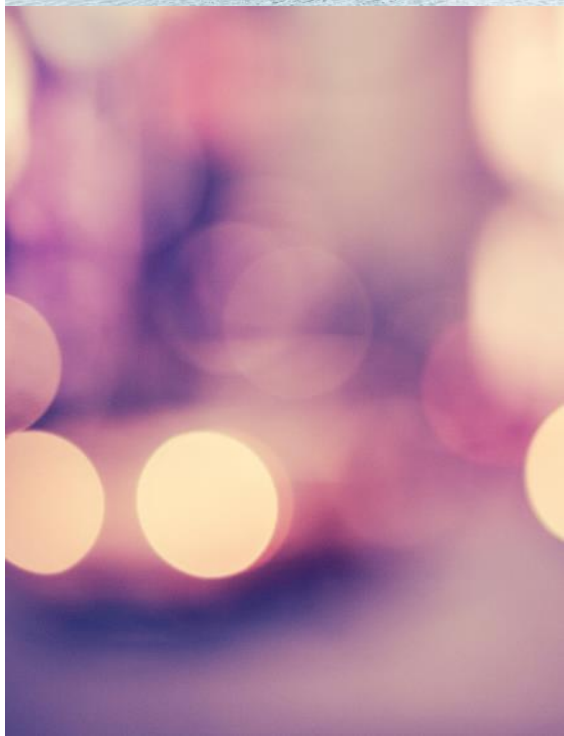


Separate Enterprise Value and Equity Value

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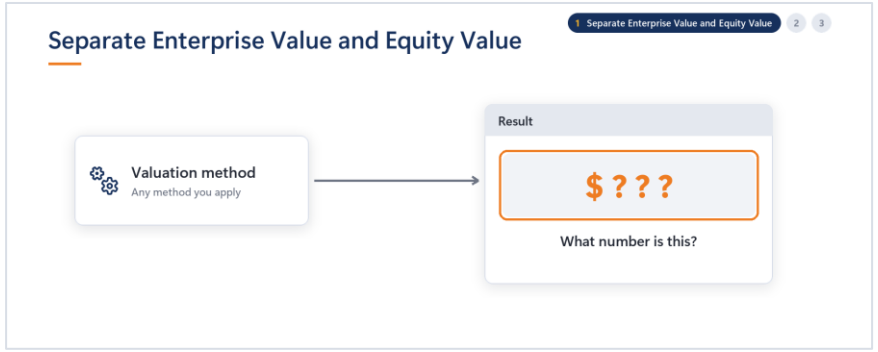




3. Separate Enterprise Value and Equity Value

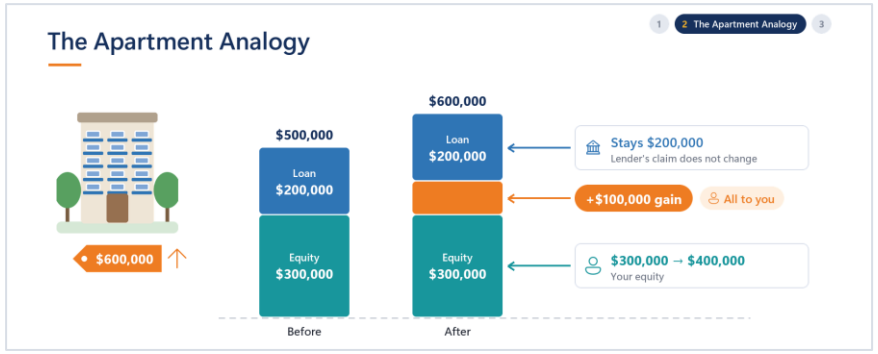
🎯 Separate Enterprise Value and Equity Value

- Before applying a method, know which number it actually produces.
- Some methods calculate enterprise value; others calculate equity value.
- The two numbers are not the same value.
- Confusing them is one of the most common valuation mistakes.
- This lesson explains the difference and how to convert between them.



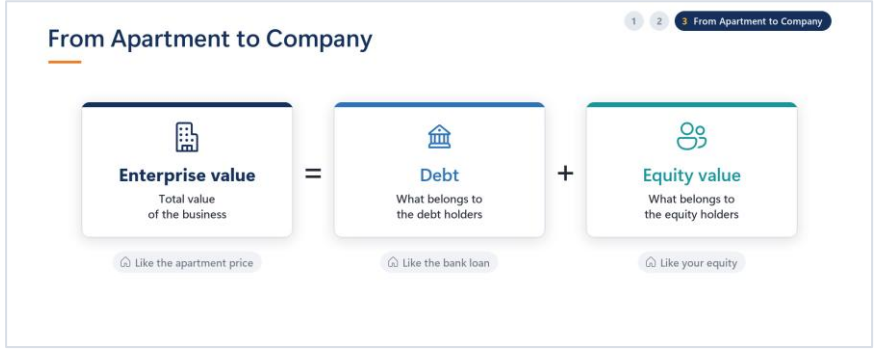
🏠 The Apartment Analogy

- You buy an apartment for $500,000.
- You pay $300,000 from savings and borrow $200,000 from the bank.
- Total apartment value is $500,000; your personal equity is $300,000.
- The price rises to $600,000, but the bank loan stays at $200,000.
- Your equity rises from $300,000 to $400,000: the full $100,000 gain is yours.
- Equity grew 33% while the apartment price rose only 20%.



🏢 From Apartment to Company

- A company works the same way as the apartment.
- Enterprise value is the total value of the business, like the apartment price.
- Enterprise value = Debt + Equity value: the debt holders' and equity holders' claims.
- Equity value is what belongs to shareholders after all debt is paid.
- When the business grows, debt stays fixed and equity holders capture the gain.
- This distinction runs through every valuation method in the course.



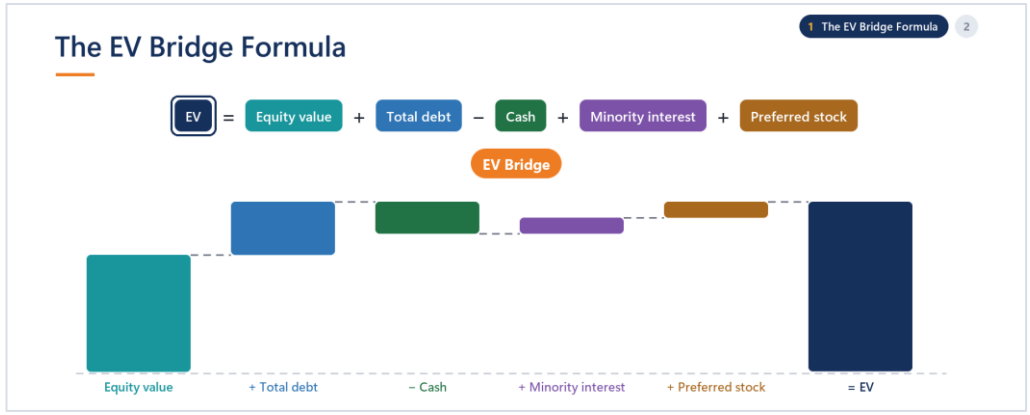
3. Separate Enterprise Value and Equity Value (Part 2)

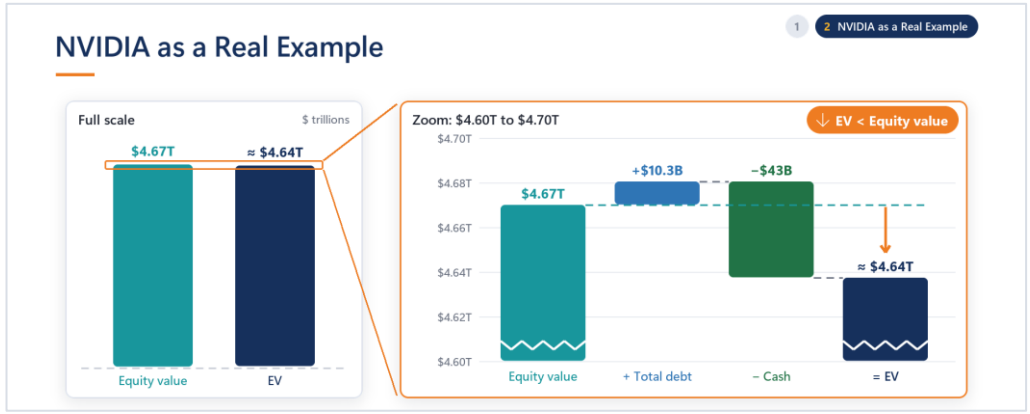
🌉 The EV Bridge Formula

- Basic equation: enterprise value equals debt plus equity value.
- Analysts expand it into the more detailed EV Bridge formula.
- EV = Equity value + Total debt − Cash + Minority interest + Preferred stock.
- Total debt is added: a buyer of the entire company assumes its debt.
- Cash is subtracted: the acquirer uses it to reduce the effective purchase cost.
- Minority interest is added when a consolidated subsidiary is not fully owned.
- Preferred stock is added: preferred shareholders hold a claim above common equity.
- For most companies debt exceeds cash, so EV sits above equity value.

📐 NVIDIA as a Real Example

- Apply the EV Bridge to NVIDIA's January 2025 balance sheet.
- Market capitalization ≈ $4.67 trillion: 24.5 billion shares at about $191.
- Total debt is $10.3 billion; cash and short-term investments exceed $43 billion.
- NVIDIA reports no meaningful minority interest or preferred stock.
- EV = $4.67T + $10.3B − $43B ≈ $4.64T.
- NVIDIA's EV is lower than its equity value because cash far exceeds debt.
- Most companies show the opposite: EV exceeds market capitalization.





3. Separate Enterprise Value and Equity Value (Part 3)

🎯 Which Output Each Method Produces

- Each valuation method produces either EV or equity value, never both.
- A DCF using free cash flow to the firm produces enterprise value.
- A DCF using free cash flow to equity produces equity value directly.
- The Dividend Discount Model gives equity value: dividends go only to shareholders.
- EV/EBITDA is an EV multiple because EBITDA sits above interest payments.
- P/E is an equity multiple because EPS already reflects interest expense.

🔄 Converting Between the Two

- With one number, derive the other using the EV Bridge.
- Equity value = Enterprise value − Net debt.
- Example: DCF EV of $500 million; debt $120 million, cash $20 million.
- Net debt is $100 million, so equity value is $400 million.
- With 10 million shares outstanding, the implied share price is $40.
- Opposite direction: DDM equity value $400 million + net debt $100 million = EV $500 million.
- Identify which output a method produces before building the model.
- A wrong start compounds every calculation that follows.

