Enterprise Value to Sales

Enterprise Value to Sales

- The Enterprise Value to Sales or Enterprise Value to Revenues multiple is helpful in the valuation of early stage or high growth businesses who do not have profits
- Unprofitable business cannot be valued using EBITDA, EBIT, PAT or Earnings

Enterprise Value to Sales

- In this scenario, Enterprise Value equals Equity Value plus all Debt, plus Preferred Shares (if they exist) less Cash and Cash Equivalents
- It is important not to forget the Preferred stock in this formula
- The use of EV rather than Equity value takes into account the capital structure of the company and makes comparisons between companies possible, irrespective of their capital structures

Enterprise Value to Sales

- While easy to calculate, this valuation metric does not enable any meaningful comparison of companies in different sectors or industries
- Its also difficult to value companies at different stages in their lifecycle, e.g. early vs mature businesses

Enterprise Value to Sales

- Despite this, in a Comparable Valuation exercise where you are using a basket of similar businesses it is worth including this metric in most cases, particularly with a view to identifying any outliers which distort the valuation

Enterprise Value to Sales