Factors Affecting Value in Business

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Extensive Summary

Introduction

Enterprises can invest in different sectors for a variety of purposes as a result of the competition. These investments can be in national markets as well as international ones. At this point, enterprises have to deal with some unknown issues such as legal processes, difficulties in the market, manufacturing processes, capital structure, government and employment policies. In order both to avoid the negative effects of an unknown process and to gain competitive advantage in the market, enterprises implement strategies of cooperation, merging, buying and also getting into strategic partnerships with other businesses operating in the sectors that they plan to invest.

One of the major problems of accounting-finance department is to appraise the enterprise value during the implementation of the strategies mentioned above. Because, the parties involving in these strategies would like to find the most optimal price for their own interests. Consequently, the valuation can be said to be successful according to the closeness of the computed value to the amount to be paid.

In this study, using actual data, it is aimed to ascertain WACC, CAPM, ROIC, NOPLAT and FYS values which have importance during the valuation processes and require various complicated data analysis in a non-public hospitality business in tourism sector as these values vary the enterprise value and cause problems with the appraisal of the 'firm's fair value'. In this context, this study is believed to contribute to the literature.

Method

As a research method, a fieldwork has been done in a five-star hospitality enterprise for the data to be used for the calculation of values necessary for the appraisal of the firm's value.

A hospitality resort operating in Alanya was chosen as the sample for the study. The sample resort was chosen from Alanya district because it is one of the leading

holiday destinations in Turkey and there are a large number of hospitality enterprises in that area as well as the fact that it provides convenience in terms of time, cost and accessibility to the data used in the study. All the data necessary for the appraisal of sample five-star hospitality resort's value was obtained from the enterprise itself and the secondary sources.

Results

The literature research on the valuation of hospitality enterprises showed that the studies in this field are inadequate and initial findings are as follows:

The studies on the valuation of hospitality enterprises without public offerings are not adequate. The previous valuation activity studies are often on the enterprises with public offerings in the industry sector. Generally, a single calculation method was included in the studies on the appraisal of the value. If more than one calculation method had been followed, valuation would have been more accurate, mistakes would have been less and possible mistakes could have been detected and corrected accordingly. Formulas such as ROIC, NOPLAT, FYS, WACC and APM were used in most of the studies. They are major factors affecting the enterprise value and require various complicated data analysis. However, while calculating these values, hypothetical fixed values were used instead of real data. In the practices, no explanation was made about how the calculations were done and how these values were obtained. Since the valuation was done through the data of the enterprise without public offering, it caused a difficulty accessing a great amount of data to be used in these operations. Herein, making use of data both from the studied enterprise and the similar ones with public offering could be a way to follow. Below are the results obtained from the study and the suggestions in regard to these results:

Firstly, previous financial statements (2007-2013) on data processing medium were adjusted to inflation and then converted into US dollar (USD-$) for a proper valuation in the studied enterprise. After this step, all the operations were done in USD. Predictions were made about the future of the enterprise through performance analysis of previous years (2007-2013) and ten-year (2014-2023) pro forma balance sheets and statements of income were prepared.

WACC, CAPM, ROIC, NOPLAT and FYS values were determined, which are among the most important factors affecting the enterprise value at the implementation stage and necessary for the reduction of the estimated cash flow and economic profits to its present values and finding the archival value. After the calculations, the values were as follows for the year 2014: ROIC (0,0981), NOPLAT (1.738.063 $), FYS (17.716.137), WACC (0,148) and CAPM (0,2011).

Possible mistakes while calculating these values during the valuation process might cause much bigger mistakes in economic profit, archival value and enterprise value accordingly. Therefore, focus should be on failing points of the studies by finding pros and cons of formulas in calculations. Thus, all the data obtained should be supervised by a good accounting infrastructure supported by financial approaches. For this reason, professional qualifications of the people involved in the valuation are also important in the choice and implementation of formulas during the valuation process.