

# Meda ab pharmaceutical company research paper sample

[Business](#), [Company](#)



## **Abstract**

On many occasions, many companies have a market value that is more than their book value. This paper analyzes the market and book values of the Meda AB Pharmaceutical Company in a bid to determine some of the factors that may have generated the difference in between the two measures of valuing a company. The paper starts by introducing the Meda AB Pharmaceutical Company as well as outlining the products and services it sells. Using figures obtained from the financial statements prepared by the company in the year 2012, the two measures of obtaining the value of the company will be identified. Thereafter a discussion of the possible causes that give rise to the differences between the company's value in the market and its actual value will follow. This will help to come up with explanations of the factors that influenced the company's current value. A conclusion will, thereafter, follow to summarize the paper.

Meda AB is a company based in Sweden. The company mainly specializes in selling pharmaceutical products. The company has increased its variety of products over the years. Currently, the company's products include products related to respiratory, gastroenterology, dermatology, the central nervous system, cardiology and inflammation aspects of healthcare. The company also deals in the manufacture of over the counter drugs.

In summary, the company's operations can be summarized into four areas. The first main function of the company involves the carrying out sales and marketing activities especially in Europe, the United States and as well as other markets worldwide. The company also deals in drug development activities such as the improvement of clinical and pharmaceutical

development. Another major function of the company involves manufacturing. This function is meant to ensure that there is a constant supply of the company's products in all its markets. The last major function of the company is administration. The administration of the company is carried out by different people who have been given different managerial posts and positions..

When analyzing Meda AB as company, it is important to evaluate the disparity of its market value when compared to its book value. A company's book value represents the actual value of a company's assets. However, the concept of a company's market value comes in because it is possible for a company's value to be either overvalued or undervalued in the market. This fact, therefore, poses the question of what factors may have resulted to the difference between Meda AB's book value and its market value.

According to last year's financial statements, Meda AB's book value was \$35.815 billion. In a bid to analyze the relationship between a company's market value and its book value a ratio known as the price to book value of a company is calculated. The ratio of the market value to book value of a company is calculated to obtain the relationship between the two measures of a company's value. As at last year's financial statements, Meda AB's price to book ratio was 1.5. This, therefore, means that Meda AB's market value was \$53.7225 billion.

There are a number of factors that explain the difference between Meda AB's book value and its market value. The difference between the two measures of determining Meda AB's value can be explained by understanding a number of factors. An example of a cause in the difference between the

company's book value and its market value is the variation of its stock price. Meda AB has recorded impressive profit margins during the last year totaling to 3.41 dollars per share. Despite a decline in the company's profitability when compared to the profits that were recorded the previous year, the company still remained profitable. Some potential investors might, therefore, be willing to pay more money for a stake in the company when compared to the actual value of the same stake of the company.

The difference between Meda AB's book value and its market value could also be caused by an overvaluation of the company in the market.

Overvaluation of the company may result from a number of factors. For example, despite the fact that the company has a market value of \$ 53.7225 billion, \$12.673 billion of this market value is comprised of debt. It is important for investors or any parties valuing the company to consider the significance that the company's debts may have on its value. The company's debt level may have a significant negative implication on the company. It is, therefore, prudent to consider the implications of the company's debt and, thereafter, make necessary adjustments so as to avoid overvaluing the company when a significant part of it is comprised of debt.

Meda AB might also be overvalued due to the growth potential that the company currently displays as well as the growth potential that its market also displays. In the year 2012, the company improved its product portfolio significantly by launching a number of new products. It is as a result the expansion of the company's range of products that many potential investors may want to invest in the company since the company continues to show a potential in its ability to grow. An increased interest by investors to invest in

Meda AB has the effect of increasing its market price and consequently its market price.

Overvaluation of Meda AB's market may also offer a plausible explanation of why the two measures of determining the value of the company differ. As time passes by, Meda AB gradually continues to generate increasing interests from various investors. The increased interest has resulted in the appreciation of companies operating in this market as well as their products. However, Meda AB may not have a corresponding value of assets that would justify the high market value attached to it. Overvaluation of the market within which Meda AB Pharmaceutical Company operates may, therefore, cause a disparity in the two measures of valuing a company.

The lack of proper inclusion of the services provided by the Meda ABCompany may also offer a plausible explanation as to why there is a disparity in the two criteria used to value the company. As mentioned above, Meda AB offers services such as drug development. The company also gets some of its income from servicing pharmaceutical machinery for its clients i. e. the medical equipment it manufactures for the provision of various medical services. Examples of such equipment include respiratory and cardiology machines. During the calculation of Meda AB's book value, some of the income raised from the provision of various services to clients is not included when calculating the book value of the company. However, the revenue generated from these services could attract the interest of many investors. The increased interest by investors to invest in the company may cause the stock price of Meda AB to increase, thus, causing the company's market value to be more than its book value.

Meda AB also plans to enter into various strategic partnerships with other companies. In an effort to diversify its operations and portfolio of products, the company may merge or enter into joint ventures with other companies. Companies may use such partnerships as a strategy of ensuring that they succeed in their diversification efforts. This may increase the speculation of investors that may ultimately increase the market price of Meda AB's shares. This has therefore, had the effect of increasing the company's stock price, therefore, causing its market price to be higher than its book value.

The ever changing value of Meda AB's goodwill can also serve as an explanation of why the company's market value is above its book value. As time passes, Meda AB's goodwill continues to increase. Currently, Meda AB's goodwill has been valued at \$14.256 billion. However, the company's goodwill continues to increase, therefore, causing speculators to speculate the future value of the company. This will ultimately result the market value of Meda AB Company to be higher than its book value.

Conclusion

## References

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