

The 3 Secrets Of Market Multiples

Volume 3 Issue 24, November 22, 2016

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Have you ever wondered why two seemingly similar companies sell at significantly different multiples? What are buyers seeing in ostensibly comparable companies that causes sale price differences? The three secrets of market multiples are:

1. Potential Growth

Buyers are willing to pay more for companies with high growth potential than companies perceived as having low growth potential. High growth potential companies create exceptional customer value; exploit high-growth market segments; are innovative; have strong brand identity; create service differentiation; and invest in the development and delivery of new or enhanced services.

2. Cost/Ease of Scalability

Buyers are willing to pay more for companies that can scale up easily and at relatively low cost. Telemedicine and telehealth are examples of companies that allow for relatively low cost/easy scalability. Conversely, imaging centers are high cost/hard to scale enterprises that require significant reinvestment once the centers reach capacity. In addition, they often face physical space limitations on growth.

3. Company Specific Risk

Buyers are willing to pay more for low-risk companies than high-risk companies. Low-risk companies have regular strategic planning sessions; fully engaged competent senior managers; fully engaged board of directors or advisory board; strong intracompany communications; a fostering corporate culture; strong customer loyalty; barriers to competition; good geographic/demographic location(s); low customer concentration; competent marketing/sales team(s); strong brand recognition; low employee turnover; a continuous learning culture; sound quality assurance team; effective operations; solid finance and IT teams; little or no litigation; and more.

It is quite common for company owners to perceive the market value of their company in terms of market multiples based on prior sales of similar companies. But when comparing themselves to 'similar' companies that have sold, they may not be privy to information about the growth potential, cost/ease of scalability, and company-specific risk of those prior sales (a.k.a., the three 'secrets' that impact market multiples).