Blog 1 of 4:

This is the first in a series of blogs that attempts to explain and distinguish between various valuation concepts, such as price, fair market value, fair value, liquidation value, intrinsic value, financial value versus strategic value, monetary versus economic value, emotional and psychic value, among others. Environmental, social, and governance (ESG) value is relatively new, and gaining acceptance in corporate America. Hedonic value has various meanings and uses but is usually thought of as the immediate, emotional gratification (perhaps a cause for impulse buying), as contrasted to utilitarian value.

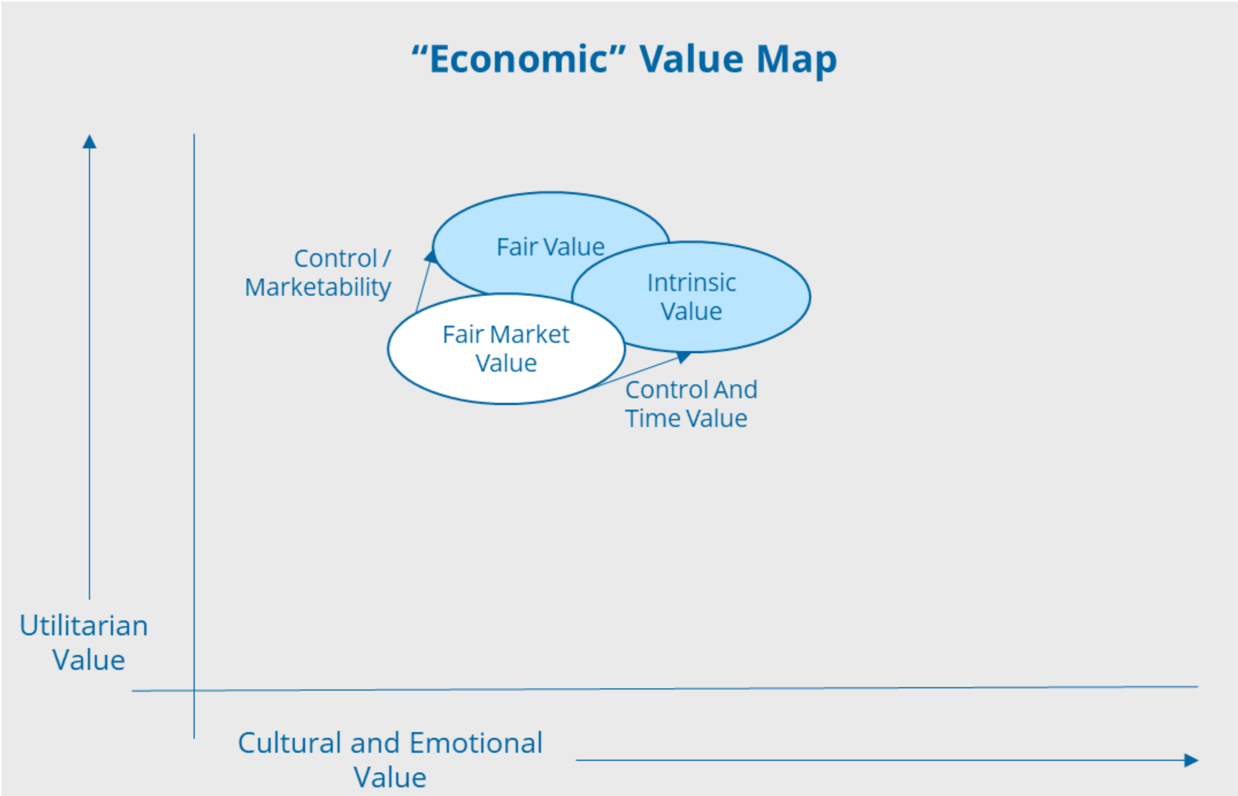
Many people have heard of the cost, market, and income approaches to valuation, and these various approaches and hybrids can sometimes be applied to determining the different value standards mentioned above. But while valuation (the process of putting a value on something) is part science and part art, there are well accepted techniques, methodologies, and theories that should be adhered to. Valuation necessarily requires an understanding and deep insight into accounting, economics, and finance. Now, statistical analysis, behavioral finance, and cultural economics are playing a more frequent role in valuation.

Transcending Value - Intrinsic and Fair Value

Intrinsic value can be related to psychic or emotional value but normally is thought of as the cash equivalent value (on a present value basis) to a specific owner. That owner is usually the current owner and the value usually represents the value of the future cash flow, including the proceeds from a future sale. Since taxes can be quite different in a sale (capital gains) versus income, normally an after-tax analysis is required to understand the scenario that may be more advantageous; hold versus sell. But, once again, the owner may derive "satisfaction" and other rewards from being the owner/boss. The tradeoff may be more than money, especially since the owner is incurring more risk.

I have placed the intrinsic value bubble above and to the right of FMV since the owner may have more time value (can realize income for more years and sell at a later date), all the while deriving more emotional or psychic benefits.

Fair value, like intrinsic value can certainly overlay (in the range of possible values) FMV and is normally calculated without regard to discounts associated with the lack of control and marketability. The fair value of public stock is normally the same as its FMV. In the case of closely held companies, the two can be markedly different because minority shareholders in private companies usually cannot sell their stock easily or control operations.



For the complete white paper go to: https://lnkd.in/gtPdGNf