

Can we trust and use “industry standard” multiples on sale of a business?

Business Valuation Resources, LLC is a company in the US that collects and analyses data on the sale of private businesses. I have a subscription to one of their services that provides me with useful information that I often refer to, judiciously, when testing my valuation calculations for reasonableness. The information is available for close to 1,000 industry codes. Several different metrics are provided for each business whose details are reported after its sale. Some industry codes include several hundred reports on businesses that have sold; other codes have a mere handful.

Great care needs to be taken when using the information as two businesses are seldom comparable in every respect. However, taken in aggregate, a report on a specific code may provide a useful snapshot against which to compare my own calculations of the fair market value of a business with the same code, especially if there are sufficient comparables that can be broken down into percentiles.

In early December 2017 BVR published the following table covering eight major industry groups:

Median Multiples by Industry / SIC Sector	MVIC / Net Sales	MVIC / SDE	MVIC / EBITDA
Cumulative to 4th quarter, 2017, based on 28,000 reported private company transactions, mostly in the US.			
Agriculture, Forestry & Fishing	0.62	2.02	3.25
Construction	0.36	2.44	3.63
Manufacturing	0.67	2.88	3.89
Transportation, Communications, Electric, Gas & Sanitary	0.71	2.51	3.01
Wholesale trade	0.41	3.91	3.80
Retail trade	0.33	2.39	3.36
Finance, Insurance & Real Estate	1.03	2.99	3.37
Services	0.57	2.80	3.75
All Industries	0.48	2.66	3.62
MVIC - Market value of Invested Capital (a.k.a. Enterprise Value)			
SDE - Shareholders' (or Sellers') Discretionary Earnings			
EBITDA - Earnings before Interest, Tax & Depreciation/Amortization			

The numbers are easy to follow. The observations that I would emphasise are:

1. The numbers are medians for the major groups, each of which covers several hundred specific industry codes. Within each industry code there can be very wide variations. The numbers should therefore be treated as nothing more than broad indicators.
2. The above table reflects the results of thousands of transactions over many years, all of which will have had many points on which the parties negotiated before agreeing on a sale price. Unless you can clearly identify similarities, results from other transactions should not be used as a starting point when proposing a sale or purchase price.
3. Whether you are starting a purchase/sale negotiation or needing a more specific valuation for another purpose (divorce, shareholder dispute, tax planning, corporate reorganisation etc), a report from a trained and experienced professional business valuator (such as a Chartered Business Valuator) will always be useful. The scope of the engagement (and therefore the fee) can be tailored to suit the circumstances.
4. As a final point of interest, in my experience working with results published by BVR, metrics for MVIC / Net Sales show far less dispersion about the mean than MVIC / EBITDA, and quite a bit less dispersion than MVIC / SDE. This tells me (a) that, within each industry, a company's level of sales is a better predictor of its sale price than its EBITDA and (b) that, within each industry, there's no reliable standard for EBITDA as a percentage of Sales. Nonetheless, normalised EBITDA is regularly used by business brokers as a base for a proposed sale price.

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