

VEDRAI OBSERVATORY

The Valuation Multiple Illusion

What 128,000 observations across 15,000 public companies reveal about what really drives valuation multiples — and what doesn't.

by Michele Grazioli
Founder & CEO, Vedrai S.p.A.

February 2026

Every day, thousands of deals, IPO valuations, and investment decisions rely on a deceptively simple tool: the valuation multiple. Take a company's operating profit, multiply it by a number drawn from comparable companies, and you've got a price tag. Simple. Fast. And, according to our research, far more limited as a standalone valuation tool than its widespread use would suggest.

A necessary caveat: in sophisticated professional practice, multiples are rarely used in isolation. The best deal teams and valuation advisors combine comparable analysis with cash flow models, precedent transactions, and qualitative judgment. Our critique is not directed at the tool itself, but at the mechanical, unreflective way it is often applied — in pitch decks, quick valuations, and boardroom discussions where a single number from a comp table becomes the anchor for decisions worth millions.

We analyzed over 15,000 public companies across every major stock exchange in the world, over a ten-year period, to answer a question that should have been answered long ago: do the financial metrics that analysts use to justify valuation multiples actually explain them?

The short answer: barely.

IDEA IN BRIEF

THE PROBLEM Valuation multiples are the dominant tool in corporate valuation. While best practice combines them with other methods, they are frequently applied mechanically — and there is surprisingly little evidence on what actually drives them.

THE RESEARCH A study of 128,000+ company-year observations across 15,000 public companies over ten years, combining traditional analysis with artificial intelligence to identify hidden patterns.

THE FINDING Standard financial metrics explain as little as 3–6% of why one company trades at a premium over its peers. Media visibility, trading patterns, and business model structure matter as much as profits and growth. The data quantifies why multiples should never be the sole basis for a valuation.

THE FUNDAMENTALS GAP

How much of a company's valuation premium or discount can be explained by its financials? To find out, we measured each company's multiple against its sector's median — isolating the firm-specific component. Then we tested how well the usual financial metrics (growth, margins, profitability, leverage) account for that premium.

The results were sobering:

What we tested	How much it explains
Standard financial metrics (growth, margins, returns, leverage)	3–6%
Expanded financial metrics (adding cash flow, capital efficiency)	6–26%
AI models with 28 business and market variables	44–66%

Think about that: the financial metrics on which every analyst’s “comparable companies” table is built explain, at best, a quarter of why one company trades at a premium to its peers. For the most popular enterprise multiple in M&A, they explain less than 6%.

The five financial metrics on every comp table explain less than 6% of why one company’s enterprise multiple is higher than another’s. The other 94% comes from somewhere else entirely.

We didn’t find this because of bad data or poor methodology. We tested it rigorously, across multiple time periods, sectors, and geographies. The financial fundamentals that the industry relies on simply don’t carry the explanatory weight we’ve been assuming.

WHAT ACTUALLY DRIVES VALUATIONS

If financials don’t explain multiples, what does? Using artificial intelligence, we identified the real drivers. The AI models were specifically designed to avoid circular reasoning — we excluded any variable that is mathematically embedded in the multiple itself, ensuring that the findings reflect genuine market behavior.

The drivers that emerged are not the ones you’d find in a typical valuation model:

THE REAL DRIVERS OF VALUATION PREMIUMS

- 1. Capital structure** — How a company finances itself is the strongest signal. Higher debt tolerance is associated with higher valuations, suggesting the market reads it as management confidence.
- 2. Media visibility** — Companies that appear more frequently in the news trade at higher premiums, regardless of whether the coverage is positive or negative. This “attention premium” has been growing steadily over the past decade.
- 3. Trading stability** — Companies with erratic trading volumes are penalized. Stability in trading patterns signals market confidence and commands a premium.
- 4. Operating margins** — The only traditional financial metric that appears among the top drivers, but with a nuance: its relationship with premiums is complex and sometimes counterintuitive.
- 5. Business model structure** — Whether a company is asset-light or asset-heavy, its acquisition history, and its capital intensity all shape how the market perceives scalability and durability.

The rise of **media visibility** as a valuation driver is perhaps the most surprising finding. The number of articles mentioning a company has become one of the fastest-growing

drivers of valuation premiums over the past decade. Two companies with identical financials but different levels of media coverage trade at materially different valuations.

For private companies, which by definition have minimal media presence, this creates a hidden penalty: comparable-based valuations drawn from public companies include a “visibility premium” that private companies simply cannot command.

THE MARKET PRICES THE PRESENT, NOT THE FUTURE

Our most striking finding came from testing whether the factors that drive today’s valuations also predict a company’s future worth. We estimated the intrinsic value of approximately 79,000 companies using actual future earnings (not forecasts) and measured how well today’s financial and market characteristics predict that future value.

The market is 3 to 5 times better at pricing what it can see today than at predicting what will actually determine a company’s long-term value.

The most revealing insight is which factors matter for today’s valuation versus tomorrow’s actual worth:

Factor	Influence on Today’s Valuation	Influence on Future Worth	Verdict
Debt levels	Very high	Very low	Overpriced
Current margins	High	Very low	Overpriced
Media coverage	High	Very low	Overpriced
Business risk profile	Moderate	High	Underpriced
Acquisition quality	Almost none	High	Underpriced
Asset-light business model	Almost none	High	Underpriced
Overall business quality	Almost none	Moderate	Underpriced

The factors the market obsesses over — debt, margins, media buzz — have almost no predictive power for long-term value. Meanwhile, **risk profile, acquisition quality, and business model durability** — factors the market largely ignores — are the strongest predictors of where real value will materialize.

In other words: the market is pricing noise and underpricing signal.

THE SIZE AND VISIBILITY TAX

Across nearly every sector, larger companies trade at higher premiums. The leaders — the largest company in each sector — command dramatically elevated valuations:

Sector	Leader	Premium vs. Sector Average
Communication Services	Alphabet	Very high
Industrials	Larsen & Toubro	Very high
Technology	NVIDIA	High
Consumer Defensive	Walmart	High

These premiums aren't fully explained by superior financial performance. Even after accounting for differences in growth, profitability, and returns, a significant "leadership premium" persists. The market doesn't just pay more for better companies — it pays more for well-known companies. Visibility, not just quality, drives price.

WHEN THE MULTIPLE WORKS — AND WHEN IT DOESN'T

Not all sectors are created equal when it comes to multiple reliability:

RELIABILITY MAP

MOST RELIABLE: Energy, Basic Materials, Consumer Defensive. Commodity-driven, standardized businesses where financial metrics capture most of the value story. Multiples are a reasonable shortcut here.

MODERATELY RELIABLE: Technology, Communication Services, Healthcare. Financials still matter, but intangible assets, platform effects, and innovation pipelines add substantial unexplained variation.

LEAST RELIABLE: Consumer Cyclical, Industrials. Brand equity, market positioning, and company-specific factors dominate. Comparable-based valuation carries the widest margin of error in these sectors.

One encouraging trend: markets are slowly getting better at pricing fundamentals over time. But the improvement is incremental, and the overall level of explanatory power remains low.

IMPLICATIONS FOR PRACTICE

Our findings don't mean multiples are useless — quite the opposite. As part of a thoughtful valuation framework, they are indispensable. What our data challenges is the mechanical application: the practice of treating a number from a comp table as an objective answer rather than as one input among several. The implications differ by context.

For dealmakers

The standard “comparable companies” analysis, built on sector selection plus adjustments for growth and margins, captures at most a quarter of what actually explains valuation differences. Expand comparable frameworks to include measures of visibility, trading stability, and business model structure. And when the comparable approach produces a wide range, acknowledge it openly rather than narrowing it with false precision.

For private company valuations

Private companies face a double disadvantage. First, they lack the visibility premium that public markets reward. Second, the factors that best predict long-term value — business model durability, risk profile, acquisition quality — are exactly the ones that multiples miss. A discounted cash flow approach, which forces explicit assumptions about these drivers, may produce more meaningful results than applying a standard discount to public multiples.

For investors

The gap between what drives today’s multiples and what predicts future value is a map of opportunity. Companies with strong, scalable business models and solid risk management trade at modest premiums today but are the best predictors of future value. Companies propped up by media visibility, current margins, and leverage may be overpriced relative to their long-term prospects.

For boards and CFOs

If media visibility independently drives valuation premiums, then investor relations and corporate communications aren’t just support functions. They are valuation levers. A sustained increase in a company’s media footprint could translate into measurable valuation gains, even without changes in financial performance.

The valuation multiple is the most widely used tool in finance. As a component of a multi-method framework, it is indispensable. The problem arises when it is used mechanically — when a number drawn from a comp table becomes the anchor for a decision, rather than one input among several. Our research quantifies what experienced practitioners have long intuited: the multiple, in isolation, is a composite of financial fundamentals, market dynamics, public attention, and investor sentiment — with an error margin far wider than commonly assumed.

This doesn't mean we should abandon multiples. It means we should be rigorous about **how** we use them. When the stakes are high — acquisitions, exit valuations, capital allocation — complementing multiples with a thorough cash flow analysis isn't academic caution. It's what best practice already prescribes. Our contribution is to put numbers on that intuition.

The real question isn't whether multiples work. It's whether we're honest about when they don't.

ABOUT THE RESEARCH

This article is based on an empirical study conducted by Vedrai S.p.A. covering over 128,000 company-year observations from more than 15,000 publicly traded companies on all major global exchanges, over the period 2016–2025. The analysis spans ten sectors, excludes financial services and utilities, and focuses on companies with market capitalization above €50 million. The research combines traditional analytical methods with artificial intelligence to identify both obvious and hidden drivers of valuation. All findings are based on the most conservative analytical approach, specifically designed to eliminate circular reasoning. Full methodology is available in the companion research report.

Michele Grazioli is the founder and CEO of Vedrai S.p.A., an AI company building decision-support platforms for businesses.