

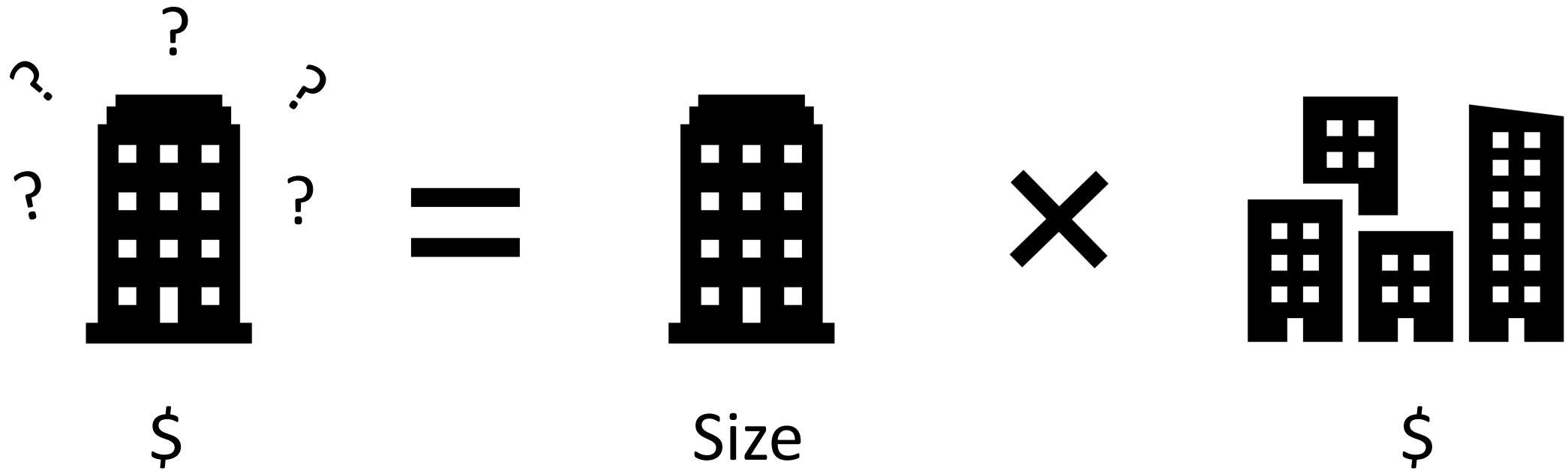
Comparables Valuation

Team 34

When you consider buying a condo



This is how you might calculate



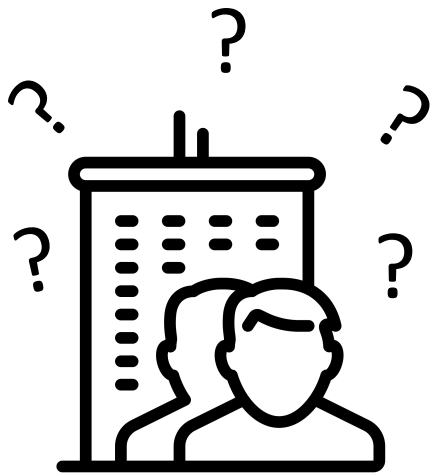
per square foot for other condos
recently sold in the area

What is Comparables
Valuation Method?

What is Comparables Valuation Method?

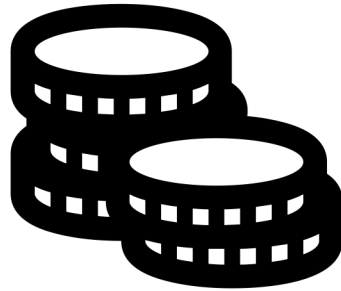
Rather than value the firm's cash flows directly, we estimate the value of the firm based on the value of **other comparable firms or investments** that we expect will generate very **similar cash flows** in the future.

The discounted cash flow method



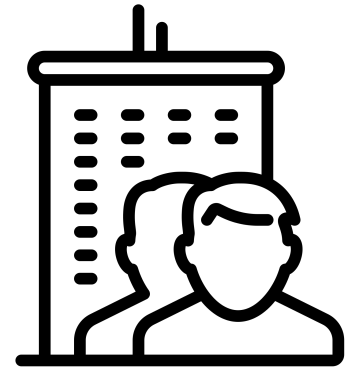
\$

=



PV of
Future cash flow

of



The Company

The discounted cash flow method

How to calculate the cash flow of a new company?



The Purple Panda Outfitters



The Purple Panda
Outfitters

\$500M

EBIT

\$750M

EBITDA

We can adjust for differences in scale between firms by expressing their value in terms of **a valuation multiple**

Valuation table of comparable companies

	EV/ EBITDA	EV/ EBIT	P/ E
GAP	5.36	7.43	13.52
American Eagle	4.56	6.84	13.79
Express	2.66	6.88	28.3
Urban Outfitters	5.27	7.71	15.45
Median	4.90	7.16	14.62

Types of multiples and when are they used (examples)

Multiple	Industry	Considerations
EV/Revenue	Various	Early stage companies
EV/Subscriber	Various	Subscriber-based businesses
EV/EBITDA	Various	Most common for many industrials and CPG
EV/EBITA	Various	Accounts for significant differences in asset financing
EV/EBITDAX	Oil & Gas	Excludes exploration expenses
EV/EBITDAR	Retail, Airlines	Excludes significant rental and lease expenses incurred by business operations
EV/Reserves	Oil & Gas	Used when looking at Oil & Gas fields and companies heavily involved in upstream
EV/Production	Oil & Gas And Airports	For producing fields, gives value on a barrel per day production basis For container ports, gives value per ton of cargo handled
P/BV	Banks/ Insurance	Bank' s use mark-to-market accounting, unlike non-financial institutions, thus the book value is a good indicator of the assets of the bank
P/E	Various	Incorporates the impact of the capital structure

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EV of Purple Panda = EV/EBIT * EBIT = 4.90 * 750 = **3.7 Bn**

EV of Purple Panda = EV/EBITDA * EBITDA = 7.16 * 500 = **3.6 Bn**

Strengths

- ✓ Simplicity
- ✓ Based on actual prices of real firms
Market efficiency ensures that trading values reflect the industry trends, business risk, market growth, etc

Weaknesses

- ✗ Fails to account for important differences among firms
- ✗ Only provide information regarding the value of the firm relative to the other firms, e.g., it can not be used to determine the value of a unique proposition
- ✗ Thinly traded, small capitalization and poorly followed stocks may not fully reflect the fundamental value



Thank you!

The Purple Panda Outfitters