June 2013

**Street Wise**

*"Price is what you pay. Value is what you get." – Warren Buffett*

**TOBIN & COMPANY**
INVESTMENT BANKING Grp.

## Market Snapshot for May 1, 2013 – May 31, 2013

| As of May 31st | May 31st | QTR % Δ | LTM % Δ |
|---|---|---|---|
| S&P 500 | 1,630.74 | 7.7% | 19.6% |
| Gold | $1,394.50 | (13.3)% | (11.5)% |
| Oil | $91.97 | (0.01)% | 3.6% |
| 10 Yr. T-Note | 2.16% | 27bps | 57bps |

## Valuation Methods

Several of our clients have requested primers on valuation methods, so we thought we would review them for you in this edition of StreetWise.

The most commonly used valuation methodologies in Investment Banking are:

- **Comparable Companies Analysis**
- **Precedent Transaction Analysis**
- **Discounted Cash Flow Analysis**

The first two approaches are market approaches, which are based on the market value of the company's operations. The third approach is an income approach, which is based on projected earnings of the company.

## Comparable Companies Analysis

Comparable Companies Analysis is a market approach by which a universe of companies is selected based upon similar industry focus, financial characteristics and performance drivers. We calculate each company's enterprise value — which is the company's share price multiplied by the number of shares outstanding to establish equity value, then add debt and subtract cash to calculate enterprise value — and divide that enterprise value by the company's latest twelve months ("LTM") revenue and EBITDA. These values are called revenue and EBITDA multiples.

## Discounted Cash Flow Analysis

Discounted Cash Flow Analysis ("DCF") is premised on the principle that a company's value can be derived from the present value of its projected free cash flow, which is based on a variety of assumptions and judgments about its expected future financial performance, including sales growth rates, profit margins, capital expenditures and net working capital requirements.

The valuation implied for a company by a DCF is also known as its intrinsic value, as opposed to its market value. Therefore, a DCF serves as an important alternative to market-based valuation techniques, which can be distorted by market aberrations. A DCF is also critical when there are limited (or no) true peer companies or comparable acquisitions.

## Precedent Transaction Analysis

Precedent Transactions Analysis, like Comparable Companies Analysis, employs a multiples-based approach to derive an implied valuation range for a company. Precedent Transactions Analysis is premised on multiples paid for comparable companies in prior transactions. The selection of an appropriate universe of comparable acquisitions is the foundation for performing Precedent Transactions Analysis. As a general rule, the most recent transactions are the most relevant as they likely took place under similar market conditions to the contemplated transaction.