Chapter 15
Investigating the Influence of Determinants on Market Valuation Multiples of Non-Public Companies in Bulgaria

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ABSTRACT

In a dynamically developing market and increasing complexity of financial instruments, accurate valuation of companies becomes critically important for investors and analysts. Market multiples, as a valuation tool, allow The comparison of companies can be done quickly and efficiently, but their volatility can vary significantly and this can affect the accuracy of the assessment. The object of the study are companies from the Courier Services sector, represented on the Bulgarian market. The subject of the study is the "Invested Capital/Residual Income" multiplier when applying the Comparative Approach to Company Valuation. The purpose of the study is to assess the influence of the main factors on the "Invested Capital/Residual Income " multiplier and to establish the direction of the relationship between dependent

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and independent variables. The study uses a categorical apparatus from the field of company valuation and accounting. Commonly known methods of analysis, induction, deduction, as well as economic and mathematical methods - correlation and regression analysis methods.

INTRODUCTION AND REVIEW OF LITERATURE

A key issue in modern economic science is determining the value of a company (Petrova, Todorov & Nikolaev, 2022; Nikolaev & Petrova, 2021). An accurate assessment is necessary for various stakeholders – owners, managers, potential investors, etc (Petrova & Todorov, 2023; Nikolaev & Petrova, 2021). Two of the most commonly used approaches are Income (discounting cash flows) and Comparative (using multipliers), with the latter being the predominant approach. In practice, there are cases of its use in negative financial bases (Henschke & Homburg, 2009). Knowing the advantages and disadvantages of each of them, the appraiser must carefully choose which one to give higher weight, taking into account his professional competencies, capabilities, requirements of the client, access to information, etc. Regardless of the theoretical knowledge and practical experience of the respective analyst, the application of the approach/respectively the selected method for deriving the value of a specific property, there is always a certain degree of inaccuracy.

When using the comparative method, one must be aware of the limitations that the analyst may face. There are various options for calculating the characteristics that make up the multiplier, for example, the current value is usually taken as the price in the numerator of the Price/Earnings (P/E) ratio, but some analysts use the average value for a certain period. By analogy, while in the basic case the profit in the denominator of the formula is taken for the last financial year, special cases are the choice of a different price range in the past or the use of the expected value of profit.

There are multipliers based on natural indicators, such as the number of unique visitors to an Internet resource, sales volume, etc. The main difference of this type of multipliers is the lack of universality in applying natural ratios across all industries. Their use is specific to each sector and is subject to additional restrictions.

Four main reasons have been identified for the differences between the magnitudes of the multipliers (Suozzo et al, 2001):

- Differences in company growth.
- Differences arising from financial reporting standards.
- Fluctuations in cash flow or profits.
- Inaccuracy, calculation error.