Evaluating Industry Comparison Benchmarking Data:

How RMA Annual Statement Studies Valuation Edition Stacks Up

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I want to discuss how you can make your industry comparison benchmarking more transparent, useful, and credible. Benchmarking for valuation should produce results that clearly determine a company's strength or weakness compared to the industry standards. Comparing a subject company to its industry helps determine its ability to generate ongoing cash flow and its overall risk, so it's important to get it right.

As a valuator, you are not benchmarking to get a vague estimate of performance. Benchmarking provides empirical evidence, the hard numbers needed to determine the company's industry standing, as a factor in making decisions about ongoing cash flow and risk, the foundational drivers of value. The range of value between a weak company and a strong company is considerable, if you use better benchmarking data and the right approach, you can better substantiate your opinion of value. Your value will be more credible.

We can look to comparable transaction data to show us the difference in P/SDE ratios between a poorly performing company and a top performer, and it can be over 300%. This tangibly demonstrates the impact of company performance on value. Strong companies are worth more, period. How do you quantify how strong or weak a company is?

Your reputation is on the line, your clients deserve the best, so use the best industry comparison benchmarking data available.

So, what is the problem?

Selecting high quality benchmarking data means evaluating more than a dozen data sources in a world of confusing and conflicting claims. Selecting the best in its class benchmarking data is more challenging than you may assume!

Here are some things to consider when evaluating benchmarking data:

1) Most data sources provide the standard fuzzy, good, average, and bad comparison, which really is just a rough estimate—there is little precision in the data. It's the precision that provides relevancy. If there is not enough precision it's hard to make sound judgments, and if you can't make sound

judgments, the process becomes irrelevant. How relevant is the data you use?

2) Most data sources only provide national data, but sometimes regional data is very relevant.

3) Many data vendors combine numerous sources together with different kinds of information (for example, financial ratios with national economic growth rates), using proprietary and undisclosed modeling methods, making it impossible to evaluate the quality of the data. If you can't quantify the quality of the data, where does that leave you?

So the big question is how do you get rock solid, robust, and accurate benchmarking data that provides an extremely clear picture of how a company is performing in the industry?

Perhaps you should consider RMA Annual Statement Studies Valuation Edition, available exclusively from ValuSource and KeyValueData.

Five main reasons to consider RMA Valuation Edition:

1) MOST precise benchmarking.

2) BEST coverage with regional *and* national data.

3) HIGHEST quality data.

4) MOST transparent collection and compilation process— you can trust the data.

5) SIMPLEST process with automatic ranking tools.

Let's consider each of these points in more detail:

MOST Precise Benchmarking (by using ranking)

Because of the expanded data, you can "rank" a company against the industry, rather than using the standard approach of determining the difference between

your subject company and the industry average. RMA Valuation Edition provides 10 times more data than the standard edition, and is the only benchmarking data available that provides the entire industry ranking curve (from the 10th – 90th percentile), allowing you to perform a ranking analysis. Having all this additional data is the only way you can pinpoint precisely how the company compares to the industry. The more precise you can be, the better your judgment calls can be, and you will have more confidence applying the results of the industry comparison to your foundational valuation assumptions.

BEST Coverage with Regional and National Data

Regional differences can have a significant impact in where a company fits into the industry, but if you don't have regional data you'll never know.

HIGHEST Quality Data

The quality of the data you use for benchmarking in valuation is really important. You should use a much higher standard when considering benchmarking data for valuation than for a performance review in a non-valuation context.

There are four issues to consider:

1) **Need a lot of data.** You have to make sure that there are enough companies to get statistically significant data. RMA data is based on 276,000 actual company financial statements, it covers 750 industries and the Valuation Edition Data set consists of over 40 million data points.

2) **How it's gathered.** The way the data was gathered and processed is vitally important. Much of the common benchmarking data you find elsewhere is compiled from multiple sources, with no published methodology of how it's all combined to create the common size statements and ratios.

3) **You can't extrapolate**. Many sources use IRS data, which is always released three years behind the current year. Since the data is three years old, many other data sources are combined with IRS data using regression and other forecasting techniques to calculate the most recent three years. In other

words, all the common size and ratio data, including the most recent three years, is not actual historic data but rather data that has been computed. Extrapolated data is speculation, not actual results from real companies. As a valuator you should be looking for the most accurate data possible.

The bottom line is that if the underlying data is fuzzy, your results will be fuzzy.

4) **Using percentiles instead of averages**. Every benchmarking set of data (besides RMA Valuation Edition) only provides averages for the common size statements. What this means is that outliers are included and the data is skewed because of it. The RMA Valuation edition is the only benchmarking data that provides not only the average and median(outliers are EXCLUDED from the median), <u>but the entire ranking from the $10^{th} – 90^{th}$ percentile</u>. Differences between the average and median in many cases are significant.

MOST Transparent Process

RMA publishes their process, and the data is based 100% on actual company financial statements, so you can rely on it entirely. There is zero forecasting, regression analysis, or modeling in RMA data.

SIMPLEST Process using Automatic Ranking Tools

ValuSource provides tools (both for Excel and in our software) that automatically perform the ranking analysis.

Summary

The commonly available data and benchmarking practices mostly lead to vague conclusions from a benchmarking analysis. However, there is a much better way to benchmark a company's financial performance, and it's by ranking using the RMA Annual Statement Studies Valuation Edition, available exclusively by ValuSource. Standard benchmarking data and methodology is like being out in the

sun when there is a great deal of glare; it's hard to see. The RMA Valuation Edition is like putting on polarized sunglasses— things get very clear, very quickly.

What's Next?

I'd like to prove how valuable The **RMA Valuation Edition** is by letting you see it for yourself. Call or e-mail us and request a free trial. Run some numbers on a valuation you recently did and compare the results with your current benchmarking data. If you want the clearest possible picture of industry performance, The RMA Valuation Edition is clearly worth taking a look at.

Get a free trial by contacting us at **800-825-8763** or e-mail us at sales@valusource.com

For more information visit our web site at www.valusource.com/rmave

You are invited to watch the videos and download the sample ranking analysis.