

## SHAREHOLDER VALUE ANALYSIS



Shareholder Value Analysis (SVA) measures the true wealth created by the firm for its shareholders – the preeminent and governing objective of corporate management.

SVA is based on the determination of the true economic profit of the firm after making corrective adjustments for the cost of capital used in turning that profit. The simplicity of this concept is paramount as SVA achieves several key objectives at once. First, it links internal company valuations of the firm to external capital market valuations, a condition which aligns corporate management directly to shareholders and capital markets.

Second, SVA links value creation to actual managerial levers of action, including:

- the major strategic determinants of shareholder value: i.e. market economics (differentiation and cost) and the firm’s competitive position in that market, and
- the major financial determinants of shareholder value: i.e. return on net operating assets, cost of capital of the firm, and growth of true economic profit

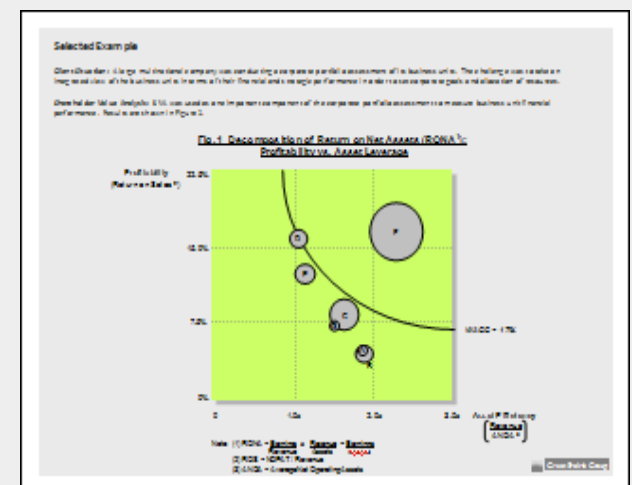
Third, SVA subsumes into “value creation” all other competing priorities and objectives of the firm. These may include other financial objectives (e.g. earnings growth, return on investment, and so forth) or other strategic objectives (e.g. global dominance, market share leadership, low-cost leadership, maximum customer satisfaction, total quality and other).

**Purpose:** SVA achieves several important results:

- Establishes “value creation” as corporate management’s “True Compass”, a comprehensive measure of business performance far more complete than operating income or reported earnings
- Unifies the approach for evaluating “value created”, aligning corporate management to capital markets
- Identifies areas within the company where value is being created or destroyed: profitability, asset effectiveness, growth or capital structure
- Serves to measure how strategic choices will impact the value of the firm
- Provides an unbiased assessment of the amount of value created or destroyed by individual business units – a crucial prerequisite for corporate portfolio management

**Use:**

- Guide decisions of large investments, i.e. large capital outlays, acquisitions, corporate break ups
- Assess the financial performance of a business or a portfolio of businesses
- Measure the financial impact of strategic options on the value of the firm



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