Similar Companies Can Have Huge Value Differences

Can two companies in the same industry have very different valuations? In short, the answer is a resounding, yes. Let's take an example of two companies that both have an EBITDA of $6 million but with two very different values. In fact, Business One is valued at five times EBITDA, which prices it at $30 million whereas Business Two is valued at seven times EBITDA, meaning it has a value of $42 million.

Value Difference Checklist

1. Revenue Size
2. Profitability
3. The Market
4. Growth Rate
5. Regional/Global Distribution
6. Management & Employees
7. Capital Equipment Requirements
8. Systems/Controls
9. Uniqueness/Proprietary
10. Intangibles (Intellectual property/patents/brand, etc.)

There are quite a few variables on the above checklist that stand out, with the top one being that of growth rate. Growth rate is a major value driver when buyers are considering value.

Business Two, for example, with its seven times EBITDA has a growth rate of 50%, whereas Business One, with its five times EBITDA has a growth rate of just 12%. Discovering the real growth rate story means answering some pretty important questions.

1. Are the company's projections achievable and believable?
2. Where is the company's growth coming from?
3. Are there long-term contracts currently in place?

4. Where is the growth originating? In other words, what services or products are driving growth? Will those services or products continue to drive growth in the future?
5. How is the business obtaining its customers for the projected growth?
6. How reliable are the contracts/orders?

Ultimately, finding the difference in value between two businesses, that otherwise appear similar, usually resides in growth rate. This is a factor that should not be overlooked. It is essential to know a company's growth rate as well as the key questions to ask regarding its growth. If you are going to obtain an accurate valuation as well as understanding the valuation between different companies, this part of the process cannot be overlooked.

About CK Business Consultants, Inc.:

CK Business Consultants, Inc. *has been dealing exclusively in the sale and acquisition of petroleum and propane related mid-market companies since 1976. We are qualified, experienced, and highly professional intermediaries working with both buyers and sellers in the successful transfer of business ownership. We handle all phases of the project including initial analysis, valuations, developing a confidential information memorandum, locating qualified buyers, negotiations, and execution of the transaction. For more information, please call or email Gary Papay @ 570-584-6488, gpapay@ckbc.net or visit our website @ www.ckbc.net.*