The Oil & Gas Advisor™

Field-proven results in business sales and acquisitions

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 TOGA, The Oil & Gas Advisor:

The Oil & Gas Advisor's team of M&A Brokers and advisors specialize in selling businesses related to the oil, gas, and energy industry. Clients include manufacturers, distributors, services, construction and logistics firms. TOGA is USA's expert in selling propane companies. Since 1987, they have been investment banking merger and acquisitions advisors, providing certified business broker and intermediary services. TOGA's experts are award winning industry leaders with offices in Texas, Oklahoma and Pennsylvania.

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