

Comparable Companies Analysis

Chapter 1

Trading Comps

- How They Work

- Pros and Cons

The Process

- Step 1: Select the Universe of Comparable Companies
- Step 2: Locate the Necessary Financial Information
- Step 3: Spread the Key Statistics, Ratios, and Trading Multiples
- Step 4: Benchmark the Comparable Companies
- Step 5: Determine Valuation

Select the Universe of Comparable Companies

- Study the Target
- Identify Key Characteristics
 - _____ Profile
 - _____ Profile
- Screen for Comparable Companies

Business Profile

- Sector

THE BOSTON BEER COMPANY INC.

- SIC Code = 2082 - Malt Beverages
- NAICS = 312120 – Breweries
- Others (BICS, S&P, etc.)

Business Profile

- Sector
- Products and Services
- Customers and End Markets
- Distribution Channels
- Geography

Financial Profile

- Size
- Profitability
- Growth Profile
- Return
- Credit Profile

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SEC Filings

- 10-K
- 10-Q
- 8-K
- Schedule 14A
- EDGAR (www.sec.gov)

Other Sources of Information

- Equity Research Reports
- Consensus Estimates
- Press Releases and News
- Financial Information Services
 - *Bloomberg*
 - *FactSet*
 - *Moody's, S&P, Value Line*

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Calculating Value: Equity Value

- How do we do it?
= price per share x fully diluted shares outstanding
- What is fully diluted shares outstanding?
$$= \begin{array}{ccccc} \text{basic} & & \text{"in the money"} & & \text{"in the money"} \\ \text{shares} & + & \text{options \&} & + & \text{convertible} \\ \text{outstanding} & & \text{warrants} & & \text{securities} \end{array}$$
- How do we calculate it?
 - Treasury Stock Method
 - If-Converted Method
 - Net Share Settlement

Treasury Stock Method – Options and Warrants

(\$ in millions, except per share data; shares in millions)

Assumptions	
Current Share Price	\$40.00
Basic Shares Outstanding	300.0
Exercisable Options	10.0
Weighted Average Exercise Price	\$26.00

Calculation of Fully Diluted Shares Using the TSM	
Option Proceeds	
Current Share Price	
Shares Repurchased form Option Proceeds	
Shares from In-the-Money Options	
Less: Shares Repurchased from Option Proceeds	
Net New Shares from Options	
Plus: Basic Shares Outstanding	
Fully Diluted Shares Outstanding	

Treasury Stock Method – Options and Warrants :

(\$ in millions, except per share data; shares in millions)

Assumptions	
Current Share Price	\$25.00
Basic Shares Outstanding	211.0
Exercisable Options	8.0
Weighted Average Exercise Price	\$32.00

Treasury Stock Method – Options and Warrants : Another Example

(\$ in millions, except per share data; shares in millions)

Assumptions	
Current Share Price	\$20.00
Basic Shares Outstanding	100.0
Exercisable Options	5.0
Weighted Average Exercise Price	\$18.00

If-Converted Method– Convertible Debt

(\$ in millions, except per share data; shares in millions)

Assumptions	
Company	
Current Share Price	\$20.00
Basic Shares Outstanding	100.0
Convertible Security	
Amount Outstanding	\$150.0
Conversion Price	\$15.00

Calculation Using the If-Converted Method	
Amount Outstanding	
Conversion Price	
Incremental Shares	
Basic Shares Outstanding	
Plus: Net New Shares from Options	
Plus: Incremental Shares from Convertibles	
Fully Diluted Shares Outstanding	

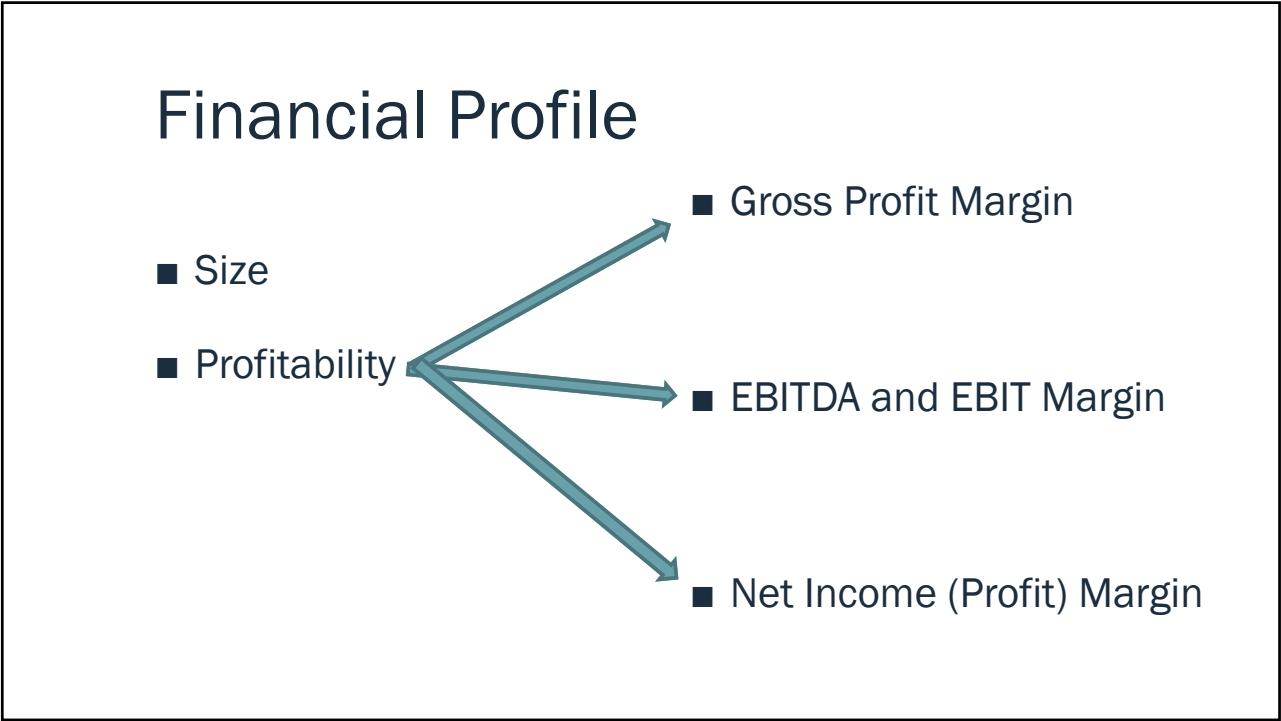
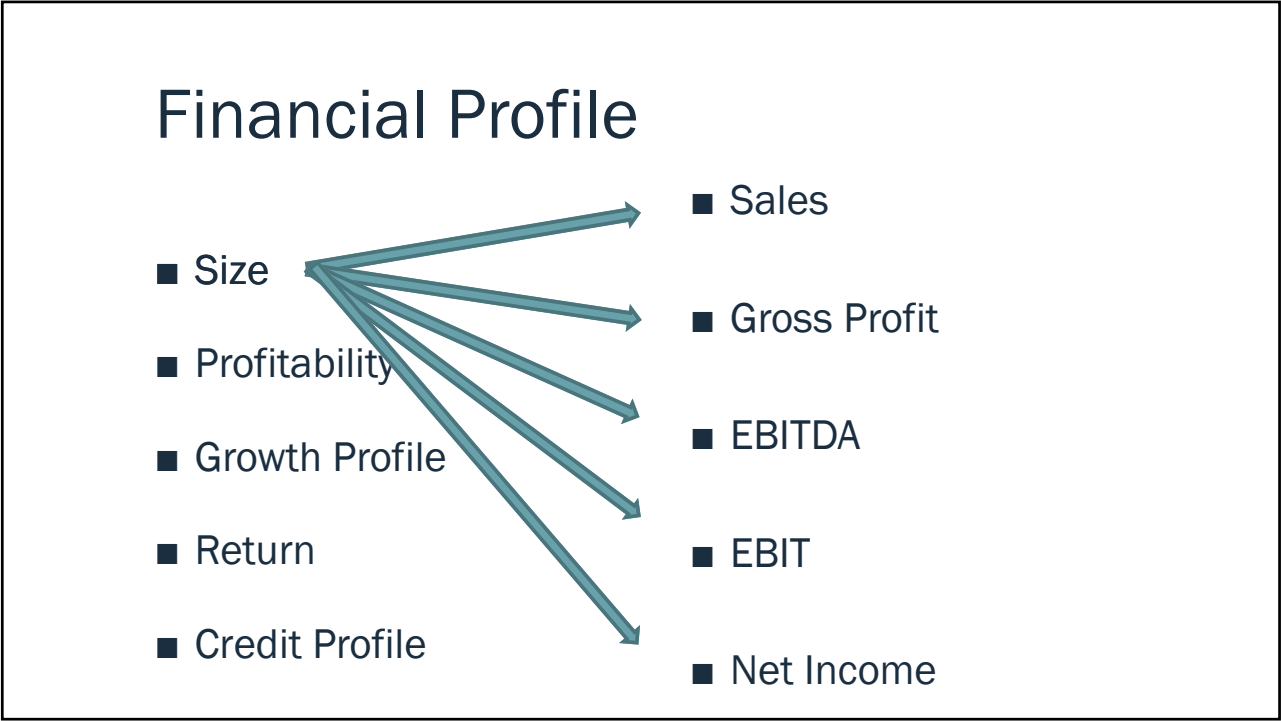
Net Share Settlement Method – Convertible Debt

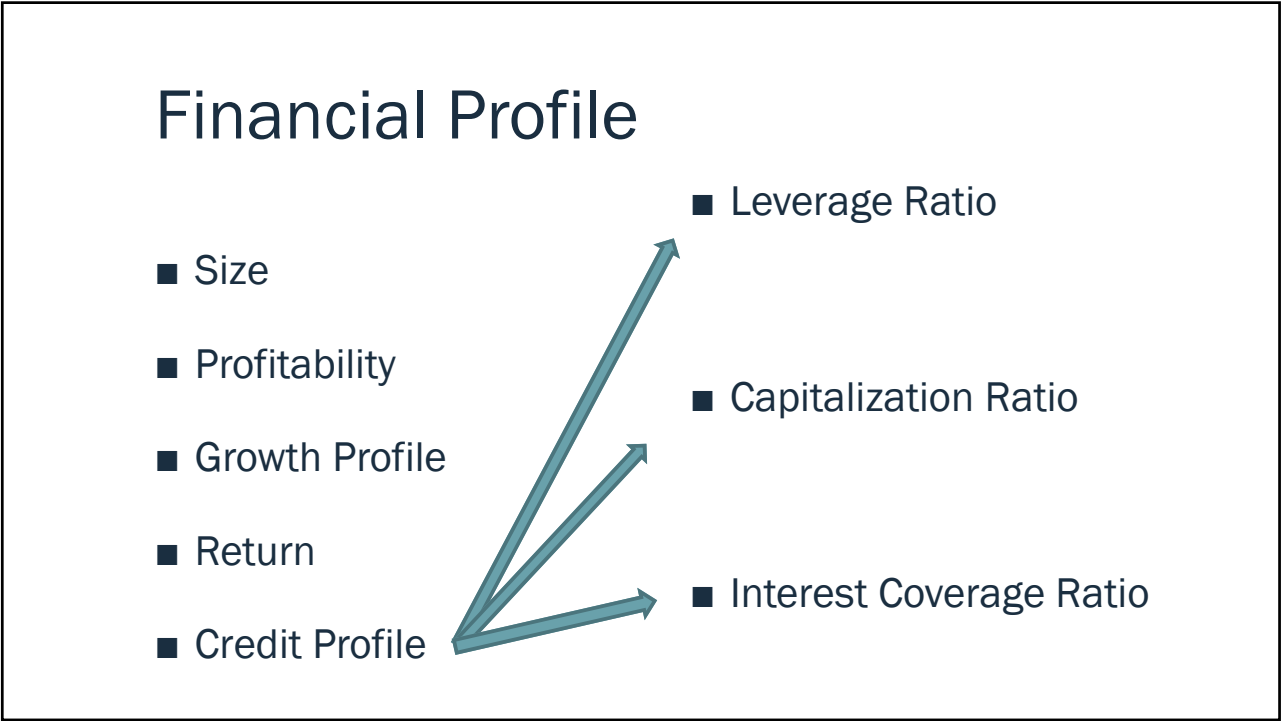
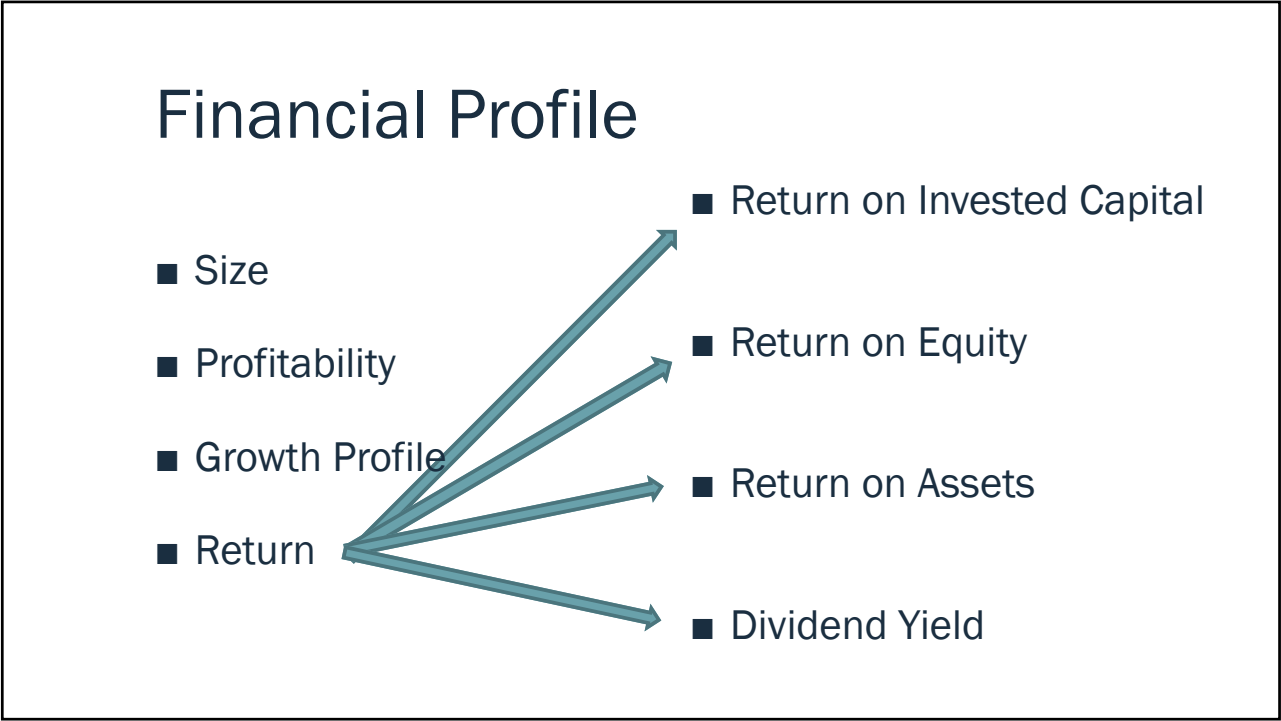
(\$ in millions, except per share data; shares in millions)		Calculation Using the Net Share Settlement Method	
Assumptions		Amount Outstanding	
Company		Conversion Price	
Current Share Price	\$20.00	Total Incremental Shares	
Basic Shares Outstanding	100.0	X Current Share Price	
Convertible Security		Total Conversion Value	
Amount Outstanding	\$150.0	Less: Par Value of Amount Outstanding	
Conversion Price	\$15.00	Excess Over Par	
		Current Share Price	
		Incremental Shares Using NSS	

Calculating Value: Enterprise Value

= Equity Value + Total Debt + Preferred Stock + Non-controlling Interests – Cash & Cash Equivalents

■ _____ of changes in _____





Adjusting Financials: Calculating LTM Data

■ **LTM = Prior Fiscal Year + Current Stub – Prior Stub**

	Q1	Q2	Q3	Q4	Q1
Prior Fiscal Year					
Plus: Current Stub					
Less: Prior Stub					
LTM					

	Q1	Q2	Q3	Q4	Q1
Prior Fiscal Year					
Plus: Current Stub					
Less: Prior Stub					
LTM					

Adjusting Financials: Calendarization of Data

$$\frac{\text{Calendar Year Sales}}{\text{Sales}} = \frac{(\text{month \#}) \times (\text{FYA Sales})}{12} + \frac{(12 - \text{month \#}) \times (\text{NFY Sales})}{12}$$

Adjusting Financials: Non-recurring Items and Recent Events

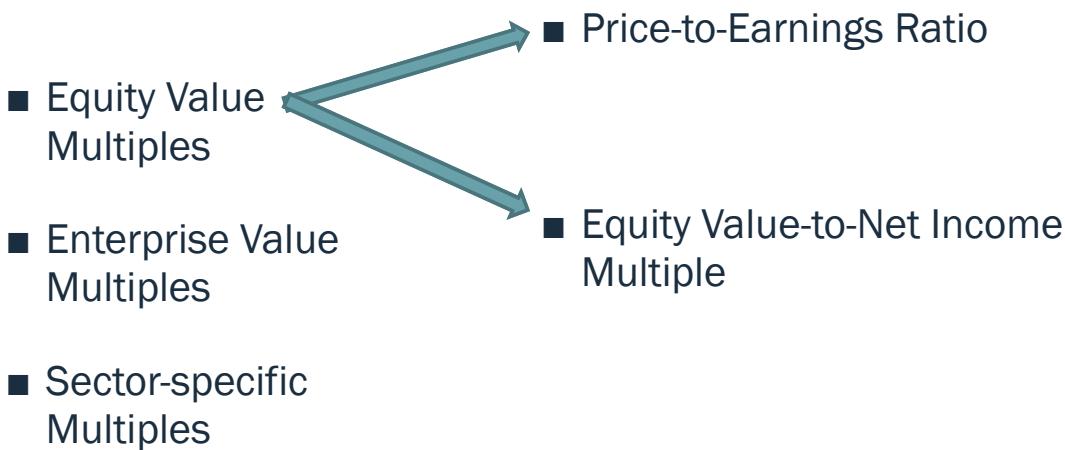
- Normalize
 - _____ *or sanitizing financials*
- 10Ks and 10Qs
 - *MDA and footnotes*
- Key words: Non-recurring, unusual, one-time, extraordinary
- Key causes: Write-offs, restructurings, changes in accounting principles, gains on asset sales, litigation

Adjusting Financials: Non-recurring Items and Recent Events

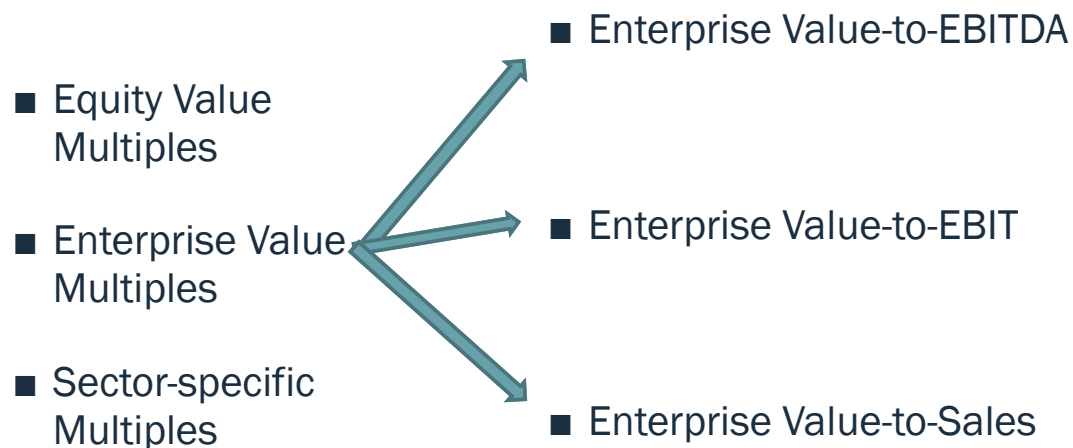
■ Examples:

- _____
- _____

Calculate Trading Multiples



Calculate Trading Multiples

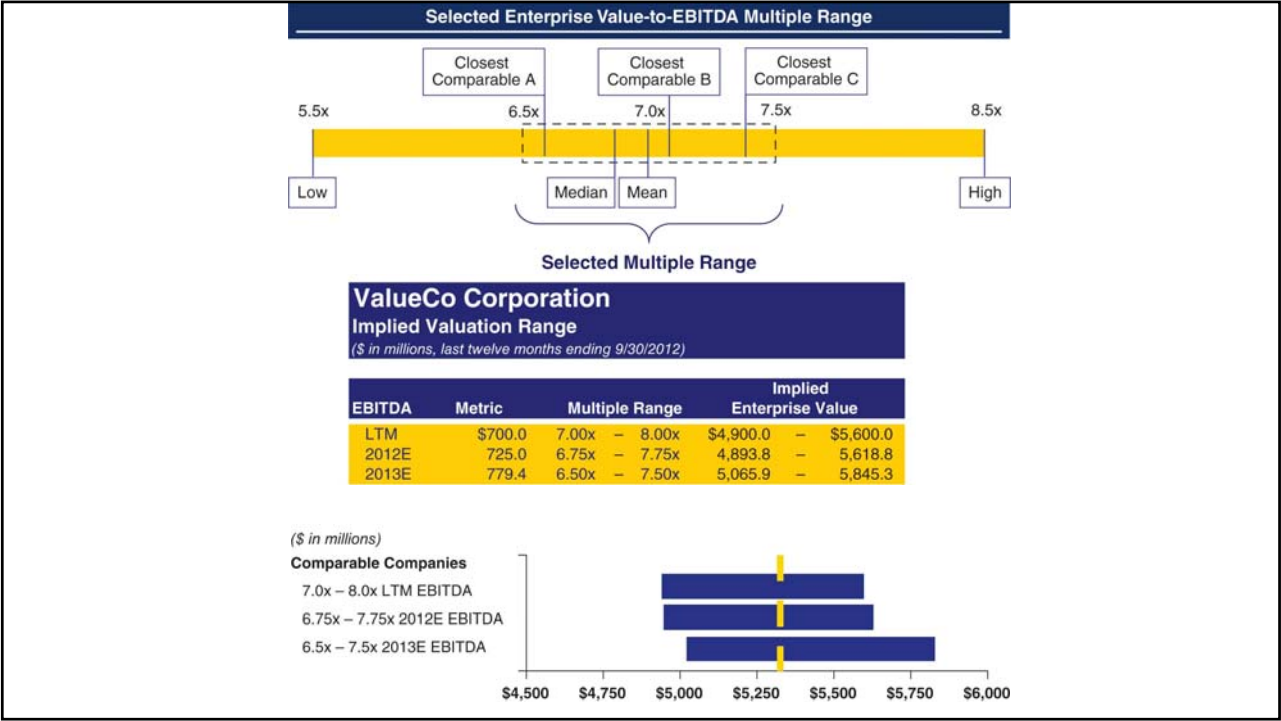


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Comparable Companies Analysis

Pros

- _____
- Relativity
- Quick and convenient
- _____

Cons

- Market-based
- Absence of relevant _____
- Potential disconnect from _____
- Company specific issues