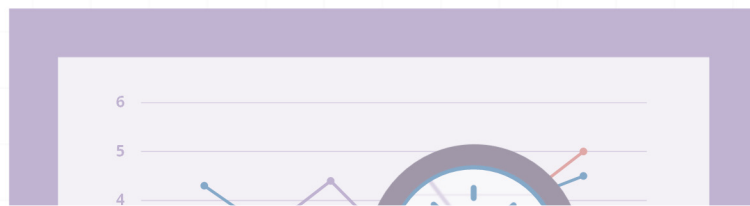
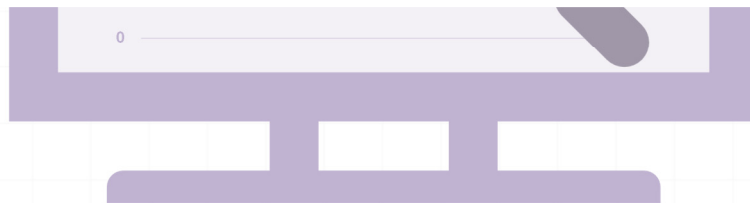




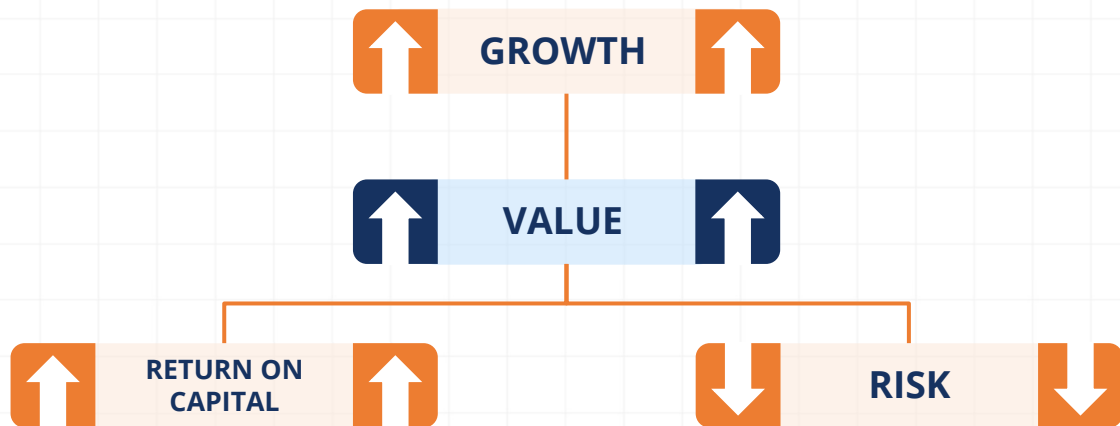
Trading Comps Analysis

FINANCIALEDGE⁷

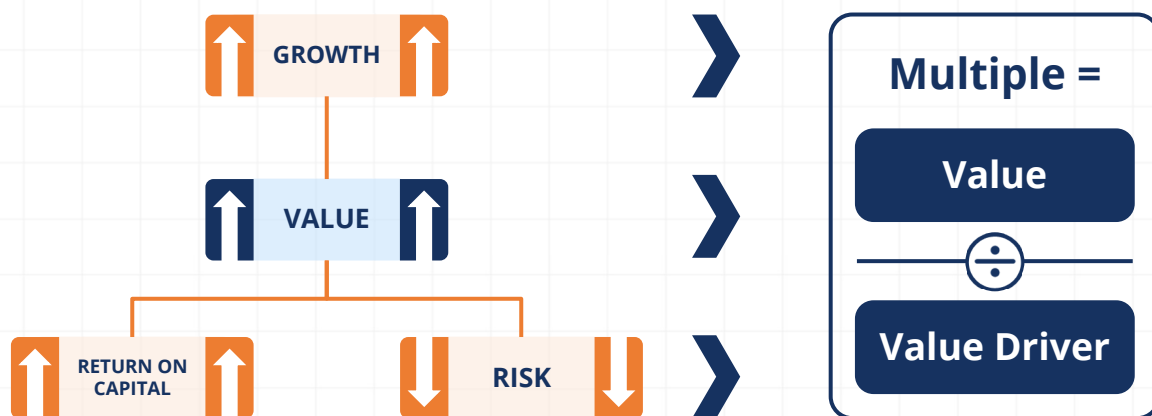
What Drives Multiples?

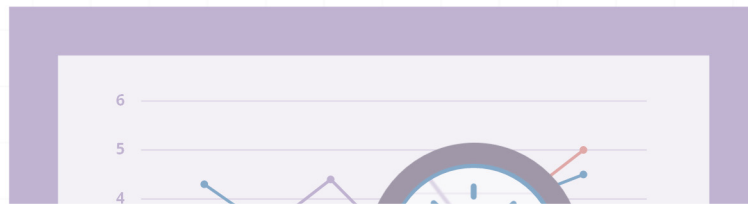
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A company's **value** reflects expectations of **future cash flows** to investors

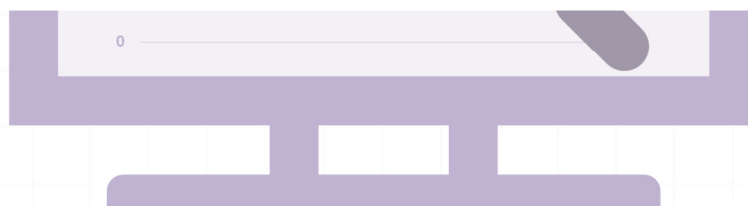
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Growth, returns and risk
therefore also drive multiples

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Distortion in Earnings Multiples

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When using earnings multiples, **the earnings metric must be a 'good' predictor** of future cash flows to investors

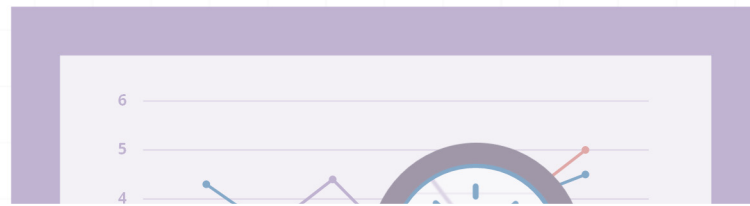
Value		Value Driver		Multiple	
EV	1,000.0	EBIT	100.0	EV/EBIT	10.0 x
Cash	100.0	Interest Income	1.0		
Debt	(300.0)	Interest expense	(15.0)		
		Tax expense	(25.8)		
Equity	800.0	Net income	60.2		
No. of shares	100.0	No. of shares	100.0	P/E	13.3x

A temporary **reduction** in earnings gives a **higher multiple vs peers**

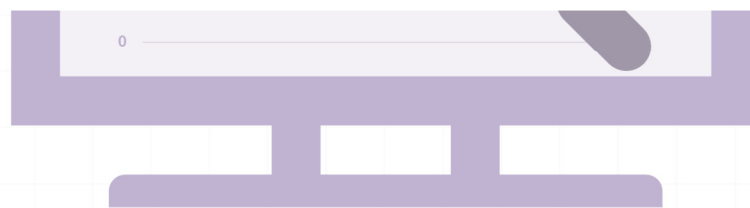
Excluding **important costs** from earnings gives a **lower multiple vs peers**

Analyzing different multiples and the trends in multiples helps us to understand what is reflected in each multiple

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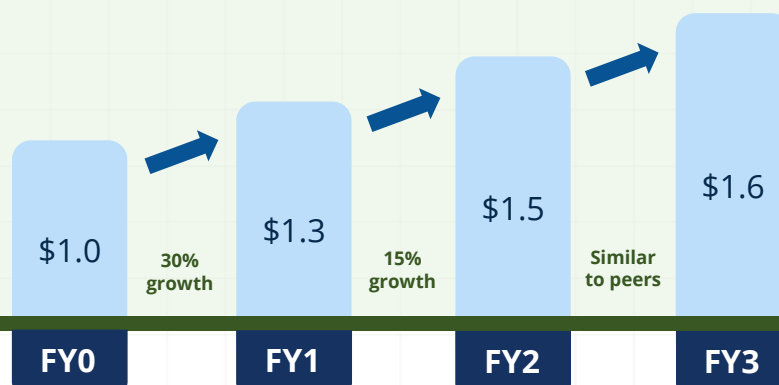


Forward Multiples

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What if a **company's growth is much higher** than it's peers for the next two years?

Alpha Inc EPS Forecasts

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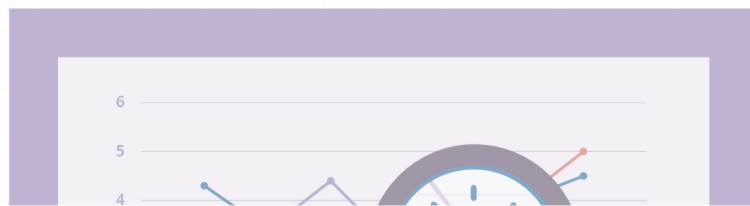


The company's current share price is **\$20.0**

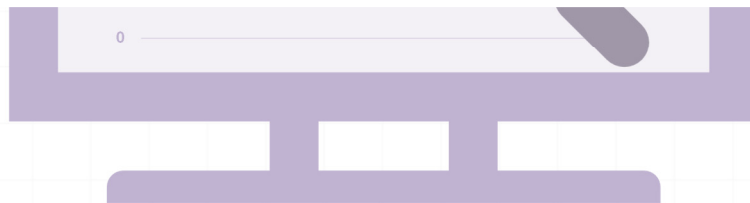
Company	FY0 P/E	FY1 P/E	FY2 P/E	FY3 P/E
Alpha Inc	20.0x	15.4x	13.3x	12.5x
Peer Co	13.0x	12.0x	11.4x	11.0x

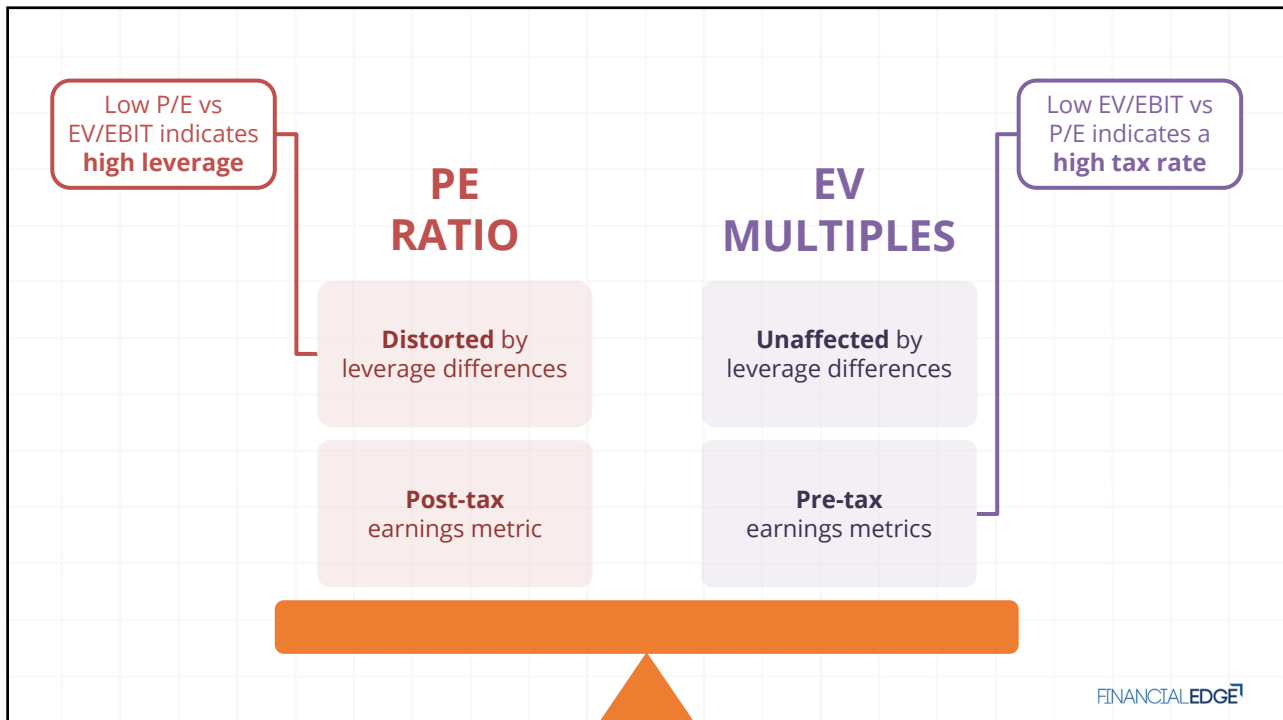
Multiples fall as earnings grow

Multiples in later years close to those of peers

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PE vs EV Multiples

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What if a company has **negative or volatile earnings**?

Gamma Inc forecasts

	FY0	FY1	FY2	FY3
Sales (\$bn)	3.0	2.5	3.0	3.3
EBITDA (\$bn)	1.2	0.8	1.0	1.4
EBIT (\$bn)	1.0	(0.1)	0.8	1.2

The company's EV is \$9.0bn

Company	FY0	FY1	FY2	FY3
EV/Sales	3.0x	3.6x	3.0x	2.7x
EV/EBITDA	7.5x	11.3x	9.0x	6.4x
EV/EBIT	9.0x	-	11.3x	7.5x

Stability

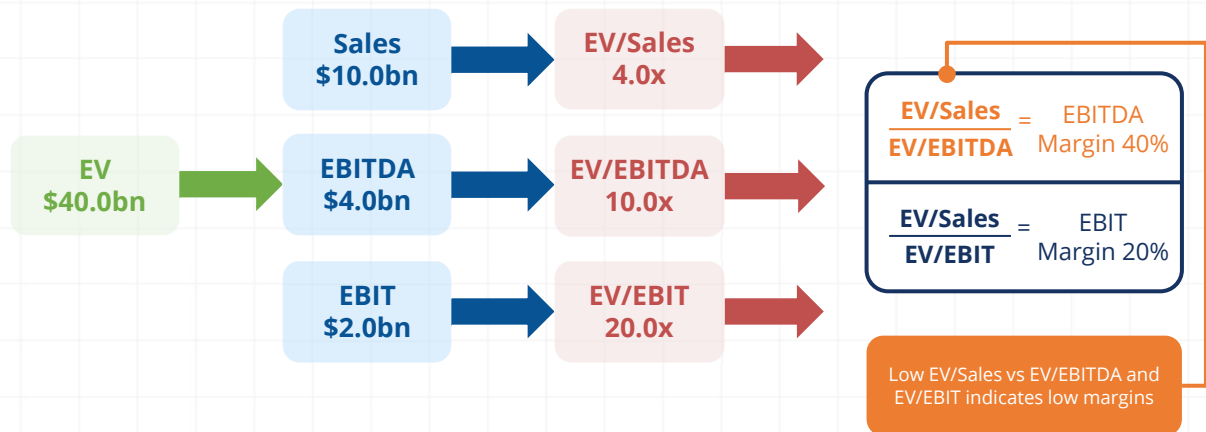


Link to
Cash Flows

EV/Sales is the
most stable

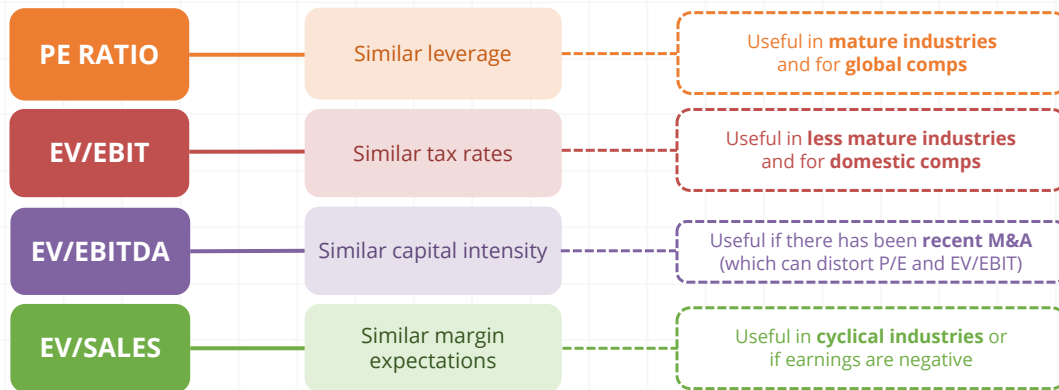
EV/Sales vs Earnings Multiples

If we expect companies to have **similar EV/Sales** we are implying that **they have (or will have)** similar margins



Which Multiple?

All multiples analysis **requires peers with similar growth, returns and risk expectations**



If growth rates **currently differ** but are expected to converge, **place more reliance** on forward multiples