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Financial Modeling Fundamentals Module 6: Equity Value, Enterprise Value, and Valuation Metrics and Multiples – Calculations

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Key Rule #6: Diluted Equity Value: Options, Convertibles, and More

If a company is **public** – you can buy its shares on the stock market, and the company issues reports on its financial performance – then its Current Equity Value is more complex than Shares Outstanding * Current Share Price.

The company might also have **dilutive securities** that could *potentially* create more shares if the company's share price reaches a certain level.

For example:

- The company decides to pay its employees using **stock options**. The company's share price is $10.00 right now, but if it reaches $20.00, the employees can pay the company $20.00 per option to get 1 new share of the company. So if the company's share price jumps up to $30.00, some employees might start exercising their options and creating new shares.

- The company issues a **convertible bond** to meet its funding requirements. Right now, the company's share price is $50.00. But if it reaches $100.00, the convertible bond investors can "convert" the bond into shares and make a lot more money if the share price keeps increasing.

- The company issues **restricted stock units (RSUs)** to employees. These are like normal shares of the company, but they have restrictions on when the employees can buy and sell them.

Companies issue these types of securities **because they reduce companies' cash expenses in the short term**.

For example, instead of paying higher cash salaries to employees, they can offer lower salaries and more in stock or stock options.

That might cost the company more in the future *IF* its share price increases, but in the short term, cash costs decrease.

A company might issue a **convertible bond** because **interest rates on convertibles are lower than they are on traditional Debt** – so the company reduces its cash expenses in the short term at the risk of possible higher costs in the future.

There are **3 ways** of factoring in dilution from these securities:

1) **Treasury Stock Method** – This one applies to options and warrants. You assume that the option/warrant holders pay the company and get new shares, and that the company then uses this money to *repurchase* some of these new shares.

2) **"If Converted" Method** – This one applies to convertible bonds and sometimes other securities that are linked to the company's share price. You check to see if the company's share price is above a certain level; if it is, you count the shares, and if it is not, you don't count the shares (with a convertible bond, you count it as Debt instead).

3) **Straight-Up Addition** – This one applies to restricted stock, restricted stock units (RSUs), and sometimes other variants of these. You simply add these units to the company's share count to calculate the diluted shares.

Here are examples of each method, using **Salesforce.com** as our subject company:

Salesforce - Equity Value Calculation:

Company Name:	Salesforce
Current Share Price:	$ 60.53
Basic Shares Outstanding (Millions):	610.1
Diluted Shares Outstanding (Millions):	
Basic Equity Value:	$ 36,929
Diluted Equity Value:	

"Basic Equity Value" = Current Share Price * Basic Shares Outstanding

Diluted Shares Calculations:

Options - Treasury Stock Method:

Name:	Number (Millions):	Exercise Price:	Dilution:
Tranche A	4.142	$ 10.93	=IF(N20>Share_Price,0,M20-M20*N20/Share_Price)
Tranche B	4.952	25.61	2.857
Tranche C	2.017	31.54	0.966
Tranche D	4.425	35.63	1.820
Tranche E	6.261	38.02	2.328
Tranche F	0.898	42.90	0.262
Tranche G	5.909	52.49	0.785
Total:	**28.604**		**12.412**

If the Exercise Price exceeds the company's Current Share Price, there's no dilution.

If it does not, assume 4.412 million new shares get created. Then, the company uses the $10.93 * 4.412 million, or $45.3 million, it gets to repurchase some of those new shares. It buys back about 0.748 million of them, making the Dilution 3.394 million rather than 4.142 million.

Warrants - Treasury Stock Method:

Name:	Number (Millions):	Exercise Price:	Dilution:
0.75% Warrants	26.944	$ 29.88	13.643
0.25% Warrants	17.309	90.40	-
Total:	**44.253**		**13.643**

You also use the Treasury Stock Method (TSM) approach for Warrants, which is why only 13.6 million shares get created for the first tranche.

So the math for Tranche A of Salesforce's options goes like this:

- **Initially Created Shares:** 4.142 million
- **Company Gets Cash Proceeds of:** $10.93 * 4.142 million = $45.272 million
- **Company Repurchases:** $45.272 million / $60.53 = 0.748 million shares.

- **Net Dilution:** 4.142 million – 0.748 million = 3.394 million.

If the Tranche A options had an exercise price of $100.00 instead, there would be **no dilution** because the exercise price would be above the company's current share price.

Those options are **out-of-the-money**, while anything with an exercise price less than the company's current share price is **in-the-money**.

In interviews, the numbers will never be this ugly. A realistic interview question might be: "A company's current share price is $20.00. It has 10 million shares and 1 million options with an exercise price of $10.00. What is its Diluted Equity Value?"

To answer that, assume that all 1 million of shares get created. The company receives 1 million * $10.00, or $10 million, in proceeds. At a share price of $20.00, it can buy back half of those shares, or 500,000. So the company ends up with 10.5 million diluted shares.

The Diluted Equity Value = 10.5 million * $20.00 = $210 million.

In real life, a company will NOT necessarily use the proceeds from these option exercises to repurchase shares.

We make this assumption simply to **standardize** the calculation and make the diluted share count comparable for different companies.

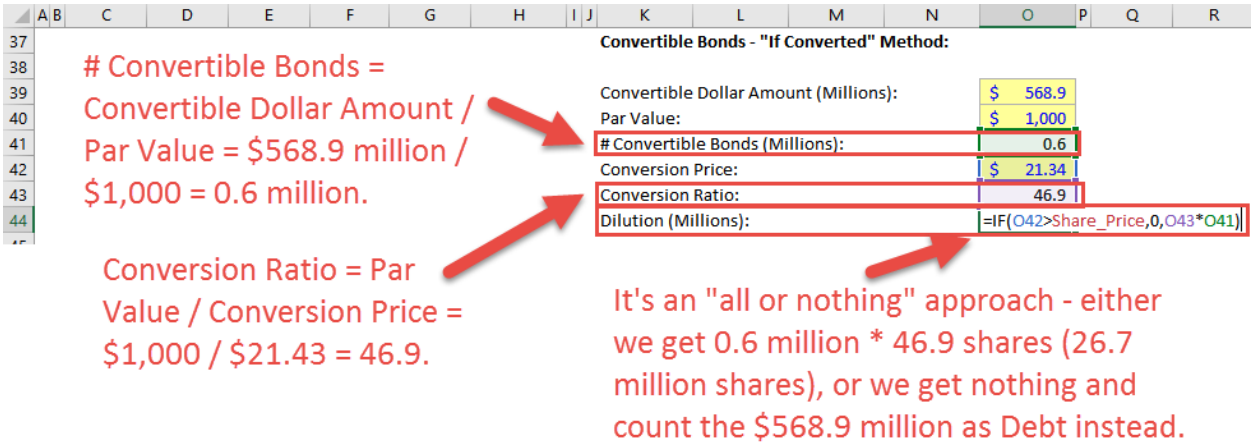
Convertible bonds work differently because you take an "all or nothing" approach (the "If Converted" method).

If the company's current share price exceeds the *conversion price*, then you assume that all the bonds convert into shares.

If it does not, then you assume that nothing converts and you count all the convertible bonds as Debt instead.

There's a bit more math involved because you have to calculate the **number of convertible bonds**, and the number of shares each one converts into, first.

Here's an example using Salesforce's convertible bonds:



In interviews, you'll never get numbers this ugly. A more realistic question might be:

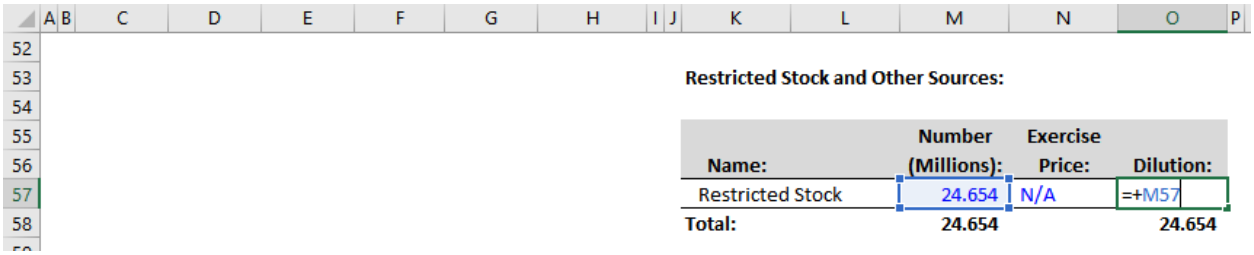
"A company has $200 million of convertible bonds with a par value of $1,000 per bond. The conversion price is $20.00, and the company's current share price is $30.00. How many diluted shares get created by the convertible bond?"

And the answer is: "The current share price exceeds the conversion price, so we count the shares from the convertible bond. $200 million / $1,000 = 200,000 bonds. The Conversion Ratio is $1,000 / $20.00, or 50.0, and so the Dilution = 50.0 * 200,000 bonds = 10 million shares."

Whether you count convertible bonds as Debt or Equity makes no difference to the Enterprise Value calculation.

And when a company *issues* convertible bonds, Enterprise Value doesn't change: The company gets more Cash, and then either Debt or Equity Value increases (or sometimes a combination of both… see the DCM-related lessons and guides).

The final method of calculating dilution – the "Straight-Up Addition" method – is easy because you simply add the shares from different sources, such as Restricted Stock and RSUs:



The result of all this work is the company's **diluted share count**, which includes its "basic shares" plus the *potential* shares from options, warrants, convertible bonds, RSUs, and other sources.

You can then multiply the company's diluted share count by its current share price to calculate its **Current Diluted Equity Value**:

Salesforce - Equity Value Calculation:	
Company Name:	Salesforce
Current Share Price:	$ 60.53
Basic Shares Outstanding (Millions):	610.1
Diluted Shares Outstanding (Millions):	687.5
Basic Equity Value:	**$ 36,929**
Diluted Equity Value:	**$ 41,612**

Basic Shares of 610.1 million, plus the diluted shares from options, warrants, convertible bonds, and RSUs.

This equals the Diluted Share Count * the Current Share Price, and it will always be greater than or equal to the Basic Equity Value.

Diluted Equity Value doesn't "mean" anything in particular; it's just a more accurate way of calculating the company's Current Equity Value.

When you value a company using *your views,* and you determine its Implied Enterprise Value and Implied Equity Value, you have to use the company's Diluted Share Count to back into the company's *Implied Share Price*.

If the company's Implied Equity Value is $100 million, its Implied Share Price will be quite different if you use its diluted share count of 1.2 million rather than its basic share count of 1 million.

Dilutive securities also exist for private companies, but you don't have to think about them quite as much. That's because you often stop at the company's **Implied Enterprise Value** or **Implied Equity Value**.

Dilutive securities make a much bigger impact on public companies because valuation is almost always tied to the company's *Implied Share Price*, which comes from its Implied Equity Value.

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Key Rule #7: How to Move from Equity Value to Enterprise Value

In theory, it should be **easy** to move between Equity Value and Enterprise Value because you already know the definitions of these terms:

- **Equity Value** = Value of Core-Business Assets + Value of Non-Core-Business Assets
- **Enterprise Value** = Value of Core-Business Assets

- **Equity Value** = Value to Equity Investors
- **Enterprise Value** = Value to Equity Investors + Value to Debt Investors + Value to Preferred Investors (and possibly others)

So to move from Equity Value to Enterprise Value, **you subtract non-core-business Assets,** and **you add items that represent other investor groups**.

And to move from Enterprise Value to Equity Value, **you add non-core-business Assets,** and **you subtract items that represent other investor groups**.

For simple scenarios, this approach works well.

A company has Cash, Debt, and Preferred Stock, so you subtract Cash from Equity Value and add Debt and Preferred Stock to move to Enterprise Value.

But in real life, it's not always easy to determine what a "non-core-business Asset" is or which items represent "other investor groups."

For example, people often add Unfunded Pensions when they calculate Enterprise Value, but do they truly represent "another investor group"?

Similarly, are all Financial Assets and Investments truly "non-core-business Assets"? How can you tell what is "core" to a company's business?

We'll start by giving you **3 rules of thumb** you can use to determine what to add and subtract, and then we'll go through Vivendi's Balance Sheet and explain why you should add or subtract various items when calculating Enterprise Value.

Rule of Thumb #1: Add Long-Term Funding Sources When Moving from Equity Value to Enterprise Value

Some of these are obvious – Debt and Preferred Stock, for example.

But others, such as Unfunded Pension Obligations, don't *seem* like they represent "other investor groups." **But they do represent other investor groups because they provide long-term funding**.

With pensions, for example, **the employees** act like this "Other Investor Group."

The company pays its employees *less* in the current period in exchange for promising to pay them *more* in the future when they retire.

If the pension is **funded**, i.e. the expected future costs equal the Assets the company has set aside to pay for it, this doesn't matter, and it doesn't affect Enterprise Value.

But if the pension is **unfunded**, the company has effectively "borrowed money" from its employees to fund its operations.

You should add anything else that funds the company's operations for *years* when moving from Equity Value to Enterprise Value.

Examples: Debt, Preferred Stock, Noncontrolling Interests, Capital Leases, Unfunded Pensions, and Restructuring or Environmental Liabilities.

Rule of Thumb #2: Add Items That Will Cost a Potential Acquirer Extra When Moving from Equity Value to Enterprise Value

I hesitate to list this one because it might lead you to believe that Enterprise Value is "the true cost to acquire a company" – which is **NOT QUITE TRUE**, as we demonstrated before.

But if the company has raised funding, and the terms of that funding say that it must be repaid in a "change of control" – an acquisition – you should add it when moving from Equity Value to Enterprise Value.

The best examples are **Debt** and **Preferred Stock**, which almost always must be repaid or replaced ("refinanced") in an acquisition.

Items like Accounts Payable don't qualify because **the company repays them naturally with its operational cash flows**.

Plus, the company not never required to make cash payments for all its outstanding payables if it is acquired.

Rule of Thumb #3: Subtract Items That Are NOT Operating Assets When Moving from Equity Value to Enterprise Value

Could a company continue to operate *without* a certain Asset and still be fine?

Or did the company *get* a certain Asset as a result of its side activities, such as real estate or stock investing?

If at least one of those is true, you should probably subtract the item.

This rule means that "non-core" items often differ by industry.

For example, **fuel hedges** (i.e., derivative contracts to lock in oil prices at certain levels) are considered core-business Assets for an airline company.

But if a consumer/retail or technology company used fuel hedges, they would be considered non-core-business Assets.

You can think of these items as "saving an acquirer money," but **be careful because that is MOSTLY true for Cash and Investments** and **NOT** as true for other items.

Examples: Cash, Investments, Net Operating Losses (NOLs), Assets Held for Sale, and Assets of Discontinued Operations.

Here's an example of how you might apply these rules to Vivendi's Balance Sheet:

Balance Sheet:		Q1 End:	Should You SUBTRACT It in the Equity Value --> Enterprise Value Calculation?
Assets:			
Current Assets:			
Cash:	€	868	**Yes! Always.** Cash is a non-core-business Asset.
Current Financial Assets:		21	**Almost certainly.** But check the footnotes to make sure they really are "non-core."
Accounts Receivable:		2,227	No! Never. It's an operating asset.
Current Content Assets:		981	No! Never. It's an operating asset (TV/films for a media company).
Current Tax Receivables:		636	No! Never. It's an operating asset (constantly being collected/paid out).
Inventory:		99	No! Never. It's an operating asset.
Assets Held for Sale:		1,230	**Yes! Always.** It's the definition of a non-core-business Asset since it's about to be sold off!
Assets of Discontinued Businesses:		25,025	**Yes! Always.** It's the definition of a non-core-business Asset since it's about to be sold off!
Total Current Assets:		**31,087**	
Non-Current Assets:			
Property, Plant & Equipment:		3,209	No! Never. It's an operating asset.
Goodwill:		10,519	No! Never. It is an operating asset since it reflects the value of acquired companies.
Other Intangible Assets:		395	No! Never. It is an operating asset since it reflects the value of acquired companies.
Non-Current Content Assets:		2,528	No! Never. It's an operating asset (TV/films for a media company).
Investments in Equity Affiliates:		290	**Yes! Always.** This one is a non-core-business Asset, but it's also done for comparability.
Non-Current Financial Assets:		638	**Almost certainly.** But check the footnotes to make sure they really are "non-core."
Deferred Tax Assets:		667	**Maybe**! Need to read the footnotes and see… you sometimes subtract NOLs.
Total Non-Current Assets:		**18,246**	
Total Assets:	€	**49,333**	

It's better to use the **market values** of all these items rather than the book values (i.e., what's shown on the Balance Sheet).

But in practice, there's almost no difference for items like Cash and Investments, and even if there is a difference, it might be almost impossible to estimate the market values.

Here's how you might think about items on the Liabilities & Equity side of the Balance Sheet:

Liabilities & Equity:			Should You ADD It in the Equity Value --> Enterprise Value Calculation?
Current Liabilities:			
Short-Term Debt and Borrowings:	€	3,934	**Yes! Always.** Short-term borrowings represent another investor group (lenders).
Accounts Payable:		5,213	No! Never. Constantly being accrued and then paid out in cash… not a long-term funding source.
Current Tax Payables:		105	No! Never. Constantly being accrued and then paid out in cash… not a long-term funding source.
Current Provisions:		272	**Maybe!** Need to review the footnotes; could potentially represent lenders.
Liabilities of Discontinued Businesses:		8,272	**Yes! Always.** Needs to be netted against the *Assets* for Discontinued Businesses.
Total Current Liabilities:		**17,796**	
Non-Current Liabilities:			
Long-Term Debt and Borrowings:		8,309	**Yes! Always.** Long-term debt is a funding source and represents another investor group (lenders).
Deferred Tax Liabilities:		685	No! Never. Just a temporary *timing difference* between cash and book taxes.
Non-Current Provisions:		2,715	**Maybe!** Need to review the footnotes; could potentially represent other investors.
Other Non-Current Liabilities:		205	**Maybe!** Need to review the footnotes; could potentially represent other investors.
Total Non-Current Liabilities:		**11,914**	
Total Liabilities:	€	**29,710**	
Equity:			
Shareholders' Equity:			
Share Capital:		7,368	No! Never. You always use the Market Value of Equity, in other words
Additional Paid-In Capital:		8,381	Shares Outstanding * Share Price, to represent all these items and you skip what's
Treasury Shares:		(22)	on the Balance Sheet since the market value is more accurate.
Retained Earnings and Other:		2,237	
Total Shareholders' Equity:	€	**17,964**	
Noncontrolling Interests:		1,659	**Yes! Always.** Represents another funding source, and done for comparability purposes.
Total Equity:	€	**19,623**	
Total Liabilities & Equity:	€	**49,333**	

Most of these items are straightforward, but a few deserve more explanation:

- **Goodwill & Other Intangible Assets:** Remember that these get created when the company acquires other companies. So if *those* acquired companies are still part of this company's operations, then these items both **count** as core-business Assets!

- **Deferred Tax Assets (DTAs):** Some of these correspond to simple timing differences that will be reversed, but portions could also correspond to **Net Operating Losses (NOLs)**, which are non-core Assets that will reduce the company's future cash taxes. You subtract NOLs, but not the rest.

- **Industry-Specific Assets:** These almost always **count** as core-business Assets. Anything with "Content" in the name has a lot to do with Vivendi's core business of producing and selling content.

- **"Provisions" and "Other Liabilities":** These items have vague names, so you need to check what's in them before you do anything. If these items include Debt, other interest-bearing borrowings, or Unfunded Pensions, you should add those portions. But if these items are related to timing differences or unknown future expenses, you should probably *not* add them.

- **Deferred Tax Liabilities (DTLs):** You never factor these in because DTLs are operational and correspond to **timing differences** that will reverse in the future. They also don't represent another investor group.

Equity Investments and Noncontrolling Interests in Enterprise Value

If you went through the "More Advanced" Accounting lessons or read the guide there, you already know what **Equity Investments** (AKA Associate Companies) and **Noncontrolling Interests** (FKA Minority Interests) are.

If not, it's easiest to explain these concepts with simple examples.

We'll start with **Equity Investments**, which are Assets that represent a company's stake in another company when it owns **less than 50%** of that company.

Let's say a company's Current Equity Value is $350. Among other Assets, this company also happens to own a **30% stake** in another company.

We'll label the $350 Equity Value company "Parent Company," and the other company "Associate Company."

This 30% stake in the Associate Company counts as an **Asset**. The Parent Company could sell it for cash, and the stake might also generate future cash flow for the Parent.

Equity Value reflects the value of **ALL** the Assets the company has, so this 30% stake must be included in the Parent Company's Equity Value.

Here's what it looks like if the Associate Company is worth $100 total:

	A	B	C	D	E	F
49						
50			Combined Company:			Year 1
51			Equity Value:			=320+F61*F62
52			Cash:			50
53			Debt:			200
54			Value of Equity Investments:			30
55						
61			Value of Associate Company:			$ 100
62			Ownership in Associate:			30%

The Parent's standalone Equity Value is $320, but this 30% stake in the Associate Company pushes it up to $350.

So why do you **subtract** Equity Investments when moving from Equity Value to Enterprise Value?

1. They are considered **non-core-business Assets**. In other words, this Parent Company could easily *run its business* without this 30% stake in the Associate Company.

2. For **comparability purposes**. The Parent Company's Revenue and Operating Income **will not reflect any contributions** from Associate Companies that it owns less than 50% of, so you need to remove these stakes from Enterprise Value as well.

Here's what the Income Statements might look like:

The "Combined" Income Statement is exactly the same as the Parent's at first...

Combined Company:	Year 1
Revenue:	$ 400
Costs of Goods Sold:	136
Gross Profit:	**264**
Operating Expenses:	201
Depreciation & Amortization:	20
Operating Income:	**43**
Net Interest Expense:	(15)
Pre-Tax Income:	**28**
Income Taxes:	(10)
Equity Investment Earnings:	**2**
Net Income:	**20**

Parent Company:	Year 1
Revenue:	$ 400
Costs of Goods Sold:	136
Gross Profit:	**264**
Total Operating Expenses:	201
Depreciation & Amortization:	20
Operating Income:	**43**
Net Interest Expense:	(15)
Pre-Tax Income:	**28**
Income Taxes:	(10)
Net Income:	**18**

Associate Company:	Year 1
Revenue:	$ 100
Costs of Goods Sold:	25
Gross Profit:	**75**
Total Operating Expenses:	60
Depreciation & Amortization:	5
Operating Income:	**10**
Net Interest Expense:	-
Pre-Tax Income:	**10**
Income Taxes:	(4)
Net Income:	**7**

...But then you have to add the Associate Company's Net Income * Ownership Percentage at the bottom. So 30% * $7 = About $2 here.

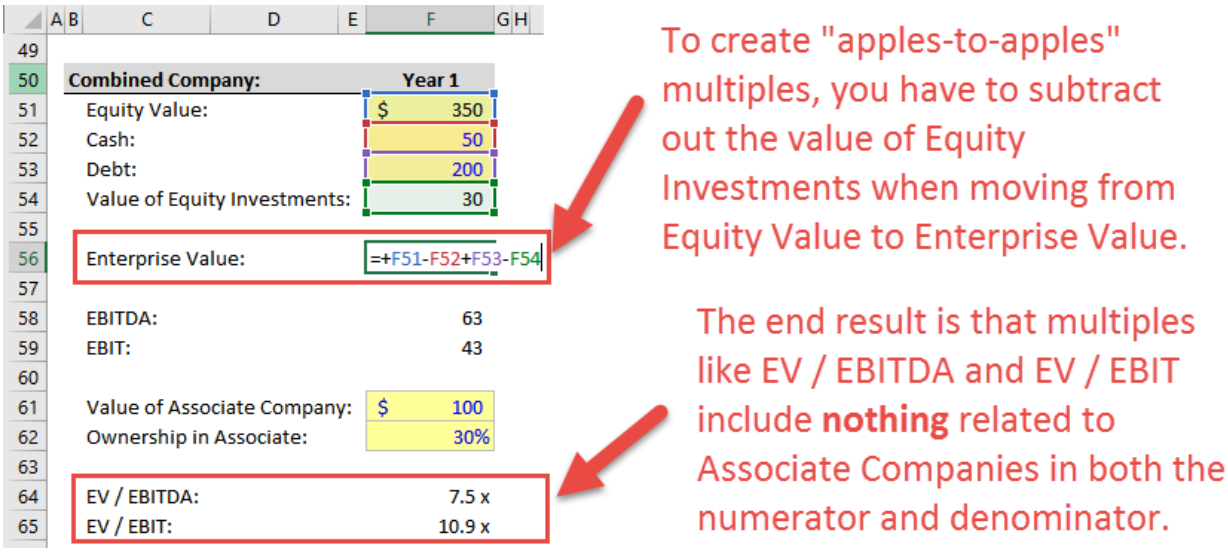
Accounting rules under both U.S. GAAP and IFRS stipulate this presentation.

There isn't a particular reason for it, other than: "When a company owns less than 50% of another company, it does **not** consolidate the financial statements."

If you tried to calculate EV / EBIT or EV / EBITDA multiples for the Parent Company, you would run into a problem:

- **EBIT** = $43; **EBITDA** = $63
- **Enterprise Value** = $320 + 30% * $100 – $50 + $200 = $500.
- **But** this Enterprise Value figure reflects the value of that 30% stake ($30). EBITDA and EBIT **do not** reflect this 30% stake because they're based on **just** the Parent Company's statements.

So you must subtract the value of this 30% stake:



You could try to add Associate Company's EBITDA * 30% to the Parent Company's EBITDA and skip this subtraction to calculate EV / EBITDA.

But there are two problems with that approach:

1. Companies rarely, if ever, **disclose enough information to do this**.
2. Even if you *could* use this method, Equity Investments still count as non-core-business Assets and should therefore **not** be included in Enterprise Value.

This accounting treatment applies to any case where the Parent owns between 20% and 50% of another company, but in practice, companies often use it for **any stake under 50%**, even if it's only 10% or 15%.

Noncontrolling Interests represent the opposite scenario; they're Liability & Equity line items that are used when a company owns *more than 50% but less than 100%* of another company.

But be careful – the Noncontrolling Interest itself represent the portion the Parent Company does NOT own in the other company.

In these cases, the Parent Company **consolidates its financial statements 100%** with those of the Other Company.

Even if the Parent Company owns only 70% of the Other Company, **it includes 100% of this Other Company's revenue, expenses, taxes, and other items on its own statements**.

The Parent Company also has to note that it does **not** own 100% of the Other Company.

It does this by recording a **Noncontrolling Interest** on the L&E side of its Balance Sheet and by deducting the Net Income that's *attributable* to the Other Company on its Income Statement.

So if the Parent Company owns 70% of the Other Company, the Noncontrolling Interest represents the value of the 30% it does **not** own.

And the Net Income Attributable to Noncontrolling Interests on its Income Statement represents the 30% of the Other Company's Net Income it does **not** own:

Combined Company:	Year 1
Revenue:	$ 500
Costs of Goods Sold:	161
Gross Profit:	**339**
Operating Expenses:	261
Depreciation & Amortization:	25
Operating Income:	**53**
Net Interest Expense:	(15)
Pre-Tax Income:	**38**
Income Taxes:	(13)
Net Income:	**25**
Net Income Attributable to Noncontrolling Interests:	(2)
Net Income Attrib. to Parent:	**23**

Parent Company:	Year 1
Revenue:	$ 400
Costs of Goods Sold:	136
Gross Profit:	**264**
Total Operating Expenses:	201
Depreciation & Amortization:	20
Operating Income:	**43**
Net Interest Expense:	(15)
Pre-Tax Income:	**28**
Income Taxes:	(10)
Net Income:	**18**

Majority-Owned Company:	Year 1
Revenue:	$ 100
Costs of Goods Sold:	25
Gross Profit:	**75**
Total Operating Expenses:	60
Depreciation & Amortization:	5
Operating Income:	**10**
Net Interest Expense:	-
Pre-Tax Income:	**10**
Income Taxes:	(4)
Net Income:	**7**

100% consolidation down to Net Income...

...But then the Parent Company has to subtract out 30% * $7, or about $2, at the bottom to show *only* the Net Income it actually "owns."

Because of this accounting treatment, we get the **opposite problem** that we did with Equity Investments. Think about how you'd calculate EV / EBITDA and EV / EBIT now:

- **EBIT** = $53; **EBITDA** = $78
- **Enterprise Value** = $320 + 70% * $100 – $50 + $200 = $540.
- **But** this Enterprise Value figure reflects the value of that 70% stake ($70). EBIT and EBITDA, by contrast, **reflect 100% of the Other Company's EBIT and EBITDA**.

So we get a "mismatched multiple" since the numerator includes 70% of the Other Company's value, while the denominator includes 100% of the Other Company's financial metrics.

To get around this, you have to **add** the value of the Noncontrolling Interests when moving from Equity Value to Enterprise Value:

	A B	C	D	E	F	G H
94						
95		**Combined Company:**			**Year 1**	
96		Equity Value:			$ 390	
97		Cash:			50	
98		Debt:			200	
99		Noncontrolling Interests:			30	
100						
101		Enterprise Value:			=+F96-F97+F98+F99	
102						
103		EBITDA:			78	
104		EBIT:			53	
105						
106		Value of Other Company;			$ 100	
107		Ownership in Other Company:			70%	
108						
109		EV / EBITDA:			7.3 x	
110		EV / EBIT:			10.8 x	

To create "apples-to-apples" multiples, you have to add the value of Noncontrolling Interests when moving from Equity Value to Enterprise Value.

The end result is that multiples like EV / EBITDA and EV / EBIT include **100%** of the majority-owned companies and their financials in both the numerator and denominator.

In theory, you could try to **subtract** the Other Company's EBITDA * 30% from the Parent Company's EBITDA and skip the normal addition to calculate EV / EBITDA.

But there are two problems with that approach:

1. Companies rarely, if ever, **disclose enough information to do this**.
2. Even if you *could* use this method, Noncontrolling Interests represent "another investor group" (since the Parent Company could get funding from the Other Company it owns over 50% of), and should, therefore, be counted in Enterprise Value.

This treatment **only** applies to “Over 50% but less than 100%” ownership stakes. So even if the Parent Company owns 49.9%, Equity Investment accounting would apply.

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