

The Private Company Classification Standard (PECCS™)

The valuation taxonomy of private companies
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EDHEC
Infrastructure &
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Research Institute

PECCS



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Do private markets need a taxonomy?

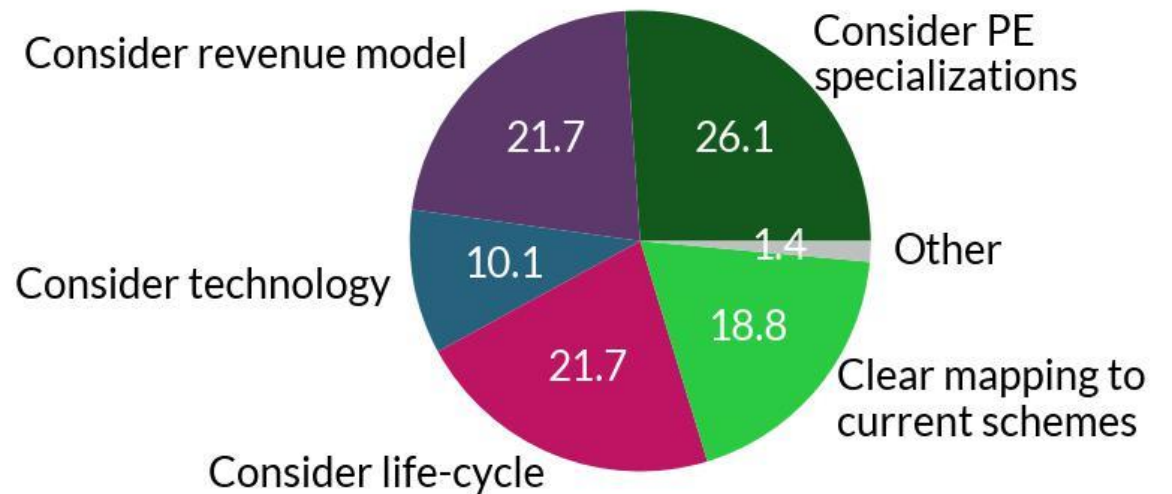
An objective classification scheme to group assets by peer groups of risk and valuation drivers

- Existing company taxonomies are over-focused on **industrial activity** (GICS, SIC, NACE)
- But the value of private assets is driven by more than the industry class. What about the business model or the stage in a company's lifecycle?
- Beyond "Core" or "Core+" what are the **anchor risk characteristics** of private companies?
- A complete taxonomy of private firms can improve private asset valuation by **organising companies into multiple risk factors** using the information available to classify companies objectively into different peer groups

An industry survey

What aspects of the firm should a new classification include?

- In 2023, we surveyed **100+ GPs** about the usefulness of classifying private assets into new classes beyond industrial activity.
- Half of respondents asked for a **new classification** going beyond industry.
- The respondents also indicated their preference for **systematically recording key value drivers** such as technology or revenue model.



What aspects of the firm should a new classification include?
(Survey of 100+ GPs)

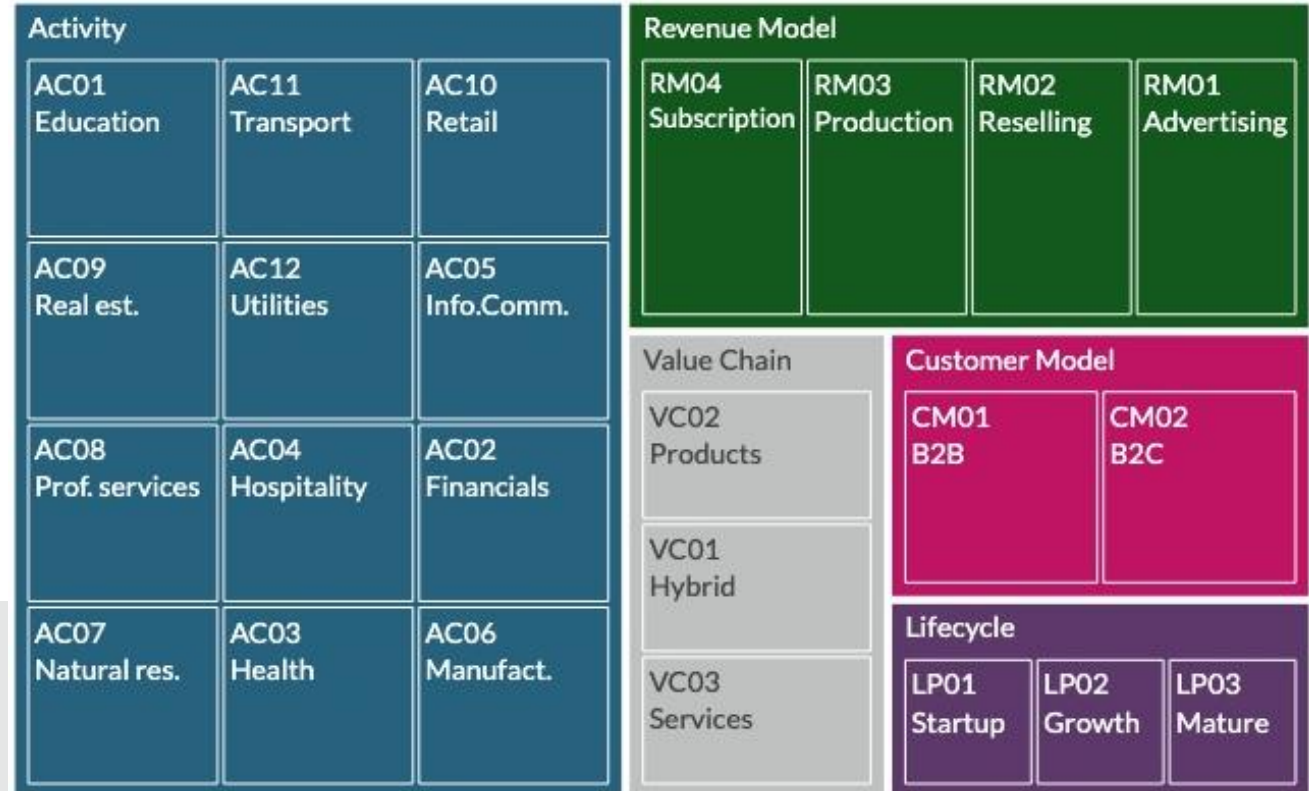
The PECCS Structure

The five PECCS pillars

1. Industrial Activity (12 classes, 67 subclasses)
2. Revenue model (4 classes, 14 subclasses)
3. Lifecycle phase (3 classes, 7 subclasses)
4. Customer model (2 classes, 8 subclasses)
5. Value chain (3 classes, 6 subclasses)

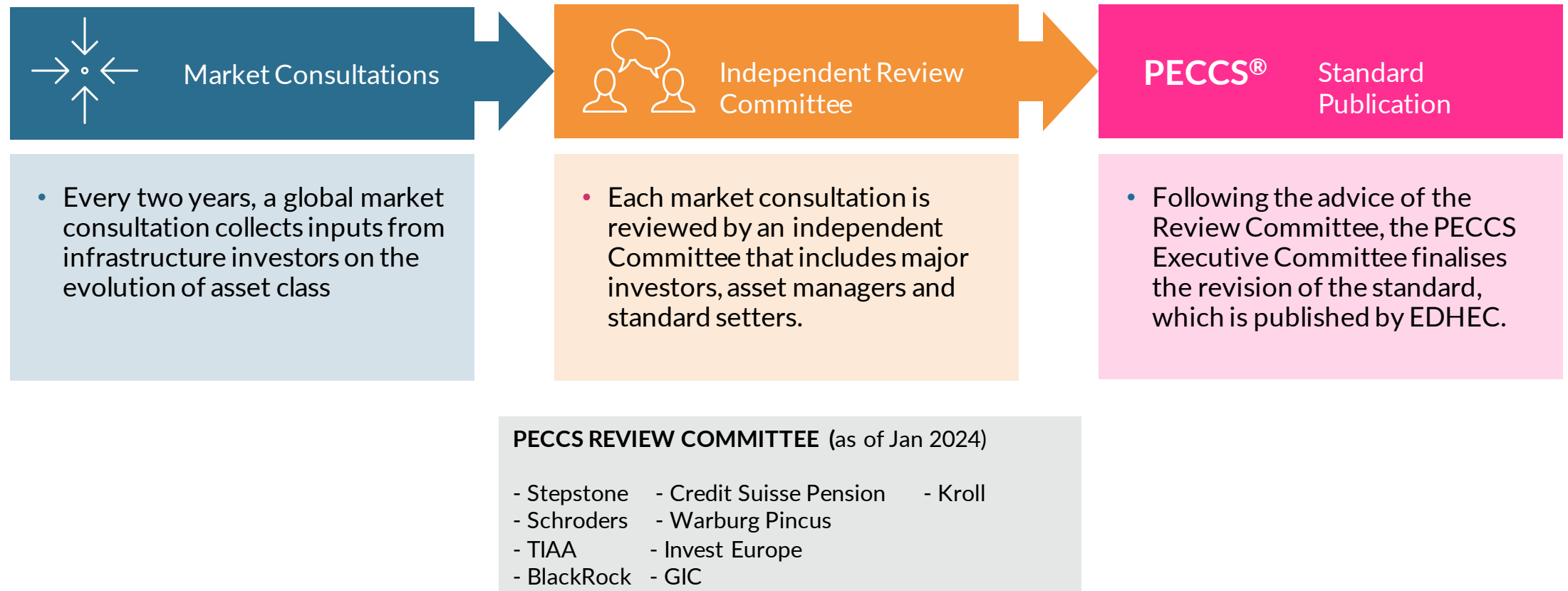
Key features

- The 5 pillars are objective and independent
- Exhaustive and mutually exclusive classes
- Activity pillar is mapped to other schemes (NACE, GICS, TICCS)



PECCS Governance

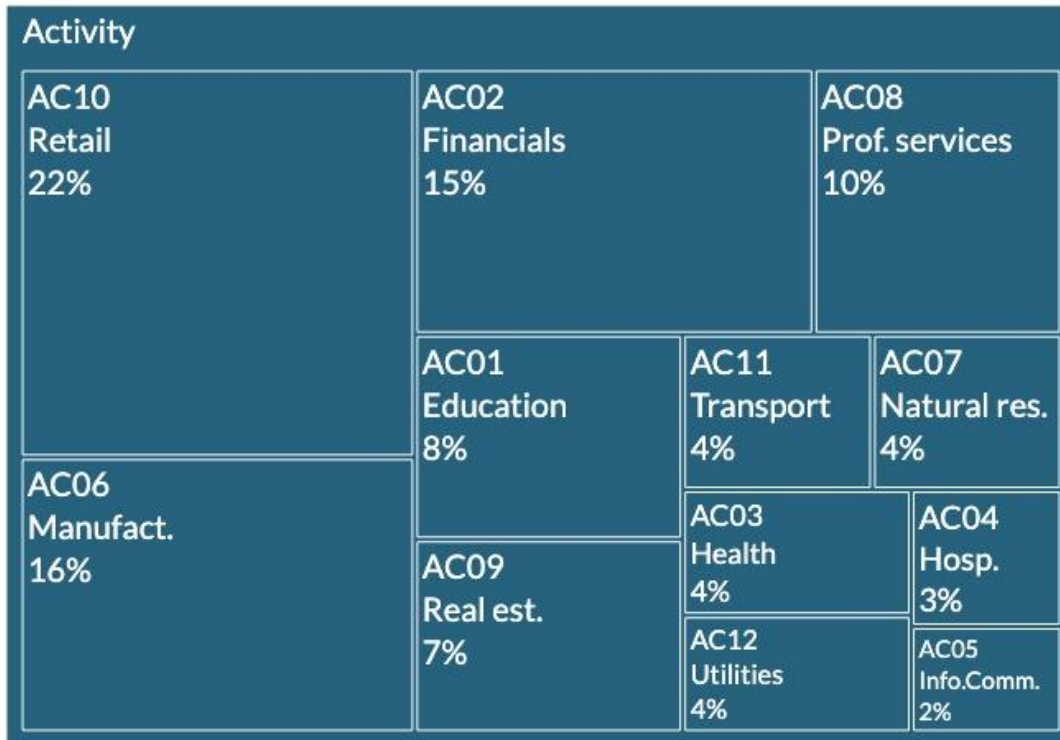
A transparent governance ensuring market endorsement & adoption



PECCS Applications

Mapping the Universe (2023)

800k+ companies in 115 countries, total revenue USD40Tr+ and total assets USD100Tr+

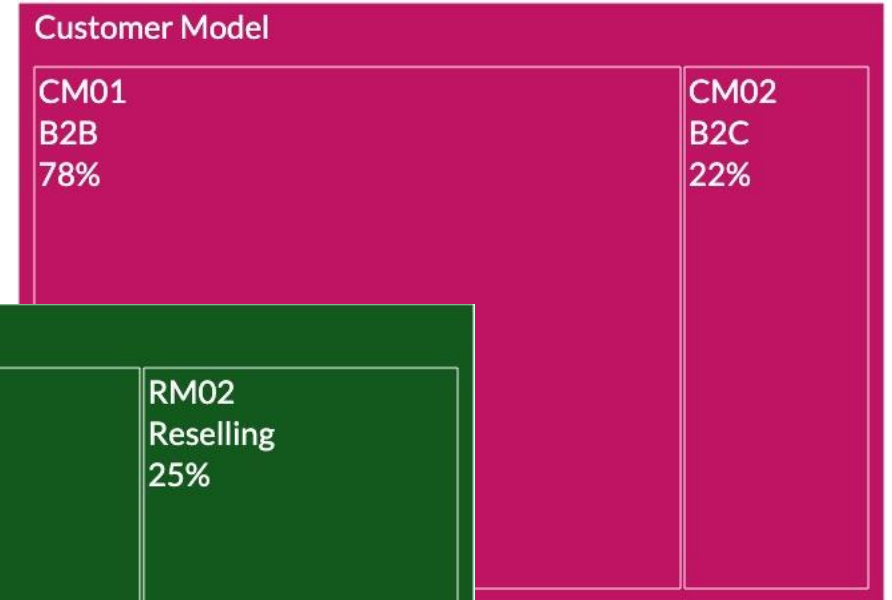
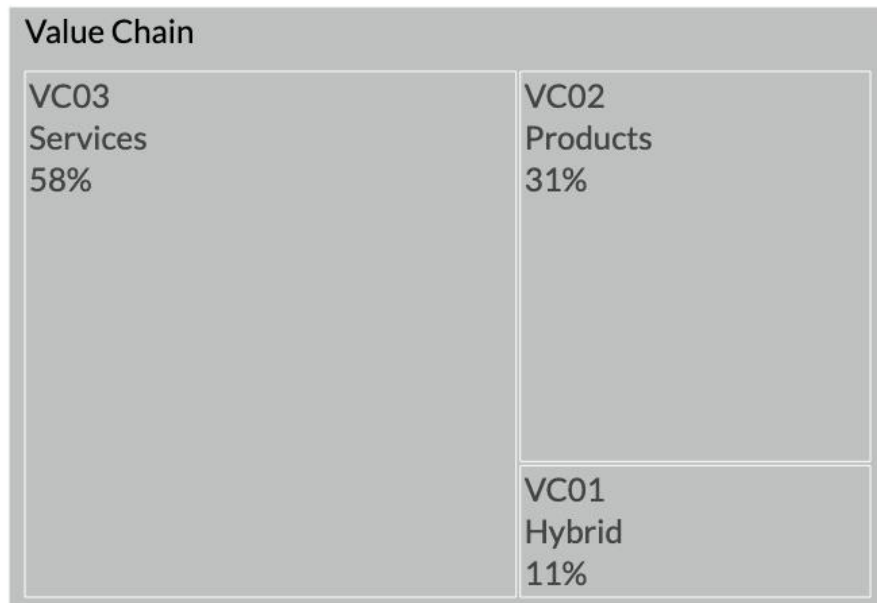


Size proportional to revenue of all companies in each class.

PECCS Applications

Mapping the Universe (2023)

800k+ companies in 115 countries, total revenue USD40Tr+ and total assets USD100Tr+



Size proportional to revenue of all companies in each class.

PECCS Applications

Asset valuations by peer groups

Looking at **5k private equity deals** over **25 years**, the **discriminatory power** of **PECCS** classes on company valuation is statistically robust.

Activity	P/S	P/EBITDA	p-value of mean difference in P/S
Education and public	3.021	21.319	0.134
Financials	3.320	17.836	0.000
Health	3.060	21.022	0.003
Hospitality and entertainment	2.818	19.043	0.082
Information and communication	3.534	18.641	0.000
Manufacturing	2.299	15.873	0.000
Natural resources	2.956	15.810	0.782
Professional and other services	2.468	16.844	0.004
Real estate and construction	3.223	16.648	0.328
Retail	1.645	14.381	0.000
Transportation	2.827	15.360	0.267
Utilities	2.783	14.267	0.653
All Transactions	2.756	17.138	-

Lifecycle Phase	P/S	P/EBITDA	p-value of mean difference in P/S
Startup	3.565	20.769	0.000
Growth	2.961	18.602	0.000
Mature	2.559	16.486	0.000

Customer Model	P/S	P/EBITDA	p-value of mean difference in P/S
Business Focused	2.813	16.884	0.241
Consumer Focused	2.656	17.584	0.241

Value Chain	P/S	P/EBITDA	p-value of mean difference in P/S
Hybrid	3.388	20.221	0.000
Products	2.449	16.543	0.000
Services	2.970	17.235	0.000

Revenue Model	P/S	P/EBITDA	p-value of mean difference in P/S
Advertising	3.031	15.278	0.015
Reselling	2.663	14.401	0.001
Production	2.542	16.817	0.000
Subscription	3.740	21.411	0.000

*The mean difference for each class is computed against the rest of the sample

**Note a p-value less than 0.01 indicates the difference is statistically significant at a 1% level (green cells)

PECCS Applications

PECCS matters for valuation

A deliberate choice of **incorrect PECCS classes** causes errors of over **60%** in this case, demonstrating the relevance of **PECCS** pillars and classes to valuation.

Correct Assignments

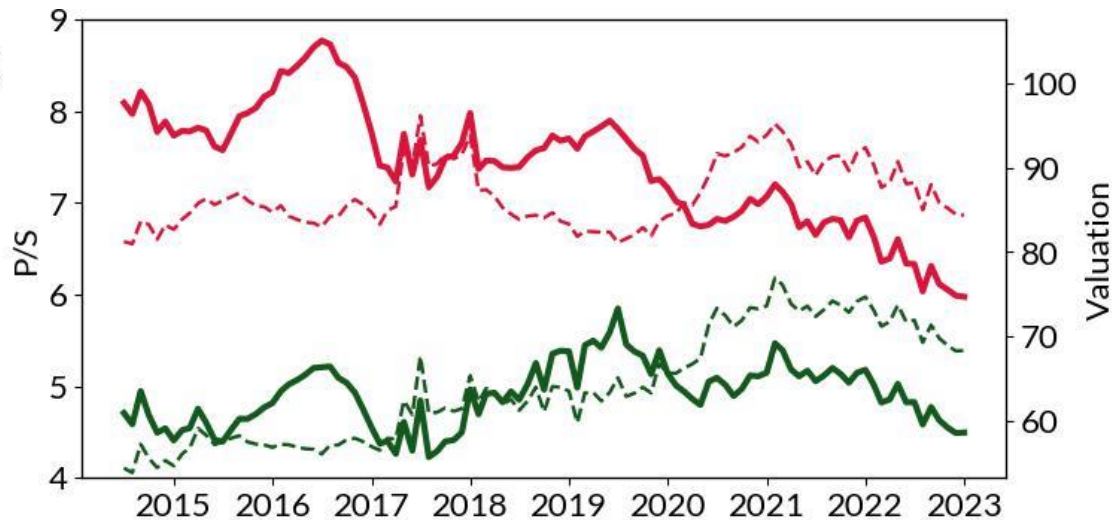
Activity: Manufacturing
Revenue Model: Production
Lifecycle Phase: Mature
Customer Model: Business Focused
Value Chain: Products

Incorrect Assignments

Activity: Information & Communication
Revenue Model: Subscription
Lifecycle Phase: Growth
Customer Model: Consumer Focused
Value Chain: Services

Company: Glue gun manufacturer (Japan)

--- Correct P/S
- - - Incorrect P/S
— Correct Valuation \$ MM
— Incorrect Valuation \$ MM



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