Five Steps to a Comps Model

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❖ There are five steps to creating a Comps Model which we will out line in this lecture

Five Steps to a Comps Model

* Step 1: Identify the Peer Group
  * This is a critical step as different sectors may trade at different levels
  * This will depend on your understanding of the business being valued
  * Get its Industry Classification Code
  * Look at similar sectors trading on public markets
  * Create a long list of similar companies

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❖ To find an appropriate peer group you will need to screen the long list of public companies you derive

  ❖ SIC Code

  ❖ Geography

  ❖ Size (Sales, Assets, Staff)

  ❖ Growth Rate

  ❖ Margins and Profitability

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❖ Step 2: Financial Data

❖ Now you need to assemble the correct financial information for the companies in your Comparative Group

❖ You can obtain this information from Bloomberg or Capital IQ or simply from accessing the companies public statements

❖ Note that choosing the best metrics to compare may depend on the lifecycle of the business

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- Step 3 - Comps Spreadsheet
- Now you can spreadsheet your results to create your Comparable Companies Table
- The information you include can be limited or comprehensive
- This comprise Market Data, Financial Information and Valuation Comparisons
- The most common are shown here

- Name
- Share Price
- Market Cap
- Enterprise Value
- Revenue
- EBITDA
- EPS
- Analysts Forecasts

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❖ Step 4 - Comparable Ratios

❖ Now you can calculate the comparable ratios for the companies and derive your range of outcomes

   ❖ High

   ❖ Low

   ❖ Average

   ❖ Median

❖ EV/Sales

❖ EV/EBITDA

❖ EV/EBIT

❖ PE

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- Step 5 - Valuation
- This can be the most difficult
- Apply each ratio to the financial data from your target company to see what ranges are created
- You may need to adjust outliers
- You will need to investigate your target companies to understand specific background issues which may be distorting the results

- EV/Sales
- EV/EBITDA
- EV/EBIT
- PE

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❖ Companies in your table may be under valued or over valued and you need to apply intelligent interpretation to your results, and be able to back this up, in order to arrive at a valuation

❖ You result will inevitably be a valuation range reflecting the averages and the medians of your chosen ratios.

❖ EV/Sales

❖ EV/EBITDA

❖ EV/EBIT

❖ PE