

FINANCIAL ANALYSIS OF COMPANY BASED ON EVALUATION MODELS

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Abstract

The aim of this study is to assess the possibility of carrying out a financial analysis using models of business valuation. The given work is developed in the Evalent program. Evalent is a software system that works in Microsoft Excel. Evalent is used to determine the market value of the holdings. To determine the appraised value of the property company uses yield valuation methods.

The work contains theoretical knowledge of financial analysis, financial indicators and methods of valuation of the company. We have developed a method for estimating the value of a company by several methods that are included in the Evalent. With this procedure CFOs, entrepreneurs, investors and also potential investors can determine the value of the company. The procedure is applicable for companies traded on the stock exchange and not traded on the stock exchange. The user can follow this procedure as the value of the company changes over time in a number of methods that are available in the Evalent.

Evalent contains several methods for determining the value of the company. The core of all of these methods constitute income business valuation methods, especially those variants: discounted cash flows method, methods of economic value added EVA, capitalized earnings method.

Key words: valuation of the company, financial analysis, EVA, cash flows

JEL Code: E20, E27, G3

Introduction

Valuation of the company is the financial expression of the total asset value of the holdings. It's a real overview of the total value of the property structure of the company and its results of operations. Studied business can be evaluated as a whole or a part of the same

enterprise. The basic objective of any business is to maximize profit and market value of the company.

„A business is a set of material as well as personal and intangible assets. The businesses include things, rights and other assets belonging to the entrepreneur and serve for the operation of the enterprise or by their very nature have to serve this purpose“ (Act no. 513/1991 Coll., The Commercial Code).

There are many different reasons for which it is necessary to determine the current value of the company. The most common causes include the purchase or sale of companies, mergers, enter the stock market, trying to obtain a loan and so on.

„The carrying amount of assets the company or its parts is set by the amounts reported in the accounts or other record of serving as an input to determine the general value of the business assets“ (Law no. 431/2002 on Accounting, 2002).

The market value of the company is the value which is determined on the basis of trade between the seller and the buyer on the open market. Market value is different from the book value of the company.

„Measuring the performance and risk of holding financial assets is an important aspect of any good financial management plan. The value of each asset in a portfolio depends on a set of economic values called risk factors. These specific risk factors can impact the individual asset value, and they can impact the whole asset group“ (Bhunia - Makhuti, 2012).

„The set of alternative risks from which management chooses consists of two major types - asset risks and underwriting risks“ (Browne - Carson – Hoyt, 2000).

Using methods that are a part of the program Evalent, managers can monitor how it will change the value of the company in the time by various methods. Using the Evalent program, managers can easily perform financial analysis and make it more comprehensive.

We can observe that the value of the company at the time increases, it indicates a company's health, or if the value of the company decreases, it reveals problems in the company.

For investors this program is a simple tool to determine the value of a company by several yield methods. They may decide to invest or not investing in a particular undertaking.

In this paper we show one of the ways to easily work with the Evalent program. We work with publicly available information and show how can potential investors evaluate business without inside information.

Valuation of company is not just about determining the value of the company. It is necessary to take into account the environment of the establishment and the factors that acts on it, for example competition enterprise market and business sector. What is important is the consideration of the components that accounting is not able to capture. We are talking about the human factor, corporate governance, organization of ongoing processes in business relationships with customers and with the surrounding company. These components may be partially included in intangible asset called goodwill. Valuation of the company can be expressed as the gross value or net value. Gross value represents the value of the entire company. It includes enterprise value for the owners and creditors. Net value of the company is understood as a valuation of the company at owners, is evaluating the company's capital (Mařík - Maříková, 2005).

1 Selected models of valuation

Evalent program contains several methods for determining the value of the company. The core of all of these methods constitute income business valuation methods, in particular the following variants:

- discounted cash flow,
- methods of economic value added EVA,
- capitalized earnings method.

In this work we evaluate the following methods of business valuation:

Enterprise value of free cash flow to the owners

Based on the final net asset value and cash flow respects the planned capital structure. Furthermore, the calculation takes into account the average growth rate of free cash flow.

Enterprise value of economic value added EVA

The basis of this method is profit before taxes, which is adjusted for changes in the balance of reserves and accruals, subsequently taxed. This method is based on economic value added EVA and rate of growth of this value.

Enterprise value of capitalized profits

The essence of this method is the derivation of equity of permanent removable net income. The removable net income provides for an adjustment the adjusted

operating profit. These adjustments include adjustments of depreciation, excluding the exceptional costs and benefits averaging irregular but recurring cost items.

Based methods and estimates the growth rate of profit

These methods do not require the creation of a financial plan. In the system Evalent we can choose the method of constant growth rate of profit, extremely rapid growth rate followed by zero growth and extremely rapid growth followed by a constant rise in income.

2 Input conditions and parameters

The procedure of making a financial analysis of the analysed company was follow:

1. Analysis of the current problems of financial analysis at home and abroad.
2. Identify the tools of financial analysis model based on a valuation of the company.
3. Establish procedures for financial analysis based on valuation models.
4. Apply the procedure of financial analysis for example.

Enterprise value of free cash flow to the owners

Next table shows the calculation of enterprise value of free cash flow to the owners.

Table 1 – Enterprise value of free cash flow to the owners

Enterprise value of free cash flow to the owners	
Value of non-operating assets	-902 892
Interest bearing a foreign kapital	7 930 811
EBITDA	11 710 663
Free CF in last year	8 146 312
Enterprise value	138 102 937

Source: own processing according to Evalent

Using this method, we calculated the amount of the analysed company in sum 138 102 937 €. The value calculated using this method is the second highest among the company of the results obtained by applying different kinds of methods.

Enterprise value of economic value added EVA

Next table shows the calculation of enterprise value of economic value added EVA.

Table 2 – Enterprise value of economic value added EVA

Enterprise value of economic value added EVA	
Value of non-operating assets	-902 892
Interest bearing a foreign kapital	7 930 811
EBITDA	11 710 663
EVA in last year	4 548 139
Enterprise value	157 355 276

Source: own processing according to Evalent

Using this method, we published the final enterprise value of 157 355 276 €. The resulting enterprise value calculated using the economic value added is highest among the resulting values calculated using various kinds of methods.

Enterprise value of capitalized profits

Next table shows the calculation of enterprise value of capitalized profits.

Table 3 – Enterprise value of capitalized profit

Enterprise value of capitalized profit	
Value of non-operating assets	-902 892
Interest bearing a foreign kapital	7 930 811
EBITDA	11 710 663
Profit in last year	5 889 743
Enterprise value	101 794 505

Source: own processing according to Evalent

The value of the company using this method came to us in the amount of 101 794 505 €. It is the lowest value among the calculated values by the others methods.

Value of the company based on an estimate of the growth rate of profit

Next table shows the calculation of the value of the company based on an estimate of the growth rate of profit.

Table 4 – Value of the company based on an estimate growth rate of profit

Value of the company based on an estimate of the growth rate of profit	
1. Constant growth	
Growth rate	0,0%
Enterprise value	150 498 312
2. Extraordinary growth followed by zero growth	
Extraordinary growth rate	2,8%
Enterprise value	171 154 000
3. Extraordinary growth followed by stable growth	
Extraordinary growth rate	1,4%
Enterprise value	160 552 241

Source: own processing according to Evalent

For constant profit growth we have chosen 0 %. Using this method, transmitting the resulting enterprise value of 150 498 312 €.

Slovak Republic has achieved the highest GDP growth in the years 2011 to 2015 amounting to 2,8 %. If we counted with this growth in the company over the next five years, resulting enterprise value would be 171 154 000 €.

If it for the next five years estimated growth rate of 1,4 %, the lowest GDP growth rate of the Slovak Republic in the years 2011 - 2015 and the resulting value of the company would be in the amount of 160 552 241 €.

Based on the three methods based on the estimate we would like to point out how the changed value of the company based on the estimated rate of growth of income.

Conclusion

This work deals with the financial analysis of company using the evaluation models. We perform the financial analysis and the evaluation models in program Evalent which works in Microsoft Excel. This program is used to determine the market value of the companies.

The resulting value of the company we counted by different methods (the enterprise value of free cash flow to the owners, the enterprise value of economic value added EVA, enterprise value of capitalized profit and the value of the company based on an estimate of the growth rate of profit).

The final section of this work we evaluate the achievements we have obtained through the financial analysis in the program Evalent.

Enterprise value of free cash flow to the owners came out in the amount of 138 102 937 €. The value of the company of economic value added EVA came out of 157 355 276 €. Enterprise value of capitalized profit came to us in the amount of 101 794 505 €.

Estimated value of the company based on an estimate of 0 % rate of increase in profit came to us in the amount of 150 498 312 €. Extraordinary growth rate over the next 5 years, we have chosen to 2,8 %. If we counted with this growth in the analysed company, followed by zero growth, values it would have been 171 154 000 €. If we for the next five years the growth rate estimated profit of 1,4 %, followed by zero growth and values it would be in the amount of 160 552 241 €.

A variety of methods based on the estimate we highlighted to change the value on the basis of the estimated growth rate of profit.

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