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Enterprise value (EV) measures a companys total value. Its calculation includes not only the market capitalization of a company but also short-term and long-term debt, as well as any cash or cash equivalents on the companys balance sheet. It is often used as a more comprehensive alternative to market capitalization when valuing a company. Enterprise value (EV) measures a companys total value, often used as a more comprehensive alternative to equitymarket capitalization.EV is calculated using information from a company's financial statement.Enterprise value takes into account the market capitalization of a company, as well as short-term and long-term debt and any cash on the companys balance sheet.Enterprise value is used as the basis for many financial ratios that measure a companys performance. Michela Buttignol / Investopedia Enterprise value (EV) differs significantly from simple market capitalization in several ways, and many consider it to be a more accurate representation of a firms value. EV tells investors or interested parties a companys value and how much another company would need if it wanted to purchase that company. A companys EV can be negative if the total value of its cash and cash equivalents surpasses that of the combined total of its market cap and debts. This is a sign that a company is not using its assets very wellit has too much cash sitting around not being used. Extra cash can be used for many things, such as distributions, buybacks, expansion, research and development, maintenance, employee pay raises, bonuses, or paying off debts. Enterprise value uses figures from a companys financial statements and current market prices. The components that make up EV are:Market cap: The total value of a companys outstanding common and preferred sharesDebt: The sum of long-term and short-term debtPreferred equity: Preferred shares of equity need to be included as well since they are claimed on the company's equity not included in market capitalization.Minority interest: The equity value of a subsidiary with less than 50% ownershipCash and cash equivalents: The total amount of cash, certificates of deposit (CDs), drafts, money orders, commercial paper, marketable securities, money market funds, short-term government bonds, or Treasury bills that a company possesses Preferred shares and minority interest can be added to the market cap if these values are present. Enterprise value is the sum of a company's market capitalization and any debts, minus cash or cash equivalents on hand.EV=MC+TotalDebtCwhere:MC=Marketcapitalization;equaltothecurrentstockpricemultipliedbythenumberofoutstandingstocksharesTotaldebt=Equaltothesumofshort-termandlong-termdebtC=Cashandcashequivalents;theliquidassetsofacompany,butmaynotincludemarketablesecurities\begin{aligned} &EV=MC+Total~Debt-C\\ &\textbf{where:}\\ &MC=\text{\small Market capitalization; equal to the current stock}\\ &\text{\small price multiplied by the number of outstanding stock shares}\\ &Total~debt =\text{\small Equal to the sum of short-term and}\\ &\text{\small long-term debt}\\ &C=\text{\small Cash and cash equivalents; the liquid assets of}\\ &\text{\small a company, but may not include marketable securities}\\ \end{aligned}EV=MC+TotalDebtCwhere:MC=Marketcapitalization;equaltothecurrentstockpricemultipliedbythenumberofoutstandingstocksharesTotaldebt=Equaltothesumofshort-termandlong-termdebtC=Cashandcashequivalents;theliquidassetsofacompany,butmaynotincludemarketablesecuritiesTo calculate market capitalizationif not readily available onlineyou would multiply the number of outstanding shares by the current stock price. Next, total all debt on the companys balance sheet, including both short-term and long-term debt. Finally, add the market capitalization to the total debt and subtract any cash and cash equivalents from the result. Enterprise value is used as the basis for many financial ratios that measure the performance of a company. For example, the enterprise multiple contains enterprise value. Itrelates the total valueof a company from all sources to the earnings before interest, taxes, depreciation, and amortization (EBITDA). EBITDA measures a companys ability to generate revenueand is used as an alternative to simple earnings ornet incomein some circumstances. It is usually positive even when earnings per share (EPS) is not. EBITDA, however, can be misleading because it strips out the cost of capital investments like property, plant, and equipment. Another figure, EBIT, can be used as a similar financial metric without the drawback of removing depreciation and amortization expenses related to property, plant, and equipment (PP&E). EBITDA= Net Income + Interest Expense + Taxes +Depreciation + Amortization The enterprise multiple (EV/EBITDA) metric is used as evaluationtool to compare the value of a company and its debt to the companys cash earnings, less its non-cash expenses. As a result, itsideal for analysts andinvestors looking to compare companies within the same industry. The enterprise multiple is useful when: However, the enterprise multiple also has a few drawbacks. If working capital is growing, EBITDA will overstate cash flows from operations (CFO or OCF). Further, this measureignores how different revenue recognition policies can affect a companys OCF. Because free cash flow to the firmcaptures the number of capital expenditures (CapEx), it is more stronglylinked with valuation theory than EBITDA. EBITDA will be a generally adequate measure ifcapital expenses equal depreciation expenses. Another commonly used multiple for determining the relative value of firmsis the enterprise value-to-sales ratio, orEV/sales.EV/sales is regarded as a more accurate measure than the price/sales ratio since it considers thevalue and amount of debt that a company must repay at some point. A company with a lower EV/sales multiple is often seen as more undervalued and therefore more attractive.The EV/sales ratiocan be negative when the cash held by a company is more than the market capitalization and debt value. A negative EV/sales implies that a company can pay off all of its debts. Why doesnt market capitalization properly represent a firms value? It leaves a lot of essential factors out, such as a companys debt and cash reserves. Enterprise value is a modification of market cap, as it incorporates debt and cash for determining a companys value. Market capitalization is not intended to represent a companys book value. Instead, it represents a companys value as determined by market participants. Imagine two identical widget manufacturers, Company A and Company B, have the same stock price of $4.32 per share. Each has 1 million outstanding shares with a market cap of $4.32 million. Now, imagine Company A has $500,000 in cash and cash equivalents and $250,000 in total debt. Its EV (total worth) is: ($4.32 per share x 1 million shares) + $250,000 - $500,000 = $4.07 million Company B, on the other hand, has $1 million in cash and $250,000 in debt. Its EV is: ($4.32 per share x 1 million shares) + $250,000 - $1,000,000 = $3.57 million The companies looked identical when using just their market capitalization. However, once the EV takes into account both debt and cash, the value of Company A is significantly higher. The price-to-earnings ratio (P/E ratio) is a ratio for valuing a company that measures its current share price relative to its earnings per share (EPS).The price-to-earnings ratio is sometimes known as theprice multipleor the earningsmultiple. The P/E ratio doesnt consider the amount of debt that a company has on its balance sheet. EV includes debt when valuing a company and is often used in tandem with the P/E ratio to achieve a comprehensive valuation. EV includes total debt, so its essential to consider how management utilizes that debt when valuing a company. For example, capital-intensive industries such as the oil and gas industry typically carry significant amounts of debt, which is used to foster growth in ways like purchasing a plant and equipment. In a less capital-intensive industry, however, high levels of debt could indicate that a company is unable to generate enough revenue to cover the costs of basic operations. As a result, the EV can be skewed when comparing companies across industries. If the company being looked at is undergoing a merger or acquisition, the acquiring company will need to account for the amount of debt it is taking on in the merger. Investors can use this information to evaluate what the merged companies will look like in the future. As with any financial metric, its best to compare companies within the same industry to better understand how the company is valued relative to its peers. The formula for EV is the sum of the market value of equity (market capitalization) and the market value of a companys debt, less any cash. A companys market capitalization is calculated by multiplying the share price by the number of outstanding shares. The net debt is the market value of debt minus cash. A company acquiring another company keeps the cash of the target firm, which is why cash needs to be deducted from the firms price as represented by the market cap. Lets calculate the enterprise value for Macys (M), using data from their Form 10-K. For its 2023 fiscal year, Macys recorded the following: Calculating Macy's Enterprise Value Feb. 3, 20241# Outstanding Shares274.3 million2Share Price Close on 1/30/24$18.643Market Capitalization$5.13 billionItem 1 24Short-Term Debt$05Long-Term Debt$2.998 billion6Total Debt$2.998 billionItem 4 + 57Cash and Cash Equivalents$1.03 billionEnterprise Value$7.098 billionItem 3 + 6 - 7 We can calculate Macys market cap at the time from the information above. Macys had 274.3 million outstanding shares valued at $18.64 per share at the end of its 2023 fiscal year (Feb. 3, 2024). Macys market capitalization was $5.13 billion (274.3 million $18.64).Macys had short-term debt of $0 and long-term debt of $2.998 billion, for a total debt of $2.998 billion.Macys had $1.03 billion in cash and cash equivalents. Macys Enterprise Value = $5.13 billion + $2.998 billion - $1.03 billion Macys EV = $7.098 billion Enterprise value is considered comprehensive when valuing a company because anyone purchasing Macys outstanding shares for its then market capitalization of $5.13 billion would also have to settle the $2.998 billion in outstanding debts that Macy's had at that time. In total, the acquiring company would have to spend more than $8 billion to purchase Macys. However, since Macys has $1.03 billion in cash, this amount could be added to repay the debt. This lowers the total needed to purchase Macy's at the end of their fiscal year 2023 to just over $7 billion. Enterprise value shows a companys total value, including debts and cash, and is generally used in mergers and acquisitions to evaluate a prospect. You might also see embedded value used to value life insurance companies, primarily in Europe. To calculate enterprise value, calculate market capitalization by multiplying the number of outstanding shares by the current stock price. Next, total all debt (short- and long-term) on the companys balance sheet. Finally, add the market capitalization to the total debt and subtract any cash and cash equivalents from the result. Enterprise value is the total value of a company, while market value is the value of its shares on the stock market. Market capitalization is the total value of all shares on the stock market and does not take into account the value of a company's cash or debts. Enterprise value estimates a companys total value, including debt and cash. It is generally used by companies when considering a merger or acquisition. Investors can also use EV to estimate a companys size and worth to help them evaluate their stock choices. EV is best used with other metrics for valuing a stock. Some popular ratios are EV/sales and EV/EBITDA. SNAP Cuts Will Acutely Affect State Budgets and Older Beneficiaries, Experts Say May 30, 2025 Tesla Stock Logs Weekly Gains, Second Straight Winning Month as Musk Leaves DOGE Updated May 30, 2025 Deutsche Bank Goes Bullish on Luxury Brand Ralph Lauren's Stock May 30, 2025 S&P 500 Gains & Losses Today: Ulta Beauty Stock Soars; Regeneron Shares Plummet May 30, 2025 Top CDs Today, May 30, 2025 - 16 Offers Promise at Least 4.50% for 3 to 13 Months May 30, 2025 Trump vs. Economists: Will GDP Growth Surge to Historic 9% Rate? May 30, 2025 Inflation Is Weighing Heavily on Retirees May 30, 2025 Want a Small CD Before Rates Drop? These Have Low MinimumsBut Sky-High Rates May 30, 2025 Cooper Stock Sinks as Contact Lens Maker Cuts Full-Year Organic Growth Forecast May 30, 2025 Consumer Sentiment Held Steady in May As Tariff Uncertainty Persists May 30, 2025 American Eagle Outfitters Posts Larger-Than-Expected Q1 Loss Updated May 30, 2025 Gap Stock Tumbles as Retailer Estimates $100M to $150M Tariff Impact Updated May 30, 2025 Top Stock Movers Now: Regeneron, Ulta Beauty, Cooper, and More May 30, 2025 Enterprise Value (EV) is one of the most important metrics in corporate finance. It tells you the total value of a company not just what shareholders own, but also what a buyer would need to pay to acquire the entire business. In this article, well explain how to calculate enterprise value, what it includes, and provide a calculator to help you estimate it quickly. Enterprise Value represents the full value of a business, including its equity, debt, and cash. It shows how much it would cost to purchase the entire company, including debt obligations and cash reserves. Its widely used in: Mergers and acquisitions Valuation modeling Ratio analysis like EV/EBITDA and EV/Sales Use the calculator below to instantly estimate enterprise value based on market cap, debt, and cash. The basic formula for Enterprise Value is: EV = Market Capitalization + Total Debt Cash and Cash Equivalents Where: Market Capitalization = Share Price Total Shares Outstanding Total Debt = Short-term + Long-term debt Cash and Equivalents = All liquid assets Lets say a company has: 10 million shares outstanding Share price = $40 Total debt = $200 million Cash on hand = $50 million Step 1: Market Cap = 10M $40 = $400 millionStep 2: EV = $400M + $200M $50M = $550 million Thats the true cost to acquire the business. Unlike equity value, which only shows the value for shareholders, EV provides a complete picture by including debt and subtracting cash. It helps you: Compare companies with different capital structures Calculate more accurate valuation multiples Understand the actual takeover price of a company Total enterprise value (TEV) is a valuation measurement used to compare companies with varying levels of debt. It includes not only a company's equity value but also the market value of its debt while subtracting out cash and cash equivalents. TEV is considered a more comprehensive alternative to market capitalization and is commonly used to calculate the cost of a target company in a takeover. Total enterprise value (TEV) is a valuation measurement used to compare companies with varying levels of debt.TEV can be calculated as follows: TEV = market capitalization + interest-bearing debt + preferred stock - cashTEV helps with valuations of potential takeover targets and the amount that should be paid for the acquisition.TEV is used to derive the overall economic value of a company. Investopedia / Yurle Villegas Some financial analysts use market capitalization analysis to derive the value of a company. Market capitalization is the value of a company by multiplying the current stock price by the total number of outstanding shares. However, since companies often have different financial andcapital structures, TEV is generally considered to be a better value measure when comparing companies with different levels of debt and equity. TEV is the overall economic value of a company. It is the value of the operating entity. This operating entity is funded by common stock, preferred stock, debt and cash and so the value of the entity can be calculated by summing up all the financing sources sustaining the business. TEV is particularly helpful when companies engage in mergers and acquisitions (M&A). If an acquiring firm is interested in a company, it would need to know how much debt the target company has on its balance sheet. The acquiring firm might need to pay off the debt as part of the takeover. Also, if the acquiring firm had debt on its balance sheet, it would be critical to know the amount of outstanding debt for the target company since it could impact whether or not the deal gets done. TEV is often seen as a more comprehensive way to value a company since it factors in debt and cash, which have a significant impact on a company's financial health and value. TEV is calculated as follows:TEV=marketcapitalization+marketvalueofdebt+preferredstockcashandcashequivalentsTEV = market capitalization + market value of debt + preferred stock - cash and cash equivalentsTEV=marketcapitalization+marketvalueofdebt+preferredstockcashandcashequivalents Market capitalization is added to the company's total amount of debt. Preferred stock is also added because it is a hybrid security, which has features of equity and debt. Preferred shares are treated as debt because they pay dividends and have a higher priority when it comes to claiming earnings versus common stock. Also, preferred shares are repaid similar to debt in the event of an acquisition. Cash and cash equivalents, meanwhile, are subtracted from the formula because they reduce the cost of acquiring the company. Cash equivalents may consist of short-term investments, commercial paper, money market funds, and marketable securities with a maturity date of 90 days or less. Often, two companies that seem to have similar market capitalizations have very different TEVs. For example, if a company was trying to compare its value to the value of a competitor, it would have to look beyond market capitalizations. Let's say that the competitor has a market capitalization of $100 million but has $50 million in debt. The company conducting the comparison might also have a market cap of $100 million but might instead have no debt and $10 million cash on hand. Based on TEV, the cost to purchase the competitor would be $150 million, whereas the company conducting the comparison would cost $90 million. Now let's say that instead of a comparison to a competitor, the company was looking to acquire the competitor. Using the market capitalization value, we would say that the takeover price for acquiring the company is worth $100 million. However, TEV shows that the cost of acquisition is really $150 million, due to the debt of $50 million in addition to the $100 million market cap. It's important to remember that the acquiring company would be buying the target company's debt as well as its assets. TEV is a more accurate measure for valuing the price of a company during a merger or acquisition as it represents the cost to purchase the company. The TEV, in addition to being a metric for comparing potential takeover candidates, also allows a company or financial analyst to normalize the valuation of a company. Many financial analysts use the price-to-earnings (P/E) ratio, which measures a companys share price relative to its earnings per share (EPS), to derive a company's value, above and beyond its market capitalization. However, a company's P/E ratio does not always provide a complete picture since it only includes the market capitalization and profits (or earnings) of the company. P/E ratios can make a company appear expensive compared to another company when, in reality, that might not be the case should one have a lot of debt on its balance sheet while the other is flush with cash. Financial analysts can normalize a company's valuation by taking the EBITDA (earnings before interest, tax, depreciation, and amortization)-to-enterprise value. The enterprise value-to-EBITDA metric, also known as EV/EBITDA, allows the stock price ofpublic companiesto be better evaluated for investment purposes. The reason for this is that the calculation includes the components of the P/E ratio, such as profits and market capitalization, as well as all of the components in the TEV calculation such as total debt. TEV breaks down the value of a company. It goes further than market capitalization by also factoring in a companys debts as well as its cash reserves. TEV can be thought of as the theoretical total price an acquirer pays to purchase a company and settle all claims against it. One way of calculating TEV is market capitalization +total debt + preferred stock cash and cash equivalents. There are sometimes other factors in this equation but these are the most common. Because it reduces the cost of acquiring the company. Lets say a company wants to acquire another one thats valued at $100 million. If the target company were to have $20 million in cash on its books, its real purchase cost would be reduced to $80 million as acquiring it would give access to its $20 million in cash. All else being equal, a higher cash balance leads to a lower TEV, and vice-versa. Higher debt triggers a higher TEV because it represents an added cost that must be paid by any would-be acquirer. Yes. It is possible for a company to have more cash than its market value and debt. In theory, that would make it an attractive investment. Total enterprise value (TEV) is one of many useful tools to value companies and not just for M&A purposes, either. This metric better enables investors to compare companies with different capital structures and get a greater sense of which one is potentially undervalued by the market. The entire value of a firm Over 2 million + professionals use CFI to learn accounting, financial analysis, modeling and more. Unlock the essentials of corporate finance with our free resources and get an exclusive sneak peek at the first module of each course. Start Free Enterprise Value (EV) is the measure of a companys total value. It looks at the entire market value rather than just the equity value, so all ownership interests and asset claims from both debt and equity are included. EV can be thought of as the effective cost of buying a company or the theoretical price of a target company (before a takeover premium is considered).The simple formula for enterprise value is:EV = Market Capitalization + Market Value of Debt Cash and EquivalentsThe extended formula is:EV = Common Shares + Preferred Shares + Market Value of Debt + Noncontrolling Interest Cash and EquivalentsImage from CFIs free Introduction to Corporate Finance Course.The value of the company can be derived from the assets it owns. However, obtaining the market value of each and every asset can be quite tedious and difficult. What we could do instead is look at how the assets have been paid for.The simple accounting equation can serve as a guide by looking at assets as the application of funds and both liabilities and shareholders equity as the sources of funds used to finance those assets. When we say value, we mean the current or market value of the company, so its the market value of liabilities and the market value of equity that we consider.What are the Components of EV?Equity ValueEquity value is found by taking the companys fully-diluted shares outstanding and multiplying it by a stocks current market price. Fully diluted means that it includes in-the-money options, warrants, and convertible securities, aside from just the basic shares outstanding.If a company plans to acquire another company, it will need to pay that companys shareholders by paying at least the market capitalization value. This alone is not considered an accurate measure of a companys true value, and for that reason, other items are added to it as seen in the EV equation.Total DebtTotal debt is the contribution of banks and other creditors. They are interest-bearing liabilities and are comprised of short-term and long-term debt. The amount of debt gets adjusted by subtracting cash from it because, in theory, when a company has been acquired, the acquirer can use the target companys cash to pay a portion of the assumed debt. If the market value of debt is unknown, the book value of debt can be used instead.Preferred StockPreferred stocks are hybrid securities that have features of bothequity and debt. They are treated more as debt, in this case, because they pay a fixed amount of dividends and have a higher priority in asset and earning claims than common stock. In an acquisition, they normally must be repaid just like debt.Noncontrolling (Minority) InterestNoncontrolling interest is the portion of a subsidiary not owned by the parent company (who owns a greater than 50% but less than 100% position in the subsidiary). The financial statements of this subsidiary are consolidated in the financial results of the parent company.We add this noncontrolling interest to the calculation of EV because the parent company has consolidated financial statements with that noncontrolling interest; meaning the parent includes 100% of the revenues, expenses, and cash flow in its numbers even though it doesnt own 100% of the business.By including the noncontrolling interest, the total value of the subsidiary is reflected in EV.Learn more about minority interest in enterprise value calculations.Cash and Cash EquivalentsThis is the most liquid asset in a companys statement. Examples of cash equivalents are short-term investments, marketable securities, commercial paper, and money market funds. We subtract this amount from EV because it will reduce the acquiring costs of the target company. It is assumed that the acquirer will use the cash immediately to pay off a portion of the theoretical takeover price. Specifically, it would be immediately used to pay a dividend or buy back debt.Why is Enterprise Value Used?Enterprise Value is often used for multiples such as EV/EBITDA, EV/EBIT, EV/FCF, or EV/Sales for comparable analysis such as trading comps. Other formulas, such as the P/E ratio, usually dont take cash and debt into account like EV does. Hence, two identical companies that have the same market cap may have two different enterprise values.For instance, Company A has $60 million in market cap, $20 million in cash, and carries no debt. Company B, on the other hand, also has $60 million in market cap, but has no cash, and carries $30 million of debt. In this simple scenario, we can see that Company A is cheaper to buy because it doesnt have any debt to pay off creditors.Enterprise Value is very useful in Mergers and Acquisition situations, especially with controlling ownership interests. In addition, it is useful for comparing companies with different capital structures because a change in capital structure will affect the amount of enterprise value.Applications in Financial ModelingIn financial modeling, it is common practice to model Free Cash Flow to Firm (FCFF), which is based on the cash flow derived from 100% ownership of all assets and, therefore, determines a companys Enterprise Value.As you can see in the example above, row 172 produces Unlevered Free Cash Flow (the same thing as FCFF). From there, the XNPV function is used to calculate Net Present Value, which is the EV in cell C197.The above screenshot was taken from CFIs financial modeling courses.Additional ResourcesThank you for reading CFIs guide to Enterprise Value. To continue advancing your career, these additional resources will be helpful: ExperienceWeve committed millions of dollars to back it up. We get it because weve done it, its all we do.Meet the TeamEnterprise value is the value of a company that is available to all of its debt and equity holders while equity value is the portion of enterprise value thats available just to the equity holders. There are many items one needs to consider when determining enterprise value and equity value. In this post, we are going to cover the following items: How to Calculate Enterprise ValueEnterprise value is equivalent to what a third party would pay for all of the stock and business assets of a firm.For a publicly traded company, calculating enterprise value is fairly straightforward: multiply the current share price by the number of shares outstanding then add outstanding debt.In a privately held company, calculating enterprise value is more difficult because the value of the underlying stock of the corporation is not as transparent.Equity value is the portion of a companys total value, or its enterprise value, that is attributable to its equity investors.It is calculated by taking a companys enterprise value (that is, what a third party would pay for all of the stock and business assets of the firm) and subtracting the value of any debt or debt equivalents (such as capitalized leases) owed by the company and then adding the value of any excess cash or cash equivalents (such as liquid investment securities) owned by it.The resulting figure is the value available to the companys equity holders, or its equity value.' The Difference Between Enterprise Value and Equity ValueWe sometimes explain the difference between enterprise value and equity value by creating an analogy to someones home.The enterprise value of your home is the sale price of the home.The equity value of the home is what the homeowner puts in their pocket after paying off their mortgage debt.Two similar homes may sell for similar amounts but the owners will likely not end up with the same amount of proceeds because, more likely than not, they have different mortgage balances. The enterprise value is the same, the equity values are not.This Corporate Finance Institute video provides a nice overview of this analogy.Equity Value vs. Book ValueEquity value is not the same as book value.The book value of a company is simply the difference between its assets and liabilities as shown on its balance sheet. Book value is also sometimes known as net book value. Learn more about net book value and asset-based valuation approaches.A successful company with good cash flows will almost always have an enterprise value that exceeds its book value. But this doesnt mean that this same company will necessarily have a large equity value. If, for example, it is carrying a large amount of debt, then much (or even all) of its enterprise value will be attributable to its lender(s).Or consider a firm that is struggling and no longer profitable, but which generated a large amount of cash in the past and which cash has remained in the company instead of being distributed to its shareholders. In this case its book value might exceed its enterprise value.How Market Capitalization RelatesAnother related concept is market capitalization, a term used mostly by investors in public companies: It is simply the number of shares outstanding multiplied by the stock price. Since the stock price would already reflect the amount of any excess cash in the business, if any, to calculate the related enterprise value one simply adds the amount of any funded debt owed by the company to its market capitalization.Enterprise Versus Equity Value in Small Company M&AFirms like Hadley Capital usually write their letters of intent on a debt free, cash free basis.For instance, consider a firm with $1 million in free cash flow which we have determined has an enterprise value of $5 million.The language in our letter of intent might read, Hadley Capital will buy all of the stock and assets of Company XYZ for $5 million at cash at closing less any debt and plus any cash on the balance sheet at closing. This is a debt free, cash free proposal.The shareholders of that firm would then take this $5 million enterprise value and subtract the value of any funded debt and add the value of any cash on their companys balance sheet in order to determine their pre-tax proceeds from the transaction, or their equity value.Companies with the same enterprise value may not have the same equity value because, as we described above, the amount of debt and cash in each company is likely not the same.A simple example: In terms of determining enterprise value, Hadley Capital utilizes detailed financial models to examine the past and likely future cash flows of each firm and then to discount these cash flows back to the present time.This is called discounted cash flow, or DCF.We also use multiples of EBITDA as a shorthand way to think about valuation. A larger firm with good management and steady cash flow will attract a higher multiple than a smaller firm with only a few customers and uneven earnings, for instance. But this doesnt mean the equity holders of the first firm will receive more proceeds, or equity value, than the second firm, such as if the smaller firm has no debt and a lot of cash on its balance sheet and the larger firm has a lot of debt and little or no cash on its balance sheetNext StepsEnterprise value and equity value are foundational concepts in business valuation but they are frequently misunderstood by business owners.Developing a clear understanding of how each is calculated and used in valuation settings is important because, depending on the circumstances, they can be dramatically different numbers.Interested in receiving a quick estimate of the enterprise value of your business? Visit our valuation calculator and download the related business valuation report. Enterprise value is an important term to understand in stock investing. Many investors are familiar with market capitalization when considering how big a company is, its size relative to the industry it participates in, and the value of its stock.Enterprise value, on the other hand, is often used in valuing a company for merger and acquisition purposes. It paints a much broader picture of how a company is structured, but it's an often overlooked calculation. Image source: The Motley Fool Market cap is frequently used to determine how big a company is. Calculating the market cap is simple: Multiply the share price by the total number of shares outstanding (the number of shares of common stock a company has issued to investors).Enterprise value takes the calculation a step further and includes total cash and debt in the market cap formula. This can help an investor determine the true value of a business compared to other firms in the same industry and with similar capital structures (that is, how a firm uses equity versus debt when it needs to raise cash). It can also show a company's overall financial health compared to its competitors. The formula for calculating enterprise value (EV) is as follows:EV = MC + Total Debt-CashMC is market cap (the current share price multiplied by total shares outstanding). Total debt includes both short- and long-term debt and borrowings. Cash is all liquidity available to a company, including short-term cash equivalents but excluding long-term marketable securities.Here is an example of how to calculate enterprise value using Tesla (TSLA -3.24%). Based on the company's share price on Sept. 20, 2021, and number of shares outstanding at the end of the second quarter of 2021, Tesla's market cap stood at $730 billion. At the end of the second quarter, the company reported total debt of $9.4 billion and cash and equivalents of $16.2 billion. Tesla's enterprise value can be calculated as follows:EV = $730 billion + $9.4 billion-$16.2 billion = $723 billion Enterprise value is used when a company is being acquired because the acquiring firm will need to assume the debt of its targeted purchase. But it also gets to add the cash to its own balance sheet, which is why you add debt but subtract cash in the calculation.For investors, though, enterprise value is a great tool in determining the actual size of a company, along with factoring in how the business has made use of debt. For example, some high-growth tech stocks may look overpriced when you only use market cap. But when you factor in that they have little to no debt and subtract a large balance of cash, the enterprise value may show a drastically different valuation than basic market cap.Enterprise value vs. market capEnterprise value vs. market capEnterprise value becomes useful since it can reveal the true value of a company based on how it has funded its operations over the years. For example, when comparing GM (GM 2.1%) and Ford's (F 1.57%) market caps of $71 billion and $51 billion, respectively, to Tesla's $730 billion, there would seem to be an incredibly wide disconnect between these U.S. automakers' valuations, especially considering that Tesla sells far fewer vehicles than its two older peers. However, when you add GM and Ford's substantial debt, it reveals the automakers aren't quite as relatively small as they appear on the surface. Data source: YCharts, Tesla, GM, and Ford. Market cap as of Sept. 20, 2021. Company Market Cap Total Debt Total Cash Enterprise Value Tesla (NASDAQ:TSLA) $730 billion $9.4 billion $16 billion $723 billion GM (NYSE:GM) $71 billion $111 billion (including $94 billion from GM Financial financing services) $23 billion $159 billion Ford (NYSE:F) $51 billion $162 billion (including $138 billion from Ford Credit financing services) $25 billion $188 billion There's still a big disparity between the legacy automakers' enterprise values and that of Tesla. However, GM and Ford aren't growth companies, they have lower gross profit margins on products and services sold than Tesla, and they have sizable burdens of debt. This, at least in part, can help explain why some tech growth companies trade for such high premiums compared to their older competitors.LimitationsLimitations of using enterprise valueWhen determining a good stock to buy, EV works best when comparing two companies at similar stages in their business cycle. GM and Ford are both value stocks and are better compared to each other using enterprise value when determining which is a better buy.But when comparing a young company that's still in growth mode, EV will have limited usefulness in determining how "cheap" it is relative to older peers since younger companies tend to have stronger growth and far less debt.Comparing companies from two different industries is also problematic for the EV method. For example, a software company may have little need to take on debt for the purchase of property and equipment. By contrast, an energy company's cost on property and equipment tends to be very high. Thus, debt financing is often a necessary ingredient when cooking up a growth strategy. Despite its limitations, enterprise value is a great way to determine the true size and worth of a business. It can also reveal potential risks if a company has primarily funded its operations with debt and if its indebtedness relative to cash on hand is far greater than its peers within the same industry.When determining how profitable a firm is, EV can shed more light on a firm's ability to generate earnings relative to the assets and liabilities it has on its balance sheet versus just using market cap or share price in basic earnings per share calculations.Related: Learn about fair market value. Nicholas Rossolillo has no position in any of the stocks mentioned. The Motley Fool has positions in and recommends Tesla. The Motley Fool recommends General Motors and recommends the following options: long January 2025 $25 calls on General Motors. The Motley Fool has a disclosure policy. Differences between enterprise value (firm value) and equity value Over 2 million + professionals use CFI to learn accounting, financial analysis, modeling and more. Unlock the essentials of corporate finance with our free resources and get an exclusive sneak peek at the first module of each course. Start Free In this guide, we outline the difference between the enterprise value of a business and the equity value of a business. Simply put, the enterprise value is the entire value of the business, without giving consideration to its capital structure, and equity value is the total value of a business that is attributable to the shareholders. Learn all about Enterprise Value vs Equity Value.To learn more, watch our video explanation below:Enterprise ValueThe enterprise value (which can also be called firm value or asset value) is the total value of the assets of the business (excluding cash).When you value a business using unlevered free cash flow in a DCF model, you are calculating the firms enterprise value.If you already know the firms equity value, as well as its total debt and cash balances, you can use them to calculate enterprise value.Enterprise Value FormulaIf equity, debt, and cash are known, then you can calculate enterprise value as follows:EV = (share price x # of shares) + total debt cashWhere EV equals Enterprise Value.Note: If a business has a minority interest, that must be added to the EV as well. Learn more about minority interest in enterprise value calculations.orCalculate the Net Present Value of all Free Cash Flow to the Firm (FCFF) in a DCF Model to arrive at Enterprise Value.Equity ValueThe equity value (or net asset value) is the value that remains for the shareholders after any debts have been paid off. When you value a company using levered free cash flow in a DCF model, you are determining the companys equity value. If you know the enterprise value and have the total amount of debt and cash at the firm, you can calculate the equity value as shown below.Equity Value FormulaIf enterprise value, debt, and cash are all known, then you can calculate equity value as follows:Equity value = Enterprise Value total debt + cashOrEquity value = # of shares x share priceUse in ValuationEnterprise value is more commonly used in valuation techniques as it makes companies more comparable by removing their capital structure from the equation.In investment banking, for example, its much more common to value the entire business (enterprise value) when advising a client on an M&A process.In equity research, by contrast, its more common to focus on the equity value since research analysts are advising investors on buying individual shares, not the entire business.Example ComparisonIn the illustration below, you will see an example of enterprise value vs equity value. We take two companies that have the same asset value and show what happens to their equity value as we change their capital structures.As shown above, if two companies have the same enterprise value (asset value, net of cash), they do not necessarily have the same equity value. Firm #2 financed its assets mostly with debt and, therefore, has a much smaller equity value.Download CFIs Free Enterprise Value vs Equity Value Calculator TemplateComplete the form below to download our free Enterprise Value vs Equity Value Calculator template! When building financial models, its important to know the differences between levered and unlevered free cash flow (or Free Cash Flow to the Firm vs. Free Cash Flow to Equity) and whether you are deriving the equity value of a firm or the enterprise value of a firm. One of the easiest ways to explain enterprise value versus equity value is with the analogy of a house. The value of the property plus the house is the enterprise value. The value after deducting your mortgage is the equity value.Imagine the following example:Value of house (building): $500,000Value of property (land): $1,000,000Box of cash in the basement: $50,000Mortgage: $750,000What is the enterprise value?$1,500,0000. (Value of house plus value of property equals the enterprise value)What is the equity value?$800,000. (Value of the house, plus value of the property, plus value of the cash, less the value of the mortgage)Here is an illustration of the house example with some different numbers. Each of the three houses below has a different financing structure, yet the value of the assets (the enterprise) remains the same.The above example and screenshot are taken from CFIs Free Intro to Corporate Finance Course.More About Enterprise Value vs Equity ValueWe hope this article has been a helpful guide on enterprise value versus equity value. To learn more, please check out ourfree Introduction to Corporate Finance course for a video-based explanation of enterprise value versus equity value.To advance your career, additional resources that you may find helpful include: The entire value of a firm Over 2 million + professionals use CFI to learn accounting, financial analysis, modeling and more. Unlock the essentials of corporate finance with our free resources and get an exclusive sneak peek at the first module of each course. Start Free Enterprise Value (EV) is the measure of a companys total value. It looks at the entire market value rather than just the equity value, so all ownership interests and asset claims from both debt and equity are included. EV can be thought of as the effective cost of buying a company or the theoretical price of a target company (before a takeover premium is considered).The simple formula for enterprise value is:EV = Market Capitalization + Market Value of Debt Cash and EquivalentsThe extended formula is:EV = Common Shares + Preferred Shares + Market Value of Debt + Noncontrolling Interest Cash and EquivalentsImage from CFIs free Introduction to Corporate Finance Course.The value of the company can be derived from the assets it owns. However, obtaining the market value of each and every asset can be quite tedious and difficult. What we could do instead is look at how the assets have been paid for.The simple accounting equation can serve as a guide by looking at assets as the application of funds and both liabilities and shareholders equity as the sources of funds used to finance those assets. When we say value, we mean the current or market value of the company, so its the market value of liabilities and the market value of equity that we consider.What are the Components of EV?Equity ValueEquity value is found by taking the companys fully-diluted shares outstanding and multiplying it by a stocks current market price. Fully diluted means that it includes in-the-money options, warrants, and convertible securities, aside from just the basic shares outstanding.If a company plans to acquire another company, it will need to pay that companys shareholders by paying at least the market capitalization value. This alone is not considered an accurate measure of a companys true value, and for that reason, other items are added to it as seen in the EV equation.Total DebtTotal debt is the contribution of banks and other creditors. They are interest-bearing liabilities and are comprised of short-term and long-term debt. The amount of debt gets adjusted by subtracting cash from it because, in theory, when a company has been acquired, the acquirer can use the target companys cash to pay a portion of the assumed debt. If the market value of debt is unknown, the book value of debt can be used instead.Preferred StockPreferred stocks are hybrid securities that have features of bothequity and debt. They are treated more as debt, in this case, because they pay a fixed amount of dividends and have a higher priority in asset and earning claims than common stock. In an acquisition, they normally must be repaid just like debt.Noncontrolling (Minority) InterestNoncontrolling interest is the portion of a subsidiary not owned by the parent company (who owns a greater than 50% but less than 100% position in the subsidiary). The financial statements of this subsidiary are consolidated in the financial results of the parent company.We add this noncontrolling interest to the calculation of EV because the parent company has consolidated financial statements with that noncontrolling interest; meaning the parent includes 100% of the revenues, expenses, and cash flow in its numbers even though it doesnt own 100% of the business.By including the noncontrolling interest, the total value of the subsidiary is reflected in EV.Learn more about minority interest in enterprise value calculations.Cash and Cash EquivalentsThis is the most liquid asset in a companys statement. Examples of cash equivalents are short-term investments, marketable securities, commercial paper, and money market funds. We subtract this amount from EV because it will reduce the acquiring costs of the target company. It is assumed that the acquirer will use the cash immediately to pay off a portion of the theoretical takeover price. Specifically, it would be immediately used to pay a dividend or buy back debt.Why is Enterprise Value Used?Enterprise Value is often used for multiples such as EV/EBITDA, EV/EBIT, EV/FCF, or EV/Sales for comparable analysis such as trading comps. Other formulas, such as the P/E ratio, usually dont take cash and debt into account like EV does. Hence, two identical companies that have the same market cap may have two different enterprise values.For instance, Company A has $60 million in market cap, $20 million in cash, and carries no debt. Company B, on the other hand, also has $60 million in market cap, but has no cash, and carries $30 million of debt. In this simple scenario, we can see that Company A is cheaper to buy because it doesnt have any debt to pay off creditors.Enterprise Value is very useful in Mergers and Acquisition situations, especially with controlling ownership interests. In addition, it is useful for comparing companies with different capital structures because a change in capital structure will affect the amount of enterprise value.Applications in Financial ModelingIn financial modeling, it is common practice to model Free Cash Flow to Firm (FCFF), which is based on the cash flow derived from 100% ownership of all assets and, therefore, determines a companys Enterprise Value.As you can see in the example above, row 172 produces Unlevered Free Cash Flow (the same thing as FCFF). From there, the XNPV function is used to calculate Net Present Value, which is the EV in cell C197.The above screenshot was taken from CFIs financial modeling courses.Additional ResourcesThank you for reading CFIs guide to Enterprise Value. To continue advancing your career, these additional resources will be helpful: Definition: Enterprise value, also called firm value, is a business valuation calculation that measures the worth of a company by comparing its stock price, outstanding debt, and cash and equivalents in the event of a company sale. In other words, its a way to measure how much