Very Common Interview Question:

• “What does Enterprise Value mean?” / “What is Enterprise Value?”

• Most Common, Incorrect Answer:
  “Equity Value + Net Debt”

• You’ll see this in interview guides, online tutorials, quick references, etc. etc.
Why Is It Wrong?

• That’s how you **calculate** Enterprise Value, but it’s not what it **means**

• **Meaning:** Enterprise Value represents the value of a company’s **core business operations** to **ALL the investors** in the company

• **Equity Value:** Represents value of *everything*, but **only** to the Equity Investors
Implications of This Definition:

• So when you calculate Enterprise Value, starting with Equity Value…

• **Add Items When**: They represent *other* investors (Debt investors, Preferred Stock investors, etc.) or *long-term funding sources* (Capital Leases, Unfunded Pensions)

• **Subtract Items When**: They are not related to the company’s core business operations (side activities, cash or excess cash, investments, real estate, etc.)