Introduction to Comparable Company Valuation

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- Comparable Company Valuation is a method which uses the trading metrics and ratios of other (similar) companies to derive a value for a target business

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- Comparable Companies Valuation or "Comps" is widely used in Corporate Finance Valuation
  - IPO - price setting
  - Mergers and Acquisitions - on both sides of the table
  - Fairness Opinions
  - Corporate Re-Structuring and Share Buybacks

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- Comps can also be used as a reality check for other valuation methods such as DCF and DDM
- Note that Comps falls into the Relative Valuation group of valuation techniques

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- You have to be aware of the current trading and market conditions
- In times when the market is over valued, this can distort the valuation of the company being valued
- You also need to be aware of similarities and differences between the company and its peer group

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- Comparable Companies analysis is not without its own issues:
  - Simplistic approach
  - Static point in time
  - Difficulties in identifying perfect comparisons - many reasons for multiples to differ
  - Dependence on the correctly selected peer group
  - Short Term - historic data or short term forecast data - difficult for cyclical businesses and industries

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- Despite these drawbacks, there are some advantages to the method:
  - Easily generate a range of values to consider
  - Simply to use and apply. The calculations are very straight forward and the information readily available for public companies
  - Relevant - these are the multiples used in the market by professionals and investors

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- Equity vs Enterprise
- Equity multiples are the most commonly used but this does not take into account the capital structure of the company - for this use Enterprise value
- We shall look at this issue specifically later in this section

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