS	6	357.152	0	357.152
IV.PETTY CASH AND BANK ACCOUNTS	8	31.617	0	31.617
LIQUID ASSETS - TOTAL (rd. 05 AT 08)	9	391.861	0	391.861
D. DEBTS: SUMELE CARE TREBUIE PLĂTITE ÎNTR-O PERIOADĂ DE PÂNĂ LA UN AN	11	1.007.423	-417.197	590.226
E. NET LIQUID ASSETS / NET CURRENT DEBTS (rd.09 + 10 - 11 - 19)	12	-615.562	417.197	-198.365
F. TOTAL ASSETS LESS CURRENT DEBTS (rd.04 + 12)	13	1.309.902	812.287	2.122.189
J. CAPITAL AND RESERVES				
I. CAPITAL (rd.22 + 23 + 24), WHICH::	21	1.029.600	0	1.029.600
- SUBSCRIBED CAPITAL PAID	22	1.029.600	0	1.029.600
III. REVALUATION RESERVES	26	1.201.716	395.090	1.596.806
IV. RESERVES	27	45.826	417.197	463.023
V. PROFIT OR LOSS REPORTED(Ă) BALANCE C (ct. 117)	31	0	0	0
BALANCE D (ct. 117)	32	995.671	0	995.671
VI. PROFIT OR LOSS FINANCIAL YEAR BALANCE C (ct. 121)	33	28.431	0	28.431
BALANCE D (ct. 121)	34	0	0	0
EQUITY OWNERHIP - TOTAL (rd. 21+25+26+27-28+29-30+31-32+33-34-35)	36	1.309.902	812.287	2.122.189
Public heritage	37	0	0	5.424.830
CAPITALS- TOTAL (rd. 36+37)	38	1.309.902	812.287	7.547.019
TOTAL ASSETS		2.317.325	395.090	2.712.415
Current debts		1.007.423	-417.197	590.226
Long-term debts		0	0	0
The net asset accounts		1.309.902	812.287	2.122.189
Adjusted net asset		2.122.189		
Number of shares		80.000		
Action Value (accounting) - Lei / Action		16,37		
Action Value (corrected) - Lei / Action		26,5273625		
Round action Amount (corrected)		26,53		
Action Values (Nominal)		12,87		

Debt rating has been made taking into account:

- Control Minutes. Regional Customs Directorate concluded 6277/04.03.2004 Galati
- Decision of the Ministry of Finance - National Tax Administration Agency nr.263/31.08.2004
- No Control Order. 490/28.10.2004
- Process completed inspection report dated 15.12.2004 of the National Customs Authority - Regional Customs Directorate Galati Nr.11497/20.04.2005 Control
- Minutes of Regional Customs Directorate concluded Galati
- Background checks on DRAOV Galati document.

ECOSULTING Company owns a building (block of flats - 5 floor levels) built from the ground surface of 300.22 sqm developed area appraiser estimated at 1845.23 square meters. The value of shares determined in accordance with the provisions of the International Valuation Standards and consisted in determining company value based method: adjusted net assets.
According to the NAM, following reconfiguration result of the contribution:

Table 3: Aport Configuration

Name	Share in the profits and losses	After evalution (Ron)	After evalution (euro)
Shareholder 1	0,01%	212,22	49,82
Shareholder 2	0,60%	12.733,13	2.989,21
Shareholder 3	0,13%	2.652,74	622,75
Shareholder 4	0,13%	2.652,74	622,75
Shareholder 5	0,13%	2.652,74	622,75
Shareholder 6	98,80%	2.096.616,62	492.198,19
Shareholder 7	0,04%	848,88	199,28
Shareholder 8	0,03%	636,66	149,46
Shareholder 9	0,06%	1.273,31	298,92
Shareholder 10	0,03%	636,66	149,46
Shareholder 11	0,03%	636,66	149,46
Shareholder 12	0,03%	636,66	149,46
TOTAL	**100,00%**	**2.122.189,00**	**498.201,52**

5 Conclusion

Economic assessment process aims to establish the market value of assets and property value; it constitutes an instrument of orientation in space economic operators in the country. The need arises appears when in evaluating enterprise life are significant changes in the size and capital structure, the number and composition of shareholders or associates, legal actions profit (bankruptcies, partition, inheritance), when the evidence presented in the balance sheet does not reflect market values but rather administrative value or historical cost significantly different fair values.

6 References

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