From Enterprise Value to Equity Value

Investment Banking & M&A | Foundation | 45-60 minutes (estimate)

Worked numerical schedule

Measure	Value	Unit
Low enterprise value	10,000.00	USD thousands
High enterprise value	14,000.00	USD thousands
Debt and debt-like deductions	3,550.00	USD thousands
Low equity value	6,850.00	USD thousands
High equity value	10,850.00	USD thousands
Low bridge residual	0.00	USD thousands

Interpretation and recommended actions

EV is $10m-$14m and equity value $6.85m-$10.85m. Eligible cash adds $0.5m, debt and debt-like items subtract $3.55m and the working-capital shortfall subtracts $0.1m. Restricted cash and normal AP have no separate bridge adjustment under the supplied definitions. Confirm restricted-cash release terms, bonus settlement responsibility and consistent lease treatment in EBITDA / multiples before using this with real transaction data.

Scoring rubric - 100 points

Dimension	Points	Awarding guidance
Calculation	40	EV range 12; item classifications and bridge arithmetic 20; range and check 8.
Interpretation	25	Correct application of the case rules 10; explain the business decision 10; identify evidence or limitations 5.
Controls / audit trail	20	Traceable formulas 8; independent reconciliation 8; explicit units and signs 4.
Communication	15	Decision and numerical headline 5; actions with owners and evidence 5; concise response covering all required deliverables 5.

Award method credit after an isolated arithmetic error rather than repeatedly deducting for it. Equivalent account labels and well-supported alternative recommendations are acceptable. Numerical tolerance is 0.01 in the stated units; no universal passing score is prescribed.

Common mistakes

Adding restricted cash; deducting AP twice; mixing thousands with whole dollars; assuming lease treatment is universal.

Staged hints

Create an explicit treatment for every item before summing. The equity-value range has the same width as EV when bridge adjustments are fixed.

Instructor notes

Prerequisites: Balance sheet and EV / EBITDA. The total duration of 45-60 minutes is a planning estimate, not a tested completion time. Allocate class time according to prior knowledge and reserve time for discussion of the decision and evidence.

For a simpler class, provide the model structure and work through one driver. For an extension, change one operational assumption and require a new reconciliation and recommendation. Verify the new key before distributing any variant. Open files in the intended spreadsheet application before class. Solutions are learning resources, not secure hiring examinations.

Decision

Present a defined enterprise-to-equity bridge rather than a single unqualified price.

Evidence and reasoning

Enterprise value is not the amount shareholders receive. Cash eligibility, debt-like items and the working-capital mechanism determine the bridge and must avoid double counting normal operating liabilities.

What would change the conclusion

Restricted-cash release terms, bonus liability ownership and consistent lease treatment may change adjustments. Use transaction documents before applying the teaching bridge to a real deal.