



# MODERN APPROACH TO BUSINESS VALUATION IN UZBEKISTAN

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## ABSTRACT

*In the scientific article, the essence and value of enterprise valuation, including indicators that affect the price, were justified, and the features of goodwill valuation were disclosed.*

**KEYWORDS** - *business valuation, brand, goodwill, International Valuation Standards.*

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## INTRODUCTION

A number of prominent ranking organizations positively evaluate the economy of Uzbekistan. In particular, in World Bank ranking published on May 1, 2019, Uzbekistan took 69th place among 190 countries. This rating assesses the conditions for businesses in 10 areas. The results of the conducted study can help solve general problems common to all types of business. [1]

In a short period of time, Uzbekistan has achieved stable economic growth through reforms and liberations of economic development. The President of Uzbekistan Shavkat Mirziyoyev made the following statement "Our priority is to strengthen macroeconomic stability and increase rates of economic growth". [2]

The experience of developed countries shows that the dynamics of growth in the evaluation of enterprises value determine its effective development for the long term as well as an increase in the well-being of the country's population. In addition, it becomes necessary to determine the market value of enterprises in connection with privatization development processes, stock markets and mortgage insurance. The concept of costing was first introduced by two Nobel laureates, American economists Merton Miller and Franco Modigliani, in the Journal of Business in an article entitled "Dividend Policy, Growth and Valuation of Shares" 1961 [3]. They first laid the foundations of the concept of capital value and stocks.

Subsequently, this concept was disseminated and put into practice by such European scientists as Alfred Rappaport and Joel Stern. They were first who used proposed by Miller and Modigliani calculation formulas in the computer and software industry to calculate the market price of shares.

And in the field of business valuation, such scientists as Christopher Mercer Z. and Travis W. Harms stood out in his monograph entitled "Business valuation: An integrated theory", which was of practical importance all over the world. This work has advanced the integrated theory of business valuation.

In international valuation standards, the definition of the enterprise value is as follows - the value of the enterprise plus the total cost of private business capital and minus cash [4].

When assessing the value of an enterprise, international economists mostly pay attention to the earnings reports of a company, taking into account the value of growth stocks. The Russian economists focus on the production and commercial activities of the enterprise.

In our opinion, the following definition of enterprise value is appropriate- enterprise value (EV), total enterprise value (TEV) or firm value (FV), which is an estimate of the enterprise value, taking into account all sources of its financing.

## OBJECTIVES

In the estimation of the enterprise's value, there are not only scientific and fundamental approaches but also those that have legal foundations which consider national legislation.

According to the resolution of the State Property Committee of the Republic of Uzbekistan dated October 6 - 2009, under number 01/19-18/19, registered with the Ministry of Justice of the Republic of Uzbekistan on October 28, 2009, under number 2026, national standard No. 9 on property valuation, in which the following is defined:



In any situation - the goal of assessing enterprise value is to forecast the profitability of the enterprise and effectively managed its future activities.

The objectives of the property valuation are:

- conclusion of a sale transaction;
- property insurance;
- transfer of property for rent or pledge;
- the determination of the property value;
- the determination of the property value received free of charge;
- the preparation of financial statements;
- the reorganization of enterprises;
- resolving property disputes;
- making management decisions and so on.

In general, it can be noted that the assessment of the enterprise's value remains one of the categories of modern economic processes.

## METHODOLOGY

In our opinion, in the modern economy, when forming the enterprise's value, it would be advisable to consider a number of factors.

Factors that influence the formation of enterprise value are as follows:

- The enterprises demand for products and services;
- The evaluation of companies presents and future profit;
- Costs of organization and promotion of the enterprise;
- The probability of income;
- Investment attractiveness of the evaluated company;
- Image of the enterprise;
- The financial condition of the enterprise;

- Time;
- The state of the management system;
- The staff of the enterprise;
- The possibility of expanding production, etc.

In terms of occurrence, these factors can be divided into internal and external (Fig. 1), and in terms of level of their impact on enterprises value formation into positive and negative.

The image of the enterprise has always been an important tool for business development and promotion.

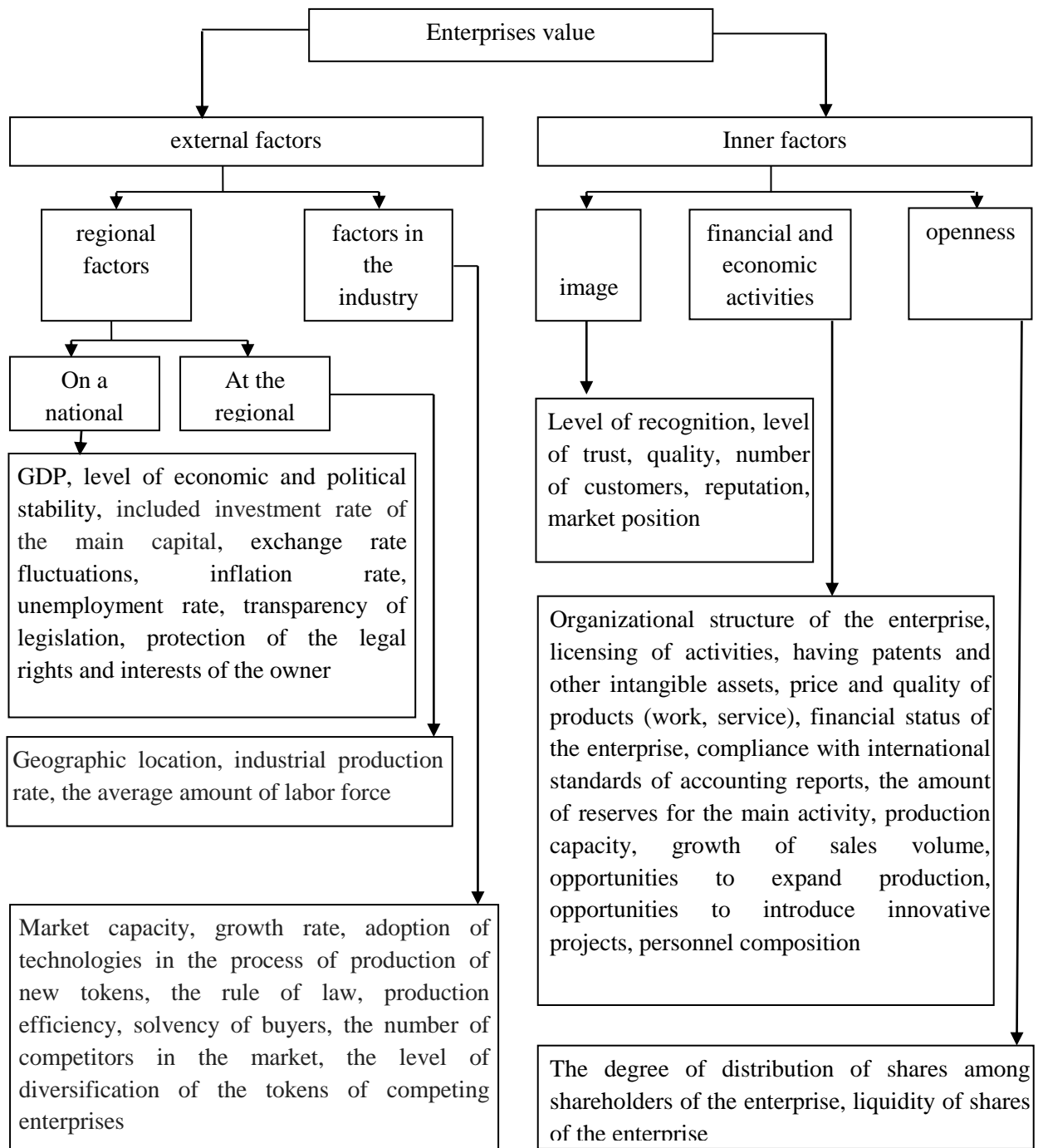
As studies show, the above-listed factors for evaluating the value of an enterprise, such as the prestige of the enterprise, level of recognition, quality of goods and services, number of customers and market place can be conditionally divided into three groups.

The first group includes the advertising of products and services, best practices in sales, the availability of qualified personnel, the territorial location of the enterprise and intangible assets.

The second group includes factors related to the personnel potential of the enterprise. The personnel potential includes the prestige of an employee, his know-how skills, professional skill and the ability to conclude contracts. The value of intangible assets included in this group cannot be determined.

The third group includes the company name, trademark, logo, copyright, patents and others. Intangible assets that are included in this group can be estimated. It is also possible to calculate depreciation on these intangible assets and their fixation in the balance sheet.

The concept of goodwill is used to evaluate the value of the enterprise, taking into account the above factors.



**Fig - 1 Classification of factors affecting the value of the enterprise**

In our opinion, among the listed factors affecting the value of the enterprise, the concept of “Image” deserves special attention. The reason for this is that in the early 90s, this concept has become a practice for assessing the value of an enterprise and was the subject of discussions and debates for many years.

The image of the enterprise is the face of the company, that’s formed from society’s perception through the media and psychological influence.

The Russian sociologist F.I. Sharkov in his book “Constants of Goodwill: Style, Publicity, Reputation,

Image and Brand of the Firm” wrote that such constants as brand, perception, celebrity, popularity are involved in the formation of goodwill value.

But economists I. Oleinik and A. Lapshov wrote that “The value of your company is its tangible assets plus or minus prestige”. Sharkov’s opinion that the image of the enterprise is a component of goodwill must be substantiated.

There are the following definitions of goodwill.

Currently, there is no universally accepted definition of goodwill. In the International Business



Valuation Standards, there is no precise definition of Goodwill.

Studies show that the value of the goodwill is high in evaluating the value of an enterprise. According to the rating agency “BrandZTM Global Top 100 Brands”, in 2017 Google was recognized as the most expensive brand (245.581 billion US dollars).

The next position is secured by Apple (234.671 billion US dollars) and Microsoft (143.222 billion US dollars). This year, social networks such as Amazon (139.286 billion US dollars) and Facebook (129.8 billion US dollars) reached record brand growth (+ 41%) [10].

In Table 2 it can be seen the company’s brands share cost and the total value of assets.

**Table No-1**  
**Analysis of the company’s brands share cost and the total value of assets**

Brand name	Cost (billion \$)	Value of total assets (Billion \$)	Brand value and total enterprise value in %
Google	245,6	532	46
Apple	234,7	618	38
Microsoft	143,2	483	30
Amazon	139,3	356	39
Facebook	129,8	332	39

According to the table, the enterprise value of Google is 46%, Apple-38%, Microsoft 30%, Amazon 39%, and Facebook 39%. It should be noted that the above brands are not the only brands of these companies. The Google brand, with 46% of the company's value, belongs to Alphabet Inc, which includes such well-known brands as AdWords, Android and YouTube.

In this regard, when enterprises have been sold or joined, it is recommended the recognition and evaluation of their goodwill.

According to the resolution of the Committee of the Republic of Uzbekistan on October 6, 2009, under number 01/ 19-18/19, registered with the Ministry of Justice of the Republic of Uzbekistan on October 28, 2009, under number 2026, the assessment of property, according to which the cost of goodwill is determined, carried out the following way:

If there is information about the average industry return on assets, goodwill is calculated according to the following formula: intangible assets recorded on the balance sheet of an enterprise, that arose as a difference between the book value and the estimated value of private capital:

$$\text{Goodwill} = \frac{NP - MVA * IARA}{CR}$$

where

NP- net profit

MVA- the market value of assets

IARA- industry average return on assets

CR- capitalization rate

## SUGGESTIONS

Based on the above conclusions, the following approaches to the assessment of goodwill are proposed:

1. The accounting approach (method). If the company was purchased at a price higher than the value of its assets then the difference is measured as goodwill. This method is used in assessing the value of goodwill as well as unidentified tangible assets.

2. An analytical method for valuing intangible assets. The main idea of this method is that assets such as fame and prestige of an enterprise are assessed as “hidden” investments. This method is recognized as one of the most popular. The cons of this method arise in the calculation.

3. Business Valuation method. Usually, this method is widely used in the western commercial organizations.

4. The capitalization method. Capitalization of profits through the use of goodwill while maintaining high growth rates.

5. The need to assess enterprise value or its market value arises in parallel with the processes of economic development, scientific and technological progress. The enterprise appraisal process provides an opportunity not only to determine the value of the enterprise but also determines the development opportunities of the enterprise.



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