# VALUE ESTIMATION MODEL OF ENTERPRISES IN THE REPUBLIC OF MOLDOVA

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*In recent years, the issue of developing a variety of complex enterprise value estimation methods is present among the management specialists. Increase in value is possible only under the conditions of an effective management of value-generating key factors and control over enterprise value dynamics. The underdevelopment of the capital market in the Republic of Moldova and the existence of a large number of unlisted companies do not allow to estimate the value evolution of domestic enterprises. Under these circumstances, the authors of this research have developed a value estimation model. The basis of the value control model is the enterprise valuation method based on net residual profit.*

*Based on the methodology and results of the research, we can conclude that the value of the equity balance and size of net residual profit, as components of net residual profit method, can explain the market value of the shares of the domestic enterprises. Respectively, the econometric model can be successfully used in the assessment of the efficiency of enterprise management.*

***Keywords:*** *enterprise value, value-based management, value estimation model, economic profit, net residual profit, equity.*

*În ultimii ani, problema elaborării diferitor metode complexe de estimare a valorii întreprinderii este actuală pentru specialiştii din domeniul managementului. Creşterea valorii este posibilă numai în condiţiile gestiunii eficiente a factorilor-cheie generatori de valoare şi controlului asupra dinamicii valorii întreprinderii. Subdezvoltarea pieţei capitalului din Republica Moldova şi existenţa unui număr mare de întreprinderi, necotate la bursă, nu permite estimarea evoluţiei valorii întreprinderilor autohtone. În aceste condiţii, autorii prezentei cercetări au elaborat un model de estimare a valorii. La baza modelului stă metoda de evaluare a întreprinderii în baza profitului rezidual net.*

*În baza metodologiei şi rezultatelor cercetării, putem concluziona că valoarea de bilanţ a capitalului propriu şi mărimea profitului rezidual net, ca componente ale metodei profitului rezidual net, pot explica valoarea de piaţă a acţiunilor întreprinderilor autohtone. Respectiv, modelul econometric creat poate fi cu succes utilizat în evaluarea eficienţei gestiunii întreprinderilor.*

***Cuvinte-cheie:*** *valoarea întreprinderii, management bazat pe valoare, model de estimare a valorii, profit economic, profit rezidual net, capital propriu.*

*В последние годы, среди специалистов по менеджменту актуален вопрос разработки разнообразных комплексных методов оценки стоимости предприятия. Увеличение стоимости возможно только в условиях эффективного управления ключевыми факторами, генерирующими стоимость и контроля над динамикой стоимости предприятия. Недостаточное развитие рынка капитала в Республике Молдова и наличие большого числа нелистинговых компаний не позволяют оценить эволюцию стоимости отечественных предприятий. В этих условиях авторы данного исследования разработали модель оценки стоимости. Основой модели оценки стоимости является метод оценки предприятия, основанный на чистой остаточной прибыли.*

*Исходя из методологии и результатов исследования, мы можем заключить, что балансовая стоимость собственного капитала и размер чистой остаточной прибыли, как компоненты метода чистой остаточной прибыли, могут объяснить рыночную стоимость акций отечественных предприятий. Соответственно, созданная эконометрическая модель может быть успешно использована при оценке эффективности управления предприятий.*

***Ключевые слова:*** *стоимость предприятия, управление стоимостью, модель оценки стоимости, экономическая прибыль, чистая остаточная прибыль, собственный капитал.*

***JEL Classification: G32.***
***UDC: 657.922(478)***

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**Introduction.** In the practice of corporate governance of the Republic of Moldova, the determination of the value of enterprises presents the most difficult task. Estimating the market value of the enterprise based on the market price of the shares is either impossible because the shares of many enterprises are unlisted on the Moldova Stock Exchange or is subjective about the speculative nature of share transactions with their volume and reduced frequency.

This does not allow the real and potential owners to evaluate the efficiency of enterprise management on the basis of the market valuation method accessible in the west.

Under the conditions of the Moldovan economy, when it is impossible to estimate the market value of the enterprise, we consider it important to develop a corporate governance efficiency assessment system, that would include an indicator based on enterprise valuation, correlated with the assets, liabilities and financial results of the enterprise. Therefore, in our research we have set the goal of developing a value estimation model based on market value data and enterprise value indicators, the shares of which are quoted on the Moldova Stock Exchange, then elaborating recommendations for the practical application of the model in order to assess the efficiency of corporate governance of non-listed companies.

The study will include research into the dependence between the fundamental value indicators and the market capitalization of enterprises.

**Scientific approach.** Nowadays economists from all over the world recognize that the fundamental purpose of financial management of an enterprise is to maximize value, which involves building an efficient management system geared to achieving this goal.

Contemporary financial theory treats differently the generating value financial factors. Thus, T. Copeland argues that flows determine the value of the enterprise and its equity, claiming – "Cash is the King" [2, p. 69], i.e. the value of the enterprise can be estimated based on discounted cash-flow model. The scientists A. Black, F. Wright, D. Beckham considers profit to be generating value by naming this chapter in its monograph – "Profit is an Option, Cash is a Fact" [1, p. 41] and recommend to use in the enterprise valuation the discounted earnings model. At the same time, B. Stewart, the creator and ideologist of the EVA model (economic value added), calls the paragraph of his monograph – "Abandon Cash Flow!" [10, p. 3] and claims that the company's value only increases then, when the company has a high return on invested capital that exceeds the expenses for attracting capital. In other words, the difference between the net profit and the cost of the equity used to obtain it must be at its highest.

In our research, we will focus on the residual profit model, according to which the fundamental value of the enterprise's equity is determined as the sum of the balance value of the equity and the discounted outflow of net residual income. The occurrence of residual income indicators refers to the economic research times of Alfred Marshall, who in his paper "The Principles of Economic Science" [6] described residual income, also called economic profit, as the owner's profit after the decrease in capital cost at the current rate. In its complete form, this version of the fundamental evaluation model was investigated in the works of Penman [9].

A series of notorious research of international scientific community [3, 9], based on the data of the financial markets of the developed countries, shows that residual profit (net residual profit) models are better than the models of discounted profit, dividends, cash-flow and better explain the market prices of the shares, and their dynamics. At the same time, we want to check whether these models are true for the conditions of developing markets, which can be attributed to the Republic of Moldova as well.

**The purpose and methodological basis of the research.** The relationship between the fundamental value of equity, estimated on the basis of the corresponding analytical model and market capitalization is one of the important criteria, after which we can reflect on the quality of the used analytical model. It is clear that the compliance with the given criterion can serve as an important argument in making decisions about the organization's choice of the fundamental equity model used in the concept of enterprise value management.

The company operates on the market in two ways. Firstly, the company operates on the real market where its production activity takes place. This activity is related to the creation of different financial flows, which are reflected in the aggregate ratios of balance sheets for previous periods and forward-looking projections for pro forma periods. Secondly, the enterprise itself is the object of the sale-purchase process, which is already taking place on the financial market, where the distribution of property rights and control is carried out. The first hypothesis offers different models of the company's fundamental value. The second implies the stock market value of the enterprise (the securities market is considered, or in a generalized way,

the property ownership control market) or its capitalization.

In order to achieve the research goal, we will use the performance indicators based on the accounting (balance sheet) valuation, and in particular we will research the economic profit or residual profit model.

*The Residual Profit Model (MPR)* assumes that the fundamental value of a company's capital depends on:

- the size of the capital invested at the time of the valuation;
- de facto return on capital;
- the required return on capital;
- the stability of the spread of the results, i.e. the ability of the enterprise to generate a return on capital above that required. However, the time period during which a positive spread of the results is ensured is determined as the competitive advantage period. We will notice that the fundamental value is created only during the given period.

Reforming the basic postulates of the residual profit model, we can mention that the fundamental value of the equity of an enterprise is composed of two basic elements: (a) the book value of the equity at the time of valuation; (b) the discounted flow of residual profits, which provides the increase in the fundamental value on the equity balance-sheet value.

Hence, the notion of residual profit (PR) is important for the given model, which means the accounting profit of the organization less capital expenditures. Capital expenditures in general are expressed by the minimum level of profit required by investors for the invested capital. De facto, capital expenditure as a form of alternative spending is determined by dividing the required return to the amount of capital invested. The remaining profit can also be called economic profit (EP).

In general, the size of the residual profit can be expressed by the formula:

$$PR_j = Pn_j - \kappa_{CP} \cdot I_{j-1}, \quad (1)$$

Where, $PR_j$ – the residual profit for the current period; $Pn_j$ – the accounting profit for the current period, $k_{CP}$ – the required return on capital; $I_{j-1}$ – the balance sheet value of investments at the beginning of the period (prior to the current period).

Depending on what is meant by investment in the organization, we can highlight two variants of the residual profit indicator: operating residual profit and net residual profit.

*Operating Residual Profit (PRO)* is the enterprise's net operating profit minus the enterprise's total capital expenditure. The operational residual profit indicator, introduced by Penman [9, p. 424], is essentially similar to the economic profit indicator in the Copeland, Murrin and Koller version [2].

The focus of our study is on the net residual profit model (PRN), according to which the fundamental equity value of the enterprise is determined as the sum of the equity balance sheet value and the discounted net residual profits.

*Net Residual Profit (PRN)* is the net profit of the organization less capital expenditures. The emergence of the net residual profit model is related to the classical works of E. Edwards, P. Bell [5].

The net residual profit indicator shows the net effect of the results of the enterprise's business directly from the shareholders' (owners) position. Therefore, when calculating this indicator, under the notion of investment in the enterprise, the balance sheet value of equity (CP) will be understood. Respectively, as a profit, the net profit indicator – Pn will be considered, and as the required return – the equity capital expenditure ($k_{CP}$). Then the net profit calculation formula will take the form:

$$PRN_j = Pn_j - k_{CP} \cdot CP_{j-1} \quad (2)$$

Net residual profit may be related to the return on equity (ROE) indicator, which is determined as:

$$ROE = \frac{Pn_j}{CP_{j-1}}. \quad (3)$$

Expressing Pn from formula (3) by the profitability indicator and replacing the result obtained in formula (2), the latter can be displayed in the following way:

$$PRN_j = CP_{j-1} \cdot (ROE - k_{CP}) \quad (4)$$

Formula (4) shows that the amount of net residual profit is determined by the size of the enterprise's equity at the beginning of the period and the ability of the enterprise to ensure return on capital higher than that required.

Moldovan market research conducted by the author was built on a similar model and aimed at verifying the hypothesis whether the size of the balance sheet value of equity and net residual profit as components of the net residual profit model can explain the market value of the shares of listed companies. Thus, the verification of the given hypothesis was carried out by using the methods of regression analysis against the domestic industrial enterprises, the shares of which are quoted on the Moldova Stock Exchange.

Estimation of the results in the examined models is based on the technique of linear regression (usually multiple), which presents to the researchers various econometric problems of checking the correctness of the result, related to such properties as: heteroscedasticity, autocorrelation, multi-collinearity. The problem of estimation is complicated by the lack of statistical data on the Moldovan capital market. However, the rather high degree of outcome variation, combined with the importance of all coefficients (which practically excludes the possibility of multi-collinearity), can explain the price of shares in emerging markets.

**Modelling of models.** In order to perform a regressive analysis and a dependence between the fundamental and market value of the equity of enterprises, we will use two models: unifactorial and bifactorial. The right part of the regression equations presents the fundamental value, and the left one – the market. It should be noted that after the models are built and tested econometrically, we can extrapolate to a larger class of factors.

The unifactorial model directly links the above sizes in the following way:

$$Cap_i = \alpha_i + \beta_i \times V_i + \varepsilon_i, \quad (5)$$

Where, $Cap_i$ – market capitalization at the time of valuation; $V_i$ – the fundamental value of equity at the time of valuation; $\alpha_i$, $\beta_i$ – parameters of the regression equation, $\varepsilon_i$ – random variable.

We note that market capitalization is determined as the product of the weighted average market price of shares with the amount of issued shares. At the same time, the basic amount of equity is determined as the amount of the equity balance sheet value *(equity book value – $E^{BV}$)* and annuity of net residual profit *(residual earnings – PRN)* of the current period. It is clear, that in this case, is made the assumption that the net profit of the enterprise will be fixed in subsequent periods. The $V_i$ cu size with the reserves made can be calculated as:

$$V_i = E_{i0}^{BV} + \frac{PRN_i}{k_{CP}}, \quad (6)$$

Where, $E_{i0}^{BV}$ – the balance sheet value of equity at the beginning of the period at the end of which the valuation takes place; $PRN_i$ – net residual profit for the period in which the valuation takes place; $k_{CP}$ – the required return on capital.

Unlike the unifactorial model, the bifactorial model allows to take into account in the regression equation the overall impact of each of the elements that form the fundamental value:

$$Cap_i = \alpha_i + \beta_{1i} \times E_{i0}^{BV} + \beta_{2i} \times \frac{PRN_i}{k_{CP}} + \varepsilon_i, \quad (7)$$

Where, $Cap_i$ – market capitalization at the time of valuation; $E_{i0}^{BV}$ – the balance sheet value of equity at the beginning of the period, after which the valuation takes place; $PRN_i$ – net residual profit for the period in which the valuation takes place; $k_{CP}$ – the required return on capital; $\alpha_i$, $\beta_1$, $\beta_2$ – parameters of the regression equation, $\varepsilon_i$ – random variable. First we will test the unifactorial model, then the bifactorial model.

**Choice of data and primary analysis.** In the sample on which the research is conducted, the data of the issuing companies, the shares of which are quoted and traded on the Stock Exchange of Moldova (BVM), are included. However, for the purposes of maintaining the demand for homogeneity of the data in the sample, the financial intermediaries' shares have been excluded. Thus, the final sample size was limited to 15 domestic industrial enterprises. The data needed for research was taken from the business financial reports for 2014-2015.

As market share data, the average values of the shares of the ordinary shares, as presented on the BVM website (www.cnpf.md, www.moldse.md), weighted by the volume of operations, were considered.

The general characteristic of the sample of the investigated industrial enterprises is presented in the table below:

**Table 1**

**General characteristics of the sample of researched enterprises**

| Indicator name | Mediate | Median | Standard deviation |
|---|---|---|---|
| Market capitalization, thousand MDL | 26 117,09 | 10 760,00 | 55 642,71 |
| Equity balance sheet value, thousand MDL | 61 226,58 | 33 299,87 | 122 083,40 |
| Net profit, thousand MDL | 7 718,71 | 999,34 | 15 308,14 |

*Source: Estimated by the author based on the balance sheet data.*

An important issue in analyzing the model of evaluation is the question of choosing the appropriate size of return on equity ($k_{CP}$). This decision has a direct impact on the size of the residual profit and on the equity fundamental value, respectively.

For the purposes of the subsequent analysis, we assume that the required return on equity is similar for all the enterprises included in the sample and represents 20%. The reasoning behind this assumption is based on the inflation rate, the interest rate on bank loans, and other factors that are out of this research.

The results of the calculations of the synthetic indicators of the researched models using the basic profitability rate (20%) are presented in Table 2.

**Table 2**

**The results of the model's synthetic indicators estimation ($k_E$=20%), thousand MDL**

| Indicator name | Mediate | Median | Standard deviation |
|---|---|---|---|
| Fundamental value of equity at the time of valuation *(V)* | 38 593,57 | 4 996,69 | 76 540,69 |
| Equity balance sheet value at the beginning of the year after the results of which the valuation is carried out *($E^{BV}$)* | 61 226,58 | 33 299,87 | 122 083,40 |
| Annuity of net residual profit *($PRN/k_{CP}$)* | -22 729,79 | -13 138,23 | 86 520,74 |

*Source: Estimated by the author based on the balance sheet data.*

**Research results.** The equation of regression, estimated as a result of the evaluation of the parameters of the *unifactorial model*, shows the following:

$$Cap_i = 6543,706 + 0,5072 \times V_i, \quad (8)$$

Next we have to answer two main questions: first, how well the equation (8) explains the dependence between the chosen parameters; secondly, what are the properties of the estimated coefficients of regression and how truthful the results are.

The answer to the first question is given by the coefficient of determination $R^2$, which explains which part of the dependent variable's dispersion is determined by the regression equation. It's clear that if $R^2=1$, then the link between the variables is not stochastic (probabilistic) but functional (determined), i.e. the equation of regression fully explains the dependence of one variable on the other. If $R^2=0$, we can state that there is no link between dependent and independent variables included in the regression equation. In our case the coefficient $R^2$ constitutes *0.4867*.

It means that the estimated regression equation explains with 48.6% the variation of the market capitalization by means of the fundamental value of the equity, calculated according to the net residual profit method.

The answer to the second question will be given by using the nullity hypothesis and making test t and F. First, we will formulate the null and the alternative hypothesis.

$$H_0: \beta=0; H_1: \beta\neq0.$$

The given formula of hypotheses means the following: if the nullity hypothesis *($H_0$)* is true, then the size of the market capitalization does not depend on the fundamental value of the capital, received by the net residual profit method. The alternative hypothesis is that the addiction shown above exists.

To verify the formulated hypotheses we will calculate the *t*-statistic size and compare it with *t*-critic. The standard error of coefficient *b* is 0.0967, therefore the size of the *t*-statistics at the nullity assumed in the hypothesis is:

$$t = \frac{b - \beta_0}{b} = \frac{0,5072 - 0}{0,0967} = 5,2439 \quad (9)$$

At 5% of the significance level and 28 degrees of freedom, the *t*-statistics size reaches 2.05. It's not difficult to notice that inequality $-t_{crit} < t < t_{crit}$, is not met. Therefore, the nullity hypothesis is rejected and the alternative hypothesis should be accepted. This means that the size of the market value of the shares is indeed explained by the fundamental value, estimated on the basis of the net residual profit model. Note that in the given case we will not perform the control according to the criterion *F*, because in case of the unifactorial regression analysis the criteria *t*- and *F*- are equivalent.

We can expect a much closer relationship with the *bifactorial model*. The result of the estimate is the following regression equation:

$$Cap_i = -656,6275 + 0,4526 \times E_{i0}^{BV} + 0,0412 \times \frac{PRN_i}{0,20} \quad (10)$$

The subsequent econometric analysis of the regression equation received was similar to the case of the unifactorial model, taking into account the multifactorial analysis characteristics.

First, the answer to the question was given, how much the dependency explains the dependent variable. Calculation of the determination coefficient $R^2$ has shown a high value – **0,8906,** which means that 89% of the market value of the shares on the Moldovan market is explained by the accounting indicators: the balance sheet value of the equity and the amount of the net residual profit.

Secondly, the regression coefficients were analyzed to confirm their reliability. For this purpose, the nullity hypotheses about the equality of regression coefficients with zero were formulated:

$$H_0^1: \beta_1=0; H_1^1: \beta_1\neq 0;$$

$$H_0^2: \beta_2=0; H_1^2: \beta_2\neq 0.$$

The results of the control are shown in table 3. They univocally show that the nullity hypotheses must be rejected, and therefore the estimated values of the regression coefficients are true.

**Table 3**

**Results of verification of bifactorial model hypothesis ($k_{CP}$ =20%), thousand, MDL**

| Indicator name | Coefficients of regression | |
|---|---|---|
| | $b_1$ | $b_2$ |
| Standard error | 0,4576 | 0,0646 |
| t-statistic | 9,8908 | 0,6385 |
| t-critic (signification level 5%) | 2,05 | 2,05 |
| Conclusion on the nullity hypothesis after test results t | Is rejected | Is rejected |
| The confidence interval (signification level 5%)<br>the lower limit<br>top limit | <br>0,3587<br>0,5465 | <br>-0,0912<br>0,1737 |
| F-statistic | 113,9376 | |
| F-critic (signification level 5%) | 3,34 | |
| Conclusion on the nullity hypothesis after test results F | Is rejected | |

*Source: Estimated by the author with the E-views program.*

From the results presented above we can conclude that the coefficient $b_2$ is not significant, therefore the discounted residual profits do not have any impact on the market value of the enterprise.

The results examined above refer to the case when the rate of capital expenditure is determined at the level of 20%. In connection with this, the question arises: Does the size of the required return on equity have an essential impact on the analysis results?

The results of the statistical analysis carried out for the different rates of required return are shown in Table 4 below.

**Table 4**

**Results of bifactorial model analysis at different rates of return on equity**

| Indicators | Alternative rates of return on equity required ($k_{CP}$) | | | | |
|---|---|---|---|---|---|
| | **10** | **15** | **20** | **25** | **30** |
| Coefficients of the regression equation | | | | | |
| Coefficient a | -659,79 | -658,21 | -656,63 | -655,04 | -653,45 |
| Coefficient b1 | 0,4320 | 0,4423 | 0,4526 | 0,4629 | 0,4731 |
| Coefficient b2 | 0,0207 | 0,0309 | 0,0412 | 0,0515 | 0,0617 |
| Coefficient of determination | | | | | |
| $R^2$ | 0,8906 | 0,8906 | 0,8906 | 0,8906 | 0,8906 |
| $R^2$ adjusted coefficient | 0,8828 | 0,8828 | 0,8828 | 0,8828 | 0,8827 |
| Standard errors | | | | | |
| $b_1$ coefficient | 0,0287 | 0,0346 | 0,0458 | 0,0593 | 0,0738 |
| $b_2$ coefficient | 0,0323 | 0,0484 | 0,0646 | 0,0807 | 0,0969 |
| Test t (signification level 5%) | | | | | |
| t-critic | 2,05 | 2,05 | 2,05 | 2,05 | 2,05 |
| t-statistic ($b_1$) | 15,0466 | 12,7756 | 9,8908 | 7,8122 | 6,4095 |
| t-statistic ($b_2$) | 0,6398 | 0,6391 | 0,6385 | 0,6379 | 0,6373 |
| Trusted intervals | | | | | |
| $b_1$ coefficient | | | | | |
| the lower limit | 0,3732 | 0,3714 | 0,3587 | 0,3413 | 0,3218 |
| top limit | 0,4908 | 0,5132 | 0,5465 | 0,5845 | 0,6244 |
| $b_2$ coefficient | | | | | |
| the lower limit | -0,0456 | -0,0683 | -0,0912 | -0,1139 | -0,1369 |
| top limit | 0,0869 | 0,1302 | 0,1737 | 0,2169 | 0,2604 |
| Test F (signification level 5%) | | | | | |
| F-critic | 3,34 | 3,34 | 3,34 | 3,34 | 3,34 |
| F-statistic | 113,94 | 113,94 | 113,94 | 113,94 | 113,93 |
| Conclusion on the nullity hypothesis | Rejected | Rejected | Rejected | Rejected | Rejected |

*Source: Estimated by the author with the E-views program.*

The results presented in Table 4 allow us to make the following general conclusion: the amount of required profitability is not a relevant indicator, which allows judging the link between market capitalization and the book value indicators of equity and net residual profit. The conclusion is based first of all on the fact that the change in the rate of capital expenditures:

– the free α variable changes inessential;

– the value of the $b_1$ and $b_2$ coefficients is reduced with the reduction of the capital expenditure ratio, but at the same time the coefficients of the regression equation determination remain constant;

– the conclusions from the results of the tests *t*- and *F*- are univocal and determines the confidence in the coefficients of regression.

The estimated regression coefficients can be interpreted in the following way: first, because $b_1=0,4526$, we can conclude that each additional MDL of the equity balance value increases the company's capitalization with 0,45 MDL; secondly $b_2$=0,0412 (which is insignificant), and the rate $k_{CP}$=20% considered in the study, allows us to conclude that each additional MDL of residual profit increases (0,0412/0,20=0,206) with 0,21 MDL market capitalization of the enterprise. It would be true in the case of the significance of the $b_2$ coefficient and the inverse assertion: each MDL of the residual losses determines the decrease of the capitalization within the given size.

Taking into consideration that the required rate of return on capital has no impact on the market capitalization of the enterprise and the fact that in the regression equation the coefficient of the discounted

residual profit is insignificant, we can conclude that these two parameters do not determine the market capitalization of the Moldovan enterprises. Therefore, the authors have resorted to simplifying the model examined only with an explanatory variable, namely: the balance sheet value of the equity. Following the estimation of the model we obtained the following regression equation:

$$Cap_i = -193,9146 + 0,4297 \times E_{i0}^{BV} \quad (11)$$

In the equation above, the coefficient $R^2$ is **0,889.** It means that the estimated regression equation explains with 88.9% the variation of the market capitalization by means of the balance sheet value of the equity.

The estimated regression coefficients can be interpreted as follows: because $b_1=0.4297$, we can conclude that each additional MDL of the balance sheet value of the capital increases the capitalization of the enterprise by 0.43 MDL.

**Table 5**

**Results of the verification of the hypotheses of the unifactorial model, thousand MDL**

| Indicator name | Coefficients of regression |
|---|---|
| | $b_1$ |
| Standard error | 0,0282 |
| t-statistic | 15,2384 |
| t-critic (signification level 5%) | 2,05 |
| Conclusion on the nullity assumption after test results t | Is rejected |
| The confidence interval (signification level 5%)<br>the lower limit<br>top limit | <br>0,3719<br>0,4875 |
| F-statistic | 232,21 |
| F-critic (signification level 5%) | 3,34 |
| Conclusion on the nullity hypothesis after test results F | Is rejected |

*Source: Estimated by the author with the E-views program.*

**Conclusions.** In recent years, the interest in enterprise valuation and value management has been steadily increasing. The development of the market in all its diversity has contributed to the fact that the question of how much costs an enterprise or part of it has gone into a purely practical aspect. Business valuation is required not only to execute sale or purchase transactions, but also to determine the effectiveness of managerial decisions, the main selection criterion being to increase the value of the enterprise. The enterprise valuation process identifies possible approaches to enterprise management and determines which of them will ensure maximum enterprise efficiency and consequently a maximum value, which is the main purpose of the shareholders and managers of the enterprise in a market economy.

The practice of developed countries demonstrates that value has a number of unique properties that make it the best decision-making criterion, and in a broader sense – the best criterion for assessing the success of enterprise management in general. In a correct use, the value criterion allows for effective decisions that will improve the long-term economic situation of the enterprise.

Economic researches in recent years have shown that the value of an enterprise correlates with the existence of a healthy domestic financial environment within the enterprise. Therefore, searching for the most effective enterprise valuation models based on the results of financial activity is a serious call for the domestic business environment.

Therefore, the purpose of this research was to analyze the link between the fundamental value of the equity, obtained using the net residual profit model and the stock market capitalization of the enterprises. The analysis was carried out on the basis of the statistical data on the financial market in the Republic of Moldova (2014-2015).

The results obtained during the research have a clear managerial interpretation and allow us to conclude that the residual profit model cannot fully explain the market capitalization. However, the estimated model fully explains the link between the enterprise's financial policy and market capitalization, and may be an applicative tool for enterprise evaluation for a potential investor. Also, the results obtained can be extrapolated to enterprises whose shares are not quoted on the stock exchange (closed-end joint-stock companies, limited liability companies).

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***Recommended for publication: 20.11.2017***