



Business Valuation Survey

The Use of Independent Valuation to Promote Corporate Governance of WVR

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HKiNED
香港獨立非執行董事協會
The Hong Kong Independent
Non-Executive Director Association

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General Information of the Survey

Business Valuation Committee and Purpose of the Survey

- How business valuation benefits board members on corporate transactions
- The role of board members involved in the valuation process
- Areas of improvement in the business valuation process for corporate transactions

The table shows respondents by industry, (financial services, business services, customer products & retail and asset/wealth management firms formed top industries represented in the survey)

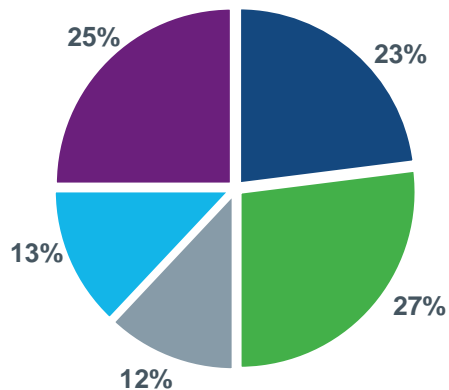
172 Respondents and Their Profiles

Industry	No. of Respondents
Agriculture, Forestry & Fisheries	3
Arts & Entertainment	1
Asset & Wealth Management	14
Automotive	2
Business and Professional Services	26
Capital Projects and Infrastructure	1
Customer Products & Retail	15
Education	2
Energy (including Oil and Gas)	8
Engineering and Construction	7
Financial Services	39
Government Public Services	3
Healthcare	4
Hospitality and Leisure	2
Industrial Products and Manufacturing	10
Media	1
Mining	4
Pharmaceuticals and Life Sciences	3
Technology	5
Transportation and Logistics (including airlines)	3
Others	19

General Information of the Survey

Listed companies formed 73% of the respondents, where 23% were less than HKD 300 million (mn) market cap and 25% of them were in the size of HKD 300 mn – HKD 2,000 mn

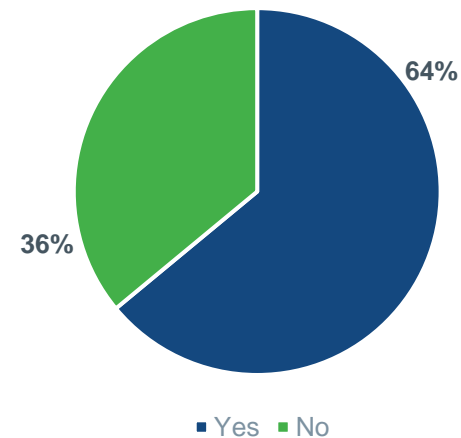
Respondents' Company Size



- Less than HKD 300 mn
- Unlisted Companies
- HKD 2000 mn – HKD 8000 mn
- More than HKD 8000 mn
- HKD 300mn - HKD 2000 mn

Sixty four percent of the companies have been involved in a corporate transaction. Of these, 43 companies have had more than 3 transactions and 24 companies have had 2 transactions in the last 2 years.

Has Your Company Been Involved In Any Corporate Transactions In The Past Two Years?

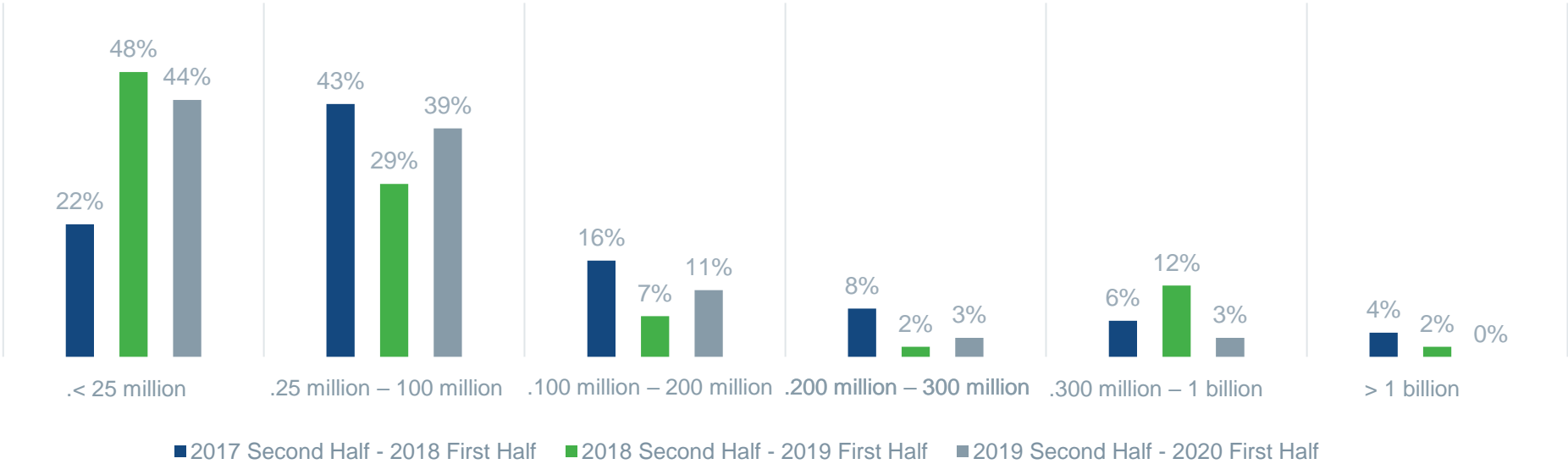


Overview of Corporate Transactions from HK Listed Companies (H2 2017 to H1 2020)

- Number of corporate transactions with business valuations included in the public filing was increasing. However, deal value was decreasing.
- Most of the transactions were below USD 200 mn.

	Number of Transactions	Deal Value (USD mn)
H2 2017 - H1 2018	52	8,200
H2 2018 - H1 2019	58	6,873
H2 2019 – H1 2020	62	3,939

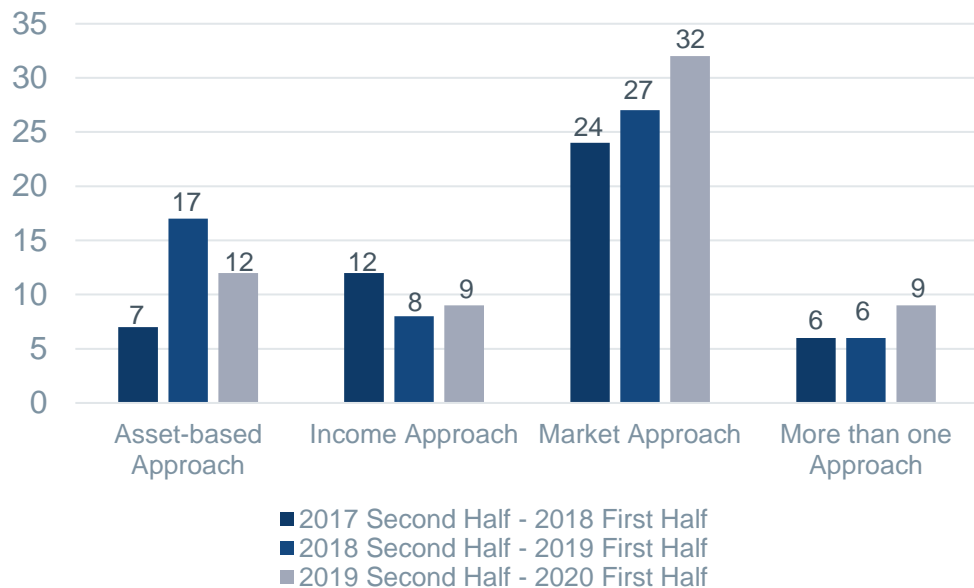
Target Companies' Transaction Deal Sizes (USD) (H2 2017 – H1 2020)



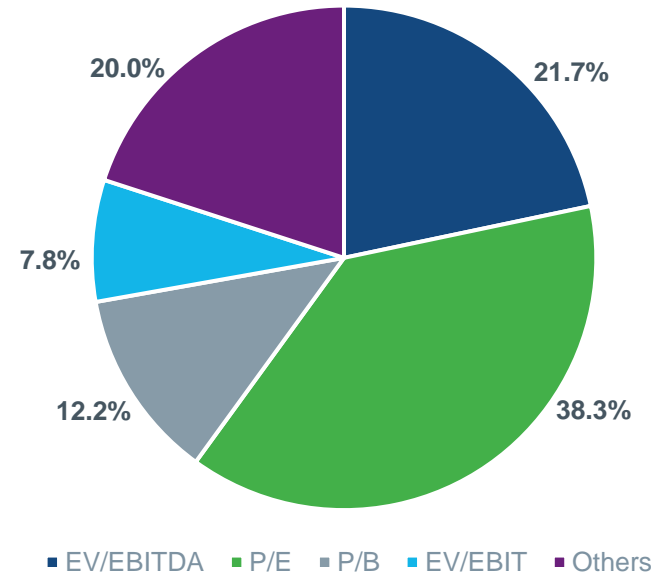
Overview of Corporate Transactions from HK Listed Companies (H2 2017 to H1 2020)

- Market approach was the most popular valuation methodology, but some adopted more than one approach. Under the market approach, P/E and EV/EBITDA were commonly used. EBIT multiples also require the consideration of lease accounting.

Frequency of Valuation Approaches (H2 2017 - H1 2020)



2017 Second Half - 2020 First Half Percentage of Valuation Multiples Used



Trading Multiples of Chinese WVR Stocks Listed in HK

- There were 7 WVR stocks listed in Hong Kong as of September 30, 2020.
The trading multiples, average sales growth rate (Q3 2019 to Q3 2020) and beta were compared below:.

HK WVR companies	EV/Sales	EV/EBITDA	PE	P/B	Revenue growth rate	Beta
Average	7.61	62.29	90.01	6.14	25.63%	1.50
Median	6.31	34.85	31.19	5.46	26.70%	1.10
1 st Quartile	1.78	27.73	30.79	4.04	18.94%	0.93
3 rd Quartile	11.00	45.98	48.70	6.60	30.07%	1.67
Industry Classification	Consumer Discretionary	Information Technology	Industrials			
	57.1%	28.6%	14.3%			

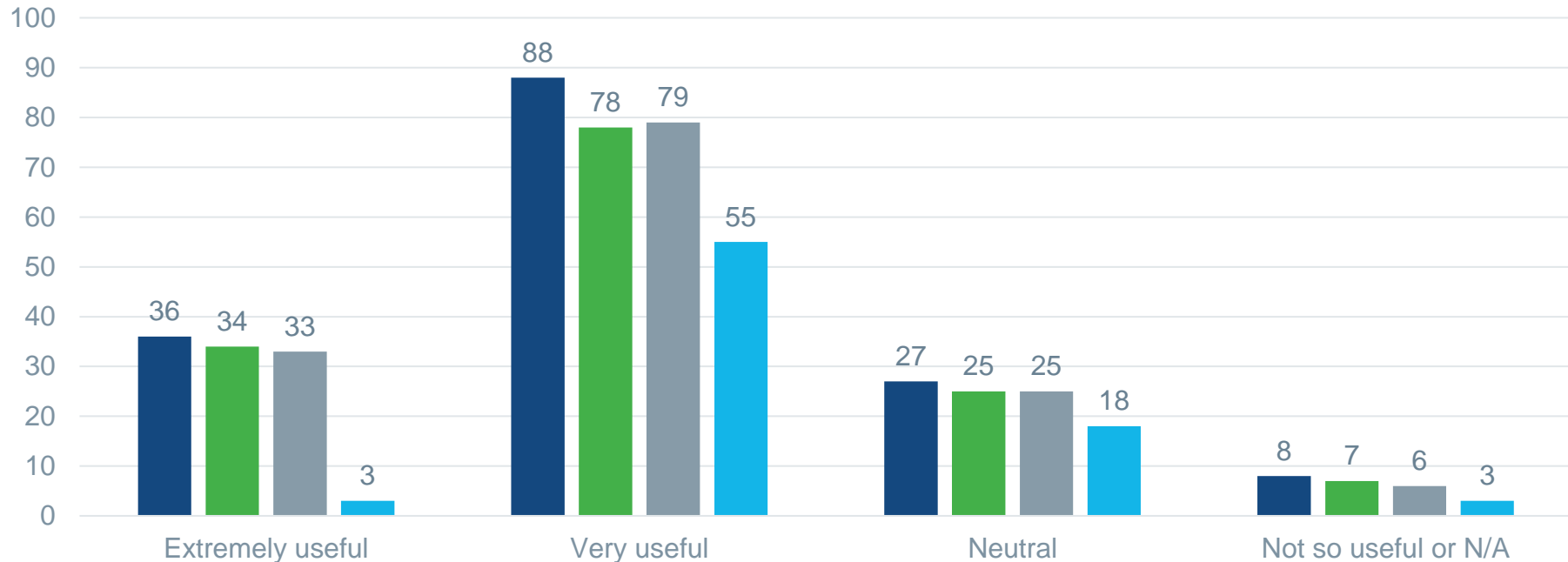
Trading Multiples of Chinese WVR Stocks Listed in the U.S.

- There were 30 Chinese WVR stocks listed in the U.S. as of September 30, 2020. The trading multiples, average sales growth rate (Q3 2019 to Q3 2020) and beta were compared below:.

US listed WVR companies	EV/Sales	EV/EBITDA	PE	P/B	Revenue growth rate	Beta
Average	4.89	20.75	26.02	5.10	10.40%	1.23
Median	2.40	13.37	17.27	3.15	8.34%	1.25
1st Quartile	1.31	8.19	10.85	1.37	-6.52%	0.98
3rd Quartile	6.31	32.56	31.30	5.88	28.61%	1.47
Industry Classification	Interactive Media Services	Entertainment	Internet and Direct Marketing	Diversified Consumer Services	Consumer Finance	Media
	25.8%	12.9%	12.9%	9.7%	6.5%	6.5%
	Air Freight and Logistics	Automobiles	Capital Markets	Healthcare Equipment and Supplies	Insurance	IT Services
	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%
	Textiles, Apparel and Luxury Goods	Consumer Discretionary				
	3.2%	3.2%				

How Business Valuation Benefits Board Members on Corporate Transactions

- Most respondents believe that business valuations are useful in corporate transactions.

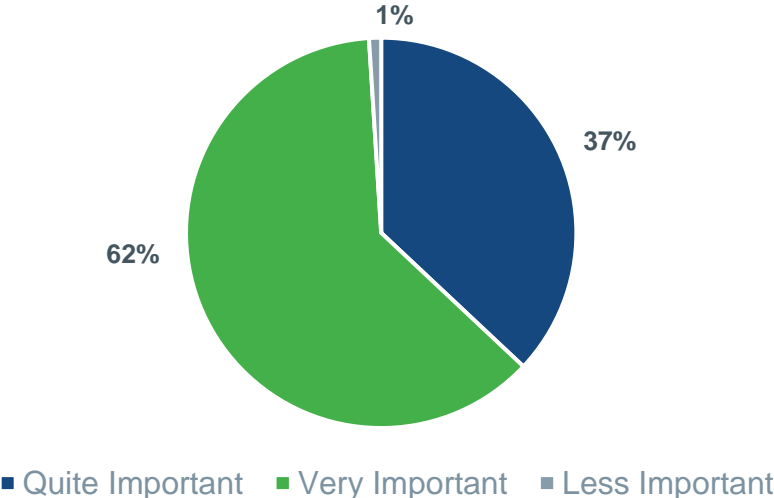


- Use of valuation in determining the consideration/price negotiation for corporate transactions
- Use of valuation in obtaining an understanding of target company's financial performance and future strategic planning
- Use of valuation in litigation risk mitigating/discharging board duties in mis-pricing of corporate transactions
- Use of valuation in monitoring the subsequent performance of your acquisition

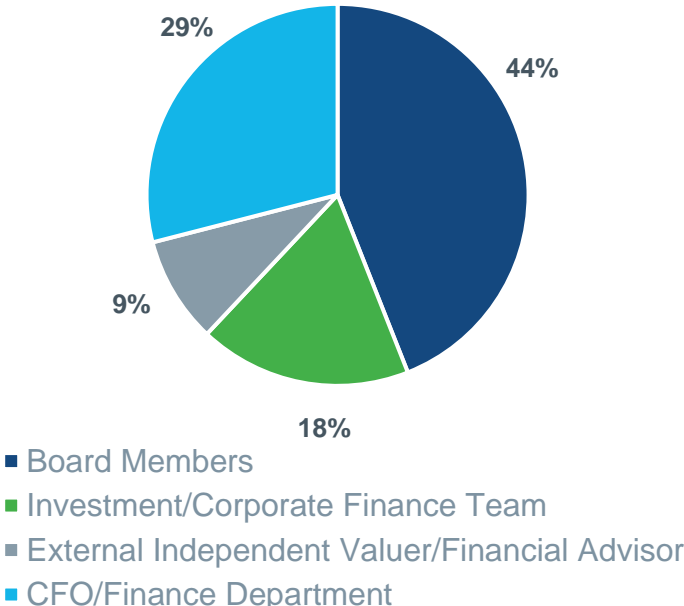
The Role of Board Members Involved in the Valuation Process

- Most of the respondents believed that board members were very important in the valuation process of the corporate transaction and that board members are responsible for evaluating corporate transactions.

How Important is the Role Of Board Members in the Valuation Process?



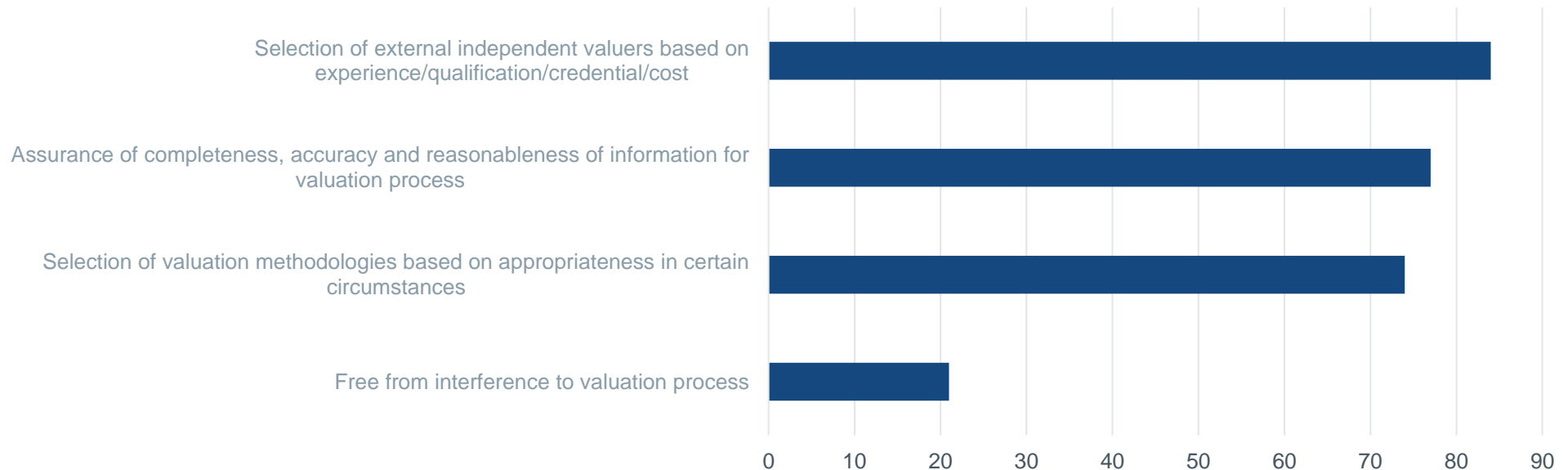
Which Parties are Primarily Responsible for Evaluating Corporate Transactions?



Areas of Improvement in the Business Valuation Process for Corporate Transactions

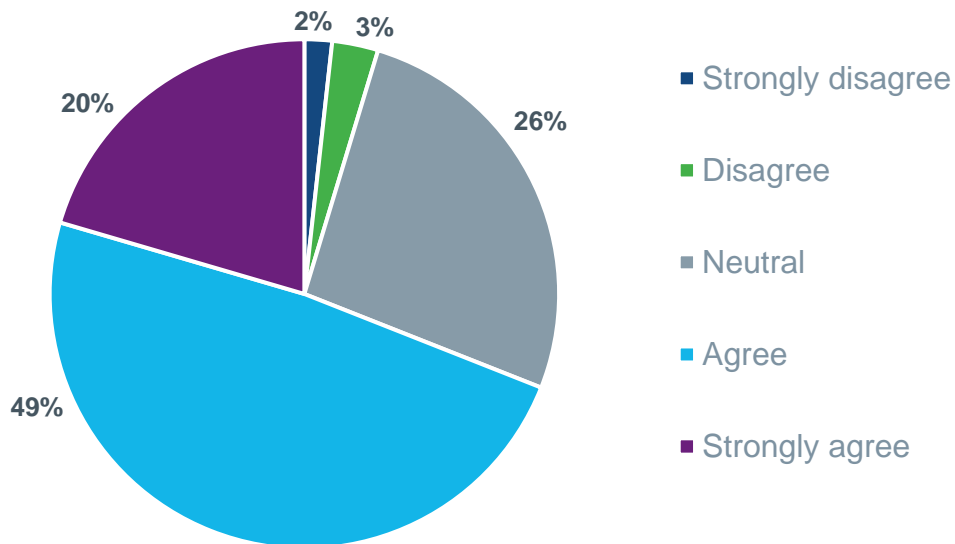
- Respondents believed that experience/qualification/credentials/cost of valuers were the most important areas to improve, followed by the completeness/accuracy and reasonableness of information in the valuation process and valuation methodologies.

Which of these Area(s) of the Business Valuation Process You Consider that Require Improvement?



Areas of Improvement in Business Valuation Process for Corporate Transactions

Do you agree there is a lack of more universal standards to regulate/streamline the business valuation process/professions in Hong Kong?





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