The Process and Function of Enterprise Value Evaluation under Fair Market

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Abstract: On the issue of enterprise valuation, Chinese scholars have made many explorations, and the research results are quite rich. Specifically, most scholars in China have conducted valuation research on the value of different enterprises in different industries through various valuation methods, and have verified, evaluated and improved various valuation models and methods. The related research focuses on the specific valuation methods, mostly involves the empirical research of specific cases, and only a few scholars conduct normative research on enterprise valuation. Therefore, based on the combing and integration of previous studies, this paper further explores the essence and function of enterprise value evaluation under the fair market.
Keywords: Enterprise Value Evaluation; Fair Market Value Completely; Efficient Market

1. Definition of Enterprise Value Evaluation

Enterprise value evaluation thought originated from the financial budget theory put forward by living Fisher, who analyzed the formation process of capital value, which is the bud of modern enterprise value evaluation thought [1]. Chinese scholars have studied the definition of enterprise value evaluation from different angles. For example, Wang Yang (2011) thinks that enterprise value has different meanings from different angles [3]. From the perspective of asset evaluation, the value of an enterprise needs to be considered from two aspects: First, as a special asset, the value of an enterprise in the evaluation should be its fair monetary performance in the market. Secondly, the monetary performance of an enterprise in the market is actually the monetization and capitalization of part of its acquisition ability, and the sustainable acquisition ability of an enterprise is the foundation of its exchange value. Wan Min (2012) found that different people in the market, such as accountants, economists, investors and securities analysts, use different standards to understand enterprise value, so enterprise value has different meanings [4]. Shao Lisong (2017) thinks that enterprise value evaluation refers to an appraiser's comprehensive and systematic analysis and calculation of the total value, shareholder's share or all rights and interests of an enterprise in a certain period [5].

The enterprise value evaluation method

2.1 The enterprise value evaluation method

According to different evaluation principles, enterprise value evaluation methods can be roughly divided into four categories: asset-based method, market method, income method and user method.

The asset-based method refers to determining the value of an enterprise on the basis of the book value of its assets and liabilities. The method is to simply add or subtract the values of assets and liabilities. Market method refers to a kind of method that uses the market pricing of similar enterprises to estimate the value of target enterprises. Generally, after the target enterprise is determined, a similar enterprise that is comparable to the target enterprise is selected, and then the value of the target enterprise is obtained through an important index that affects the enterprise value as a bridge. Income method refers to the enterprise value calculated by evaluating the expected income of the enterprise in the future years and adopting the discount rate consistent with the enterprise. In addition to the above three kinds of methods, Robert Metcalfe put forward the law of network value and network technology development in 1973, namely Metcalfe's law. This law holds that the value of a network is equal to the square of the number of nodes in the network, and the value of the network is directly proportional to the square of the number of users, which explains the quantitative relationship process in which Internet enterprises realize enterprise value creation based on huge users. [6]

2.2 Characteristics of enterprise value evaluation process

The process of enterprise value evaluation is characterized by information, analysis and integrity.

Specifically, the informational nature of the enterprise valuation process means that the evaluation process is based on a large amount of information related to the enterprise value, including but not limited to the target enterprise's enterprise scale, financial performance, market position, user flow, brand value, upstream and downstream channels, management and R&D capabilities and other value drivers. The analyticity of enterprise valuation refers to the process of enterprise valuation as a quantitative analysis, and the process of scientific deduction and logical analysis by evaluators using various models. The integrity of valuation process means that there is a huge gap between enterprise valuation and simple addition, subtraction, multiplication and division, which is not a simple process of adding assets. The overall value evaluation of an enterprise refers to the evaluation of its value by treating the enterprise as an independent and complete group of assets with profitability. As an organizational system, an enterprise is a specific organization formed by the organic combination of various parts. The process of valuation focuses on the historical process in which organizations form different production efficiencies through different integration ways, thus accumulating unique enterprise resources and creating value space for the society in the future.

3. Enterprise Value Evaluation under Fair Market

3.1 Fair market value

By definition, the valuation process is to seek the fair market value of an enterprise. What does fair market value mean? Generally speaking, fair market value refers to the amount of assets exchanged or debts paid off voluntarily by both parties who are familiar with the situation in a fair transaction. There is an important premise here, that is, in a fair transaction, it means that the two parties to the transaction will not gain additional benefits through this transaction. There is no arbitrage by using information in the market, and both parties are very familiar with the situation. We can think that fair market value is based on completely efficient market.

3.2 The characteristics of enterprise value evaluation in a fair market

Seeking the fair value in the completely efficient market is the most basic and essential requirement of the enterprise valuation process from the perspective of fair market. It can even be said that the process of enterprise value evaluation is the process of restoring fair market value. From the perspective of fair market, the evaluation results of enterprise value should meet the conditions of fairness, marketability and timeliness. Fair market value should be fair, that is, it is accepted and recognized by the completely efficient market. Complete efficient market refers to the capital market where the existing market price of assets can fully reflect all relevant and available information. The second condition of enterprise valuation results is marketability, which means that the enterprise valuation results should meet the market conditions. Enterprise value is not independent of the whole market, but interrelated with the internal system of the market. The timeliness of enterprise valuation results refers to the conclusion that the valuation results are often based on the specific situation of the enterprise at that time and the degree of market acceptance at a specific point in time. The enterprise value changes at any time with the changes of the internal and external conditions of the enterprise, and the information based on the enterprise value evaluation process is constantly changing and flowing. It can be said that the enterprise value is dynamic and never static.

4. The role of enterprise value evaluation in a fair market

First of all, it can provide investors with investment basis, which is based on the timeliness of enterprise value evaluation results.

Based on the evaluation results, investors find undervalued enterprises to invest in the securities market. Many listed companies' stock prices rise and fall because of their performance. As an investor, making securities investment decisions through professional and reliable enterprise valuation will greatly reduce the risk of loss, which is the performance of actively using the company's financial information.Secondly, it provides the basis for strategic decision-making, which is based on the fairness of enterprise value evaluation results. Enterprise executives seek fair value for strategic decision-making by making full use of market information. On the one hand, this is reflected in the pricing problems existing in the process of mergers and acquisitions. On the other hand, some scholars also put forward that the valuation principle leads the strategic planning and profit model transformation of enterprises [8].Finally, it can help realize multilevel management based on value chain. Enterprises should actively create value, and strive for their own value creation efficiency to be higher than that of competitors. At the same time, enterprises should make full use of market information to avoid the value transfer of their own value links to upstream and downstream enterprises.

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