

## Treatment of Non-Operating Assets

Non-operating assets confound me, because every time I think I've got some on the balance sheet, I find a way to talk myself out of classifying them as non-operating. For example, a company building, which is owned by the subject company is generally an operating asset. As Rand M. Curtiss explains, "if [the building's] value in use (as part of a profitable subject company) is greater than its stand-alone market value, we will capture its value in use as part of our cash flow valuation, and not add its value back [as a non-operating asset]. (This assumes that there is no permanent excess capacity that could be physically separated and either disposed of or perhaps rented out). The building is most certainly an operating asset under both the old (necessary to operate) and more rigorous (financial) definitions."

I just came across a bunch of fixtures on a client's balance sheet, and I was inclined to call them non-operating assets. Ultimately, I came up with the same conclusion as proposed by Rand M. Curtiss, above, they're operating assets.

Remember:

- Equity Value = Non-Operating Asset Value (net) + Discounted Cash Flow Value
- Equity Value = Enterprise value + cash and marketable securities + non-operating assets - outstanding debt.
- Equity Value = Value of Operating Assets + Value of Non Operating Assets - Value of Debt

Ultimately, the discounted value of free cash flows to the firm yields the value of the operating assets. The equity value can be derived by adding the value of the Non Operating Assets and deducting the value of debt from the value of the operating assets.

