Module 6 | Core Financial Modeling

Lesson 3 | The Enterprise Value Bridge

Plan for This Module

Format: Each lesson will be 10 – 15 minutes, with a video explanation and an **Excel exercise for you** at the end.

Your Options: Watch and complete the exercises, read the written guide (it's a 1:1 match for the lessons), or take the end-of-module quiz.

Plan for This Module

This lesson is **mostly an exercise** for you, where you must find the relevant items for Goodyear's Enterprise Value "bridge."

There's some explanation in the beginning and the end, but we feel that getting **practice** is the most important point here.

Outline for This Lesson

Part 1: Enterprise Value Bridge Logic

- **Equity Value (Eq Val):** The value of **EVERYTHING** a company has (Net Assets), but only to **EQUITY INVESTORS** (common shareholders) – also known as "Market Capitalization"

- **Enterprise Value (TEV):** The value of the company's **CORE BUSINESS OPERATIONS** (Net Operating Assets), but to **ALL INVESTORS** (Equity, Debt, Preferred, etc.)

- **So:** We can use some algebra to rewrite these definitions and show the relationship between Eq Val and TEV

Part 1: Enterprise Value Bridge Logic

- **Equity Value** = Market Value of Assets – Market Value of Liabilities
- **Enterprise Value** = Market Value of Assets – Market Value of Liabilities – Non-Operating Assets + Non-Operating Liabilities
- **Enterprise Value** = Equity Value – Non-Operating Assets + Liability and Equity Items that Represent Other Investor Groups
- **Process:** Typically, you start with the company's **Balance Sheet** to find the Non-Operating Assets and L&E Lines for Other Investor Groups, but you may expand and also review the notes

Part 1: Enterprise Value Bridge Logic

- **Common Non-Operating or Non-Core Assets:** Cash, Financial Investments, Assets Held for Sale, and Equity Investments (minority investments in other companies)

- **More Complicated:** Net Operating Losses (later lesson)

- **Common L&E Lines Representing Other Investor Groups:** Debt, Preferred Stock, Noncontrolling Interests (parts of other majority-owned companies this one does *not* own), and Unfunded Pensions

- **More Complicated:** Leases (later lesson); treatment depends on how you're *using* the Enterprise Value metric (many variations)

Part 2: Exercise: Goodyear's TEV Bridge

- **TASK:** Go to page 3 of the Goodyear Excerpts for their Balance Sheet and enter the relevant information from here into the Enterprise Value calculation

- **Ground Rules:** Use **ONLY** this Balance Sheet; do not read anything else or use the rest of the filing, and if something does not appear on the Balance Sheet, leave it blank for now

- **Separated vs. Grouped Items:** If the company groups together items like Debt and Finance Leases, that's fine – just enter them together in the "Total Debt" line for now

Part 3: What Makes This More Complicated?

- **Footnotes:** Often contain information about other items in this Enterprise Value bridge; takes time to read and figure out

- **Pensions and NOLs:** These take some time to explain, but they also make a tiny difference for Goodyear

- **Leases:** This a separate lesson, but the short version is that under U.S. GAAP, it's *easiest* to add Finance Lease Liabilities, but not Operating Lease Liabilities, to TEV (under IFRS, add both)

- **Usage:** This is "Step 1" of any valuation; we need financial metrics and comparable companies to make this useful

Recap and Summary

- **Part 1:** Enterprise Value Bridge Logic

- **Part 2:** Exercise: Goodyear’s TEV Bridge

- **Part 3:** What Makes This More Complicated?