



WEBCAST: BRINGING THE UK ECONOMY BACK TO LIFE

23 April 2020

DUFF & PHELPS

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Introduction

Matt Ingram

Managing Director, Restructuring Advisory



ABOUT DUFF & PHELPS



Duff & Phelps is the global advisor that protects, restores and maximises value for clients in the areas of valuation, corporate finance, disputes and investigations, cyber security, claims administration and regulatory issues. We work with clients across diverse sectors on matters of good governance and transparency.

~4,000
TOTAL
PROFESSIONALS
GLOBALLY

MORE THAN
19,000
ENGAGEMENTS
PERFORMED IN 2019

13,500
CLIENTS INCLUDING NEARLY
47% OF THE
S&P 500

THE
AMERICAS

~2,000
PROFESSIONALS

EUROPE AND
MIDDLE EAST

1100+
PROFESSIONALS

ASIA
PACIFIC

700+
PROFESSIONALS

ONE COMPANY



ACROSS 25 COUNTRIES WORLDWIDE



THE AMERICAS

- | | | |
|----------------|--------------|------------------|
| Addison | Libertyville | St. Louis |
| Atlanta | Los Angeles | San Francisco |
| Austin | Mexico City | São Paulo |
| Bogota | Miami | Seattle |
| Boston | Milwaukee | Secaucus |
| Buenos Aires | Minneapolis | Silicon Valley |
| Cayman Islands | Morristown | Toronto |
| Chicago | Nashville | Washington, D.C. |
| Dallas | New York | Westlake |
| Denver | Philadelphia | |
| Houston | Reston | |

EUROPE AND MIDDLE EAST

- | | | |
|-----------------|------------|--------|
| Abu Dhabi | Dublin | Moscow |
| Agrate Brianza | Frankfurt | Munich |
| Amsterdam | Hamburg | Padua |
| Barcelona | Lisbon | Paris |
| Bari | London | Pesaro |
| Berlin | Longford | Riyadh |
| Bilbao | Luxembourg | Rome |
| Birmingham | Madrid | Turin |
| Channel Islands | Manchester | Warsaw |
| Dubai | Milan | Zurich |

ASIA PACIFIC

- | | |
|-----------|-----------|
| Bangalore | Shanghai |
| Beijing | Shenzhen |
| Guangzhou | Singapore |
| Hanoi | Sydney |
| Hong Kong | Taipei |
| Hyderabad | Tokyo |
| Melbourne | |
| Mumbai | |
| New Delhi | |

ENHANCING VALUE ACROSS A RANGE OF EXPERTISE



VALUATION ADVISORY

Valuation and consulting for financial reporting, tax, investment and risk management purposes

- Valuation Services
- Alternative Asset Advisory
- Real Estate Advisory
- Tax Services
- Transfer Pricing
- Fixed Asset Management and Insurance Solutions



CORPORATE FINANCE

Objective guidance to management teams and stakeholders throughout restructuring, financing and M&A transactions, including independent fairness and solvency opinions

- M&A Advisory
- Fairness and Solvency Opinions
- Transaction Advisory Services
- ESOP and ERISA Advisory
- Private Equity – Financial Sponsors Group
- Distressed M&A and Special Situations
- Private Capital Markets and Debt Advisory
- Financial Restructuring



GOVERNANCE, RISK, INVESTIGATIONS AND DISPUTES

Combined Duff & Phelps and Kroll risk management and mitigation, disputes and other advisory services

- Business Intelligence and Investigations
- Global Disputes Consulting
- Global Restructuring Advisory
- Cyber Risk
- Legal Management Consulting
- Security Risk Management
- Compliance Risk and Diligence
- Compliance and Regulatory Consulting



PRIME CLERK

Provides bankruptcy and class action claims administration through its proprietary software and industry leading management team

- Chapter 11
- Strategic Communications
- Contract Review
- Corporate Actions
- Class Action





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- [Jacco Brouwer](#), Managing Director and Head of European Debt Advisory
- [Ben Collett](#), Managing Director, Operational Restructuring
- [Phil Dakin](#), Managing Director, Restructuring Advisory
- [Matt Ingram](#), Managing Director, Restructuring Advisory
- [Ryan McNelley](#), Managing Director and European Head of Portfolio Valuation
- [Henry Wells](#), Managing Director and Head of UK M&A Advisory



1. **Introduction** – Matt Ingram
2. **The legacy of government initiatives** – Phil Dakin
3. **Impacts of COVID-19 on portfolio valuations** – Ryan McNelley
4. **Transactions: post lockdown activity and outlook** – Henry Wells
5. **Panel Discussion: Challenges and opportunities: insights and comments on what lies ahead**
 - Panelists: Jacco Brouwer, Ben Collett, Phil Dakin, Ryan McNelley and Henry Wells
 - Moderator: Matt Ingram
6. **Q&A**

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The Legacy of Government Initiatives

Phil Dakin

Managing Director, Restructuring Advisory



THE LEGACY OF GOVERNMENT INITIATIVES

What are the government measures to provide financial support to UK businesses?



1. CORONAVIRUS JOB RETENTION SCHEME

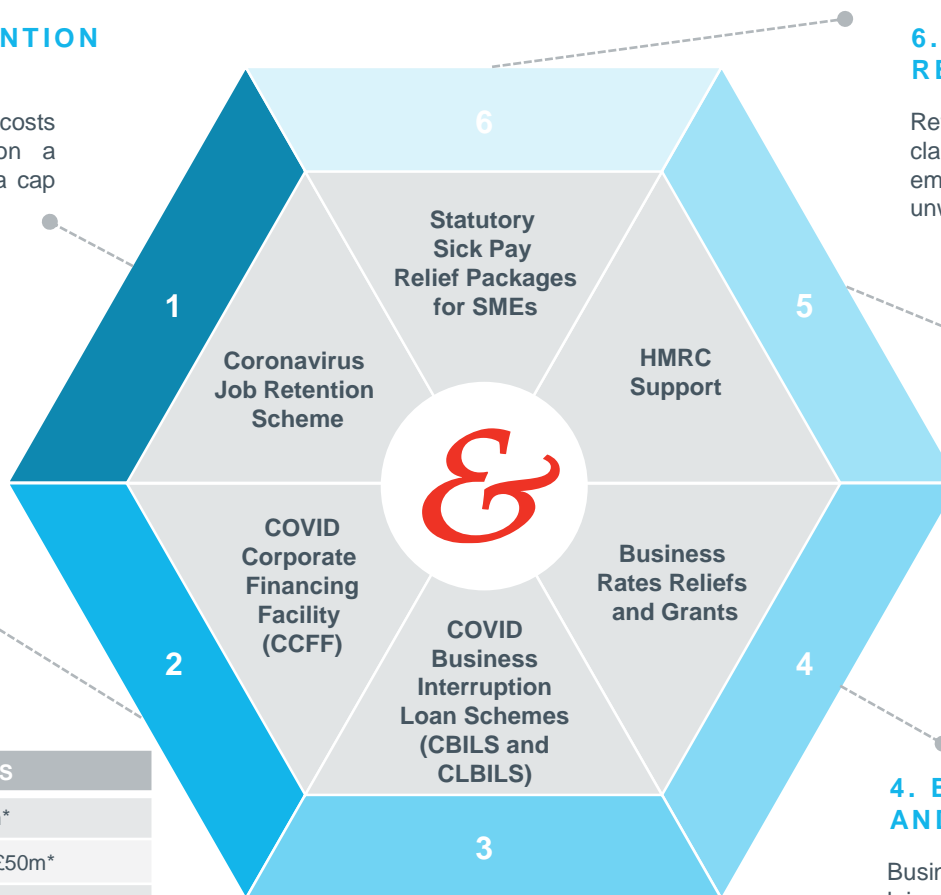
Grant support to cover up to 80% of salary costs for furloughed workers (i.e. workers on a temporary period of unpaid leave), up to a cap of £2,500 per month.

2. CCFF

Commercial paper with a maturity up to 12 months to assist with working capital needs of larger businesses of 'Investment Grade'. Supported by the Bank of England.

3. CBILS/CLBILS

	CBILS	CLBILS
Turnover	<£45m	>£45m*
Funding	Up to £5m	Up to £50m*
Govt G'tee	80%	80%
PGs	No	Yes, very likely
Pricing	Free for 1 st year	Commercial rates



6. STATUTORY SICK PAY (SSP) RELIEF PACKAGES

Refund covering up to two weeks' SSP claimable by employers with less than 250 employees for any employee that has been unwell or had to self isolate due to COVID-19.

5. HMRC SUPPORT

Deferral of all VAT payable for businesses during period 20 March 2020 to 30 June 2020, with balance due by end of 2020/21 tax year.

Deferral of all Income Tax Self-Assessment payments due on 31 July 2020 until 31 January 2021.

4. BUSINESS RATES RELIEFS AND GRANTS

Business rates holiday for retail, hospitality and leisure businesses for the 2020/21 tax year.

Cash grants of up to £25,000 for retail, hospitality and leisure businesses.

THE LEGACY OF GOVERNMENT INITIATIVES

The hard work is yet to come.....



CBILS/CLBILS DEBT BURDEN

- Serviceability of CBILS and CLBILS loans are being based on historic norms. However, there is likely to be a new version of 'normal' trading for many business for the next 12-24 months, one which is materially lower than that seen prior to COVID-19.
- Future refinancing of debt will see a new lens being applied by the lenders when the government and public's eyes are no longer focused on them. Accordingly, refinancing may be harder to achieve, material pricing uplifts applied and a change in collateral requirements.

RISING FISCAL DEFICIT

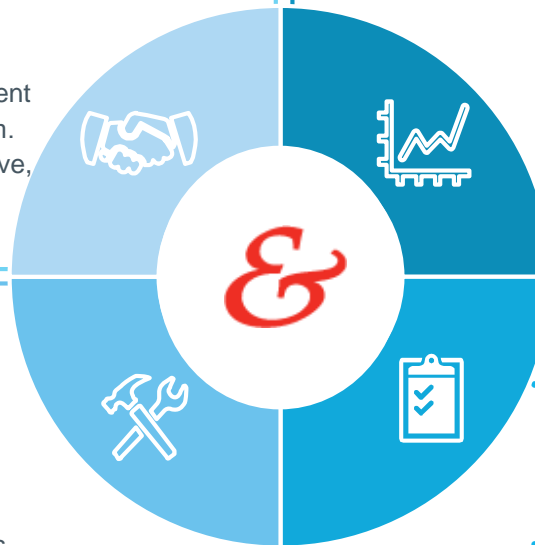
- With the level of funding being supplied to support the government's various initiatives, the November half-year Budget will be interesting. We can expect...
- A possible return to/continuation of austerity measures seen under the rein of George Osborne.
- A likely u-turn, or delay at least, on Boris' spending plans.
- Tax increases across the board and unlikely to be limited to high-earners.

OPERATIONAL DEPENDENCE

- For those in the most affected sectors, such as leisure and hospitality, the business rates relief will be a drug that businesses struggle to wean themselves off.
- There is likely to be further lobbying for business rates reductions or an extension to this scheme.
- The loss of business rates income for local councils will materially impact their own budgets, which will ultimately lead to local or central government cuts to other services or schemes.

TRADING LIABILITIES

- During lockdown everyone has been 'in it together' with a general acceptance that bills will be paid when businesses re-open. Once they do, attitudes are likely to change and enforcement actions more likely.
- HMRC liabilities will be significant and in some cases too much to bear. The government may be required to write-off, rather than just defer these liabilities.
- Insolvencies are likely to materially rise and the CVA become the preferred business tool to compromise debts in order for management teams to maintain control.



3

Impacts of COVID-19 on Portfolio Valuations

Ryan McNelley

Managing Director, Portfolio Valuation



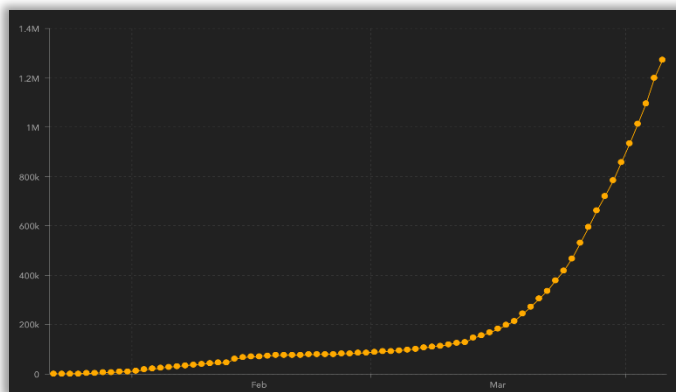
PRESERVING VALUE IN AN UNCERTAIN MARKET



The world turned upside down in the space of 6 weeks!

- Unprecedented economic dislocation
- Unprecedented government action
- Unprecedented market dynamics

Equals: More difficult valuation challenges than ever before!



However, valuation principles remain a guiding light in times of uncertainty.

Fair Value is:

“... the price that would be received TO SELL an asset or paid to transfer a liability in an ORDERLY transaction between market participants at the measurement date.”

- ⚠ Fair Value \neq Fire Sale Price
- ⚠ Fair Value takes into account current market conditions
- ⚠ Fair Value takes into account information that is known and knowable at the measurement date
- ⚠ The need for fair value: Investors (LPs) need timely reported fair value based Net Asset Values (NAV) for decision making, financial reporting, exercising fiduciary duty

KEY VALUATION OBSERVATIONS



1. While some companies will be more impacted than others, no company is immune to the market's “re-pricing” of risk: higher return expectations at a given risk level mean lower asset prices
2. Some evidence exists that suggests private investments are generally less volatile than actively traded investments
3. Virtually all Private Equity managers worldwide will need to value their 31 March NAVs with “imperfect information” – i.e., without the benefit of portfolio company 2020 re-forecasts



- Opaque 2020 forecasts from portfolio companies
- Long-term portfolio company forecasting in the ‘new normal’?
- Market approach – versus – income approach
- Liquidity planning and potential new equity injections
- Rent payment holidays and interest payment holidays
- Government intervention and stimulus
- Cost of capital and borrowing rates
- Treatment of debt in the Waterfall: book value – versus – fair value
- Benchmarking of comparable company multiples
- Lack of comparable M&A activity
- Altered exit assumptions

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Transactions: post lockdown activity and outlook

Henry Wells

Managing Director, M&A Advisory



FTSE 100 INDEX – PERFORMANCE AND RECOVERY TIME



FTSE 100 Index

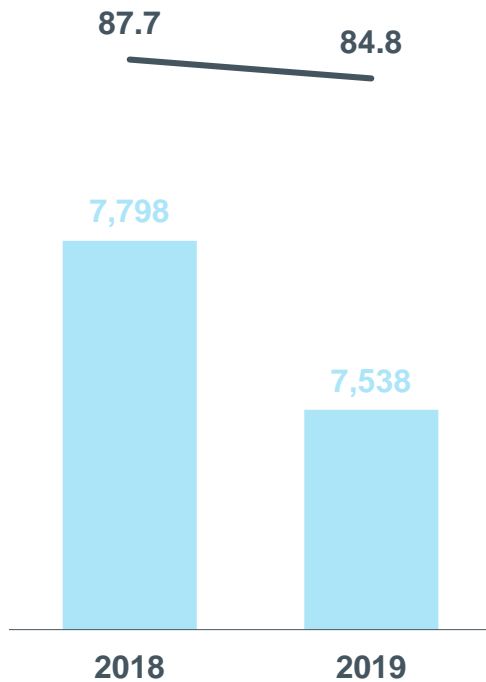


Source: Capital IQ, updated on 20/04/20
Legend: Index recovery time

EUROPEAN MID-MARKET M&A TRANSACTIONS

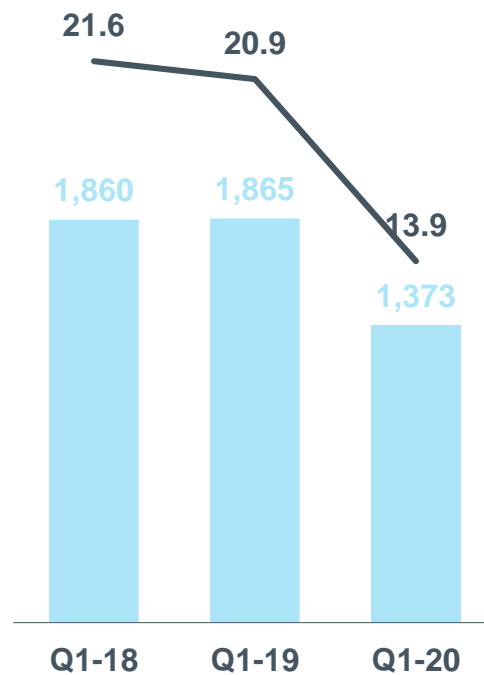


FY18-19 Overview



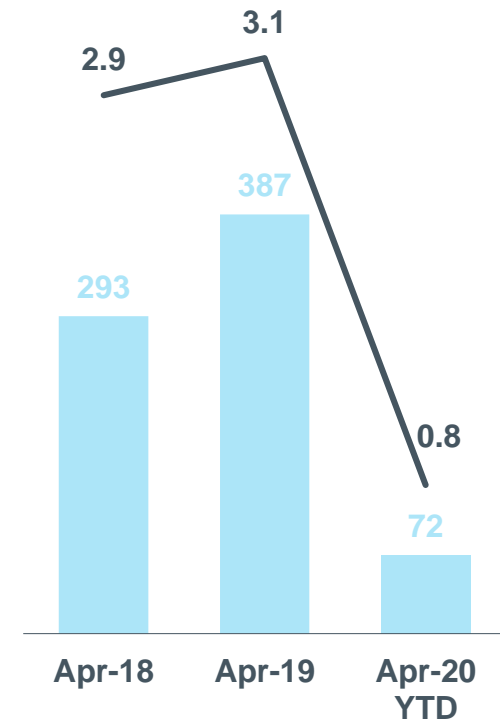
■ Deal Volumes
— Deal Values (\$B)

Q1 Overview – FY18-20



■ Deal Volumes
— Deal Values (\$B)

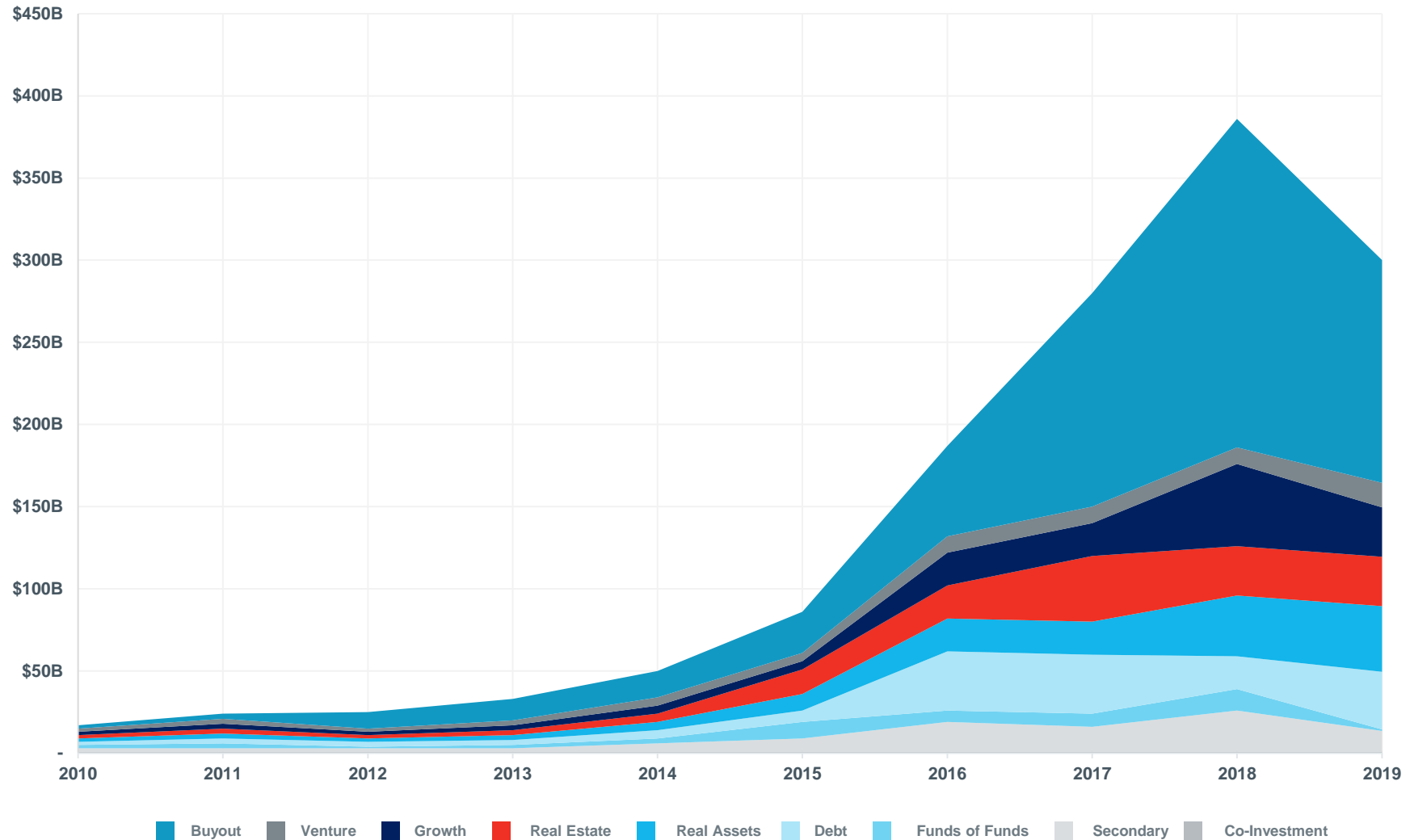
Apr YTD Overview – FY18-20⁽¹⁾



■ Deal Volumes
— Deal Values (\$B)

Sources: MergerMarket as of 16/04/20 – transactions of targets headquartered in Europe, with EV below £200M; D&P Analysis
 Note: (1) April 1st to Apr 16th

GLOBAL PRIVATE EQUITY – FUNDS RAISED AND NOT YET INVESTED (“DRY POWDER”)



FUTURE TRANSACTION ACTIVITY – SOME OBSERVATIONS



Consumer



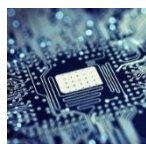
- Travel
- Restaurants and Pubs
- Retail and Consumer
- Leisure



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- Limited or no revenue
- Negative working capital models
- Consumer confidence
- Shape of recovery?
- Who takes the pain in the value chain?
- Situation in 9-18 months?

Technology



- Software
- Hardware
- Internet & Media
- Communication



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- Bright spots: enterprise software and sectors benefitting from remote working: communication; collaboration; digital commerce
- Strategic bolt-on's and consolidation plays
- Some areas under greatest challenge: Mobility; travel tech

Industrials



- A&D and Automotive
- Building Materials
- Chemicals
- Distribution
- Engineering
- Industrial Services
- Metals and Materials
- Oil and Gas



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- Resilient areas - Defense and Government Services
- Energy / Oil and Gas - dynamics remain tough
- Supply chain dynamics
- Investment in technology
- Second wave of restructuring

Business Services



- Professional Services
- Business Process Outsourcing
- "Blue Collar" Services
- Transport, Distribution and Logistics



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- Stronger sub-sectors: Healthcare; Waste management; Education; Digital marketing; Tech-enabled and remote working; supply chain management
- Supply chain transparency and ESG - expect increased focus

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**Panel Discussion:
Challenges and
opportunities: insights and
comments on what lies
ahead**



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Q&A



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About Duff & Phelps

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Appendices



GOVERNMENT COVID-19 BUSINESS INITIATIVES



	1. CORONAVIRUS JOB RETENTION SCHEME	2. COVID CORPORATE FINANCING FACILITY (CCFF)	3. COVID BUSINESS INTERRUPTION LOAN SCHEME (CBILS)
Overview	<ul style="list-style-type: none"> Businesses are able to access grant support (not a loan) to cover up to 80% of salary costs for furloughed workers (i.e. workers on a temporary period of unpaid leave) 	<ul style="list-style-type: none"> Commercial Papers can be issued by larger businesses (via their bank) to be purchased by the Bank of England ("BoE"), with a maturity of up to 12 months 	<ul style="list-style-type: none"> A loan scheme for SMEs delivered by the British Business Bank and accessible through 40 accredited lenders, with an 80% government backed guarantee on loans
Level of financial support	<ul style="list-style-type: none"> Grant capped at £2,500 per month per furloughed worker 	<ul style="list-style-type: none"> BoE will purchase a minimum of £1 million security from an individual participant 	<ul style="list-style-type: none"> Loans from £1,000 up to £5 million Unsecured loans up to £250k (at lender's discretion)
Eligibility	<ul style="list-style-type: none"> All UK businesses eligible 	<ul style="list-style-type: none"> UK incorporated companies incl. those with foreign-incorporated parents Companies with significant employment in UK or with a UK headquarters Companies generating significant revenues, serving a large number of customers or holding large number of sites in the UK 	<ul style="list-style-type: none"> UK based SME with turnover not exceeding £45 million per annum Companies must generate more than 50% of turnover from trading activity
Additional details	<ul style="list-style-type: none"> Employees remain employed and it is the employer's choice to fund the 20% difference Wages can be backdated to 1 March 2020 Scheme will cover an initial period of three months (and extended if necessary) However, it is our understanding that the first payments will not reach corporates until early May 2020 	<ul style="list-style-type: none"> BoE to provide major support to companies that make a material contribution to the UK economy (i.e. larger companies) Facility should support liquidity among larger firms, helping them to bridge working capital needs due to coronavirus disruption Final eligibility decisions will be made by the BoE risk management staff, taking into account a number of different factors 	<ul style="list-style-type: none"> Facilities offered, with varying terms: <ul style="list-style-type: none"> Term loan Overdraft Asset Lending Invoice Discounting The government will cover set-up fees and first 12 months interest The borrower always remains fully liable for the debt

OVERVIEW OF INITIATIVES



	4. BUSINESS RATES RELIEFS AND GRANTS	5. HMRC SUPPORT	6. STATUTORY SICK PAY (SSP) RELIEF PACKAGES
Overview	<ul style="list-style-type: none"> Business rates holiday for English retail, leisure and hospitality companies for the 2020/2021 tax year - irrespective of the rateable value Additional grant scheme will provide cash grants of up to £25,000 per property 	<ul style="list-style-type: none"> HMRC has agreed to defer all VAT payable by UK companies during the period 20 March 2020 to 30 June 2020, and defer income tax payments falling under the Self-Assessment Scheme to January 2021. 	<ul style="list-style-type: none"> SSP is payable to qualifying employees (from day one) for those not able to work due to self isolation or being unwell as a result of COVID-19
Level of financial support	<ul style="list-style-type: none"> Businesses with rateable value of under £15,000 will receive a grant of £10,000 Businesses with a rateable value between £15,001 - £51,000 will receive a grant of £25,000 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> Current rate of SSP is £94.25 per week, with maximum two weeks' pay per employee
Eligibility	<ul style="list-style-type: none"> Companies in the retail, hospitality and/or leisure sectors eligible for both schemes Casinos and gambling clubs not eligible 	<ul style="list-style-type: none"> For VAT deferral, all UK businesses are eligible For income tax deferral, self-employed workers are eligible 	<ul style="list-style-type: none"> Small or medium-sized UK businesses that employ fewer than 250 people as of 28 February 2020 Claims can be backdated to 13 March 2020
Additional details	<ul style="list-style-type: none"> The respective local authority will write to each business to confirm they are eligible 	<ul style="list-style-type: none"> VAT taxpayers will be given until the end of the 2020/21 tax year to pay any amounts that have been deferred VAT refunds and reclaims will be paid by the government as normal Time To Pay arrangements on any liabilities falling outside of the timeframes stipulated must be negotiated and agreed with HMRC on a case-by-case basis 	<ul style="list-style-type: none"> Employers will be able to reclaim up to a maximum of two weeks' SSP per eligible employee Employers should maintain records of staff absences and payments of SSP