

VALUE OF *everything*

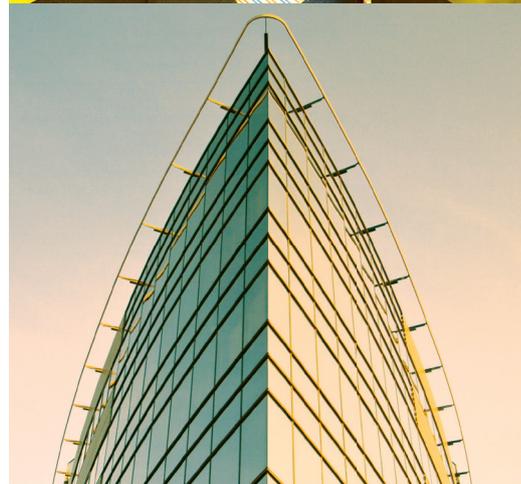
Michael Weaver, head of valuation advisory services for the UK, Ireland and the Middle East at Duff & Phelps, recounts setting up an advisory service line and explains why demand is still increasing

“Highly,” laughs Michael Weaver, now the head of valuations advisory at Duff & Phelps for the UK and Middle East, when asked how he valued Gravitass - the valuation advisory business he co-founded after leaving PwC in 2003. Two years later, he had sold it to global valuations firm American Appraisal (see his CV, right).

It was not a traditional valuation, even for an expert with a vested interest. Being a partnership, partners were taking out cash that the business was generating but wasn't needed for reinvestment. The key thing for American Appraisal was to agree market salaries for Gravitass management, and then for both parties to settle on a price for the business. “American Appraisal was keen to get a stronger presence in London, and the Gravitass deal offered them just that,” says Weaver. “They were valuations specialists, which matched our core skill. American Appraisal had some advisory in London, but not much. Effectively, in the UK it was a reverse takeover. It was a positive move for us. We could have carried on growing the business, but who knows? The deal gave us genuine global reach - despite American Appraisal's name it was a truly global business, but with a gap in London.”

BUILT BIGGER

That deal was done in November 2005. Fast forward to February 2015, when American Appraisal was itself being acquired by Duff & Phelps. American Appraisal had spent the past few decades growing its global valuations business, while Duff & Phelps had focused on growing its other service lines - compliance and regulatory, transfer pricing, restructuring and M&A. Duff & Phelps had the capital for the acquisition after a group of investors led by Carlyle Group took the New York-listed advisory business private in April 2013. ▶



case study **MINER VALUATION**



The valuations team worked very closely with the Duff & Phelps restructuring team on New World Resources (NWR), a Czech coal-mining business. It was listed on the London Stock Exchange until its subsidiary OKD filed for Czech insolvency in May 2016, at which point NWR's shares were suspended. NWR formally filed for liquidation in October at the request of international bondholders, who were also the primary shareholders.

Duff & Phelps' restructuring team worked closely with its mining industry practice to understand the value of OKD during a period of extreme coal price volatility. Due to an increase in global GDP growth, Chinese coal regulation and Australian flooding, the price of coking coal had increased from below \$100/t in 2016 to more than \$300/t in early 2017. This change increased interest in the company's supersenior credit facility, senior notes and convertible bonds when special situation funds saw the opportunity for a potential restructuring (as was previously done at NWR in 2014).

Duff & Phelps worked with the new special situation funds to understand the value of the group and to lobby in the Czech Republic to find a solution. Although an agreement was not reached, the situation remains ongoing as a value-enhancing solution is sought.

“For this business, a coal miner, the key variable from a valuation point of view is the assumptions around future coal prices,” says Weaver. “We worked with our restructuring practice to help them understand how various coal price scenarios would affect value.”



MICHAEL WEAVER CV

After graduating from St Andrew's University with a degree in mathematics, Weaver joined the audit team at Coopers & Lybrand (now part of PwC) in 1995. After qualifying as an ACA and being made manager he joined the growing valuations team: "I wasn't in love with auditing. In valuations, there's much more analysis, much more added value, and, crucially, clients really wanted to talk to you."

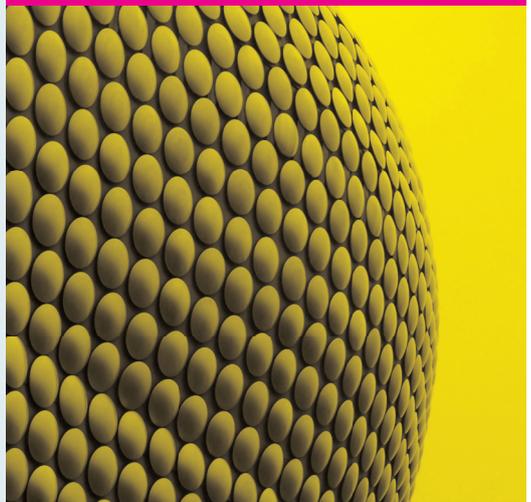
He advised on big international deals - one was acting for Unilever on the sale of DiverseyLever for \$1.6bn to Johnson Wax. But in 2002, when Sarbanes-Oxley came in (restricting the work that auditors could do for their clients in other parts of their professional practices), Weaver and some colleagues saw a massive opportunity, as they expected the Big Four to hold on to valuations in the UK, but not in the US. That would mean they could definitely compete in some practice areas with less of a global reach.

In December 2003 he co-founded Gravitas. "We didn't pay ourselves for six months," says Weaver. "We learned so much over that time - setting up offices, signing leases, getting phones and licences - everything that was done for us at PwC. Doing valuations was actually the easy part, as I knew what I was doing. I knew that in six months, even if it failed I would have learned and developed so much that if I wanted I could go back to the Big Four. It was the most important thing I have ever done. I was being an entrepreneur."

In November 2005, Gravitas was sold to American Appraisal and Weaver became managing director, heading up the London office. In April 2014 he was made head of Europe, leading the practices in Russia, Germany, Netherlands, Hungary, Czech Republic, Kazakhstan and Ukraine, as well as the UK. And in February 2015, when Duff & Phelps acquired American Appraisal, Weaver was appointed managing director for the valuations business in Europe and the Middle East.

£1.6bn

Unilever's sale of DiverseyLever to Johnson Wax, which Weaver acted for on behalf of Unilever



case study IT'S ONLY FAIR



In September 2017 the valuations team provided a fairness opinion on the share valuation in relation to Klöckner Pentaplast's combination with Birmingham-based Linpac Group. Strategic Value Partners owned both, and the transaction was required to support the relative shareholdings in the combined business.

The combined business had £4-5bn turnover. It was a huge combination of two global shrink-wrap businesses. It is suggested in the press that the business is being readied for an IPO.

"Once we provided an independent relative valuation of both companies, the deal was separately negotiated between the parties," says Weaver. "The principle basis was EBITDA multiples that were adjusted to reflect the relative growth profiles of the two businesses."





case study OXFORD INSTRUMENTS



In April 2017 Duff & Phelps acted as financial adviser to Oxford Instruments (OI) on the divestment of its Industrial Analysis Business to Hitachi High-Technologies for £80m on a cash and debt-free basis. There was a pre-sale reorganisation prior to the carve-out of the business.

The valuation team assisted the M&A team in understanding the possible value of the business, making use of the global reach of their advisory services by linking in with their 400-strong team in Asia.

While valuation practices in China and Japan are well developed, the challenge, says Weaver, can be deliverability of a deal. "Often Asian acquirers looking to diversify into Europe are willing to pay more than local acquirers because they are getting an extra element of value from the deal. Our Asian team is

vital in all our processes now. Not only do they help significantly in the identification of acquirers in their markets, but usually they know them already, and so they can direct the deal to exactly the right people and pitch it appropriately."

Paul Teuten, Duff & Phelps managing director and senior member of its global M&A advisory business, who advised OI on the sale, said: "The OI industrial analysis business was a global market leader with a strong brand. Hitachi High-Technologies (HHT) is also a leader in this niche and chose to pursue OI to strengthen its own business. HHT's value reflected its long-term vision and the strategic importance of the deal. The process did take longer than it may have with a non-Asian acquirer, but they remained consistent throughout."

"We [American Appraisal] knew what we had to do, but didn't have the firepower of Duff & Phelps," explains Weaver. "The rationale is that they would be able to sell their expanded service offering to our expanded network. In Asia it is principally the American Appraisal platform, in Europe it is 50/50, and elsewhere it's Duff & Phelps. In the valuations team here it's a partnership, where both sides brought different things to the table."

In 2005 Duff & Phelps acquired Standard & Poors' Corporate Value Consulting - which was PwC's legacy valuation business. In London Duff & Phelps now has 50 managing directors and 300 staff, 60 of whom work in valuations. Weaver says being able to offer M&A, restructuring, regulatory and transfer pricing advice to clients has been "a game-changer".

WHAT FOR?

Duff & Phelps' valuation advisory business combines finance and accounting expertise - Weaver is a chartered accountant, a member of ICAEW and a long-standing member of the Corporate Finance Faculty - with the latest valuation methodologies. On transaction engagements, the team offers 'fairness' opinions on sell-side and buy-side M&A, spin-offs or divestitures, take-privates or related-party transactions. They have also given 700 solvency opinions (\$3trn in deal value) related to dividend

"Turnarounds have been quiet. So what is Brexit going to do? If GDP drops and interest rates go up, there will be a lot more restructuring"

£80m

The value of Oxford Instruments' divestment of its Industrial Analysis Business to Hitachi High-Technologies

recaps, debt refinancings, intercompany restructurings and spin-offs, and divestments.

"Fairness opinions don't so much de-risk the deal itself as de-risk the people. Acquirers are competing for the deal based on price. But if you are on the board of directors and are paying a fairly high price, you need to consider the possible consequences. If the goodwill in a deal is quite quickly marked down people will start to question the deal. Getting fairness opinion assists the board in its decision-making and supports the board should a challenge arise."

On restructurings, valuations expertise is mostly brought in pre-deal. "Perhaps the value breaks in the senior debt, so there is no value for equity or mezzanine, and so the senior lender takes control of the business and sells it on. You may have to defend the bank's position against the mezzanine provider, who might be in dispute because they are getting nothing."

In terms of the current pipeline of work, Weaver suggest this type of engagement may increase: "Turnarounds have been quiet. So what is Brexit going to do? If GDP drops and interest rates go up, there will be a lot more restructuring."

The dispute and investigation work is typically for arbitration, fraud inquiries, global investigations and information and cybersecurity. Weaver says the business is naturally hedged because of its broad mix of services. Duff & Phelps has been recruiting since the American Appraisal acquisition, and Weaver sees the business continuing to recruit in order to grow: "The market has doubled in size and now independents have taken a strong position and, like us, they are looking to grow their practices. Clients today have more understanding of how the valuation profession looks at deals. That may help de-risk a transaction." ●