Equity vs Enterprise

Equity vs Enterprise

- Equity multiples are most relevant when making direct investment decisions but do not take into account the Capital Structure of the company

Equity vs Enterprise

- Equity Ratios are shown here
- You need to be aware that these ratios take no account of the capital structure, specifically the level of indebtedness
- Earnings related ratios only work if earnings are positive

- Price Earnings Ratio
- Price to Cash Earnings (EPS + D+A+changes in non cash provisions)
- Price to Book Value per Share
- PEG Ratio (PE/earnings growth)
- Dividend Yield (Div per Share/price)
- Price to Sales

Equity vs Enterprise

- Varying degrees of debt mean that returns and risk are different and so we need to factor in net debt by calculating Enterprise ratios
- These are more relevant in M&A situations where the debt is acquired with the equity

Equity vs Enterprise

- To make the adjustments between Equity and Enterprise values you need to adjust for net debt
- This is still a market related valuation but takes into account the debt and cash (capital structure)

EV = MC + Total Debt - C

MC = Equity Market Capitalisation

Total Debt = Total of Short Term and Long Term Debt

C = Cash and Cash Equivalents

Equity vs Enterprise

- These are the EV based multiples
- EV/EBITDA is particularly useful, compares a company's cash earnings less non cash expenses to the company valuation including net debt
- May be more relevant than PE ratio when comparing firms with differing levels of leverage

- EV/Sales
- EV/EBITDA
- EV/EBIT
- EV/NOPLAT
- EV/OpFCF
- EV/Free Cash Flow
- EV/Invested Capital

Equity vs Enterprise

- Neither of these sets of ratios are difficult to calculate
- You must be aware of the difference between Equity and Enterprise ratios and when to apply them.
- This is particularly the case when using comparable to value a private equity owned firm which may have considerable leverage on its balance sheet.

Equity vs Enterprise