MVA and EVA

MVA

- Market Value Added (MVA) is the difference between the current market value of a firm and the capital contributed by investors.

- Economic Value Added or EVA, is an estimate of a firm's economic profit – being the value created in excess of the required return of the company's investors (being shareholders and debt holders).

- The firm's market value added, or MVA, is the discounted sum (present value) of all future expected economic value added.
- MVA = Present Value of a series of EVA values.

Market Value Added (MVA) is the difference between the current market value of a firm and the capital contributed by investors.

If the MVA is positive, the firm has added value. If it is negative, the firm has diminished value.

The amount of value added needs to be greater than the firm's investors could have achieved investing in the market portfolio, adjusted for the leverage (beta coefficient) of the firm relative to the market.

The formula for MVA is:

$$MVA=V-KMVA=V-K$$

MVA is market value added, V is the market value of the firm, including the value of the firm's equity and debt, and K is the capital invested in the firm.

Economic Value Added

- Economic Value Added or EVA, is an estimate of a firm's economic profit – being the value created in excess of the required return of the company's investors (being shareholders and debt holders). Quite simply, EVA is the profit earned by the firm, less the cost of financing the firm's capital. The idea is that value is created when the return on the firm's economic capital employed is greater than the cost of that capital.
- EVA is net operating profit after taxes (or NOPAT) less a capital charge, the latter being the product of the cost of capital and the economic capital.

Economic Value Added

- The basic formula is: EVA = (r - c) * K = NOPAT - c * K
- where r is the return on investment capital (ROIC); c is the weighted average of cost of capital (WACC); K is the economic capital employed; NOPAT is the net operating profit after tax.
- The firm's market value added, or MVA, is the discounted sum (present value) of all future expected economic value added: MVA = Present Value of a series of EVA values.

MVA and EVA

- MVA is the present value of a series of EVA values.
- since MVA = NPV of Free cash flow (FCF) it follows, therefore, the NPV of FCF = PV of EVA, So EVA is simply the re-arrangement of the FCF formula.

MVA vs EVA

Finance Management

MVA vs EVA

BASIS	Market Value Added	Economic Value Added
Meaning	Difference between market value of company & capital provided in the business by investors is MVA	Economic profit of firm or value that a firm creates through its operation for shareholders is EVA
Formula	Market value of firm – Amount of capital investors has given	NOPAT – WACC * Capital Employed
What each measure?	Operational capabilities of a firm	Firm's management's efficiency
Opportunity cost	Doesn't consider opportunity cost	Includes opportunity cost

REALTION BETWEEN MVA & EVA

Market Value = Capital *Plus* Value of current EVA as perpetuity *Plus* Present value of expected EVA Improvement.

MVA and EVA

- MVA primarily represents the operational capabilities of a firm. Or the success of a firm in maximising the returns of the shareholders.
- In contrast, EVA is a measure of a firm's management's efficiency.
- VA does not consider the opportunity costs of any alternative opportunities that a firm may come across. On the other hand, EVA calculation includes opportunity cost in the form of the required return that investors expect.

MVA and EVA

EVA's concept highlights that investors must earn a return that is more than the cost of capital or return from any other investment.

MVA's concept simply means the perceived value of a company in investors' view should be more than the money they propose to invest.

Calculating MVA is simple as one can easily get a company's market cap and capital amount.

On the other hand, calculating EVA is relatively difficult as it requires more inputs, including the cost of capital, which is not easy to calculate.

Stakeholder analysis

What is stakeholder analysis?

- Stakeholder analysis is the process of collecting information about any person that will be impacted by (or can impact) your project.
- Conducting a stakeholder analysis will enable you to identify all your stakeholders as well as their needs and expectations.

Importance of stakeholder analysis

- Every stakeholder will have a unique view of your project and different perceptions about the change it is supposed to bring.
- Stakeholder analysis helps you discover what your stakeholders need and expect from your project. It allows you to identify key stakeholders, the ones with a positive attitude towards your project and those who might oppose it.
- With this information, you can plan different strategies and choose the best types of communication to engage with them based on the value they see in the project. You'll keep your supporters as contributors and help the resistant ones gain positive attitudes towards the change.

Benefits from analysing stakeholders

- Being inclusive

  By identifying and analysing your stakeholders, you obtain a clear picture of who they are and ensure all those who are impacted by your project are considered.

- Engaging effectively

  Grouping your stakeholders based on your analysis allows you to plan targeted communications for each group, increasing your chances of positive engagement.

- Promoting understanding and alignment

  Creating communicating channels facilitates for your stakeholders to understand the project goal and its benefits, building trust and helping the project get support.

- Anticipating issues

  Knowing your stakeholders helps you plan actions in advance, avoiding potential problems that could hurt the project underway.

- Gaining insights

  Your key stakeholders may share relevant opinions and views with you, which you can use to improve the project (and as an additional benefit, gain more of their support).

Stake holder analysis