

**ANALYSIS OF THE ENTERPRISE VALUE BASED ON THE RETURN VALUE.
MODELS, COMPARISONS AND STRATEGIC OPTIONS**

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ABSTRACT

In the globally post – financial crisis context, a current problem is that of companies' evaluation. When considering the diverse and rapid changes of the external environment of a company, that put pressure on the management of organizations in shaping the internal capabilities to achieve the value objectives increasing, we find both academic and professional compelling concerns towards thinking and developing methodologies and indicators that may accurately include the needs to quantify a company's values and also to implement organizational strategies that meet the perpetual demand of value creation and enhancement. Both literature and specialty practice offer many models for determining the value of the company, however, this paper does not propose an inventory of them, but brings light for those interested in an explanation of valuation models based on financial results generated by the use of business assets and justification of the need to consider the decision mainly in those strategies that ensure growth in terms of value and in terms of cash flow. Based on the comparison of two different perspectives, generating value for the enterprise and the value based on historical cost of property, the value obtained at the expense of future results arising from the use of this property, the paper also provides strategic options with financial valence needed to be followed by the management based on the correlation between the two types of values.

KEYWORDS: *vectors of creating value, cash flow, economic value added, the index of value creation.*

JEL CLASSIFICATION: *G32*

1. INTRODUCTION

Owners are involved in initiating and developing business given that their expectations are met, primarily those of a financial nature. This aspect is extremely important as the satisfaction of the shareholders ultimately falls on the society, on the community. It reflects, on the one hand, shareholder wealth and on the other hand an increase of the prosperity of other categories of participants in the life of the enterprise. Value created at the enterprise level is used to meet the needs and interests of the latter.

Appreciation of the company and hence of the owners' wealth, can be estimated through different means, sizes and indicators. To substantiate the market value of the company, we chose the return value, since it takes into account the capability of the company (assets, investments) to generate

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future financial results. Based on the listing of the main synthetic vectors for value creation in the company, we chose the following indicators, as an expression of the output's value:

- net operating cash flows, the indicator with the highest degree of acceptability in estimating the efficiency of the enterprise;
- value creation indicators, such as economic value added (EVA);
- indicators compared between the asset value and return value.

2. THE VECTORS OF THE COMPANY'S VALUE CREATION

Objectives:

- identifying the main drivers that determine and explain the key strategic objective of the company – value creation ;
- highlighting the relations between vectors of value creation in the company.

We believe that the fundamental strategic objective of the company depends mainly on certain vectors of value creation. We can identify three groups of vectors behind the increase in the enterprise's return value (Figure 1):

1. effectiveness vector (investment activity);
2. efficiency vector (operational activities) ;
3. financial vector (financing activities) .

In the first group, creative activities fall in the value of investments or divestments in value - destroying activities. In the second group, we identified the relationships between inputs and outputs of the operational processes at the enterprise level and within the third group, the financial structure of the company.

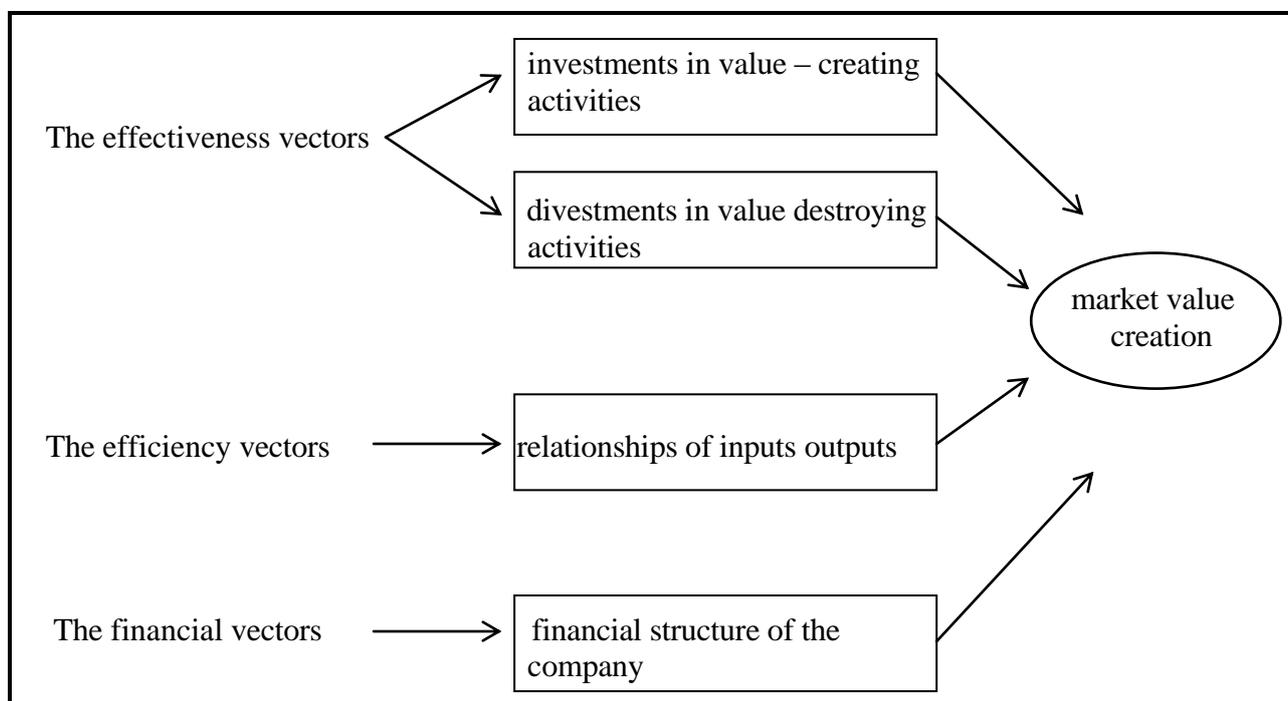


Figure 1. The vectors of the company's market value creation

Source: made by authors

The effectiveness vectors are determined by:

- competitive rivalry and sectorial cooperation (e.g. acute competitive rivalry - no collaboration at all levels - can often bring war price and severe cuts of trade margins and operating profit);

- the development of the sector and competitors (the fight for market share);
- attractiveness of the sector (an attractive sector will cause major investment from existing competitors and possible inflow of new competitors, an unattractive sector will lead to disinvestment and leaving the sector to other sectors more attractive);

The efficiency vectors are determined by:

- bargaining power of customers and suppliers - operating profit of the company is the strongest point in adding high value at a relatively low cost;
- resource efficiency - the powers of the company, i.e. the company's ability to transform the lowest costs moving into new use values (substitution utility costs as low as possible);
- enterprise culture (awareness, quality of work, attitude towards work and learning etc.).
- sales growth (leading to economies of scale);
- quality of management.

The financial vectors are determined by:

- external factors: the development degree of financial markets; the diversification degree of capital suppliers; the development degree of financial instruments; the development of the overall economy (inflation, currency depreciation rate, budget deficit, balance of payments, economic growth, taxation, culture and economic - financial etc.);
- internal factors: the efficiency and viability of conducted and proposed business; size and bargaining power of the company; indebtedness and financial autonomy of the enterprise; creditworthiness of the company and soundness safeguards; financial and top management.

In a more pragmatic way, the vectors of market value creation can be synthesized as shown below.

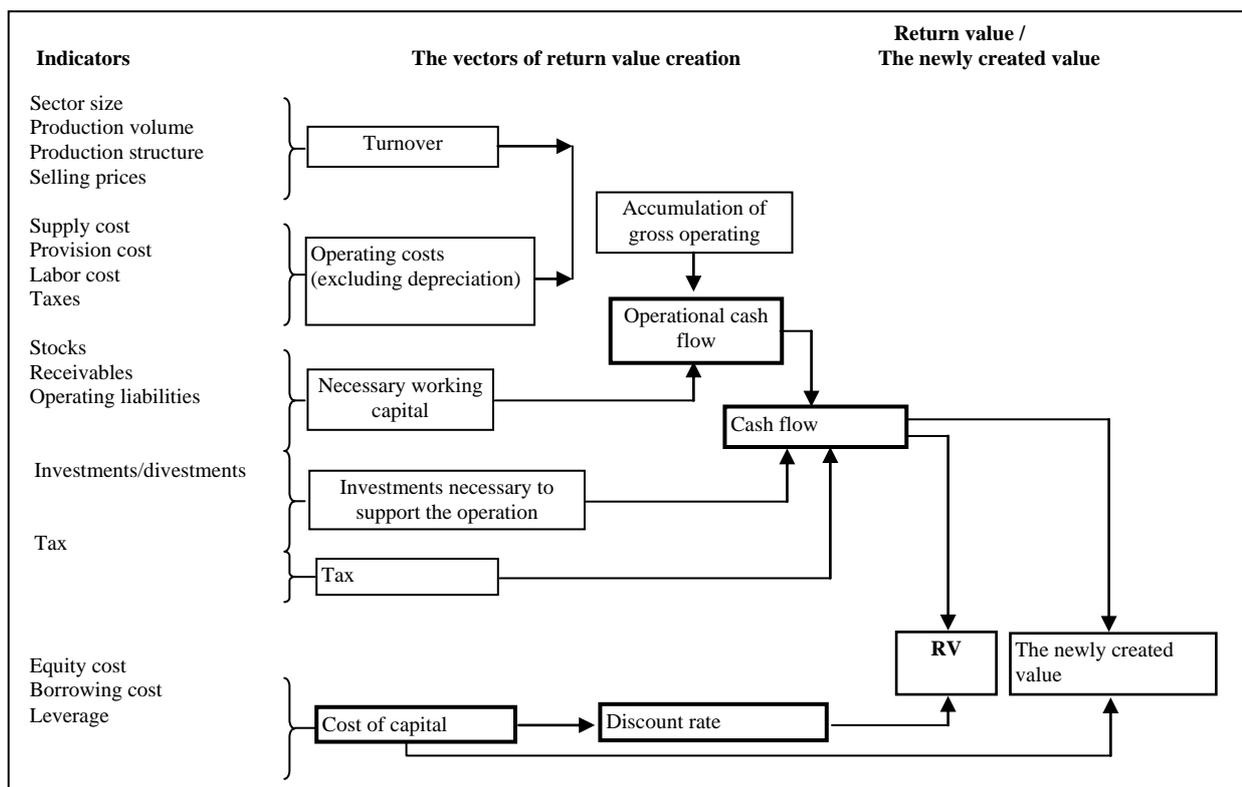


Figure 2. The appraisal of the company's value based on the vectors of value creation
 Source: made by authors

*) RV – return value.

3. THE RETURN VALUE OF THE COMPANY BASED ON CASH FLOW

Objectives:

- determining the return value of the company;
- assessment of the shareholders' accumulated wealth through the assets' ability to develop cash.

The most commonly used method of determining the return value of a company remains discounted cash flows, likely to develop in the future, by using the assets available to the company.

Discounted cash flows involve the present value of cash flows that will develop in the future, so the return value of the company (RV) is equal to the present value of future cash flows (PV (FCF)).

Establishing enterprise value based on this method is more complicated as:

- a. it involves building a model of a certain cash flow to be taken in the calculations;
- b. it involves forecasting business activity and hence cash flow over a certain time horizon;
- c. it provides for the updating technique and selecting the discount rate.

a. Cash flows building

The cash flow used to determine the return value of the company is the one that highlights the company's ability to develop cash based on the use of its assets. The closest form of cash flow that meets this requirement is operating cash flow (OCF).

Therefore, the return value of the company is equal to the present value of operating cash flows (net) likely to develop during the forecast period.

In a synthetic approach, operating cash flow is calculated as the difference between gross operating accumulations (GOA) or the result of operating profit and working capital needs change (Δ WKN).

$$OCF = GOA \pm \Delta WKN \quad (1)$$

b. Forecasting business activity

On the basis of estimating cash flows likely to be released in the future on the basis of asset exploitation lies forecast profit and loss account i.e. balance sheet - future cash flows are based on them.

Estimated income and expenditure items are performed on specific activities envisaged for the forecast period. An important component will be the financial costs with interest since in order to meet the needs of the enterprise, borrowed financial resources are attracted. The weak aspects of this operation are estimating the volume of activity, identifying links and quantifying the level of various types of expenses with the estimated workload.

To estimate the financial situation (balance sheet items), the following aspects should be taken into account:

- during the forecasted period, revaluation of assets are not expected;
- the value of fixed assets will be diminished with the value of the corresponding annual depreciation, respectively new investments will be added and divested assets will be disposed of;
- the current assets will be estimated based on the level of activity (expressed as turnover) and the provided speed of rotation of stocks and claims;
- the availabilities will be estimated according to the evolution of their receipts and payments (reflected in the statement of cash flows);
- equity will be estimated by including the net profit, the distribution of dividends or reinvestment thereof, with only the capital changes provided;
- liabilities greater than one year will be on account of financial loans and long term (investment loans are typically in this category);
- short-term financial liabilities (cash loans) will be estimated based on the availability account deficit reflected in the cash flow statement;

- operating liabilities will be estimated based on the speed of rotation, similar to stocks and claims.

The prediction horizon should be guided by the period of time after which potential investors are hoping to recover the funds invested in the expected rate of return (including the remuneration of the assumed risk). The further the forecasting horizon, the higher is the range of error. During the forecast horizon, a number of factors may arise, whose intensity action can have serious consequences on the company and may require reconsideration of the business' approach. This reconsideration may extend to changing or adjusting business strategy based on the estimates.

c. Choosing the discounted rate

Based on the aforementioned, we believe that the technique of determining the return value of capitalization (considering the time horizon infinity) is no longer topical, being just a simple theoretical exercise. The environment is changing very frequently, and businesses are required to be continuously adjusted.

The choice of the discounted rate may be achieved by several methods.

The first method considers the discounted rate (DR) as the weighted average cost of capital (WACC) to a deflated level (dWACC); this rate would ensure remuneration of all invested capital (own and borrowed) including business specific risk premium assumed by the shareholders and the financial risk premium claimed by creditors.

$$DR = \frac{\overline{WACC} - r_i}{1 + r_i} = \overline{dWACC} \quad (2)$$

where:

r_i - Estimated average annual inflation rate.

Weighted average cost of invested capital represents the compensation for the capital providers. The return on capital invested is based on their type, either by origin (equity - provided by shareholders and loan capital - provided by lenders such as bank loans, leasing, mortgage bond etc.) or maturity (permanent capital - consisting of equity and borrowed financial resources in the medium and long term, and short-term capital - consisting of short-term bank loans and other capital with maturity under a year). Mostly, the determination of the capital cost is achieved by origin.

A complicated problem is to determine the size of the cost of equity. A solution used to determine the cost of equity is estimated by a weighted average cost of capital items. Thus:

- the cost of capital is equal to the discount rate that ensures the equivalence of the present value of future dividends with capital subscribed by the shareholders;
- the net profit is assigned a cost equal to the return on equity;
- other equity items:
 - reserves (reinvested earnings) are taken as the cost to the present value of cost of equity or the return on equity;
 - capital premium assimilated to the capital;
 - reevaluation reserves are considered the present value of the weighted average cost of capital or the return on assets.

This approach has, however, observable weaknesses even in its solving, since it associates different elements of inappropriate nature.

The cost of equity can also be considered an opportunity cost calculated as the return on equity from the previous historical year. The idea behind this reasoning is that the capitals are maintained in the business by shareholders if their remuneration will be at least the one from the previous year or, otherwise, if shareholders have not withdrawn capital from business it means either that they are satisfied with the earnings or that they delayed the withdrawals in the hope of future consistent gains that will justify the wait. The reinvestment of the funds will be made in the next financial year at the level of the return on equity from the previous year. This possibility, in our country, however, is vitiated by a still slow and inflexible movement of the capital. It is quite difficult to withdraw

funds from a business and to immediately reinvestment into an opportunity (it requires a developed financial market).

As the management of funds is global, capital cost is presented as an average rate of remuneration obtained by summing all types of capital costs invested in proportion to the respective shares of total equity capital invested. Weighted average cost of capital invested is given by:

$$\overline{WACC} = \frac{EC}{IC} * ROE + \frac{MLTFL}{IC} * \overline{CMLTFD} * (1-TRP) + \frac{STFL}{IC} * \overline{CSTFD} * (1-T) \quad (3)$$

where:

EC – equity capital;

IC – invested capital;

MLTFL – medium and long term financial liabilities;

STFL – short term financial liabilities;

ROE – return on equity;

\overline{CMLTFD} – average interest rate (average cost) for medium and long term financial liabilities;

\overline{CSTFD} - average interest rate (average cost) for short term financial liabilities;

TRP – tax rate of profit.

The number of terms within the relationship may be increased depending on the type of medium and long-term debts or short-term debts. The organization may contract more long-term bank loans at different interest rates. Then, their cost during the contract may vary depending on market credit loan and credit clauses of the contracts. The same can be said for short-term loans or leasing or debentures, the company can strengthen its financial structure through a new share issue. Therefore, basically, the individual cost category of capital is an average depending on time variable.

Generally, the optimal cost of capital is the minimum value of the weighted average cost resulting from a financial structure that ensures the maximum enterprise value. It should be limited (end) the debt if not acting the positive effect of debt leverage.

According to another method, the discounted rate may be considered to be a basic rate (r_r) corrected by the first overall risk (r_g)

$$DR = r_r + (1 + r_g) \quad (4)$$

The base rate is considered average real risk-neutral placement rate (may be associated with the average interest rate deflated, provided by The National Bank of Romania);

$$r_r = \frac{r_n - r_i}{1 + r_i} \quad (5)$$

where:

r_r - base rate deflated (after Fischer technique for an inflation rate below 10%);

r_n - average nominal annual interest rate offered by the central bank;

r_i - average annual inflation rate.

The overall risk can be considered the result of various risk categories and the intensity with which they act on the company, beginning from the company's sector or even from the macroeconomic level to the enterprise management, the relationships with interest groups or issues related to the type of production and its organization.

Under these conditions, the return value of the company is obtained by discounting future operating cash flows over the forecast horizon plus the present value of the residual value.

$$DR = \sum_{i=1}^n \frac{OCF_i}{(1+e)^i} + \frac{RV}{(1+e)^n} \quad (6)$$

where:

DR - the cost of capital as the discounted rate chosen;

$\frac{1}{(1+e)^i}$ - the discounted factor;

RV - residual value;

OCF_i - operating cash flow forecast for the year "i"; i = 1 ÷ n

As the time horizon for which projections are made is less than the economic life of the assets of the company, obviously a residual value should be taken into account. Residual value can be considered in many ways.

In a first approach, residual value should be considered as the capitalized value of operating cash flow in the final year of the forecast. In this case, it assumes that the strategic choice of the company will develop indefinitely, after the prediction, the same level of results. This judgment corresponds to a stable environment in which business owners no longer have to make adjustments, once the initial strategy is chosen. This way of determining the residual value removes the evaluation from the economic reality, being known the environmental instability and hence the need to revise permanent options of investment / disinvestment.

$$RV = \frac{OCF_n}{cr} \quad (7)$$

where:

cr - capitalization rate of operating cash flow in the last year of forecast.

A second approach considers the residual value as a recoverable value, after taking into account the forecast horizon as a result of divestiture. We believe that this method is relevant, because it takes into account a finite period of operation of an investment and the need to reconsider the business by the owners after a certain period of time, due to changes in the environmental conditions.

A third method appreciates that the residual value is based on future cash flows lost after last year's prediction interval taken initial into calculation, but only as long as they are positive. We consider it appropriate enough but its application is limited by the uncertainty over the business when considering a second horizon (for which cash flows are calculated as loss). Since the loss cash flows are not positive, the business liquidation is required.

Enterprise value based on the return on assets will be determined primarily by the size of the cash flows that will be developed during the forecasting horizon periods. From this point of view, the value of the company will be determined by the way the management succeeds to control the vectors of efficiency and effectiveness.

The technique of actualization highlights the influence of the time factor on the size of the cash flows that will develop in the future. The farthest horizon forecast will be the lower, the present value of cash flows unobstructing those periods. The discounted factor will penalize increasingly more cash flows as they are placed towards the end of the forecast horizon. In this way, the election of the discounted rate and its value play an important role. The return value of the company will be even greater as the discounted rate is lower and thus lower discounted factor. Enabling this advantage (low discounted rate) is not just related to the performances of the company to control the financial vectors, but is closely linked to macroeconomic developments.

3. ANALYSIS OF VALUE CREATION IN THE COMPANY

Objectives:

- grounding of the indicators and methodology, necessary to establish the return value of the company on additional net cash flow;
- evaluation of the company's accumulated wealth, as reflected by value creation.

Creating value in the company assumes that the company's strategies and actions can add value over its patrimonial value (book value).

The method is based on the assumption that the company's value is given by the book value of the capital invested and the increment value of the invested capital market validated. According to this method, the increment value is based on additional net operating cash flows. Additional net operating cash flows are those net cash flows that exceed the cost of capital invested in absolute values.

$$MV = BVIC_0 + PVFANOCF \quad (8)$$

where:

MV - the market value of the company (invested capital);

BVIC₀ - the book value of the invested capital in the period taken as a basis;

PVFANOCF- the present value of further additional net operating cash flows further, that means the updated amount of net operating cash flows.

Economic value added (EVA) is the additional net operating cash flow (ANOCF) and is determined by the following relation:

$$EVA_i = OCF_i - (\overline{WACC} * IC_i) = OCFa_i \quad (9)$$

or

$$EVA_i = (RNR_i - \overline{WACC}) * IC_i \quad (10)$$

where:

EVA_i - economic value added in year "i";

OCFa_i - additional net operating cash flow in year "i";

\overline{WACC} - weighted average cost of capital in relative sizes in year "i";

WACC - weighted average cost of capital in absolute values in "i";

IC_i - the book value of capital invested in "i";

RNR_i - The rate of net remuneration of capital invested in cash terms in "i";

$RNR = OCF_n/IC \times 100$ - represents cash remuneration in terms of investors (shareholders + lenders); shows how the net operating cash flow returns a unit of capital invested.

EVA is a measure of final net economic earnings (after tax imposition) obtained after the entire invested capital in a business evolves, following the adoption of emerging or deliberate strategies. The principle of economic value added is an expression of wealth creation for shareholders. A business adds value to shares as long as the net results obtained in operational activities are large enough to cover the cost of capital invested in the business by the shareholders and creditors, including state tax pressure. Each investor has more alternatives to invest capital. The return on capital provides satisfying the requirements of profitability and risk as they are guided. Individual cost elements for the invested capital are composed from hoped return levels expected by providers of financial resources, including various risk allowances.

Basically, the economic value added is the value created by the return of investor needs, so by default risks are included in the cost of items of capital invested. The basic idea underlying the EVA is that shareholders must earn a sufficient amount to cover the risk assumed by investing. For this, the economic value added is a surplus value, creating wealth for business owners.

Economic value added is a good indicator for the evaluation of the performance because:

- from the point of view of shareholders – it represents the source of their wealth creation arising from the activity of the company, after paying all capital providers including taxes;
- from the point of view of interest groups, particularly management – it provides clarity regarding the viability of a strategy in terms of future economic and financial results achieved, so it can be a good criterion for selecting strategies;

- in terms of potential stakeholders (investors) – it assures the right payment for the shares purchased and the maintenance of potential future business development in line with the trend in the historical period;
- from the point of view of creditors – it provides information on the company's ability to repay and pay the borrowed amounts.

To estimate the economic value added, it is necessary to follow the next steps:

1. estimation of net operating cash flow;
2. calculation of the weighted average cost of capital for each year of the forecast horizon;
3. calculation of EVA for each year of the forecast horizon;

$$EVA_{ai} = EVA_i * \frac{1}{(1+WACC)^i} \quad (11)$$

where:

i - year forecast, $i = 1 \div n$;

EVA_{ai} – updated economic value added for the year "i" foresight;

\overline{WACC} - weighted average cost of capital as the discounted rate chosen;

$\frac{1}{(1+WACC)^i}$ - updated coefficient of the year "i" foresight.

4. calculation of EVA currently updated by bringing future expected EVA.

$$EVA_L = \sum_{i=1}^n \frac{EVA_i}{(1+WACC)^i} = \sum_{i=1}^n EVA_{ai} \quad (12)$$

According to this method, the return value is given by:

$$RV = IC_0 + \sum_{i=1}^n \frac{OCF_i - (\overline{WACC}_i * IC_i)}{(1+WACC)^i} = IC_0 + \sum_{i=1}^n \frac{(RNR_i - \overline{WACC}_i) * IC_i}{(1+WACC)^i} \quad (13)$$

or

$$RV = \sum_{i=1}^n \frac{EVA_i}{(1+WACC)^i} = IC_0 + EVA_L \quad (14)$$

Updated economic value added (UEVA) shows the performance of a company determined by the present value of EVA likely to be released until the "n"th year of forecast, so it is assumed that the owners or managers should reconsider the business' approach. Rethinking the business' approach starts with changing or adjusting the strategy underlying the calculation made to the change of company's activity or its total or partial liquidation.

In this way, we can define market value added (MVA) as the difference between the market value of the entire company and the book value of the invested capital:

$$MVA = RV - IC \quad (15)$$

Market value added shows the surplus created by the trust of shareholders over the book value of the capital:

$$RV = IC_0 + \sum_{i=1}^n \frac{EVA_i}{(1+WACC)^i} = IC_0 + MVA \quad (16)$$

Taking into account the residual value for UEVA as EVA from the last year of the forecast horizon is irrelevant. This would lead to an artificial increase of MVA, basically an overstatement. In this way, the concept of MVA would be affected.

In fact, the market added value should not contain residual value because it requires constant reassessment of the value of assets due to investment or divestment processes.

Maximizing UEVA will depend on:

- improvement of operational activity by maximizing cash flow:
 - increased workload, maintaining and entering new markets;
 - rationalization of operating costs and elimination of uneconomic ones;
 - selection of appropriate margins according to the company's position within the industry;
 - adopting an optimum damping that takes into account the need for a greater renewal of assets, but without neglecting the taxable results;
 - optimal sizing requirements of operating working capital through effective management of assets and liabilities related to the operation of the workload (inventory management, receivables, utilization of production capacity, capacity retention of funds taken over a period of time);
- improving of the funding and fair choice of the discounted rate by a weighted average cost of capital as low as:
 - capitalization of profits and increasing their share of funding;
 - choice mix at low cost capital to finance new investments;
 - building a diverse and flexible financial structure and capital market monitoring.

4. COMPARATIVE ANALYSIS: PATRIMONIAL VALUE (BOOK VALUE) / RETURN VALUE

Objectives:

- pointing out specific ways of measuring the spread between the patrimonial value (book value) and the return value of the company;
- explaining the possible situations that may occur between the two values.

Comparing the patrimonial value (book value) with the return one is based on the dual optical company value assessment, on the one hand the one determined by the intrinsic cost of the assets and rights of the organization (patrimonial value (book value) - PV), and on the other hand the one given by the company's capacity to generate future results and to add value over the asset (return value - RV).

The most commonly used form of expression is through net assets value (NAV). Net assets measure the net wealth of the shareholders at a time, that of assets encumbered by debt. It is also called the net statement or net assets and is determined as the difference between real asset (RA) and total debt incurred by the Company (TD).

Net assets (NA) represent shareholders' wealth given by the intrinsic value of equity allocated to the business assets. This evaluation optic is based on historical cost of company assets without taking into account the ability of those assets to generate future financial results. Taken singularly, the higher the asset value expressed by the NAV, the greater the shareholders' wealth. However, the existence of a large NA does not guarantee that the return value will be as great.

Basic relations:

$$\Delta V = RV - PV - \text{absolute difference} \quad (17)$$

$$I_V = \frac{RV}{PV} * 100 - \text{creating value index} \quad (18)$$

$$\Delta I_V = \frac{\Delta V}{PV} - \text{relative difference} \quad (19)$$

We distinguish three situations with the related decision rules for the selection of policy options:

- a. if $RV > PV$, then $\Delta V > 0$; $I_V > 100\%$; $\Delta I_V > 0\%$:
 - the return value is higher than the asset, so the value of invested capital exceeds baseline (time asset allocation);
 - increased shareholder wealth, add value;
 - favorable situation for the company;
 - usually required to maintain strategic direction (business continues at the same minimum efficiency requirements);
- b. if $RV = PV$, then $\Delta V = 0$; $I_V = 100\%$; $\Delta I_V = 0\%$:
 - return value is equal to the patrimonial one, i.e. the intrinsic value of business assets is equal to the value generated by their use;
 - the activity of the company guided after a strategic option yields a value equal to the initial value of invested capital, without providing growth of their value;
 - does not ensure increase of wealth for shareholders;
 - strategic directions are necessary to make better use of assets (rethinking business) or their more effective use even by leaving the proposed business;
- c. if $RV < PV$, then $\Delta V < 0$; $I_V < 100\%$; $\Delta I_V < 0\%$:
 - return value is less than the patrimonial value (book value), through their use, assets do not release even their initial value, i.e. a decrease in the value of invested capital;
 - shareholders impoverishment and destruction of their value;
 - unfavorable situation for the company;
 - imposes more effective use of capital by leaving the business and recovering a maximum possible value.

Forms of expression:

Absolute deviation:

$$\Delta V = PV (OCF) - IC \quad (20)$$

or

$$\Delta V = (IC + MVA) - IC = MVA \quad (21)$$

Index of value creation:

$$I_V = \frac{PV (OCF)}{IC} * 100 \quad (22)$$

or

$$I_V = \frac{(IC+MVA)}{IC} * 100 = (1+R_{MVA}) * 100 \quad (23)$$

Relative difference:

$$\Delta I_V = \frac{\Delta V}{IC} * 100 \quad (24)$$

or

$$\Delta I_V = \frac{MVA}{IC} * 100 = R_{MVA} \quad (25)$$

where:

PV(OCF) - present value of cash flows during future operational forecasting horizon, the expression of the return value of the enterprise:

$R_{MVA} = \frac{MVA}{IC}$ - the rate of market value added - shows how the value added of the initial invested capital market or the number of years needed company, while maintaining constant the VAP, can double the initial capital invested or to be able to fully recover.

This gain value over net assets value of the assets is provided if yearly operating cash flows exceeds the cost of capital:

$$OCF_i > WACC_i \longrightarrow OCF_i - WACC_i > 0 \longrightarrow EVA_i > 0 \quad (26)$$

Bringing the judgment at the action level (as a property, division of social capital):

$$I_v = \frac{(PV(OCF)/NS)}{NAV_u} * 100 \quad (27)$$

or

$$I_v = \frac{NAV_u + MVAs}{NAV_u} * 100 = \left(1 + \frac{MVAs}{NAV_u}\right) * 100 \quad (28)$$

where:

NS - number of shares;

NAV_u - mathematical value - accounting action or net asset value per unit ;

MVAS market value added per share - reflecting gains in value over the carrying of action as a result of investor confidence in the company's capacity to develop.

5. CONCLUSIONS

1. The fundamental strategic objective of the company depends on certain vectors of value creation: effectiveness, efficiency and financial vectors. Effectiveness vectors are related to the company's capacity to understand the external environment and its ability to position itself favorably as its competitive environment. Efficiency vectors are linked to the internal competencies of the company centered on the transformation process of inputs into new values, and financial vectors center on the establishment of the company's financial structure.
2. The most used method of determining the return value of a company is discounted cash flows likely to be released in the future as a result of the use of business assets. Based on this method, the company will be given by the present value of net operating cash flows that will develop in the future for a set period of prediction. The involvement of updating technique is very important in determining the present value of the company. Alongside the main factor - consistency cash flows - company value will be given by the number of periods that make forecasting horizon, the discounted rate, its election and in default the calculation of the residual value.
3. Creating value in the company can be highlighted with additional net operating cash flows summarized in economic value added. Market value added remains the indicator that reveals the extent to which the company, through effective and efficient action, succeeds to add value to the initial invested capital, thus achieving efficiency value presentation in another form. Creating value in the company and increasing its value is based on obtaining cash flows from operations that will exceed the cost of invested capital.
4. The net asset value and mathematically book value of a share express the patrimonial value (book value) of a company based on the intrinsic value of capital allocated to the business

assets. Patrimonial value (book value), however, does not take into account the company assets' capacity to generate future financial results.

5. Significant differences of size may appear between the company and the asset value, further emphasized by the index value creation. Although it is important for a company to hold assets, the most important aspect is that the results generated by their use are higher. Following the rules of economic efficiency, it is required to obtain higher financial results with lower the capital levels allocated assets. In other words, a higher return value than patrimonial value (book value) is required, therefore a value creation index greater than one.

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