

Macro Roundup Article

Headline: **Valuation Multiples**

Article Link: https://www.morganstanley.com/im/publication/insights/articles/article_valuationmultiples.pdf?1713966617126

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Publication	Morgan Stanley
Publication Date	April 24, 2024

Tweet: [@mjmauboussin](#) and Dan Callahan argue that the ability of P/E and EV/EBITDA multiples to capture the underlying economics of a business has degraded as intangible investments in R&D; and customer acquisition have become increasingly important.

Summary: The ability of multiples to capture the underlying economics of a business has degraded over time. This is mainly the result of a shift in how companies invest. In prior generations, businesses invested primarily in tangible assets such as factories and machines. Today, the majority of investments are in intangible assets. Multiples are supposed to reflect the magnitude and return on investment. But the shift to intangible investments, and how companies record them in financial statements, has wreaked havoc on that ability. To illustrate this point, we take two looks at the financial results of Microsoft, a multinational technology company that invests heavily in intangible assets. For fiscal 2023, Microsoft reported net income of \$72.4B. Adjusted for intangible investment, the figure would be \$83B, or 14.7 percent higher. The company's EBITDA was \$102.4B before the adjustment and \$147.0B, 43.6 percent more, after the adjustment. Based on figures from June 30, 2023, the end of the company's fiscal year, the trailing P/E went from 34.9 as reported to 30.5 as adjusted, and EV/EBITDA went from 24.2 to 16.9. These are material differences.

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