

Value Is in the Eye of the Beholder: Private Versus Public Company Valuations

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What is the difference between a private and public company? Is it the fact that public companies are traded on the stock market while private companies are not? Are there other differences?

Or, let's consider it another way: are there similarities between private and public companies?

For the most part, people think of private and public companies differently because of their sheer size. Public companies, in general, have more revenue, assets, employees, infrastructure and credibility. However, in reality, many private companies are just as big, if not bigger, than public companies, when compared against all the above parameters.

	Company A	Company B	Company C
Revenue	\$157B	\$116B	\$6.5B
Employees	202,000	155,000	12,000
Company Value	\$38B	\$49B	\$120B
Net Profit	\$9B	\$4B	\$2.5B
Total Assets	\$258B	\$60B	\$16B
Year Founded	1903	1873	2009

Based on the above table, can you tell which company is public or private? The parameters for all three would be considered sizable compared to most companies, whether public or private. But if we told you at least one of them was private, which would you choose?

Is it Company B, with \$117B in revenue and almost \$50B valuation? Or is it Company A, with \$158B in revenue? Or is it Company C, with \$120B valuation?

Here's the same table with the company names revealed:

	Ford Motor Company	Cargill, Inc.	Uber Technologies
Type	Public	Private	Private
Revenue	\$157B	\$116B	\$6.5B
Employees	202,000	155,000	12,000
Company Value	\$38B	\$49B	\$120B
Net Profit	\$9B	\$4B	\$2.5B
Total Assets	\$258B	\$60B	\$16B
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In fact, only one of these companies is publicly traded. Did you choose correctly? Or did you assume Company B was public because of its high valuation?

Of these three companies, we only know Ford's value (market cap) on a daily (or minute by minute) basis. That's because it's traded. We are unsure of Cargill or Uber, because their shares are not traded, and whatever publicized, valuation-related information we receive is not substantiated. It is not substantiated because there is no open and leveled platform on which to buy and sell private company shares, because the concept of free market doesn't apply and the published valuation per share does not exist.

Let's consider a statement from Mary Jo White, Chair of the SEC, from March 31, 2016 in Silicon Valley:

“Beyond any specific regulatory requirements, some of the principles that characterize public companies —transparency with investors, controls on financial reporting, strong corporate governance—have applicability and relevance to private companies, especially those pre-IPO companies that aspire to go public, and should not be overlooked or avoided, whether or not mandated by federal law or an SEC regulation.”

The real issue is that large private companies are also funded by “pseudo” public money. For example, Uber's investors include Google, SoftBank, Toyota, Baidu, Public Investment Fund of Saudi Arabia among others. These investors are public, and the investments they make are from public company coffers. As a result, these investments are pseudo public money: pseudo because it is a public investment in a private company, and the capital is moving from transparency to opacity. Investing this type of public capital into a private venture puts the investments made by public shareholders at stake, and that is what is concerning to both the SEC and global regulators.


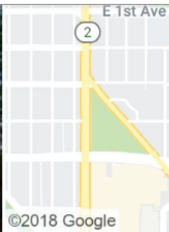

Those regulators had it easy until 15 or 20 years ago. The majority of the large-cap companies were public, and with the established checks and balances in the financial reporting system, the disclosures were transparent enough. The requirements around public disclosures are both a topic of hot debate and a moving target; nevertheless, the public company disclosure requirements were far better and more detailed than those for private companies.

But now, as a result of the change in the lifecycle of private companies, the increase in sheer size of their market and social presence, and the involvement of pseudo public money, large private companies are as capable as public companies of posing a risk to not only individual investors, but to the social and economic stability of an entire country.

With private companies, for the most part, we can dig up financial information. If we go one or two steps deeper with our research, we can even get reasonable information about their operations and outlook. However, without an open and free tradable market, the valuation of its shares is still subjective. With a public company, we know what it's worth at a given minute; with a private company, it's difficult to perform a thorough valuation without pertinent data.

And that's not all: since the valuation of a private company is in the eye of the beholder, we could perform at least four different types of valuations: tax, transaction, back-of-the-napkin and financial reporting.

I like to use the home value analogy. When looking to purchase a home, we may find three values for the same property—asking price, assessed value and a market estimate that is based on a rough comparables value. See below example from Zillow.com...



55 S Dexter St

Denver, CO 80246

5 beds · 6 baths · 7,684 sqft

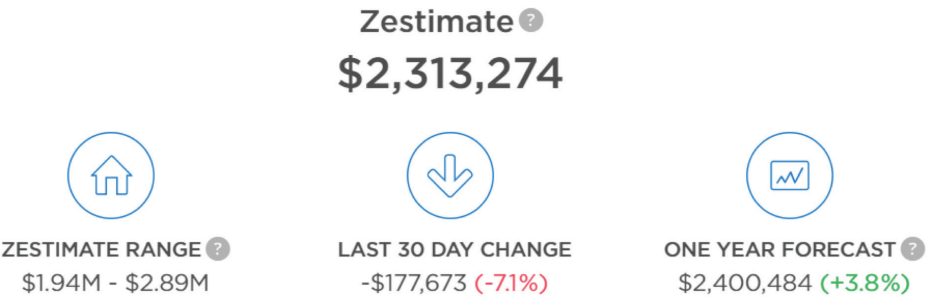
● FOR SALE

\$1,895,000

Zestimate®: \$2,313,274

[View Zestimate details](#)

EST. MORTGAGE _____



Price / Tax History

Price History Tax History

Find assessor information on the [county website](#)

YEAR	PROPERTY TAXES	CHANGE	TAX ASSESSMENT	CHANGE
2017	\$11,473	+3%	\$148,740	+4.3%
2016	\$11,141	+22.8%	\$142,600	--
2015	\$9,074	0%	\$142,600	+30.5%
2014	\$9,078	+0.3%	\$109,260	--
2013	\$9,049	+17.9%	\$109,260	+1.5%
2012	\$7,675	-5.9%	\$107,640	--

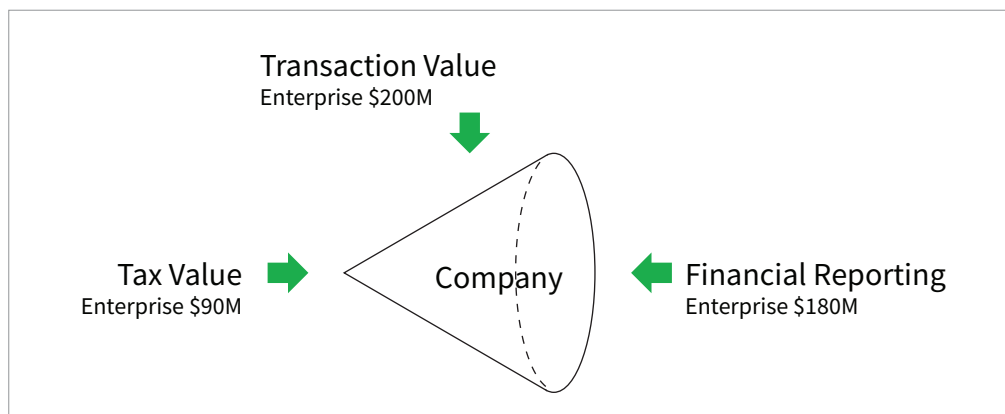
Asking Price: \$1,895,000

Zestimate: \$2,313,000

Assessed Value: \$148,740

Which one is correct?

Consider the below...



Similar to homes, a private company can have three different valuations—tax, transaction and financial reporting—while public companies have just one.

Now, the question becomes how to reconcile these three values, since they can be vastly different, and yet each is substantiated and accepted by markets and authorities.

We will discuss potential solutions to the above logical problem in an upcoming article...

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