UNIVERSITY INVESTMENT CLUB

3.0 Valuation Guide

Comparable Companies, Precedent Transactions & the Football Field

Guide 3 of 6 | IB & PE Interview Prep Series

Compiled for internal club use. Questions are illustrative and drawn from commonly tested technical themes in IB and PE recruiting — not affiliated with, or sourced verbatim from, any bank or recruiting firm.

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Valuation questions test whether you can explain how bankers triangulate a company's worth using multiple methodologies, and why each one tells a slightly different story.

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1. Valuation Methodologies Overview

Q1.1 What are the main ways to value a company?

- **Comparable Companies Analysis ("Trading Comps"):** value based on how similar public companies trade today.
- **Precedent Transactions Analysis ("Deal Comps"):** value based on multiples paid in similar past M&A deals.
- **Discounted Cash Flow (DCF):** value based on the present value of projected future cash flows.
- **Leveraged Buyout (LBO) Analysis:** the maximum price a financial sponsor could pay and still hit its target returns.
- Others: sum-of-the-parts, liquidation value, replacement value — used in specific situations.

Q1.2 Rank these methodologies from highest to lowest valuation, generally.

There's no universal ranking, but a common pattern: Precedent Transactions often produce the **highest** values because they include a control premium; Comparable Companies tend to sit in the middle, reflecting the market's current view without a premium; DCF can land anywhere depending on assumptions, but often lands lower for mature companies with conservative growth/discount rate inputs. Always caveat that this varies by situation and market conditions.

Q1.3 Which methodology would you rely on most for a young, unprofitable company?

Comparable multiples (e.g., EV/Revenue) since EBITDA and earnings-based multiples don't work when profitability is negative or non-meaningful. A DCF is also possible but highly sensitive to long-dated, uncertain assumptions for an early-stage company.

2. Comparable Companies Analysis

Q2.1 How do you select comparable companies?

Start with companies in the same industry with similar business models, then refine using: similar size (revenue/EBITDA), growth rate, margin profile, geography, and customer end-markets. In practice you rarely find perfect comps, so the goal is the closest reasonable set, adjusted qualitatively.

Q2.2 Why might two companies in the same industry trade at very different EV/EBITDA multiples?

- Differences in growth rate — faster growers typically command higher multiples.
- Differences in margins and capital intensity.
- Differences in perceived risk (customer concentration, regulatory exposure, leverage).
- Differences in scale, liquidity of the stock, and market sentiment toward the sub-sector.

Q2.3 What is "calendarization," and why does it matter for comps?

Calendarizing means adjusting each company's financials onto a common fiscal-year period (e.g., calendar year-end) so metrics are comparable across companies with different fiscal year ends — otherwise you're comparing figures from different time periods.

Q2.4 What adjustments would you make to EBITDA before using it in a comps analysis?

Add back non-recurring items that hit Operating Income — restructuring charges, litigation settlements, one-time impairments, disaster-related costs — so the multiple reflects ongoing, normalized earnings power rather than a distorted single period.

3. Precedent Transactions

Q3.1 Why do precedent transaction multiples tend to be higher than trading comps multiples?

Because they include a **control premium** — the buyer is paying to acquire full control of the company, plus expected synergies, so the price embeds more value than the standalone public trading price reflects.

Q3.2 What factors would make you exclude a precedent transaction from your set?

- It's too old — market conditions/multiples have shifted meaningfully since then.
- The target or buyer's business is meaningfully different from your subject company.
- Unusual deal dynamics (distressed sale, related-party transaction, strategic buyer paying a large synergy premium not representative of a normal deal).

Q3.3 How is precedent transaction analysis affected by market cycles?

Multiples paid tend to be higher in bull markets/periods of cheap financing and lower during downturns or credit tightening — so a deal set spanning very different macro regimes can be misleading unless you weight toward more recent, comparable-cycle deals.

4. Synthesis & the Football Field

Q4.1 What is a "football field" chart and what's it used for?

A football field chart displays the implied valuation ranges from each methodology (comps, precedent transactions, DCF, 52-week trading range, etc.) as horizontal bars, letting you visually compare and triangulate a reasonable overall valuation range for a company.

Q4.2 If your different methodologies produce very different ranges, what would you do?

Revisit your assumptions and comp/transaction selection for errors first. Then consider whether the divergence reflects something real — e.g., the market may be undervaluing the company relative to a DCF's intrinsic value, or growth assumptions in the DCF may be too aggressive relative to what the market is pricing in. Present the range transparently rather than forcing convergence.