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РАЗВИТИЕ МЕХАНИЗМОВ ОЦЕНКИ И УПРАВЛЕНИЯ РЫНОЧНОЙ  
СТОИМОСТЬЮ ПРЕДПРИЯТИЯ

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БЕЛОРУССКО-РОССИЙСКИЙ УНИВЕРСИТЕТ

For anyone involved in the field of corporate finance, understanding the mechanisms of company valuation is an indispensable requisite. This is not only because of importance of valuation in acquisitions and mergers but also because the process of valuing the company and its business units helps identify sources of economic value creation and destruction within the company.

Valuation is the process of determining the “Economic Worth” of an asset or a company under certain assumptions and limiting conditions and subject to the data available on the valuation date.

All businesses have a value. Whether it be a multi million dollar corporation that spans entire countries and language barriers or a small one man hot dog stand.

Valuation is used by financial market participants to determine the price they are willing to pay or receive to consummate a sale of a business. In addition to estimating the selling price of a business, the same valuation tools are often used by business appraisers to resolve disputes related to estate taxation, divorce litigation, allocate business purchase price among business assets, establish a formula for estimating the value of partners' ownership interest for buy-sell agreements, and many other business and legal purposes.

The main point that we need to know about valuation is that, first of all, the value of a business, by whatever valuation method it is obtained, is not the selling price of a business. Value is an economic concept based on certain data and assumptions, however price is what a buyer is willing to pay keeping in consideration the economic and non economic factors like emotions, perception, greed which cannot be valued as such. Second, the value is a subjective term. It changes when we get new information. Then, valuation is more of an art and not an exact science. The art is professional judgment and science is statistics. The models that we use in valuation are quantitative, but the inputs leave plenty of room for subjective judgments.

Afterwards, it may seem obvious that more composite models will result in better valuations, but it is not necessary. As models become more complex, the number of inputs increases, which causes potential errors. These problems can turn valuations to “black boxes”.

The value of a company is based on two main factors. Firstly, cash flow or, in other words, how much money company makes per year. The second main factor is assets. If the company owns property or vehicles then it is calculated into the

overall value of the company. But not just that, even things like equipment or intellectual property (think of all the IP that Disney owns for instance). It all adds up.

Today, any process which takes place in national economy, whether it is attraction of investments, privatization or joint stock company formation, cannot be put into practice without proper marketing valuation.

For example, some important activities are planned in this country for 2014. In the first quarter of this year the law, which allows Belarus enterprises to become full members of international stock market, is to be passed. According to experts of Belarus Chamber of Commerce and Industry, more than fifty representatives of the domestic enterprises are ready to place bonds in the international markets and to go for an Initial Public Offering (IPO). Besides, at the beginning of 2014 Belarus State committee on property announced share sale of 86 state owned companies and two enterprises as integral property complexes.

It is necessary to notice that in 2013 the country received only 3% of the planned income from privatization. As a whole, state property sale brought to the country about 70 million dollars in 2013. It had been expected to receive 2.5 billion dollars. It, undoubtedly, shows necessity of new approaches to business, but also a proper valuation, work strategy and strict financial reporting of enterprises.

The majority of national companies use only traditional efficiency rating, such as: profit margin, profitability, sales volume which can result in a wrong image of the company.

The valuation system development was started in Belarus in 1992. Over the last 22 years, the amount of valuation has increased rapidly due to the fast development of the Belarusian market. Today the major clients for valuations are banks, enterprises, owners and investors; and the most commonly assessed value is the market value. But only 2006-2007 can be considered as the years when valuation system got legal and systematic background. The main document, regulating valuation activity in Belarus, is Decree of the President of the Republic of Belarus No 615 of October 13, 2006 "On valuation activity in the Republic of Belarus". According to the Decree the value of objects can be determined by:

- 1) market approaches: cost approach, income approach, etc.;
- 2) other methods of valuation: index method, method of balance accumulation of assets, method of cadastral valuation.

The cost approach is rather simple. Any economic object could be valued by means of this method. It is due to the fact that the measure of value is the sum of costs for creation and the subsequent sale of an object. Cost approach views the business as a set of assets and liabilities that are used as building blocks to construct the picture of business value. The difference of these assets and liabilities is the business value.

There are two types of cost approach:

1) book value method. This form of valuation is based on the books of a business, where owners' equity i.e. total assets minus total liabilities are used to set a price. This method is entirely dependent on the accounting values\$

2) liquidation value method. This method is similar to the book valuation method, except that the value of assets at liquidation is used instead of the book or market value of the assets.

The income approach most accurately describes the cost of a company as a business, which is the working mechanism making profit. It is based on the premise that the current value of any business is a function of the future value that an investor can expect to receive from purchasing all or part of a business. However, the use of the estimate data does not necessary lead to reliable calculations.

There are two types of income approach:

1) capitalization of earning method. It basically divides the business expected earnings by the so-called capitalization rate;

2) discounted cash flow method. It expresses the present value of the business as a function of its future cash earnings capacity. In this method, the appraiser estimates the cash flows of any business after all operating expenses, taxes, and necessary investments in working capital and capital expenditure are met. Valuing equity using the free cash flow to stockholders requires estimating only free cash flow to equity holders, after debt holders have been paid off.

In market approach, value is determined by comparing the subject, company or assets with its peers or transactions happening in the same industry and preferably of the same size and region. This is also known as relative valuation method. Whereas no publicly traded company provides an identical match to the operations of a given company, important information can be drawn from the way similar enterprises are valued by public markets.

A key benefit of market analysis is that this methodology is based on the current market stock price which is generally viewed as one of the best ways of valuation because markets are considered somewhat efficient.

This method is the easiest to use when:

– a large number of assets are compared to the one which has been valued before;

– assets are priced in the market;

– there is a common variable that can be used to standardize the price.

However, in view of specific security market in Belarus and other factors valuation by this method becomes incorrect, and sometimes impossible.

Each of the presented approaches has advantages and disadvantages that is why summarized results are more informative for management of a company, than the results received by means of one method.