



Manual benchmark for Europe and North America

services –

Sample Comparable Companies Analysis

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Index

● Executive Summary	4
● Main database used	5
● Search strategy	6
● Selected comparables	9
● Search results	11
● Appendix – Rejection matrix	12

Executive summary

- This report presents the results of a benchmarking study for [redacted] service activities. The benchmarking study is consistent with the principles outlined in the OECD's Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (OECD Guidelines 2017)
- In total, 130 companies have been identified as being potentially involved in the [redacted].
- A set of 16 companies was determined to be comparable following a comprehensive review of the 130 companies.
- The financial profitability of the comparable companies was analyzed using return on total costs (ROTC) as the profit level indicator (“PLI”). ROTC is calculated as the operating profit divided by total costs (defined as revenues minus operating profit). The interquartile ROTC range for these companies is provided below:

	Return on total costs Weighted Average 2015-2017
Minimum	[redacted]
First Quartile	[redacted]
Median	[redacted]
Third Quartile	[redacted]
Maximum	[redacted]
Number of observations	[redacted]

Main database used

- This study relies on data provided by an external database of company financial data, ORBIS, which is published by Bureau van Dijk and provides financial and market data on over 165 million companies. It is the most comprehensive database available for company information. The database contains:
 - Over 93 million European companies
 - Over 25 million US and Canadian companies
 - Over 32 million South and Central American companies
 - Over 30 million Far East and Central Asian companies
 - Over 100 000 public companies worldwide
- The information contained in the ORBIS database is sourced from more than 40 different information providers. For each company, ORBIS provides financial information (profit and loss account, balance sheet, etc.) and other descriptive information (activity codes, directors, ownership and subsidiaries, etc.). It is to be noted that company specific information available in the database is dependent on filing requirements in the different countries.
- The results presented in this report are obtained using the October 2018 version of the Orbis Database.



Search strategy

Search criteria applied on the Orbis database (1/2)

- This benchmarking analysis focuses on the [REDACTED] activities. The analysis aims to identify companies whose main activity is to [REDACTED].
- Five screenings were applied on the Orbis database to select a potentially comparable set of companies:
 - **Screening 1: Active Companies**
 - An initial filter was set up in order to select only active companies. The rationale behind this step was to exclude all companies that are dormant or subject to liquidation or other legal proceedings.
 - **Screening 2: Geographical Scope**
 - The search was restricted to companies registered in any of the following countries:
 - European Union [15],
 - Canada,
 - Norway, Switzerland,
 - United States of America
 - **Screening 3: Business Scope**
 - Companies operating under the NACE code [REDACTED] were selected.

Search strategy

Search criteria applied on the Orbis database (2/2)

- Screening 4: Independence

- The financial ratios of companies that are not independent may be influenced by the group's transfer pricing policy and may not reflect arm's length transfer prices. An independence criterion was applied to eliminate companies that are part of a group:
 - Companies with a shareholder having more than 50% direct or total ownership (except companies owned by a private person) were rejected .
 - Companies holding a subsidiary (with at least 50% of the capital) and with only unconsolidated accounts (consolidation code U1), were rejected. Indeed, if consolidated accounts are not available, financial ratios of companies that are part of a larger group of companies, are affected by transfer prices and cannot be relied upon.

- Screening 5: Availability of Financials and Revenue Criterion

- Companies for which the database did not contain two years of Revenue and EBIT data over FY2015 and FY2017 were also eliminated. This filter is required to ensure that sufficient information is available to calculate multi-year averages of the profit level indicators.
- In addition, to improve comparability, companies with annual revenues less than 1 million Euros for both FY2015 and FY2017 were rejected. The purpose of this screening is to remove very small companies and companies winding down their operations, as they may have different operating requirements or face different market conditions.

A total of 130 companies were identified as potentially comparable and were further reviewed as part of the qualitative screenings phase.

Search strategy

Qualitative screening

- The characteristics of the potentially comparable companies obtained from the search strategy described above were reviewed in detail to evaluate comparability of each selected company. This step includes the review of information provided by Orbis (full business description) and the company websites.
- Main reasons for rejections were:
 - **Differences in functions/activities performed**
 - In the course of the selection of comparable companies, companies primarily involved in different functions were rejected. In particular:
 - Companies which are [REDACTED]
 - Companies which are [REDACTED]
 - Companies which are [REDACTED]
 - Companies which are [REDACTED]
 - Companies which are [REDACTED]
 - **Insufficient information**
 - Companies for which the qualitative information provided by the database or by the website were not sufficient to assess comparability were rejected.
 - **Independence**
 - Companies not satisfying independence criteria stated above, based on publicly available information were excluded from the set.

This qualitative screening phase resulted in the identification of a total of 16 companies.

Selected comparable companies

#	Company name	Country ISO Code	NACE Rev. 2 Core code	Cons. Code	Category of the Company	Trade Description	Website	ROTC 2015-17
1	[Blurred]	FR	[Blurred]	U1	Medium sized company	[Blurred]	[Blurred]	[Blurred]
2	[Blurred]	IT	[Blurred]	U1	Medium sized company	[Blurred]	[Blurred]	[Blurred]
3	[Blurred]	GB	[Blurred]	U1	Large company	[Blurred]	[Blurred]	[Blurred]
4	[Blurred]	ES	[Blurred]	U1	Medium sized company	[Blurred]	[Blurred]	[Blurred]
5	[Blurred]	FR	[Blurred]	U1	Large company	[Blurred]	[Blurred]	[Blurred]
6	[Blurred]	PT	[Blurred]	U1	Medium sized company	[Blurred]	[Blurred]	[Blurred]
7	[Blurred]	FI	[Blurred]	U1	Small company	[Blurred]	[Blurred]	[Blurred]

Selected comparable companies

#	Company name	Country ISO Code	NACE Rev. 2 Core code	Cons. Code	Category of the Company	Trade Description	Website	ROTC 2015-17
8	[Blurred]	IT	[Blurred]	U1	Medium sized company	[Blurred]	[Blurred]	[Blurred]
9	[Blurred]	ES	[Blurred]	U1	Medium sized company	[Blurred]	[Blurred]	[Blurred]
10	[Blurred]	FI	[Blurred]	U1	Small company	[Blurred]	[Blurred]	[Blurred]
11	[Blurred]	IT	[Blurred]	U1	Medium sized company	[Blurred]	[Blurred]	[Blurred]
12	[Blurred]	US	[Blurred]	C1	Very large company	[Blurred]	[Blurred]	[Blurred]
13	[Blurred]	GB	[Blurred]	U1	Very large company	[Blurred]	[Blurred]	[Blurred]

Search results

- The selected profit level indicator (“PLI”) is the return on total costs (“ROTC”), defined as

$$\text{Return on Sales (RoS)} = \frac{\text{EBIT}}{\text{Sales}}$$

- The arm’s length range of ROTC for the 16 selected companies is provided below:

	Return on total costs Weighted Average 2015-2017
Minimum	1.0%
First Quartile	2.0%
Median	3.0%
Third Quartile	4.0%
Maximum	10.0%
Number of observations	16



Appendix

Rejection Matrix 1/6

#	Company name	Country ISO Code	City	NACE Rev. 2 Core code (4 digits)	Cons. code	Category of the company	Website	Trade Description	Dissimilar Activities	Not independent	Insufficient Information	Selected	Comments
1.									x				
2									x				
3											x		
4												x	
5												x	
6									x				
7												x	
8										x			
9												x	
10									x				
11									x				
12											x		
13									x				

Rejection Matrix 2/6

Item	Code	Category	Sub-category	Material	Description	Quantity	Unit	Location	Notes
1
2
3
4
5
6
7
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