

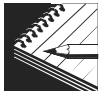
# Chapter 1

## Comparable Companies Analysis

---

<http://www.pbookshop.com>

COPYRIGHTED MATERIAL

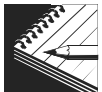


# Comparable Companies Analysis Steps

---

- Step I. Select the Universe of Comparable Companies
- Step II. Locate the Necessary Financial Information
- Step III. Spread Key Statistics, Ratios, and Trading Multiples
- Step IV. Benchmark the Comparable Companies
- Step V. Determine Valuation

<http://www.pbookshop.com>



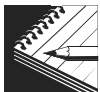
Focus on

Chapter 1 — Comparable Companies Analysis

## Overview of Comparable Companies Analysis

---

- Provides a market benchmark against which a banker can establish valuation for private company or analyze the value of public company at given point in time
- Built upon premise that similar companies provide highly relevant reference point for valuing a target company
  - Share key business and financial characteristics, performance drivers, and risks
  - Valuation parameters can be established for the target by determining relative positioning among peers
- Broad range of applications, most notably for various M&A situations, IPOs, restructurings, and investment decisions
- Selecting universe of comparable companies for target is core of analysis
  - Peers are benchmarked against each another and the target based on various financial statistics and ratios
  - Valuation multiples utilize a measure of value in numerator and operating metric in denominator
- Designed to reflect “current” valuation based on prevailing market conditions and sentiment
  - Market trading levels may be subject to periods of irrational investor sentiment that skew valuation either too high or too low
  - No two companies are exactly the same
  - May fail to accurately capture a given company’s true value



## Step I: Select the Universe of Comparable Companies

---

### Study the Target

- Process of learning the in-depth “story” of target should be exhaustive
- Read and study as much company- and sector-specific material as possible

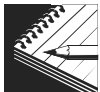
### Public Targets

- Annual (10-K) and quarterly (10-Q) SEC filings
- Consensus research estimates
- Equity and fixed income research reports
- Press releases, earnings call transcripts, investor presentations, and corporate websites

### Private Targets

- Greater challenge to locate information (unless company has public debt)
- Corporate websites, sector research reports, news runs, and trade journals
- Public competitors’ SEC filings, research reports, and investor presentations
- Banker is provided with detailed business and financial information in organized M&A sale process

<http://www.pbookshop.com>



Focus on

## Step I: Select the Universe of Comparable Companies

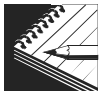
---

### *Identify Key Characteristics of the Target for Comparison Purposes*

#### Business and Financial Profile Framework

Business Profile	Financial Profile
<ul style="list-style-type: none"><li>▪ Sector</li><li>▪ Products and Services</li><li>▪ Customers and End Markets</li><li>▪ Distribution Channels</li><li>▪ Geography</li></ul>	<ul style="list-style-type: none"><li>▪ Size</li><li>▪ Profitability</li><li>▪ Growth Profile</li><li>▪ Return on Investment</li><li>▪ Credit Profile</li></ul>

<http://www.pbookshop.com>



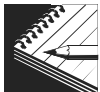
## Step I: Select the Universe of Comparable Companies

---

### Screen for Comparable Companies

- Begin screen after target's basic business and financial characteristics are researched and understood
- Examination of target's public competitors is usually best place to begin
- Competitors share key business and financial characteristics and are susceptible to similar opportunities and risks
  - Focus on identifying companies with similar business profile
  - More detailed financial benchmarking is performed in Step IV
- Sources
  - 10-Ks, annual proxy statement, investor presentations, and credit rating agencies reports (e.g., Moody's, S&P, and Fitch)
  - Equity research reports, especially initiating coverage reports
  - Excerpts from fairness opinion contained in proxy statement for recent M&A transaction
  - Bloomberg Industry Classification Standard ("BICS") codes
- Potential to tier selected companies by size, business focus, or geography
- Difficult to locate "pure" comparable companies
- Often as much "art" as "science"

<http://www.stuvia.com>

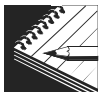


Focus on

## Step II: Locate the Necessary Financial Information

---

- Valuation is driven on basis of both historical performance (e.g., last twelve months (LTM) financial data) and expected future performance (e.g., consensus estimates for future calendar years)
- SEC Filings – Historical Financials
  - Used as source for historical financial information (both annual and LTM), balance sheet data, basic shares outstanding, stock options/warrants data, and information on non-recurring items
  - 10-K (Annual Report) – annual audited report, provides comprehensive overview of company and prior year performance
  - 10-Q (Quarterly Report) – quarterly unaudited report, provides overview of most recent quarter and year-to-date (YTD) period
  - 8-K (Current Report) – reports occurrence of *material* corporate events or changes (“triggering event”)
  - Proxy Statement – contains material information regarding matters shareholders are expected to vote on
- Equity Research – Estimates
  - Research reports – provide individual analyst estimates of future company performance and include estimates of sales, EBITDA and/or EBIT, and EPS for future quarters and future two- or three-year period
  - Initiating coverage research reports are more comprehensive
  - Consensus estimates (e.g., Bloomberg) are used as basis for calculating forward-looking trading multiples in trading comps

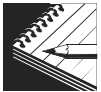


## Step II: Locate the Necessary Financial Information (continued)

---

- Press Releases and News Runs
  - News of earnings announcements, declaration of dividends, management changes, and M&A and capital markets transactions
- Financial Information Services (e.g., Bloomberg)
  - Key source for obtaining SEC filings, research reports, consensus estimates, and press releases

<http://www.pbookshop.com>



Focus on

**Chapter 1 — Comparable Companies Analysis**

**8**

---



## Step III: Spread Key Statistics, Ratios, and Trading Multiples

---

- Once the necessary financial information for each of the comparables has been located, it is entered into an input page.
- The input page data, in turn, feeds into output sheets that are used to benchmark the comparables.

### Input Sheet

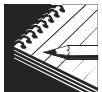
- Enter a company's financial data into an input page
- Feeds into summary output sheets used to benchmark the comparables
- Designed to assist in calculating the key financial statistics, ratios, and multiples for the comparables universe



### Output Sheets

- Summary of key financial data for each comparable company
- Data is presented in clear and succinct format for easy comparison
- Serves as basis for identifying, analyzing and comparing comparable companies

<http://www.pbookshop.com>



Focus on

## Step III: Spread Key Statistics, Ratios, and Trading Multiples

---

### *Calculation of Key Financial Statistics and Ratios*

#### Size

- Market Valuation: equity value and enterprise value
- Key Financial Data: sales, gross profit, EBITDA, EBIT, and net income

#### Profitability

- Gross profit, EBITDA, EBIT, and net income margins

#### Growth Profile

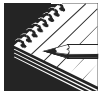
- Historical and estimated growth rates

#### Return on Investment

- ROIC, ROE, ROA, and dividend yield

#### Credit Profile

- Leverage ratios, coverage ratios, and credit ratings



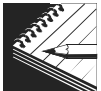
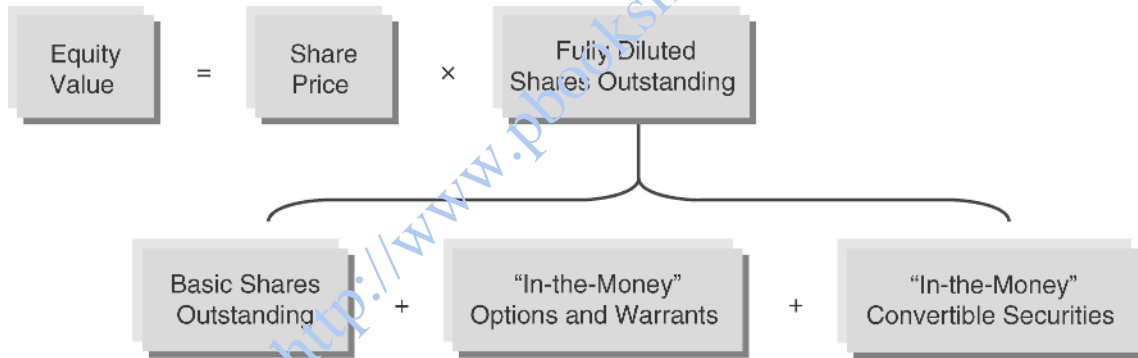
Focus on

## Step III: Spread Key Statistics, Ratios, and Trading Multiples

---

### Size: Market Valuation

- Equity Value (“market capitalization”)
  - Value represented by company’s basic shares outstanding plus “in-the-money” stock options, warrants, and convertible securities—collectively, “fully diluted shares outstanding”
  - Calculated by multiplying company’s current share price by fully diluted shares outstanding



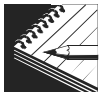
## Step III: Spread Key Statistics, Ratios, and Trading Multiples

---

### Size: Market Valuation (continued)

- Enterprise Value (“total enterprise value” or “firm value”)
  - Sum of all ownership interests in company and claims on assets from both debt and equity holders
  - Equity value component is calculated on fully diluted basis

$$\text{Enterprise Value} = \text{Equity Value} + \text{Total Debt} + \text{Preferred Stock} + \text{Noncontrolling Interest} - \text{Cash and Cash Equivalents}$$



Focus on

## Step III: Spread Key Statistics, Ratios, and Trading Multiples

---

### Size: Key Financial Data

#### Sales

- First line item, or “top line,” on income statement
- Represents total dollar amount realized by company through sale of products and services
- Sales levels and trends are key factor in determining company’s relative positioning among peer

#### Gross Profit

- Profit earned by company after subtracting costs directly related to production of products and services (COGS)
- Key indicator of operational efficiency and pricing power
- Usually expressed as percentage of sales

#### EBITDA

- Earnings Before Interest, Taxes, Depreciation and Amortization
- Non-GAAP financial measure
- Calculated by taking operating income and adding back depreciation and amortization
- Widely-used proxy for operating cash flow
- Independent of capital structure (i.e., interest expense) and tax regime (i.e., tax expense)



## Step III: Spread Key Statistics, Ratios, and Trading Multiples

---

### Size: Key Financial Data (continued)

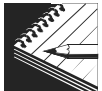
#### EBIT

- Earnings Before Interest and Taxes
- Reported as operating income, operating profit, or income from operations
- Independent of capital structure (i.e., interest expense) and tax regime (i.e., tax expense)

#### Net Income

- Residual profit after company's expenses have been netted out
- Wall Street views net income on a per share basis (i.e., EPS)

<http://www.pbookshop.com>



Focus on

**Chapter 1 — Comparable Companies Analysis**

## Step III: Spread Key Statistics, Ratios, and Trading Multiples

### Growth Profile

- Historical and estimated future growth rates
- Compound annual growth rates (CAGRs)
- Historical EPS must be adjusted for non-recurring items

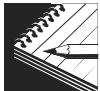
Historical and Estimated Diluted EPS Growth Rates

	Fiscal Year Ending December 31,						
	2009A	2010A	2011A	CAGR ('09 - '11)	2012E	2013E	CAGR ('11 - '13)
Diluted Earnings Per Share	\$1.00	\$1.15	\$1.30	14.0%	\$1.50	\$1.65	12.7%
% growth		15.0%	13.0%		15.4%	10.0%	
Long-term growth rate							12.0%

$$= (\text{Ending Value} / \text{Beginning Value}) ^ (1 / (\text{Ending Year} - \text{Beginning Year})) - 1$$

$$= (\$1.30 / \$1.00) ^ (1 / (2011 - 2009)) - 1$$

Source: Consensus Estimates



## Step III: Spread Key Statistics, Ratios, and Trading Multiples

---

### Profitability

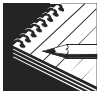
- Gross Profit Margin – measures percentage of sales remaining after subtracting COGS
  - Driven by company’s direct cost per unit, such as materials, manufacturing, and direct labor involved in production

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit (Sales - COGS)}}{\text{Sales}}$$

- EBITDA and EBIT margin – accepted standards for measuring company’s operating profitability
  - Independent of capital structure (i.e., interest expense) and tax regime (i.e., tax expense)

$$\text{EBITDA Margin} = \frac{\text{EBITDA}}{\text{Sales}}$$

$$\text{EBIT Margin} = \frac{\text{EBIT}}{\text{Sales}}$$



Focus on



## Step III: Spread Key Statistics, Ratios, and Trading Multiples

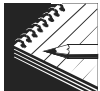
---

### *Profitability (continued)*

- Net Income Margin – measures company’s overall profitability as opposed to operating profitability
  - Impacted by capital structure and tax regime

$$\text{Net Income Margin} = \frac{\text{Net Income}}{\text{Sales}}$$

<http://www.pbookstop.com>



## Step III: Spread Key Statistics, Ratios, and Trading Multiples

---

### ***Return on Investment***

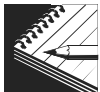
- Return on Invested Capital (ROIC) – measures return generated by all capital provided to company

$$\text{ROIC} = \frac{\text{EBIT}}{\text{Average Net Debt} + \text{Equity}}$$

- Return on Equity (ROE) – measures return generated on equity provided to company by shareholders

$$\text{ROE} = \frac{\text{Net Income}}{\text{Average Shareholders' Equity}}$$

<http://www.pbookshop.com>



## Step III: Spread Key Statistics, Ratios, and Trading Multiples

---

### *Return on Investment (continued)*

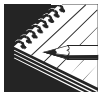
- Return on Assets (ROA) – measures return generated by company's asset base

$$\text{ROA} = \frac{\text{Net Income}}{\text{Average Total Assets}}$$

- Dividend Yield – measures annual dividends per share paid by company to shareholders

$$\text{Implied Dividend Yield} = \frac{\text{Most Recent Quarterly Dividend Per Share} \times 4}{\text{Current Share Price}}$$

<http://www.pbookstop.com>



## Step III: Spread Key Statistics, Ratios, and Trading Multiples

---

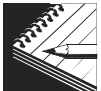
### Credit Profile

- Leverage – refers to company’s debt level
  - Reveals great deal about company’s financial policy, risk profile, and capacity for growth
  - Debt-to-EBITDA

$$\text{Leverage} = \frac{\text{Debt}}{\text{EBITDA}}$$

- Debt-to-total capitalization

$$\text{Debt-to-Total Capitalization} = \frac{\text{Debt}}{\text{Debt} + \text{Preferred Stock} + \text{Noncontrolling Interest} + \text{Equity}}$$



## Step III: Spread Key Statistics, Ratios, and Trading Multiples

---

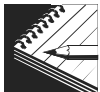
### **Credit Profile (continued)**

- Coverage – company’s ability to meet (“cover”) interest expense obligations
  - Variations include EBITDA-to-interest expense, (EBITDA less capex) to-interest expense, and EBIT-to-interest expense

$$\text{Interest Coverage Ratio} = \frac{\text{EBITDA, (EBITDA - Capex), or EBIT}}{\text{Interest Expense}}$$

- Credit Ratings
  - Measures a company’s ability to make full and timely payments of amounts due on debt obligations
  - Typically required for companies seeking to raise debt financing in capital markets

<http://www.pbookshop.com>



## Step III: Spread Key Statistics, Ratios, and Trading Multiples


	Moody's	S&P	Fitch	Definition
Investment Grade	Aaa	AAA	AAA	Highest Quality
	Aa1	AA+	AA+	
	Aa2	AA	AA	
	Aa3	AA-	AA-	Very High Quality
	A1	A+	A+	
	A2	A	A	
	A3	A-	A-	High Quality
	Baa1	BBB+	BBB+	
	Baa2	BBB	BBB	
Baa3	BBB-	BBB-	Medium Grade	
Ba1	BB+	BB+		
Ba2	BB	BB		
Ba3	BB-	BB-	Speculative	
B1	B+	B+		
B2	B	B		
B3	B-	B-	Highly Speculative	
Caa1	CCC+	CCC+		
Caa2	CCC	CCC		
Caa3	CCC-	CCC-	Substantial Risk	
Ca	CC	CC		
C	C	C		
-	D	D	Extremely Speculative / Default	

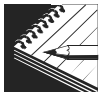
## Step III: Spread Key Statistics, Ratios, and Trading Multiples

---

### *Supplemental Financial Concepts and Calculations*

- Calculation of LTM Financial Data
  - Financial results for previous four quarters are summed to measure financial performance for most recent annual or LTM period
  - Financial information is sourced from company's most recent 10-K, 10-Q, and earnings press release in an 8-K
  - No LTM calculations are necessary in event most recent quarter is fourth quarter of company's fiscal year

$$\text{LTM} = \text{Prior Fiscal Year} + \text{Current Stub} - \text{Prior Stub}$$




## Step III: Spread Key Statistics, Ratios, and Trading Multiples

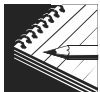
---

### ***Supplemental Financial Concepts and Calculations (continued)***

- Calendarization of Financial Data
  - Majority of U.S. public filers report financial performance in accordance with fiscal year (FY) ending 12/31
  - Some companies report on different schedule (e.g., fiscal year ending 4/30)
  - Any variation in fiscal year ends among comparable companies must be addressed for benchmarking purposes
  - Calendarization adjusts each company's financials to conform to single calendar year end

$$\text{Next Calendar (CY) Sales} = \frac{(\text{Month \#}) \times (\text{FYA Sales})}{12} + \frac{(12 - \text{Month \#}) \times (\text{NFY Sales})}{12}$$

- Adjustments for Non-Recurring Items
  - Standard practice to adjust reported financial data for non-recurring items
  - Failure to do so may lead to calculation of misleading ratios and multiples
  - Involves add-back or elimination of one-time charges and gains
  - Important to distinguish between pre-tax and after-tax amounts
- Adjustments for Recent Events
  - Must also make adjustments for recent events (e.g., M&A transactions, financing activities, stock splits)



Focus on



## Step III: Spread Key Statistics, Ratios, and Trading Multiples

---

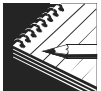
### Calculation of Key Trading Multiples

- Equity Value Multiples
  - Denominator must be financial statistic that flows only to equity holders, such as net income (or diluted EPS)
  - Price-to-Earnings Ratio / Equity Value-to-Net Income Multiple
    - Most widely recognized trading multiple
    - Can be viewed as measure of how much investors are willing to pay for a dollar of company's current or future earnings
    - Impacted by capital structure and tax regime

$$\frac{\text{Share Price}}{\text{Diluted EPS}}$$

$$\frac{\text{Equity Value}}{\text{Net Income}}$$

- Enterprise Value Multiples
  - Denominator employs a financial statistic that flows to both debt and equity holders



## Step III: Spread Key Statistics, Ratios, and Trading Multiples

---

### Calculation of Key Trading Multiples (continued)

- Enterprise Value-to-EBITDA and Enterprise Value-to-EBIT Multiples
  - Serves as valuation standard for most sectors
  - Independent of capital structure and taxes
  - EV/EBIT is less commonly used than EV/EBITDA due to differences in D&A among companies

$$\frac{\text{Enterprise Value}}{\text{EBITDA}}$$

$$\frac{\text{Enterprise Value}}{\text{EBIT}}$$

- Enterprise Value-to-Sales Multiple
  - Relevant for companies with little or no earnings
  - Typically less pertinent than other multiples
  - Sanity check on earnings-based multiples

$$\frac{\text{Enterprise Value}}{\text{Sales}}$$

Focus on

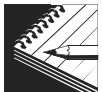


## Step IV: Benchmark the Comparable Companies

---

- Centers on analyzing and comparing each of the comparable companies with one another and target
- Objective is to determine the target's relative ranking to frame valuation accordingly
  - Hone in on selected group of closest comparables as basis for establishing target's implied valuation range
  - Closest comparables are generally those most similar to target in terms of business and financial profile
- Two-step process
  - Benchmark key financial statistics and ratios for target and comparables in order to establish relative positioning
  - Analyze and compare trading multiples for peer group

<http://www.pbookshop.com>



## Step IV: Benchmark the Comparable Companies

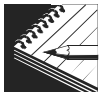
---

### Benchmark the Financial Statistics and Ratios

- Comparison of target and comparables universe on basis of key financial performance metrics
- Include measures of size, profitability, growth, returns, and credit strength
  - Core value drivers
  - Typically translate directly into relative valuation
- Establish relative positioning
  - Focus on identifying closest or “best” comparables and noting potential outliers
- Benchmarking analysis goes beyond quantitative comparison of comparables’ financial metrics
  - Need to have strong understanding of each comparable company’s “story” to truly assess target’s relative strength

### Benchmark the Trading Multiples

- Assess relative valuation for each of the comparable companies
- Certain outliers may need to be excluded or comparables may be further tiered (e.g., on the basis of size, sub-sector, or ranging from closest to peripheral)
- Trading multiples for best comparables are noted
  - Assigned greater emphasis for framing valuation



Focus on

## Step IV: Benchmark the Comparable Companies

### ValueCo Corporation

#### Benchmarking Analysis – Financial Statistics and Ratios, Page 1

(\$ in millions, except per share data)

Market Valuation		LTM Financial Statistics							LTM Profitability Margins				Growth Rates						
Company	Ticker	Equity Value	Enterprise Value	Sales	Gross Profit	EBITDA	EBIT	Net Income	Gross Profit (%)	EBITDA (%)	EBIT (%)	Net Income (%)	Sales Hist. 1-year	Sales Est. 1-year	EBITDA Hist. 1-year	EBITDA Est. 1-year	EPS Hist. 1-year	EPS Est. 1-year	EPS LT
ValueCo Corporation	NA	-	-	\$3,385	\$1,155	\$700	\$500	\$248	34%	21%	15%	7%	10%	9%	15%	9%	NA	NA	NA
<b>Tier I: Specialty Chemicals</b>																			
BayerCo	BUY	\$9,600	\$11,600	\$6,560	\$2,329	\$1,443	\$1,279	\$705	36%	22%	27%	11%	14%	8%	22%	8%	27%	10%	7%
Sherman Co.	SHR	5,600	8,101	5,895	1,411	1,047	752	419	33%	20%	13%	7%	10%	7%	10%	7%	11%	11%	9%
Pearl Corp.	PFL	5,172	5,356	4,284	1,585	839	625	325	37%	20%	15%	8%	10%	7%	10%	7%	10%	15%	11%
Gasparrò Corp.	JDG	5,000	6,750	4,725	1,680	900	725	388	30%	15%	15%	8%	9%	11%	5%	15%	6%	31%	12%
Kumra Inc.	KUM	4,852	5,345	3,187	922	665	506	248	29%	21%	16%	8%	10%	8%	10%	8%	11%	20%	10%
<b>Mean</b>									<b>31%</b>	<b>20%</b>	<b>16%</b>	<b>8%</b>	<b>10%</b>	<b>8%</b>	<b>11%</b>	<b>9%</b>	<b>13%</b>	<b>17%</b>	<b>10%</b>
<b>Median</b>									<b>29%</b>	<b>20%</b>	<b>15%</b>	<b>8%</b>	<b>10%</b>	<b>8%</b>	<b>10%</b>	<b>8%</b>	<b>11%</b>	<b>15%</b>	<b>10%</b>
<b>Tier II: Commodity / Diversified Chemicals</b>																			
Falloon Group	FLN	\$7,480	\$11,254	\$11,836	\$3,373	\$1,636	\$1,044	\$540	29%	14%	9%	4%	5%	4%	5%	4%	5%	18%	5%
Goodson Corp.	GDS	4,160	5,660	4,789	1,431	763	525	214	30%	16%	11%	4%	10%	5%	10%	5%	17%	16%	9%
Pryor Industries	PPI	3,928	4,166	3,682	1,178	569	421	217	32%	15%	11%	6%	5%	5%	5%	2%	11%	10%	8%
Lanzarone Global	LNZ	3,230	3,823	3,712	854	578	400	233	23%	16%	12%	6%	5%	4%	5%	4%	10%	10%	9%
McInamin & Co.	MCM	3,193	3,193	3,223	903	365	233	119	28%	11%	7%	4%	5%	15%	5%	15%	7%	20%	12%
<b>Mean</b>									<b>28%</b>	<b>14%</b>	<b>10%</b>	<b>5%</b>	<b>6%</b>	<b>7%</b>	<b>6%</b>	<b>7%</b>	<b>7%</b>	<b>16%</b>	<b>9%</b>
<b>Median</b>									<b>29%</b>	<b>15%</b>	<b>11%</b>	<b>4%</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>	<b>7%</b>	<b>16%</b>	<b>9%</b>
<b>Tier III: Small-Cap Chemicals</b>																			
S. Monper & Co.	MOMP	\$2,240	\$2,921	\$2,077	\$451	\$378	\$295	\$130	22%	18%	14%	6%	5%	11%	5%	11%	7%	8%	5%
Adler Worldwide	ADL	1,217	1,463	1,550	387	245	183	89	25%	16%	12%	6%	5%	5%	5%	7%	8%	7%	7%
Schachter & Sons	STM	1,125	1,674	1,703	426	238	170	76	25%	14%	10%	4%	11%	15%	11%	15%	16%	19%	11%
Girshin Holdings	MGP	1,035	1,298	1,606	273	177	112	52	17%	11%	7%	3%	5%	15%	5%	15%	12%	15%	8%
Crespin International	MCR	872	1,222	1,443	390	190	133	61	27%	13%	9%	4%	5%	15%	4%	14%	5%	10%	8%
<b>Mean</b>									<b>23%</b>	<b>14%</b>	<b>10%</b>	<b>5%</b>	<b>6%</b>	<b>12%</b>	<b>6%</b>	<b>12%</b>	<b>10%</b>	<b>12%</b>	<b>7%</b>
<b>Median</b>									<b>25%</b>	<b>14%</b>	<b>10%</b>	<b>4%</b>	<b>5%</b>	<b>15%</b>	<b>5%</b>	<b>14%</b>	<b>7%</b>	<b>10%</b>	<b>7%</b>
<b>Overall</b>																			
<b>Mean</b>									<b>29%</b>	<b>16%</b>	<b>12%</b>	<b>6%</b>	<b>8%</b>	<b>9%</b>	<b>8%</b>	<b>9%</b>	<b>10%</b>	<b>15%</b>	<b>9%</b>
<b>Median</b>									<b>29%</b>	<b>16%</b>	<b>12%</b>	<b>6%</b>	<b>5%</b>	<b>8%</b>	<b>8%</b>	<b>8%</b>	<b>7%</b>	<b>15%</b>	<b>9%</b>
<b>High</b>									<b>37%</b>	<b>22%</b>	<b>20%</b>	<b>11%</b>	<b>14%</b>	<b>15%</b>	<b>22%</b>	<b>15%</b>	<b>27%</b>	<b>31%</b>	<b>12%</b>
<b>Low</b>									<b>17%</b>	<b>11%</b>	<b>7%</b>	<b>3%</b>	<b>5%</b>	<b>4%</b>	<b>4%</b>	<b>4%</b>	<b>2%</b>	<b>8%</b>	<b>5%</b>

Source: Company filings, Bloomberg, Consensus Estimates

Note: Last twelve months data based on September 30, 2012. Estimated annual financial data based on a calendar year.

# Step IV: Benchmark the Comparable Companies

## ValueCo Corporation

Benchmarking Analysis – Financial Statistics and Ratios, Page 2

(\$ in millions, except per share data)

Company	Ticker	FYE	General		Return on Investment				LTM Leverage Ratios			LTM Coverage Ratios			Credit Ratings	
			Predicted Beta	ROIC (%)	ROE (%)	ROA (%)	Implied Div. Yield (%)	Debt/ Tot. Cap. (%)	Debt/ EBITDA (x)	Net Debt/ EBITDA (x)	EBITDA / Int. Exp. (x)	EBITDA / Cpx/ Int. (x)	EBIT / Int. Exp. (x)	Moody's	S&P	
ValueCo Corporation	NA	Dec-31	NA	10%	7%	4%	NA	30%	2.1x	1.9x	7.0x	5.5x	5.0x	NA	NA	
<b>Tier I: Specialty Chemicals</b>																
Buyer Co	BUY	Dec-31	1.24	30%	20%	9%	0%	47%	1.5x	1.2x	10.1x	8.8x	9.0x	Ba2	BB	
Sherman Co.	SHH	Dec-31	1.35	18%	18%	6%	2%	57%	3.0x	2.6x	13.8x	10.7x	9.9x	Baa2	BBB	
Pearl Corp.	PRL	Dec-31	1.58	10%	14%	7%	0%	37%	1.8x	0.8x	18.4x	7.1x	6.2x	Baa3	BBB-	
Gaspardo Corp.	JDG	Dec-31	1.25	21%	23%	8%	2%	52%	2.1x	1.9x	9.0x	7.0x	7.3x	Baa3	BBB-	
Kumra Inc.	KUM	Dec-31	1.50	17%	10%	6%	2%	25%	1.3x	0.8x	11.0x	8.7x	8.4x	Baa1	BBB+	
<b>Mean</b>			<b>1.38</b>	<b>21%</b>	<b>19%</b>	<b>7%</b>	<b>1%</b>	<b>44%</b>	<b>1.9x</b>	<b>1.4x</b>	<b>10.5x</b>	<b>8.4x</b>	<b>8.2x</b>			
<b>Median</b>			<b>1.35</b>	<b>19%</b>	<b>16%</b>	<b>7%</b>	<b>2%</b>	<b>47%</b>	<b>1.8x</b>	<b>1.2x</b>	<b>10.1x</b>	<b>8.7x</b>	<b>8.4x</b>			
<b>Tier II: Commodity / Diversified Chemicals</b>																
Falloon Group	FLN	Dec-31	1.69	16%	14%	4%	3%	5%	2.5x	2.2x	5.7x	3.8x	3.6x	Ba3	BB	
Goodson Corp.	GDS	Dec-31	1.45	15%	11%	5%	1%	52%	2.9x	2.0x	4.2x	3.0x	2.9x	Baa1	BBB-	
Pryor, Industries	PRI	Dec-31	1.46	14%	8%	5%	1%	19%	1.1x	0.4x	11.1x	8.9x	8.2x	Baa2	BBB-	
Lanzarone Global	LNZ	Dec-31	1.68	17%	12%	6%	3%	27%	1.3x	1.0x	10.7x	7.9x	7.9x	Ba3	BB-	
McMenamin & Co.	MCM	Dec-31	1.64	12%	7%	4%	1%	18%	1.2x	0.0x	10.6x	8.2x	6.7x	Ba2	BB-	
<b>Mean</b>			<b>1.58</b>	<b>15%</b>	<b>10%</b>	<b>5%</b>	<b>1%</b>	<b>34%</b>	<b>1.8x</b>	<b>1.1x</b>	<b>8.5x</b>	<b>6.4x</b>	<b>5.9x</b>			
<b>Median</b>			<b>1.64</b>	<b>15%</b>	<b>11%</b>	<b>5%</b>	<b>1%</b>	<b>27%</b>	<b>1.3x</b>	<b>0.1x</b>	<b>10.6x</b>	<b>7.9x</b>	<b>6.7x</b>			
<b>Tier III: Small-Cap Chemicals</b>																
S. Mompot & Co.	MCMP	Dec-31	1.14	15%	9%	6%	4%	40%	2.8x	1.8x	4.5x	3.7x	3.5x	Ba1	BB	
Adlar Worldwide	ADL	Dec-31	1.46	12%	7%	3%	4%	22%	1.6x	1.0x	6.2x	5.0x	4.7x	Ba2	BB	
Schacter & Sons	STM	Dec-31	1.90	12%	8%	3%	1%	38%	2.5x	2.3x	5.0x	3.2x	3.6x	Ba3	BB-	
Girshin Holdings	MGP	Dec-31	1.55	13%	10%	4%	3%	34%	1.8x	1.4x	6.3x	4.7x	4.0x	Ba3	BB-	
Crespin International	MCR	Dec-31	1.80	10%	6%	4%	0%	28%	2.1x	1.8x	5.7x	4.4x	3.9x	Ba3	BB-	
<b>Mean</b>			<b>1.57</b>	<b>13%</b>	<b>8%</b>	<b>4%</b>	<b>2%</b>	<b>33%</b>	<b>2.1x</b>	<b>1.7x</b>	<b>5.5x</b>	<b>4.2x</b>	<b>3.9x</b>			
<b>Median</b>			<b>1.55</b>	<b>12%</b>	<b>8%</b>	<b>4%</b>	<b>3%</b>	<b>34%</b>	<b>2.1x</b>	<b>1.8x</b>	<b>5.7x</b>	<b>4.4x</b>	<b>3.9x</b>			
<b>Overall</b>																
<b>Mean</b>			<b>1.51</b>	<b>16%</b>	<b>12%</b>	<b>5%</b>	<b>1%</b>	<b>37%</b>	<b>2.0x</b>	<b>1.4x</b>	<b>8.2x</b>	<b>6.3x</b>	<b>6.0x</b>			
<b>Median</b>			<b>1.50</b>	<b>15%</b>	<b>10%</b>	<b>5%</b>	<b>1%</b>	<b>37%</b>	<b>1.8x</b>	<b>1.4x</b>	<b>8.4x</b>	<b>7.0x</b>	<b>6.2x</b>			
<b>High</b>			<b>1.90</b>	<b>30%</b>	<b>29%</b>	<b>9%</b>	<b>4%</b>	<b>57%</b>	<b>3.0x</b>	<b>2.4x</b>	<b>13.8x</b>	<b>10.7x</b>	<b>9.9x</b>			
<b>Low</b>			<b>1.14</b>	<b>10%</b>	<b>6%</b>	<b>3%</b>	<b>0%</b>	<b>18%</b>	<b>1.1x</b>	<b>0.0x</b>	<b>4.2x</b>	<b>3.0x</b>	<b>2.9x</b>			

Source: Company filings, Bloomberg, Consensus Estimates

Note: Last twelve months data based on September 30, 2012. Estimated annual financial data based on a calendar year.

## Step IV: Benchmark the Comparable Companies

### ValueCo Corporation Comparable Companies Analysis (\$ in millions, except per share data)

Company	Ticker	Current Share Price	% of 52-wk. High	Equity Value	Enterprise Value	Enterprise Value /									LTM EBITDA Margin	Total Debt / EBITDA	Price /			LT EPS Growth
						LTM Sales	2012E Sales	2013E Sales	LTM EBITDA	2012E EBITDA	2013E EBITDA	LTM EBIT	2012E EBIT	2013E EBIT			LTM EPS	2012E EPS	2013E EPS	
<b>Tier I: Specialty Chemicals</b>																				
BuyerCo	BUY	\$70.00	91%	\$9,800	\$11,600	1.8x	1.7x	1.6x	8.0x	7.8x	7.3x	9.1x	8.8x	8.2x	22%	1.5x	13.9x	13.5x	12.5x	7%
Sherman Co.	SHR	40.00	76%	5,600	8,101	1.4x	1.4x	1.3x	7.7x	7.7x	7.2x	10.8x	10.7x	10.1x	18%	3.0x	13.4x	12.8x	11.8x	9%
Pearl Corp.	PRL	68.50	95%	5,179	5,856	1.4x	1.4x	1.3x	7.0x	7.0x	6.5x	9.4x	9.4x	8.7x	20%	1.8x	15.9x	14.7x	13.4x	11%
Gasparro Corp.	JDG	50.00	80%	5,000	6,750	1.4x	1.4x	1.3x	7.5x	7.1x	6.8x	9.3x	8.8x	8.2x	19%	2.1x	12.9x	11.2x	10.0x	12%
Kumra Inc.	KUM	52.50	88%	4,852	5,345	1.7x	1.7x	1.5x	8.0x	7.9x	7.4x	10.6x	10.4x	9.7x	21%	1.3x	19.5x	16.6x	14.4x	10%
Mean						1.5x	1.5x	1.4x	7.7x	7.5x	7.0x	9.8x	9.5x	9.0x	20%	1.9x	15.1x	13.8x	12.4x	10%
Median						1.4x	1.4x	1.3x	7.7x	7.4x	7.2x	9.4x	9.4x	8.7x	20%	1.8x	13.9x	13.5x	12.5x	10%
<b>Tier II: Commodity / Diversified Chemicals</b>																				
Falloon Group	FLN	\$31.00	87%	\$7,480	\$11,254	1.0x	1.0x	0.9x	7.4x	7.0x	6.7x	10.8x	11.0x	10.5x	14%	2.5x	16.1x	15.0x	13.1x	5%
Goodson Corp.	GDS	64.00	83%	4,160	5,060	1.2x	1.2x	1.1x	7.4x	7.5x	7.2x	10.8x	11.0x	10.4x	16%	2.9x	19.5x	18.6x	16.3x	9%
Pryor Industries	PRI	79.00	88%	3,926	4,166	1.1x	1.2x	1.1x	7.3x	7.4x	7.1x	9.9x	10.1x	9.6x	15%	1.1x	17.3x	16.9x	15.4x	10%
Lanzarone Global	LNZ	32.25	95%	3,230	3,823	1.0x	1.0x	1.0x	6.6x	6.7x	6.4x	8.9x	9.0x	8.6x	16%	1.3x	13.9x	12.9x	11.7x	8%
McMenamin & Co.	MCM	33.50	80%	3,193	3,193	1.0x	0.9x	0.8x	9.0x	8.4x	7.5x	14.2x	13.1x	11.8x	11%	1.2x	26.8x	23.3x	20.3x	12%
Mean						1.1x	1.1x	1.0x	7.4x	7.4x	7.0x	10.9x	10.8x	10.2x	14%	1.8x	18.7x	17.3x	15.3x	9%
Median						1.0x	1.0x	1.0x	7.3x	7.4x	7.1x	10.8x	11.0x	10.4x	15%	1.3x	17.3x	16.9x	15.4x	9%
<b>Tier III: Small-Cap Chemicals</b>																				
S. Murrp & Co.	MOMP	\$28.00	95%	\$2,240	\$2,921	1.4x	1.4x	1.2x	7.7x	7.4x	6.7x	9.9x	9.5x	8.6x	18%	2.6x	17.2x	17.5x	16.2x	5%
Adler Worldwide	ADL	10.50	80%	1,217	1,463	0.9x	1.0x	0.9x	6.0x	6.1x	5.8x	8.0x	8.1x	7.7x	16%	1.6x	13.7x	14.8x	13.7x	7%
Schachter & Sons	STM	4.50	89%	1,125	1,674	1.0x	0.9x	0.8x	7.0x	6.5x	5.7x	9.8x	9.1x	7.9x	14%	2.5x	14.8x	13.6x	12.2x	11%
Girshin Holdings	MGP	50.00	67%	1,035	1,298	0.8x	0.8x	0.7x	7.3x	6.8x	6.1x	11.5x	10.7x	9.7x	11%	1.8x	20.0x	18.9x	17.2x	8%
Crespin International	MCR	27.00	80%	872	1,222	0.8x	0.8x	0.7x	6.4x	6.0x	5.4x	9.2x	8.6x	7.7x	13%	2.1x	14.2x	14.0x	12.7x	6%
Mean						1.0x	1.0x	0.9x	6.9x	6.5x	5.9x	9.7x	9.2x	8.3x	14%	2.1x	16.0x	15.7x	14.4x	7%
Median						0.9x	0.9x	0.8x	7.0x	6.5x	5.8x	9.8x	9.1x	7.9x	14%	2.1x	14.8x	14.8x	13.7x	7%
<b>Overall</b>																				
Mean						1.1x	1.1x	1.0x	7.3x	7.2x	6.7x	10.3x	10.0x	9.3x	16%	1.9x	17.0x	16.0x	14.4x	9%
Median						1.0x	1.0x	1.0x	7.3x	7.4x	6.7x	9.9x	9.8x	9.2x	16%	1.8x	16.6x	15.8x	14.1x	9%
High						1.8x	1.7x	1.6x	9.0x	8.4x	7.5x	14.2x	13.1x	11.8x	22%	3.0x	26.8x	23.3x	20.3x	12%
Low						0.8x	0.8x	0.7x	6.0x	6.0x	5.4x	8.0x	8.1x	7.7x	11%	1.1x	12.9x	11.2x	10.0x	5%

Source: Company Filings, Bloomberg, Consensus Estimates

Note: Last twelve months data based on September 30, 2012. Estimated annual financial data based on a calendar year.

# Step IV: Benchmark the Comparable Companies

## ValueCo Corporation Comparable Companies Analysis

(\$ in millions, except per share data)

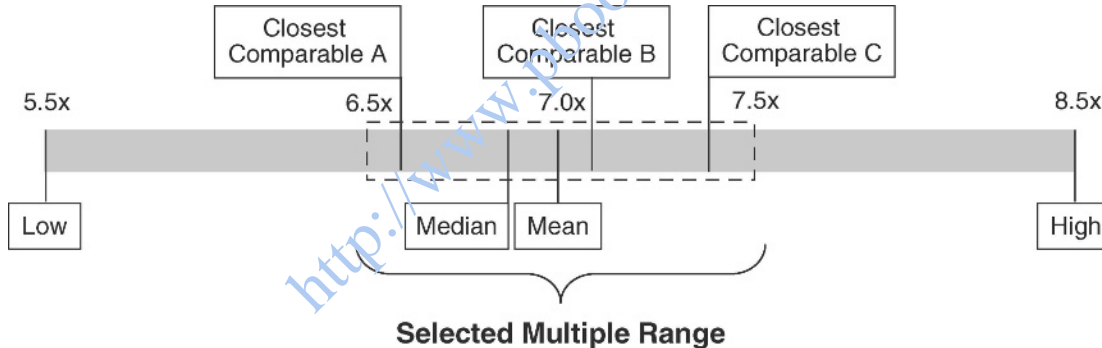
Company	Ticker	Current Share Price	% of 52-wk. High	Equity Value	Enterprise Value	EV / EBITDA		2012E EBITDA Margin	LTM Debt / EBITDA	LTM Int Exp / EBITDA	P / E		LT EPS Growth	Div Yield	FCF Yield	
						2012E	2013E	2012E	2012E	2013E	2012E	2013E	2012E	2013E		
<b>Tier I: Specialty Chemicals</b>																
BuyerCo	BUY	\$70.00	91%	\$9,800	\$11,600	7.8x	7.3x	22%	1.5x	10.1x	13.0x	12.5x	7%	0.0%	7.2%	7.8%
Sherman Co.	SHR	\$40.00	76%	5,600	8,101	7.7x	7.2x	18%	3.0x	13.8x	12.8x	11.8x	9%	1.8%	8.8%	9.7%
Pearl Corp.	PRL	\$68.50	95%	5,179	5,856	7.0x	6.5x	20%	1.8x	8.4x	14.7x	13.4x	11%	0.0%	8.1%	8.9%
Gaspatro Corp.	JDG	\$50.00	80%	5,000	6,750	7.1x	6.6x	19%	2.1x	9.0x	11.2x	10.0x	12%	2.0%	7.0%	7.5%
Kumra Inc.	KUM	\$52.50	88%	4,852	5,345	7.9x	7.4x	21%	1.3x	7.0x	16.6x	14.4x	10%	1.5%	5.8%	6.4%
<b>Mean</b>						<b>7.5x</b>	<b>7.0x</b>	<b>20%</b>	<b>1.9x</b>	<b>10.5x</b>	<b>13.8x</b>	<b>12.4x</b>	<b>10%</b>	<b>1.1%</b>	<b>7.4%</b>	<b>8.1%</b>
<b>Median</b>						<b>7.7x</b>	<b>7.2x</b>	<b>20%</b>	<b>1.5x</b>	<b>10.1x</b>	<b>13.5x</b>	<b>12.5x</b>	<b>10%</b>	<b>1.5%</b>	<b>7.2%</b>	<b>7.8%</b>
<b>Tier II: Commodity / Diversified Chemicals</b>																
Falloon Group	FLN	\$31.00	87%	\$7,480	\$11,254	7.0x	6.7x	14%	2.5x	5.7x	15.0x	13.1x	5%	2.6%	7.0%	7.7%
Goodson Corp.	GDS	\$64.00	83%	4,160	5,660	7.5x	7.2x	16%	2.9x	4.2x	18.6x	16.3x	9%	1.0%	5.7%	6.3%
Pryor Industries	PRI	\$79.00	88%	3,926	4,166	7.4x	7.1x	15%	1.1x	11.1x	16.9x	15.4x	10%	0.8%	6.9%	7.5%
Linzarone Global	LNZ	\$32.25	95%	3,230	3,823	6.7x	6.4x	18%	1.3x	10.7x	12.9x	11.7x	8%	0.0%	7.3%	8.0%
McMenamin & Co.	MCM	\$33.50	80%	3,193	3,193	8.4x	7.5x	11%	1.2x	10.6x	23.3x	20.3x	12%	1.2%	5.4%	5.9%
<b>Mean</b>						<b>7.4x</b>	<b>7.0x</b>	<b>14%</b>	<b>1.8x</b>	<b>8.5x</b>	<b>17.3x</b>	<b>15.3x</b>	<b>9%</b>	<b>1.1%</b>	<b>6.5%</b>	<b>7.1%</b>
<b>Median</b>						<b>7.4x</b>	<b>7.1x</b>	<b>15%</b>	<b>1.3x</b>	<b>10.6x</b>	<b>16.9x</b>	<b>15.4x</b>	<b>9%</b>	<b>1.0%</b>	<b>6.9%</b>	<b>7.5%</b>
<b>Tier III: Small-Cap Chemicals</b>																
S. Mornper & Co.	MOMP	\$28.00	95%	\$2,240	\$2,921	7.4x	6.7x	18%	2.6x	4.5x	17.5x	16.2x	5%	3.7%	6.8%	7.4%
Adler Worldwide	ADL	\$10.50	80%	1,217	1,463	6.1x	5.8x	16%	1.6x	6.2x	14.8x	13.7x	7%	4.0%	8.2%	8.9%
Schachter & Sons	STM	\$4.50	89%	1,125	1,674	6.5x	5.7x	14%	2.5x	5.0x	13.6x	12.2x	11%	0.8%	5.2%	5.7%
Girshin Holdings	MGP	\$50.00	67%	1,035	1,236	6.8x	6.1x	11%	1.8x	6.3x	18.9x	17.2x	8%	2.8%	7.1%	7.7%
Crespin International	MCR	\$27.00	80%	872	1,222	6.0x	5.4x	13%	2.1x	5.7x	14.0x	12.7x	6%	0.0%	8.9%	9.7%
<b>Mean</b>						<b>6.6x</b>	<b>5.9x</b>	<b>14%</b>	<b>2.1x</b>	<b>5.5x</b>	<b>15.7x</b>	<b>14.4x</b>	<b>7%</b>	<b>2.2%</b>	<b>7.2%</b>	<b>7.9%</b>
<b>Median</b>						<b>6.5x</b>	<b>5.8x</b>	<b>14%</b>	<b>2.1x</b>	<b>5.7x</b>	<b>14.8x</b>	<b>13.7x</b>	<b>7%</b>	<b>2.0%</b>	<b>7.1%</b>	<b>7.7%</b>
<b>Overall</b>																
<b>Mean</b>						<b>7.2x</b>	<b>6.6x</b>	<b>16%</b>	<b>2.0x</b>	<b>8.2x</b>	<b>15.6x</b>	<b>14.0x</b>	<b>9%</b>	<b>1.5%</b>	<b>7.0%</b>	<b>7.7%</b>
<b>Median</b>						<b>7.1x</b>	<b>6.7x</b>	<b>16%</b>	<b>1.8x</b>	<b>8.4x</b>	<b>14.8x</b>	<b>13.4x</b>	<b>9%</b>	<b>1.2%</b>	<b>7.0%</b>	<b>7.7%</b>
<b>High</b>						<b>8.4x</b>	<b>7.5x</b>	<b>22%</b>	<b>3.0x</b>	<b>13.8x</b>	<b>23.3x</b>	<b>20.3x</b>	<b>12%</b>	<b>4.0%</b>	<b>8.9%</b>	<b>9.7%</b>
<b>Low</b>						<b>6.0x</b>	<b>5.4x</b>	<b>11%</b>	<b>1.1x</b>	<b>4.2x</b>	<b>11.2x</b>	<b>10.0x</b>	<b>5%</b>	<b>0.0%</b>	<b>5.2%</b>	<b>5.7%</b>

Source: Company Filings, Bloomberg, Consensus Estimates



## Step V: Determine Valuation

- Trading multiples for comparable companies serve as basis for deriving an appropriate valuation range for target
- Use means and medians of most relevant multiple for sector (e.g., EV/EBITDA or P/E) to extrapolate range of multiples
  - Focus on two-to-three closest comparables to frame ultimate valuation
- Must also determine which period financial data is most relevant for calculating trading multiples
  - Depends on sector, point in business cycle, and comfort with consensus estimates
  - LTM, one-year forward, or even two-year forward financials



Focus on

## Step V: Determine Valuation

### Valuation Implied by EV/EBITDA

- EV/EBITDA multiple range translates into implied range for enterprise value, equity value, and share price

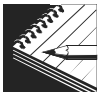
*(\$ in millions, except per share data)*

EBITDA	Financial Metric	Multiple Range	Implied Enterprise Value	Less: Net Debt	Implied Equity Value	Fully Diluted Shares	Implied Share Price
LTM	\$200	7.0x – 8.0x	\$1,400 – \$1,600	(500)	\$900 – \$1,100	100	\$9.00 – \$11.00
2012E	215	6.5x – 7.5x	1,398 – 1,613	(500)	898 – 1,113	100	\$8.98 – \$11.13
2013E	230	6.0x – 7.0x	1,380 – 1,610	(500)	880 – 1,110	100	\$8.80 – \$11.10

<http://www.pbooksonline.com>

Focus on

Chapter 1 — Comparable Companies Analysis



## Step V: Determine Valuation

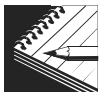
---

### Valuation Implied by P/E

- P/E ratio translates into implied share price and enterprise value range
  - Implied Share Price
    - Begin with net income and build up to implied equity value
    - Equity value is then divided by fully diluted shares outstanding to calculate implied share price (public company's only)

*(\$ in millions, except per share data)*

Net Income	Financial Metric	Multiple Range		Implied Equity Value	Fully Diluted Shares	Implied Share Price
LTM	\$70	13.0x	– 16.0x	\$910 – \$1,120	100	\$9.10 – \$11.20
2012E	75	12.0x	– 15.0x	900 – 1,125	100	\$9.00 – \$11.25
2013E	80	11.0x	– 14.0x	880 – 1,120	100	\$8.80 – \$11.20



Focus on

## Step V: Determine Valuation

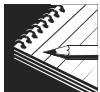
### Valuation Implied by P/E (continued)

- Implied Enterprise Value
  - Add net debt to equity value

(\$ in millions)

Net Income	Financial Metric	Multiple Range		Implied Equity Value	Plus: Net Debt	Implied Enterprise Value
LTM	\$70	13.0x	– 16.0x	\$915 – \$1,120	500	\$1,410 – \$1,620
2012E	75	12.0x	– 15.0x	\$900 – 1,125	500	1,400 – 1,625
2013E	80	11.0x	– 14.0x	880 – 1,120	500	1,380 – 1,620

<http://www.pbopen.com>



Focus on

## Step V: Determine Valuation

- Implied valuation range typically displayed in “football field” format
  - Eventual comparison against other valuation methodologies

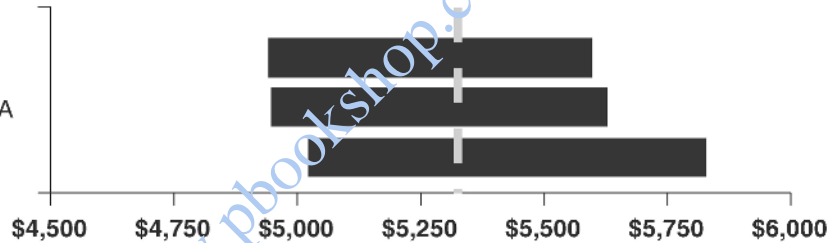
*(\$ in millions)*

### Comparable Companies

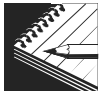
7.0x – 8.0x LTM EBITDA

6.75x – 7.75x 2012E EBITDA

6.5x – 7.5x 2013E EBITDA



<http://www.pbookshop.com>



Focus on

## Key Pros and Cons

---

### Pros

- **Market-based** – information used to derive valuation for the target is based on actual public market data, thereby reflecting the market’s growth and risk expectations, as well as overall sentiment
- **Relativity** – easily measurable and comparable versus other companies
- **Quick and convenient** – valuation can be determined on the basis of a few easy-to-calculate inputs
- **Current** – valuation is based on prevailing market data, which can be updated on a daily (or intraday) basis

### Cons

- **Market-based** – valuation that is completely market-based can be skewed during periods of irrational exuberance or bearishness
- **Absence of relevant comparables** – “pure play” comparables may be difficult to identify or even non-existent, especially if the target operates in a niche sector, in which case the valuation implied by trading comps may be less meaningful
- **Potential disconnect from cash flow** – valuation based on prevailing market conditions or expectations may have significant disconnect from the valuation implied by a company’s projected cash flow generation (e.g., DCF analysis)
- **Company-specific issues** – valuation of the target is based on the valuation of other companies, which may fail to capture target-specific strengths, weaknesses, opportunities, and risks

