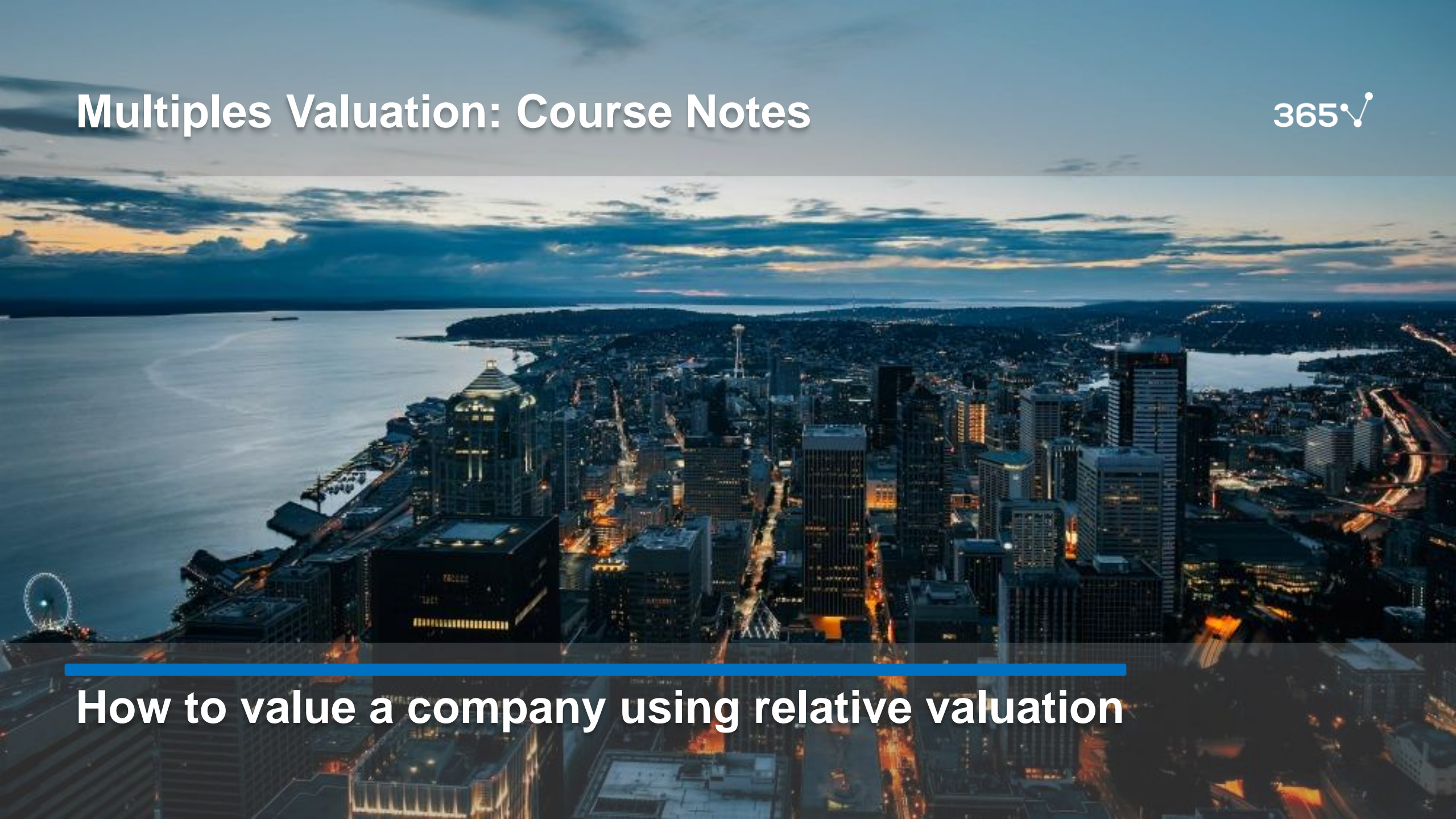


Multiples Valuation: Course Notes

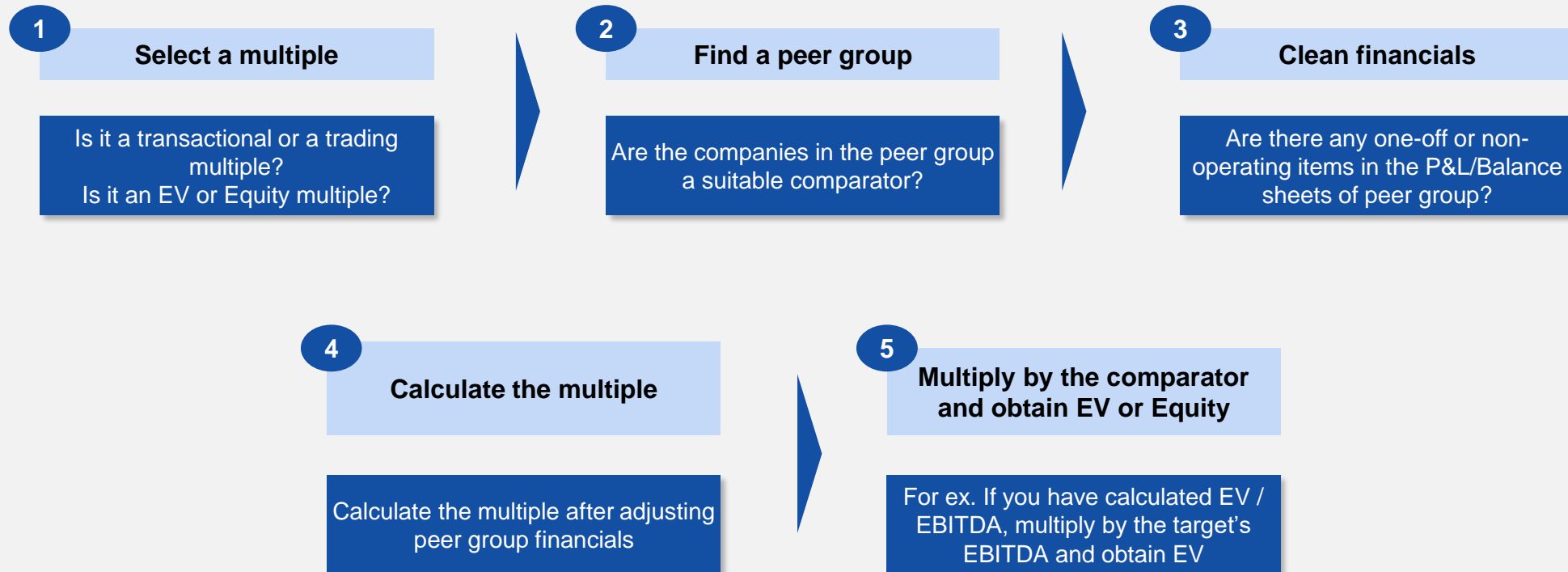
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An aerial night view of the Seattle skyline, showing the city's lights reflecting on the water, with the Space Needle and other prominent buildings visible.

How to value a company using relative valuation

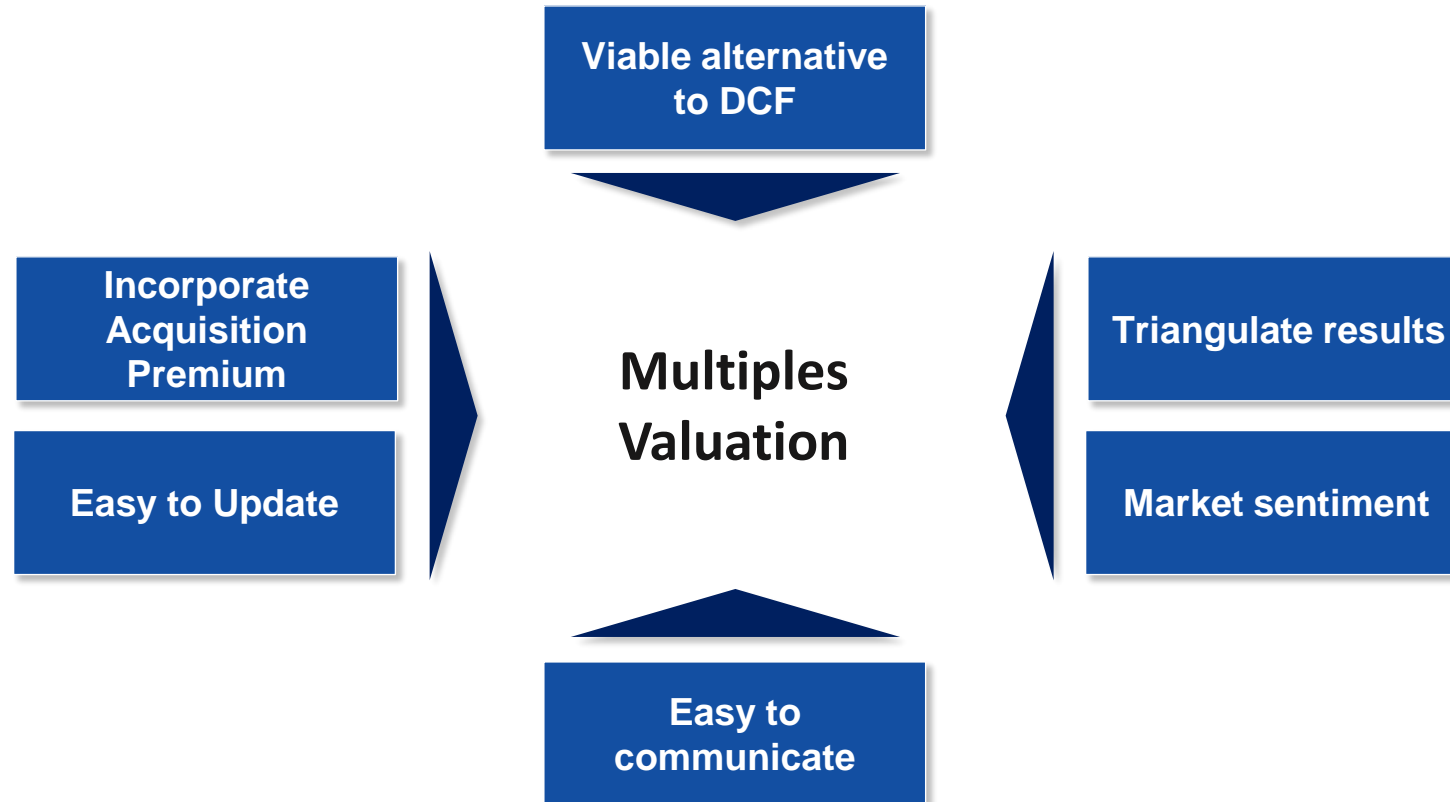
Multiples valuation: The process

How to perform multiples valuation in practice



Why multiples?

The advantages of using valuation multiples



Transaction vs. Trading multiples

Comparison between transaction and trading multiples

Type of Multiple	Transaction Multiples	Trading Multiples
Description	<ul style="list-style-type: none">• A multiple observed in an M&A deal	<ul style="list-style-type: none">• A multiple based on the stock price of a listed firm
Pros	<ul style="list-style-type: none">• Includes premium• Shows the value of the entire firm	<ul style="list-style-type: none">• Current• Large universe of comparable firms
Cons	<ul style="list-style-type: none">• Difficult to find suitable transactions• Figures are not always disclosed	<ul style="list-style-type: none">• Does not include premium• Assumes market pricing is perfect
Timing	<ul style="list-style-type: none">• Not always up-to-date	<ul style="list-style-type: none">• Easy to update

Enterprise Value vs. Equity Multiples

Comparison between multiples based on a firm's enterprise value and equity-based multiples

Type of Multiple	Enterprise Value	Equity Value
Relevant for	<ul style="list-style-type: none">• Debt and equity holders	<ul style="list-style-type: none">• Equity holders
Can be compared to	<ul style="list-style-type: none">• EBITDA, Sales, EBIT	<ul style="list-style-type: none">• Net Income
Cannot be compared to	<ul style="list-style-type: none">• Net Income	<ul style="list-style-type: none">• EBITDA, Sales, EBIT
Advantages	<ul style="list-style-type: none">• Approximates cash• One-off events not considered	<ul style="list-style-type: none">• Easier to calculate• Shows owners' perspective
Popular examples	<ul style="list-style-type: none">• EV / EBITDA• EV / EBIT• EV / Sales	<ul style="list-style-type: none">• Price / Earnings

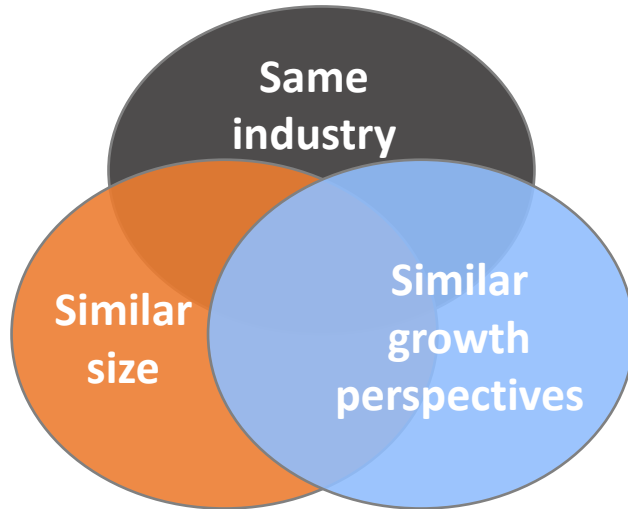
Popular Multiples

Examples of multiples used by practitioners

Multiple	Why use it?	Why not?	Popularity
Price / Earnings	<ul style="list-style-type: none">• Easy to apply• Represents shareholders view	<ul style="list-style-type: none">• Depends on capital structure• Easily influenced by one-off events	Very popular
EV / EBITDA	<ul style="list-style-type: none">• Considers profitability• Not influenced by capital structure	<ul style="list-style-type: none">• Does not consider items that are below EBITDA• Difficult to apply	Very popular
EV / Sales	<ul style="list-style-type: none">• Can be applied in all situations (revenues cannot be negative)• Not influenced by capital structure	<ul style="list-style-type: none">• Does not consider profitability	Narrow Application
Sector Specific (number of users, MW installed, etc.)	<ul style="list-style-type: none">• Good proxy for future potential• Comparable across the entire industry	<ul style="list-style-type: none">• Does not consider profitability	Narrow Application

How do we select the right peer group?

A relative valuation is only as good as the quality of the peer group selected



Find 6 or 7 companies that are similar enough to the Target firm

When selecting peer group, we should look for companies that are similar in terms of:

