

## Valuation Multiples

**Applying multiples is a relative valuation methodology: Unlike the Discounted Cash Flow (DCF) valuation approach (an intrinsic form of valuation), it relies on the market, assuming it is correct in pricing various classes of assets, such as stocks.**

A valuation multiple is a ratio reflecting the value of a company in relation to a specific financial metric, assuming that similar companies also have similar valuation multiples. However, for a valuation multiple to be meaningful, a contextual understanding of the target company's business model and the sector it is operating in is essential (e.g. fundamental drivers, competitive landscape, industry trends). And, further, the provider of capital (e.g. shareholder, creditor) has to be appropriately represented in both, the numerator and the (financial or operating) denominator of the ratio.

If the numerator is the Enterprise Value (EV), financial metrics such as revenue; earnings before interest, taxes, depreciation and amortization; earnings before interest and taxes; or unlevered free cash flow could be used as denominator, as all of them are unlevered parameters (i.e. pre-debt): EV/Rev, EV/EBITDA, EV/EBIT. - They coincide with the EV, the valuation of a company's entire business, independent from its capital structure. - Besides, in certain sectors, specific operating measures (e.g. number of users or subscribers in industries such as telecom or streaming services) can be used as denominators.

If, on the other hand, the numerator is the equity value, then metrics such as net income; levered free cash flow (i.e. free cash flow to equity); or earnings per share can be used since all of them are levered (i.e. post-debt) metrics: P/E, P/CE. - Besides, frequently a firm's book value of equity is used as denominator in approximating its equity value (P/BV), despite a firm's book value not being a performance parameter and as a historical, backwards-looking measure having nothing to do with its market value.

Comparable company analysis (referred to as: comps) is a valuation methodology that looks at ratios of similar publicly listed companies within an industry (sub-)sector and uses them to derive the value of another business, with readily observable

share prices reflecting "reality". If a company's multiples are higher than those of its peer average, then it could be overvalued, unless there are good reasons for such premium (e.g. profitability, growth dynamics, strategic positioning).

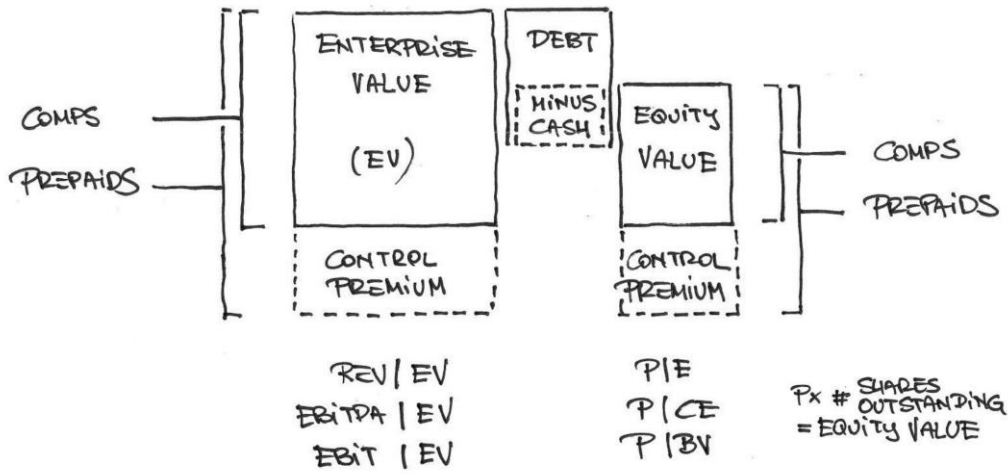
Except that it may be challenging to find similar companies that are actively traded "pure plays", comps are easy to calculate. In general, historical, last twelve months or trailing twelve months multiples are applied, based on the most recent annual report or quarterly filings.

Forward multiples, however, are based on projected financial metrics, incorporating anticipated future growth or profitability. The most frequently used forward multiple is the P/E to Growth Ratio (PEG) determining the relative trade-off between the price of a stock, the earnings generated per share and the firm's expected growth. As higher-growth companies tend to trade at higher P/E ratios, including the growth rate in the PEG ratio makes corporates with different growth dynamics comparable.

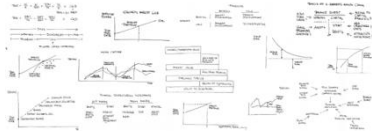
The precedent transaction analysis, on the other hand, is the relative valuation of a company based on recent mergers and acquisitions (referred to as: prepaids, also: precedents). This valuation approach is common when trying to value an entire business as part of a strategic or financial transaction. As mergers or acquisitions are pursued in anticipation of future synergies, whereby controlling interests are transferred, acquirers are usually willing to pay a premium (i.e. control premium). Therefore, in comparison to comps, prepaid multiples tend to be higher. The premium embedded in prepaids fluctuates over time, though, reflecting a more or less dynamic market environment.

When comparing and interpreting the outcomes of approaches based on comps and prepaids and in benchmarking them with a DFC-based valuation approach, analysts often use football field graphs: They help illustrating the respective results, providing a basis for determining a corporate's appropriate valuation range. - And this is where the art of being a good financial analyst comes into play

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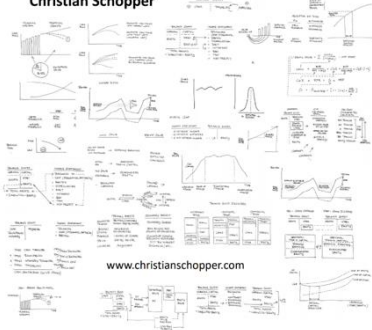


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