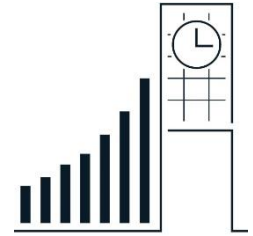


# COMPARABLE COMPANIES WORKSHOP

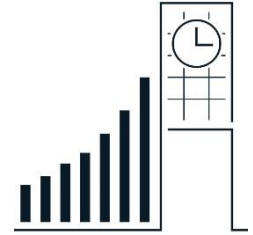
SPRING 2024

# AGENDA



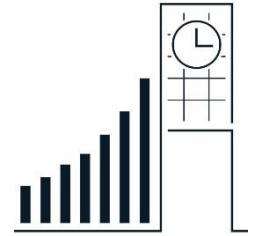
- ▶ Overview of comparable companies analysis
- ▶ How to find good comparable companies
- ▶ Key ratios and statistics
- ▶ How to use comparable multiples
- ▶ Benchmarking the comparable companies
- ▶ Determining valuation range
- ▶ Displaying valuation

# COMPARABLE COMPANIES ANALYSIS



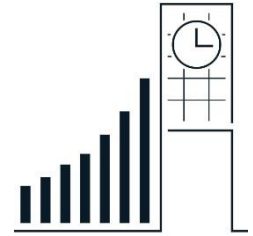
- ▶ Using similar companies to value a target company
  - Also known as “comps” or “relative valuation”
- ▶ **Essentially, you set up a proportion to value your target based on ratios of similar companies**
- ▶ Why is comparable companies analysis used?
  - Similar companies provide a relevant reference point
  - Designed to reflect valuation based on current market conditions
- ▶ This method acts as a check on other valuation methods
- ▶ Can be inaccurate when markets are irrational

# WHAT MAKES A COMP GOOD?



- ▶ **A good comp is as similar to the target as possible in both an operational and financial perspective**
- ▶ Similar business profiles
  - Sector / industry
  - Products and services
  - Customers and end markets
  - Distribution channels and geography
- ▶ Similar financial profiles
  - Size (revenue)
  - Profitability
  - Growth profile
  - Capital structure

# KEY RATIOS AND STATISTICS



## ▶ Enterprise value multiples

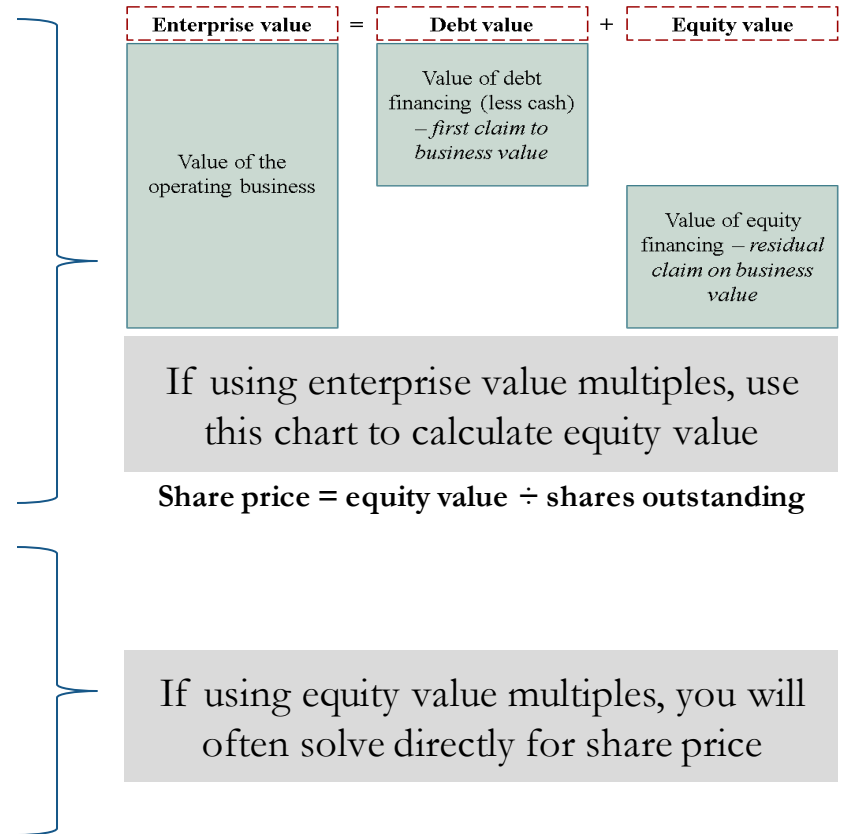
- $\frac{\text{Enterprise Value}}{\text{Revenue}}$
- $\frac{\text{Enterprise Value}}{\text{EBITDA}}$
- $\frac{\text{Enterprise Value}}{\text{EBIT}}$
- $\frac{\text{Enterprise Value}}{\text{Subscribers}}$  <sup>1\*</sup>

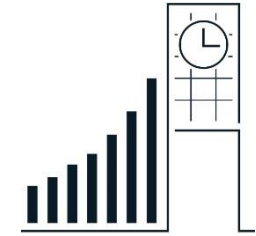
## ▶ Equity value multiples

- $\frac{\text{Price per Share}}{\text{Earnings per Share}}$
- $\frac{\text{Price per Share}}{\text{Book Value per Share}}$  <sup>2\*</sup>

1) Usually used to value subscription-based businesses

2) Usually used to value banks





# HOW DO COMPS WORK?

## ▶ House Example

- 3 houses in your neighborhood recently sold for \$150/square foot
- Your house has a size of 2,500 square feet. How much should your house sell for?

- **Value of house = 2,500 square feet \*  $\frac{\$150}{1 \text{ square foot}} = \$375,000$**

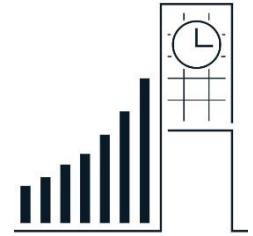
## ▶ Business Example

- 3 companies in your peer set currently trade at a 10x EV/EBITDA
- Your company has an EBITDA of \$250,000. What should be the enterprise value of your company?

- **Value of business = \$250,000 EBITDA \*  $\frac{\$10 \text{ EV}}{\$1 \text{ EBITDA}} = \$2,500,000$**

*How would you derive stock price in the business example?*

# BENCHMARKING KEY RATIOS



- ▶ Comparable companies don't always trade at the same exact multiple, but should trade close to each other
- ▶ The goal is to determine a valuation range for the target
- ▶ To accomplish this goal:
  - Select the closest comps to the target
  - Compare the multiples between these firms
  - Calculate a valuation range for these firms



**EV / EBITDA = 8.0x**

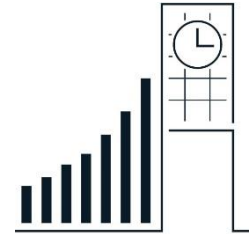


**EV / EBITDA = 10.0x**



**EV / EBITDA = 12.0x**

# DETERMINING VALUATION RANGE



- ▶ Valuation “low” and “high” are usually represented by the 1<sup>st</sup> and 3<sup>rd</sup> quartiles of the data set respectively
  - Use your best judgement
- ▶ Exclude multiples that are “not meaningful”, such as those that are extreme outliers in the data set

Comparable Companies Analysis						
Company Name	Ticker	Enterprise Value	Market Cap	Price/Earnings	EV/EBITDA	EV/Sales
Jack in the Box	JACK	\$3,742.8	\$2,641.4	22.5x	14.1x	2.9x
Domino's Pizza	DPZ	\$12,940.5	\$9,830.5	28.6x	20.5x	4.0x
Papa John's	PZZA	\$2,559.3	\$2,092.6	24.8x	14.4x	1.3x
Denny's	DENN	\$1,319.7	\$1,035.4	25.1x	12.4x	2.2x
Sonic Corp	SONC	\$1,614.7	\$953.0	16.3x	10.6x	3.6x
Red Robin	RRGB	\$1,066.2	\$806.6	23.4x	7.6x	0.7x
Del Frisco's	DFRG	\$360.2	\$340.3	22.8x	8.9x	1.0x

← Target Company  
(company you are valuing)

Comparable Statistics						
Minimum		\$360.2	\$340.3	16.3x	7.6x	0.7x
1st Quartile		\$1,129.6	\$843.2	22.9x	9.3x	1.1x
Median		\$1,467.2	\$994.2	24.1x	11.5x	1.8x
Mean		\$3,310.1	\$2,509.7	23.5x	12.4x	2.1x
3rd Quartile		\$2,323.2	\$1,828.3	25.0x	13.9x	3.3x
Maximum		\$12,940.5	\$9,830.5	28.6x	20.5x	4.0x

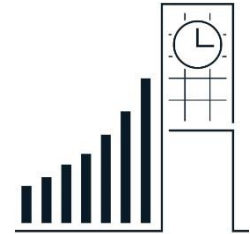
← Use this to find the "low" value

← Use this to find the "high" value

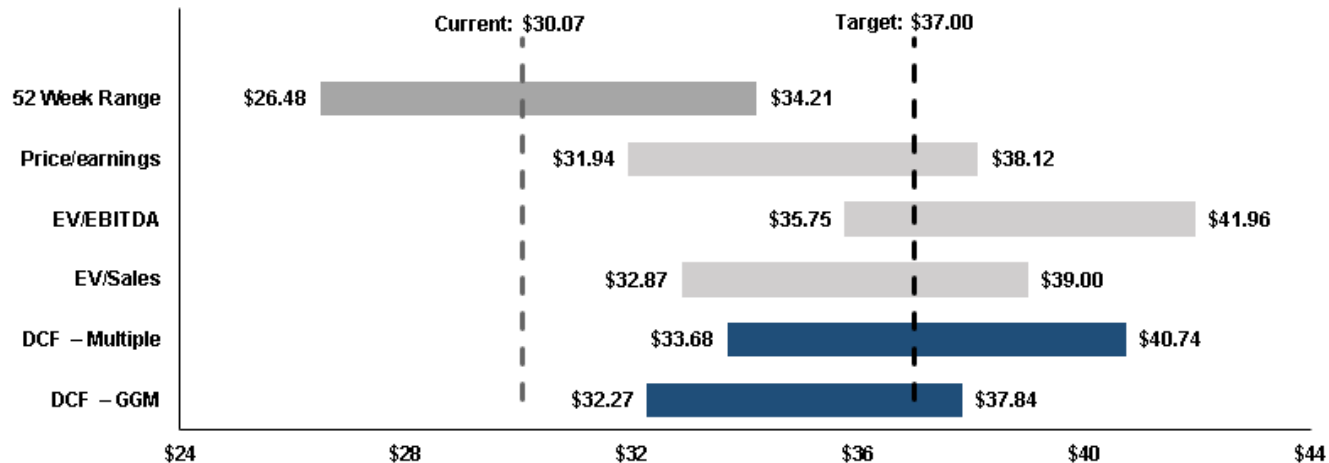
*Based on the multiples, is JACK overvalued, undervalued, or fairly valued?*



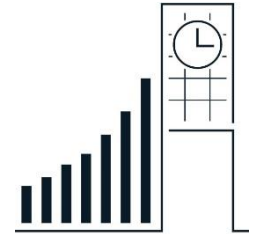
# HOW TO DISPLAY YOUR ANALYSIS



- ▶ Make a ‘football field’ in Excel
  - This will include your valuation – DCF, comps, etc...
  - Other things to include – 52 week range, Street price targets
- ▶ Value ranges should be similar, but not exactly the same
  - There is no “correct” way to value a company
- ▶ How to display your data ([video](#))



# QUESTIONS?



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