

Comparable Companies Multiples Method

We discussed market-based approach of valuation earlier, where references are drawn from the similar transactions or similar companies, to derive the value of securities of the target company.

As discussed in the market approach, when it comes to comparable methods, there are two methods: comparable transaction method, and comparable companies' multiples method.

The first method that is, comparable transactions method, also known as the guideline transactions method, utilises information on transactions involving assets that are identical or similar to the subject asset to determine its value.

However, it is the second method that has been prescribed under rule 11UA.

Text Box: Comparable Transactions' Method

Comparable transactions method, also known as the guideline transactions method, utilises information on transactions involving assets that are identical or similar to the subject asset to determine its value.

If there are limited recent transactions, the valuer may consider prices of identical or similar assets listed or offered for sale. However, this information should be clearly established, critically analysed, and documented. This approach is also known as the comparable listings method and should not be the sole indication of value. It can be considered alongside other methods. When assessing listings or offers, the weight assigned to the listing or offer price should factor in the level of commitment and the duration the listing or offer has been on the market. For instance, a binding commitment to purchase or sell at a given price may carry more weight than a quoted price without such commitment.

Comparable Companies Analysis (CCA) is a pivotal method for evaluating the worth of a particular focus company, division, business, or asset collection (referred to as the "target"). This approach furnishes a market benchmark that aids valuers and analysts in establishing the valuation of a private company or assessing the value of a public company at a specific point in time.

At its core, this method operates on the premise that companies with similar business and financial characteristics, performance drivers, and risks serve as highly important reference points for valuing a target. Thus, valuers and analysts can gauge the target's valuation parameters by analysing its relative positioning among peer companies. The process involves selecting a group of comparable companies for the target, known as the "comparable universe." These peer companies undergo benchmarking against each other and the target using various financial statistics and ratios. Trading multiples are then computed for this universe, forming

the basis for extrapolating a valuation range for the target. The valuation range is derived by applying the chosen multiples to the target's relevant financial statistics.

This chapter emphasizes the most commonly employed trading multiples, such as enterprise value-to-earnings before interest, taxes, depreciation, and amortization (EV/EBITDA) and price-to-earnings (P/E). These multiples incorporate a measure of value in the numerator and a financial statistic in the denominator. Although P/E is widely recognised but multiples based on enterprise value are also widely used due to their independence from capital structure.

Comparable companies analysis is crafted to mirror the current valuation under prevailing market conditions and sentiment. In many instances, it proves more relevant than intrinsic valuation analyses like discounted cash flow analysis. However, it is essential to acknowledge that market trading levels may be influenced by periods of investor sentiments which may or may not sound rational. Additionally, given the inherent differences between companies, assigning a valuation based solely on the trading characteristics of similar companies may not accurately capture a particular company's true value. Therefore, valuers often use other methods alongside this method to be doubly sure about the value.

Identification of comparable companies or “comparable universe”:

Identifying the appropriate comparable companies is a pivotal step in the Comparable Companies Method (CCM) applied in business valuation.

A survey found that 40% of analysts struggle when picking comparable companies¹. Some experts say it is like an art and should be left to pros², but that could hurt its credibility. Selecting comparable companies is called making a peer group, and it is a crucial step in comparable company valuation. These companies should be similar to the Target Company, but there's no clear agreement on which characteristics should match.³ They do not have to be identical, just alike. Since there are not many public companies, finding perfect matches is tough. Even if companies are in the same industry, good matches are not guaranteed. Other factors like market share, company size, and capital structure matter too⁴. If a comparable company is too different from the Target Company, it's best to exclude it. Picking the right comparable companies (peer group) is vital because the value comes from relative valuation. If the peer group is very different in terms of industry, operations, and value drivers, the valuation could be flawed.

Some crucial considerations while determining the peer group would include:

- i. Number of companies in the peer group

¹ Beckmann, 2003. ZEW Financial Market Survey, s.1: ZEW Finanz markt rphrt.

² Bhojraj, Charles, M & Lee, C., 2002. Who Is My Peer? A Valuation-Based Approach to the Selection of Comparable Firms, *Journal of Accounting Research*, Volume 40, pp. 407-439

³ Meitner, 2006, *The Market Approach to Comparable Companies Valuation*, s.1. ZEW Economic Studies

⁴ Schmidlin, 2014, *The Art of Company Valuation and Financial Statement Analysis: A Value Investor's Guide*, s.1. Wiley

The number of comparable companies needed for a comparable company valuation can vary, and it is generally up to the analyst to decide based on the level of comparability needed. In general, having more comparable companies is better, especially if they have different characteristics and are not exactly alike. This broader selection allows the analyst to identify values that stand out from the rest of the group.

Practitioners often opt for a smaller number of carefully chosen comparable companies, while academic literature tends to include all companies in a specific industry as their peer group.

ii. **Industry and Sector:**

When identifying comparable, the evaluator should focus on companies within the same industry and sector as the subject company. This ensures that industry-specific nuances are considered, laying the foundation for a meaningful and relevant comparison.

iii. **Size and Market Capitalisation:**

Selecting comparable companies of similar size or market capitalisation is paramount. This aligns financial metrics more closely, providing a basis for comparison that reflects the relative scale of operations.

iv. **Geographic Location:**

When searching for an appropriate peer group, it is crucial to consider geographic factors that can impact company growth. It is widely acknowledged that macro-economic trends, such as GDP and monetary policy, significantly influence company growth and consequently affect the multiples derived from the peer group. To obtain value multiples from a peer group, it is important to identify peers in the same country, or at least in countries where macro-economic trends are reasonably similar. Additionally, different regions are known to have distinct patterns of development.

Regional economic factors and regulatory environments can also significantly influence business operations and, consequently, valuation considerations.

v. **Business Model and Operations:**

The selection process is greatly influenced by the business model, which should closely resemble that of the Target Company in the peer group. A straightforward way to address the challenge of choosing comparable companies is to look for those within the same industry. Additionally, it involves comparing business models and financial ratios between the Target Company and potential comparable companies to identify the appropriate peer group.

Further, factors such as production methods, distribution channels, and customer base should be considered for a comprehensive comparative analysis.

- vi. **Financial Performance:**
Evaluate companies with akin financial performance metrics, including revenue, EBITDA, and profit margins. Aligning these metrics ensures a more accurate comparison of financial health and operational efficiency.
- vii. **Growth Rates:**
Thoroughly assess the historical and projected growth rates of potential comparable companies. This step ensures a synchronization of growth expectations, a crucial element for a reliable valuation comparison.
- viii. **Risk Profile:**
Consider the risk profile of the subject company and identify comparable with similar risk factors. This includes aspects such as market volatility, regulatory risks, and dependence on key customers, providing a more nuanced comparison.
- ix. **Debt Levels and Capital Structure:**
Analyse the debt levels and capital structures of potential comparable companies to ensure alignment with those of the subject company. This consideration is vital for a comprehensive valuation that accounts for financial leverage.
- x. **Market Conditions:**
Account for prevailing market conditions, recognizing that economic cycles can impact companies differently. Adjusting for these conditions when comparing financial metrics adds a layer of accuracy to the valuation process.
- xi. **Comparable Transactions:**
Where available, factor in recent industry transactions, such as mergers, acquisitions, or other financial deals. Insights from these transactions contribute valuable context to market valuations.
- xii. **Operational Metrics:**
Beyond financial metrics, delve into operational factors such as production capacity, technology adoption, and efficiency. These considerations provide a holistic understanding of the comparable's operational dynamics.
- xiii. **Comparable Ratios:**
Utilize financial ratios such as Price-to-Earnings (P/E), Price-to-Sales (P/S), or Enterprise Value-to-EBITDA ratios to identify comparable with similar valuation multiples. This ensures a nuanced analysis of valuation metrics beyond absolute figures.

Gathering information about the comparable companies

Having identified the comparable companies, it is essential to gather financial information to be used for creating multiples, from the publicly available information, like annual reports,

quarterly results, press releases, investor presentations etc. The following outlines a detailed list of financial information to be gathered:

- i. **Market Price:**
The most important information. This is used to create a number of key multiples, like the Price-to-Earnings (P/E) ratio, Price-to-Book (P/B) ratio etc.
- ii. **Earnings per Share (EPS):**
EPS serves as a key profitability metric and is instrumental in calculating valuation multiples such as the Price-to-Earnings (P/E) ratio.
- iii. **Revenue:**
Comprehensive data on total revenue generated by each comparable company should be obtained. Revenue serves as a fundamental indicator of a company's size and business activity.
- iv. **EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortisation):**
Obtain EBITDA figures for each comparable. EBITDA offers insights into a company's operational performance by excluding non-operating expenses.
- v. **Net Income:**
Collect net income figures for each comparable. Net income is a critical measure of a company's profitability after all expenses have been accounted for.
- vi. **Book Value:**
Procure the book value of equity for each comparable. Book value represents shareholders' equity and is pertinent to valuation multiples like the P/B ratio.
- vii. **Capital structure and leverage:**
Acquire information on the debt levels of comparable companies, encompassing both long-term and short-term debt. This data provides a glimpse into the overall capital structure. This is a crucial information, as the extent of the leverage reflects on the profitability of the company, and if there is a significant difference between the leverage of the comparable and the subject company, it is essential to calibrate the multipliers accordingly before applying on the subject company.
- viii. **Cash and Cash Equivalents:**
Gather data on the amount of cash and cash equivalents held by each comparable. Assessing liquidity is crucial for a comprehensive understanding of a company's financial health.
- ix. **Operating Margins:**
Collect information regarding the operating margins of comparable companies. Operating margins serve as indicators of operational efficiency.
- x. **Dividend Yield:**

If applicable, obtain data on the dividend yield for each comparable. Dividend yield, representing dividend income as a percentage of market price per share, provides insights into a company's dividend-paying capacity.

- xi. **Number of Shares Outstanding:**
Procure information on the number of shares outstanding for each comparable. This data is essential for calculating per-share metrics like EPS and various valuation multiples.
- xii. **Industry-Specific Metrics:**
Depending on the industry, gather pertinent financial metrics. For instance, subscriber counts for subscription-based businesses or same-store sales growth for retail companies contribute to a more nuanced comparison.

Industry-specific metrics assume a pivotal role in capturing the unique performance indicators inherent to different business sectors. The selection of these metrics is contingent upon the specific nature of the industry under evaluation.

The rationale for including industry-specific metrics lies in the acknowledgment of the diverse operational landscapes and key performance indicators across different sectors. By incorporating metrics tailored to the nuances of each industry, the valuation process becomes more refined and reflective of the unique factors influencing business performance.

Including industry-specific metrics contributes to a more holistic comparative analysis. It enables the valuation analyst to evaluate not only general financial health but also the specific operational drivers that define success within a particular industry. This, in turn, facilitates a more accurate determination of a company's relative value within its industry peer group.

The table below indicates an illustrative list of industry specific matrices for select industries.

Industry	Key Financial Indicators
Real Estate	Price-to-book, Price-to-earnings, Enterprise Value/ Square Footage, Equity Value/ FCFE
Building materials	Enterprise-to-EBITDA
Banking and financial services	Price-to-book, Price-to-earnings
Food and beverage	Enterprise-to-EBITDA, Price-to-earning
Services	Enterprise-to-EBITDA, Price-to-earning
Energy	Enterprise-to-EBITDA, Enterprise-to-Invested Capital

Technology	Enterprise-to-EBITDA, Enterprise-to-EBIT
Telecommunication	Enterprise-to-EBITDA, Price-to-earning, Enterprise Value/ Access Lines, or Enterprise Value/ Broadcast Cashflows, or Enterprise Value/ Subscribers
Distribution	Enterprise-to-EBITDA, Enterprise-to-EBIT
Manufacturing	Enterprise-to-EBITDA, Price-to-FCF
Construction	Enterprise-to-EBITDA, Price-to-earning
Life sciences/ healthcare	Enterprise-to-Sales, Enterprise-to-EBITDA
Capital goods	Enterprise-to-EBITDA, Enterprise-to-EBIT
Media	Enterprise-to-EBITDA, Enterprise-to-EBIT

Source: Harbula, 2009⁵ and others

xiii. Geographic and Market Segment Information:

Consider the geographic areas and market segments in which each comparable operates. Understanding regional influences and market dynamics enhances the contextual relevance of the financial data.

Understanding the various multiples

Price-to-earnings ratio

The price-to-earnings ratio, or P/E ratio, is a financial metric that compares a company's current stock price to its earnings per share (EPS). It is one of the most widely used valuation metrics by investors to assess the relative value of a company's stock. The formula for calculating the P/E ratio is:

Market Price per Share/ Earnings per Share

There are two main types of P/E ratios: trailing P/E and forward P/E.

1. **Trailing P/E Ratio:** This ratio is based on the company's historical earnings, typically over the past 12 months. It gives investors an idea of how the stock is currently valued relative to its past performance.

Current Market Price per Share/ Earnings per Share over the Last 12 Months

⁵ Harbula, 2009, Valuation Multiples: Accuracy and Drivers – Evidence from the European Stock Markets, s.1. Business Valuation Review, Vol. 28

2. **Forward P/E Ratio:** This ratio is based on estimated future earnings. Analysts use projected earnings for the next 12 months to calculate the forward P/E ratio, providing investors with an insight into how the stock is valued based on expected future performance.

$$\text{Current Market Price per Share} / \text{Projected Earnings per Share for the Next 12 Months}$$

A high P/E ratio may suggest that investors have high expectations for future earnings growth. Whereas a low P/E ratio may indicate that the market has lower expectations for future growth or that the stock may be undervalued.

It is important to note that the P/E ratio should not be used in isolation, as it has limitations and should be considered alongside other financial metrics and qualitative factors when evaluating an investment. Additionally, P/E ratios can vary significantly across industries, and comparing them may not be meaningful without considering industry benchmarks.

Price-to-book ratio

This compares a company's market price per share to its book value per share. It is calculated by dividing the market price per share by the book value per share. The formula for calculating the P/B ratio is as follows:

$$P/B \text{ Ratio} = \text{Market Price per Share} / \text{Book Value per Share}$$

Where,

- Market Price per Share is the current trading price of a single share of the company's stock in the financial markets.
- Book Value per Share is the net asset value of the company per outstanding share. It is calculated by subtracting a company's total liabilities from its total assets and then dividing the result by the number of outstanding shares.

The P/B ratio provides insights into how the market values a company relative to its book value. A P/B ratio less than 1 may suggest that the market values the company at less than its book value, which could indicate that the stock is undervalued. Conversely, a P/B ratio greater than 1 may imply that the market values the company at a premium to its book value.

Therefore,

- $P/B < 1$: The stock may be considered undervalued by the market, suggesting potential value for investors. However, it's essential to investigate why the market values the company below its book value, as there could be specific reasons such as poor prospects or high levels of risk.
- $P/B = 1$: The market is valuing the company at its book value. This may indicate a fair valuation, but further analysis is needed to assess whether the book value accurately reflects the company's worth.
- $P/B > 1$: The market is assigning a premium to the company's book value. This could imply that investors have high expectations for the company's future growth or that the market sees favourable prospects.

Enterprise-to-EBITDA

This ratio compares a company's enterprise value (EV) to its EBITDA and is commonly used in financial analysis, especially for assessing the relative value of companies.

Here's a breakdown of the key components:

1. **Enterprise Value (EV):** Enterprise value is a comprehensive measure of a company's total value, representing the sum of its market capitalization (equity value) plus its total debt, minority interest, and preferred equity, minus its cash and cash equivalents. The formula for EV is:

$$\text{Enterprise Value (EV)} = \text{Market Capitalization} + \text{Total Debt} + \text{Minority Interest} + \text{Preferred Equity} - \text{Cash and Cash Equivalents}$$

2. **EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization):** EBITDA is a measure of a company's operating performance and profitability. It is calculated by adding back interest, taxes, depreciation, and amortization to net income. The formula for EBITDA is:

$$\text{EBITDA} = \text{Net Income} + \text{Interest} + \text{Taxes} + \text{Depreciation} + \text{Amortization}$$

A lower EV/EBITDA ratio may suggest that a company is relatively undervalued, while a higher ratio may indicate that the company is relatively overvalued.

Enterprise to EBIT

Similar to the EV/EBITDA ratio, it compares a company's enterprise value (EV) to its EBIT, providing a measure of valuation relative to its operating earnings.

The formula for calculating the EV/EBIT ratio is as follows:

Here's a breakdown of the key components:

1. **Enterprise Value (EV):** Has the same meaning as discussed above.
2. **EBIT (Earnings Before Interest and Taxes):** EBIT is a measure of a company's operating performance, excluding interest and taxes. It represents the earnings generated by a company's core operations. The formula for EBIT is:

$$\text{EBIT} = \text{Operating Revenue} - \text{Operating Expenses}$$

Interpreting the EV/EBIT ratio involves similar considerations to those for other valuation ratios. A lower EV/EBIT ratio may suggest that a company is relatively undervalued, while a higher ratio may indicate that the company is relatively overvalued. Comparisons with industry benchmarks and peers can provide additional context.

The primary difference between EV/EBITDA and EV/EBIT is that the former is used when comparing companies with different capital structures and when a cleaner measure of operating

performance is desired, as it excludes non-cash expenses like depreciation and amortization. Whereas the latter is preferred in situations where analysts want to focus specifically on operating profitability without the influence of non-cash items such as depreciation and amortization.

Data collection and analysis

Importance of accurate and up-to-date financial information

The significance of accurate and up-to-date financial information cannot be overstated in the Comparable Companies Multiples method. Investors, analysts, and stakeholders rely on financial data to make informed decisions about the value and potential of a company. Inaccuracies or outdated information can lead to flawed analyses, misguided investment decisions, and a lack of confidence in the valuation results. Timeliness is crucial because financial conditions and market dynamics can change rapidly, and utilising the latest financial information ensures that the valuation reflects the most current state of the target company.

Utilising financial statements and market data

The combination of financial statements and market data provides a comprehensive view of a company's performance within its industry. Financial statements offer detailed insights into revenue, expenses, and overall financial health, while market data provides context by comparing the company to others in the market. Stock prices, transaction data, and economic indicators aid in assessing market sentiment and trends, enabling analysts to contextualize financial performance within the broader industry landscape. This synergy between financial statements and market data enhances the accuracy and reliability of the valuation process.

Adjustments to financial statements for comparability:

The information collected from the market, and analysis made based on it cannot be implemented on as-is basis on the target company, because companies have distinct features, which should be respected during valuation. Some of the key areas which requires calibration are as follows:

1. **Normalising earnings:**
This involves adjusting financial statements to account for irregularities or events that do not represent the company's ongoing performance. By eliminating one-time gains or losses, analysts ensure that the calculated multiples are based on a consistent and normalised level of earnings. This adjustment allows for a more accurate comparison between the target company and its peers, as it focuses on the sustainable profitability that is indicative of the company's true operational strength.
2. **Removing extraordinary items:**
Extraordinary items, by their nature, are events that fall outside the normal course of business. Removing these items from financial statements serves to strip away exceptional occurrences, providing a clearer picture of the company's core operational performance. This adjustment ensures that the multiples derived from the analysis are

not skewed by non-recurring events, contributing to a more accurate assessment of the company's valuation relative to its peers.

3. Adjusting for non-recurring expenses:

Similar to extraordinary items, non-recurring expenses can distort the perception of a company's ongoing financial health. Adjusting for these expenses involves eliminating costs that are not expected to recur in the future. This adjustment is essential for isolating the true operating performance of the company, allowing analysts to compare it on an equal footing with its peers. It facilitates a more meaningful evaluation of the company's financial strength and sustainability.

Benchmarking the comparable companies

Once the valuer or analyst has chosen comparable companies, the next step is to compare their financial details and performance. This process, known as benchmarking analysis, aims to understand how the target company ranks compared to these comparables, helping determine its value. While the entire group of comparable companies is considered, the focus is often on the ones closer to the target in terms of business and finances.

Breaking down the benchmarking process into two steps, the valuer or analyst first compares key financial figures for the target and all the comparable companies. This includes factors like size, profitability, growth, returns, and credit strength. These factors directly influence how the companies are valued. The key considerations in this regard include mean, median, highs and lows.

However, it's not just about the numbers. To truly grasp the target's strength, the valuer or analyst needs to understand the story behind each comparable company. Questions like why one company has high growth while another has low profit margins are essential. Understanding whether a company is a market leader or falling behind, succeeding in its plans, or making significant recent changes all play a crucial role in evaluation, alongside the financial analysis.

Next, the valuer or analyst compares the trading multiples of the comparable companies. Trading multiples measure a company's value based on factors like its earnings. These multiples are also displayed in a spreadsheet for easy comparison and analysis, including calculations for averages, middle points, highest, and lowest values.

After analysing the trading multiples, the valuer or analyst might decide to exclude certain companies from the analysis or group them based on size or other factors. Special attention is given to the trading multiples of the companies most similar to the target. These steps help the valuer or analyst refine their understanding and set a range for the potential value of the target company.

Valuation

The last step of this exercise is valuation. To establish a suitable valuation range for the target, the trading multiples of comparable companies play a crucial role. The valuer usually starts by using the mean and median of the most relevant multiples for the sector. This helps to create a

justifiable range of multiples, considering the high and low multiples from the group of comparable companies for additional guidance. However, the multiples from the best comparable companies are often relied upon as key markers for selecting a narrow and appropriate range.

Consequently, the valuation often relies on just two or three thoughtfully selected comparable companies, using the larger group as benchmarks. This results in a more focused multiple range, narrower than simply taking the highest and lowest multiples from the entire group. In this phase, the valuer must also determine the most relevant financial data period for calculating the trading multiples. Depending on factors such as the industry, business cycle stage, and confidence in consensus estimates, comparable companies might be trading based on Last Twelve Months (LTM), one-year forward, or even two-year forward financials.

Advantages and disadvantages of this method

Like any methodology, CCM comes with its own set of advantages and disadvantages.

Advantages

1. **Market Realism:** This method relies on market data and real-world transactions, providing a realistic reflection of how similar companies are valued in the market.
2. **Relatively Simple:** Compared to more complex valuation methods like discounted cash flow (DCF), the Comparable Companies Multiple Method is simpler and easier to understand.
3. **Industry Benchmark:** It allows for industry benchmarking, enabling analysts to assess how a target company compares to others within the same sector.
4. **Timeliness:** It provides a more immediate and timely valuation, as it is based on current market data and trading multiples.

Disadvantages:

1. **Lack of Specificity:** Comparable companies may not be truly comparable due to differences in size, growth prospects, risk profiles, and other factors, leading to potential inaccuracies in valuation.
2. **Market Fluctuations:** Valuations based on trading multiples can be influenced by market sentiment and short-term fluctuations, which may not always reflect the long-term fundamentals of a company.
3. **Dependence on Market Efficiency:** The method assumes that the market efficiently prices assets, which may not always be the case, especially during periods of market irrationality.
4. **Limited Forward-Looking Information:** The method relies on historical data and may not fully capture a company's future potential or changes in its business strategy.

5. **Sensitivity to Industry Cycles:** Industries go through cycles, and using multiples during peak or trough periods may lead to skewed valuations.
6. **Dependency on Comparable Data:** The accuracy of the valuation is heavily dependent on the availability and relevance of comparable company data. In some cases, finding truly comparable companies can be challenging.

Illustration demonstrating Comparable Companies Multiples Method

Let us take example of a target company named A Pvt. Ltd, which has the following comparable companies: B Ltd, C Ltd, D Ltd, E Ltd, F Ltd, the key information with respect to each of the comparable companies have been provided below:

Company	Market Data					Financials		
	Share Price	Shares O/S	Equity Value	Net Debt	EV ⁶	Rev	EBITD A	Net Income
A Pvt. Ltd		125		740		845	305	135
B Ltd	8.50	150	1,275	800	2,075	680	230	125
C Ltd	9.18	350	3,213	450	3,663	575	255	110
D Ltd.	6.60	400	2,640	1,000	3,640	1,200	700	150
E Ltd.	28.31	300	8,493	950	9,443	1,100	350	260
F Ltd.	15.99	200	3,198	450	3,648	1,500	480	280

Based on the above information, the first step will be to arrive at the various multiples:

Company	Multiples		
	EV/ Revenue	EV/ EBITDA	P/E
B Ltd.	8.6x	27.0x	32.7x
C Ltd.	6.4x	14.4x	29.2x
D Ltd.	4.7x	12.6x	20.2x
E Ltd.	3.1x	9.0x	17.6x
F Ltd.	3.0x	7.6x	11.4x

As can be seen, the comparable multiples currently carry a wide range, therefore, it is essential to narrow it down before the same is applied on the target company. Therefore, the next step is to establish the benchmarks, which are as follows:

	Multiples		
	EV/ Revenue	EV/ EBITDA	P/E
Maximum	8.6x	27.0x	32.7x
75th Percentile	6.4x	14.4x	29.2x
Average	4.7x	12.6x	20.2x
Median	3.1x	9.0x	17.6x
25th Percentile	3.0x	7.6x	11.4x
Minimum	2.4x	5.2x	10.2x

⁶ Enterprise Value

Comparable Companies Method

The above table demonstrates a range of multiples, the question which of the above should be applied to arrive at the final valuation – the mean or the median?

The choice between mean or median depends on the specific circumstances and characteristics of the data set. Both the mean and median are measures of central tendency, but they handle outliers differently.

The comparison between the two are as follows:

Particulars	Application of Mean	Application of Median
Advantages	Reflects the average value of all the multiples in the data set, therefore, the coverage is wider.	Less affected by extreme values or outliers, making it a robust measure of central tendency. This provides a better representation of a typical value in a data set.
Disadvantages	Sensitive to outliers or extreme values, as it includes all values in its calculation.	Ignores the magnitude of values, treating all values equally regardless of size.

If the data set has outliers, then mean is likely to be distorted, and therefore, median will be a more appropriate measure.

On the other hand, where there is a relatively normal distribution and where the outliers are not a concern, the mean may be suitable as it captures all the multiples in the data set.

In the present case, the multiples have several outliers, and range is a reasonably extreme, hence, it would make more sense to apply the median to arrive at the valuation.

Valuation of shares of A Pvt. Ltd. - using the median multiples			
	EV/ Revenue	EV/ EBITDA	P/E
Revenue	980	980	980
EBITDA	350	350	350
Net Income	135	135	135
Median Multiple	3.1x	9.0x	17.6x
Implied Enterprise Value	2,990	3,158	3,376
Net Debt	1,000	1,000	1,000
Implied Market Value	1,990	2,158	2,376
Shares Outstanding	250	250	250
Implied Value Per Share	7.96	8.63	9.50

In the above example, medians multiples have been assigned to the respective inputs given in the present case. The EV/ revenue multiple is applied on the revenue, EV/EBITDA multiple is applied on the EBITDA and the P/E multiple is applied on the net income.