



## **WEBCAST: NAVIGATING A REDEFINED CORPORATE WORLD**

21 May 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
- [Sharon Davies](#), Managing Director, Valuation Advisory
- [Matt Ingram](#), Managing Director, Restructuring Advisory
- [Henry Wells](#), Managing Director and Head of UK M&A Advisory
- [Joanne Wright](#), Managing Director, Restructuring Advisory



1. **Introduction** – Matt Ingram
2. **The legacy of government initiatives** – Phil Dakin
3. **Impacts of COVID-19 on valuations** – Sharon Davies
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, Sharon Davies, Henry Wells and Joanne Wright
  - 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

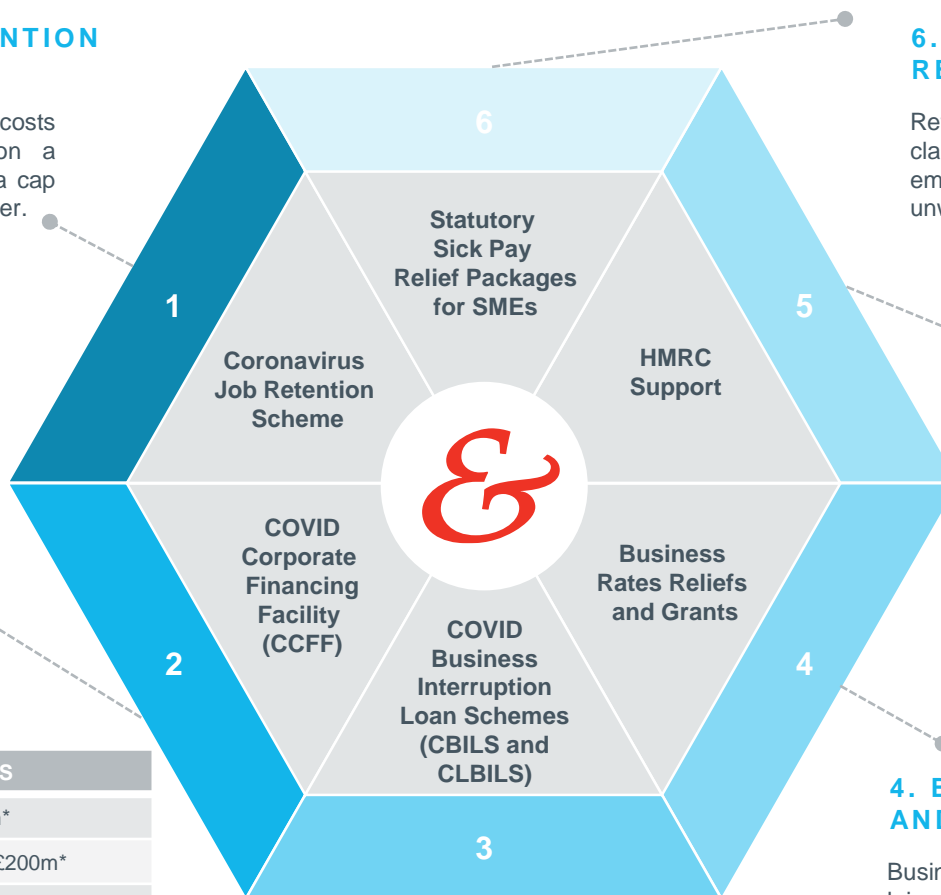
Grant support to cover up to 80% of salary costs for furloughed workers (i.e. workers on a temporary period of unpaid leave), up to a cap of £2,500 per month. Extended to 31 October.

## 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 £200m*
Govt G'tee	80%	80%
PGs	No	Yes, very likely
Pricing	Free for 1 <sup>st</sup> 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.

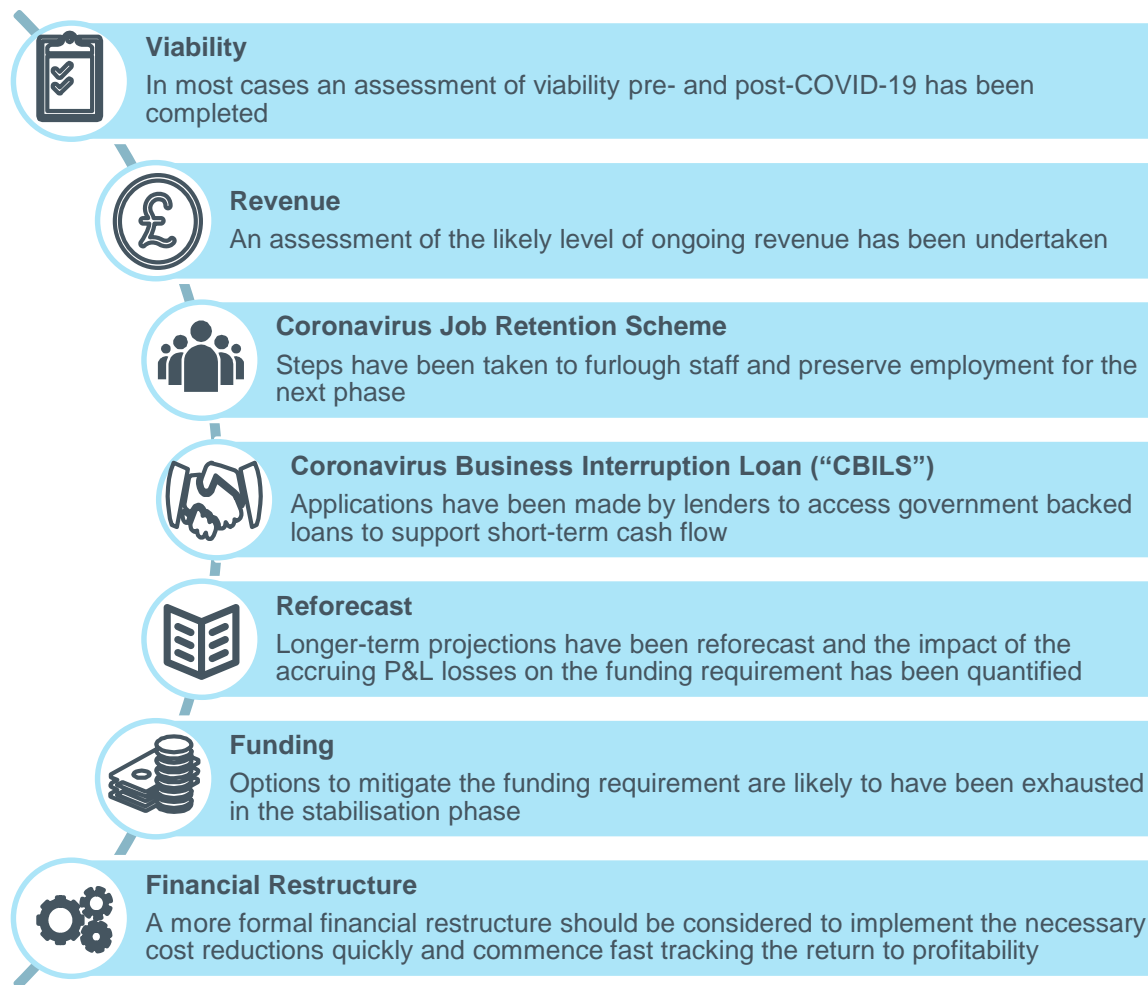
# THE LEGACY OF GOVERNMENT INITIATIVES

Stakeholders should be concerned about the lasting economic damage of COVID-19



The immediate focus of many business owners and their lenders has been that of survival, the priority has been stabilising cash flow, minimising cash outflows and ensuring all areas of government support have been explored and accessed.

Whilst this is time well spent, the impact of the accrued P&L losses and leveraged balance sheet will result in a wave of corporate failures if action to address these is not taken now.



# 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

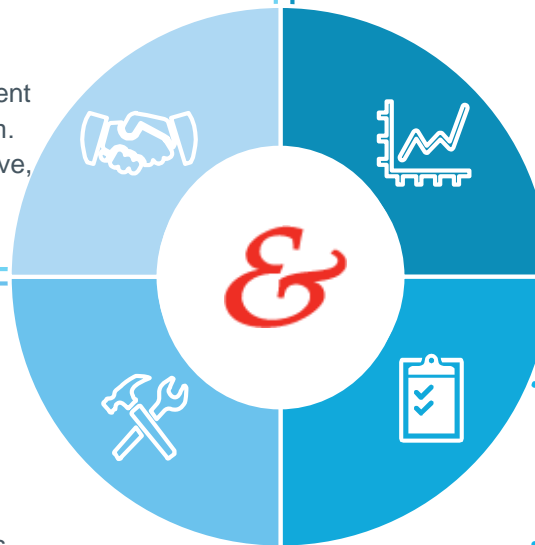
- With the level of funding being supplied to support the government's various initiatives, the November half-year Budget will be interesting. We can expect...
- A possible return to/continuation of austerity measures seen under the rein of George Osbourne.
- A likely u-turn, or delay at least, on Boris' 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 may become the preferred business tool to compromise debts in order for management teams to maintain control.



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# 3

## Impacts of COVID-19 on Valuations

Sharon Davies

Managing Director, Valuation Advisory



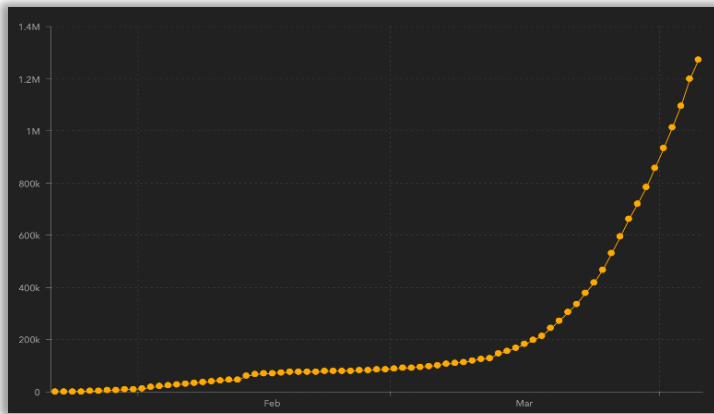
# ESTIMATING VALUE IN AN UNCERTAIN MARKET



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 ≠ 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

# KEY VALUATION OBSERVATIONS



1. Shift from value creation to value preservation in many cases
2. 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
3. Some evidence exists that suggests private investments/companies are generally less volatile than actively traded investments/companies
4. Ongoing uncertainty and imperfect information remain key challenges to any valuation exercise

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# 4

## Transactions: post lockdown activity and outlook

Henry Wells

Managing Director, M&A Advisory





# FTSE 100 INDEX – PERFORMANCE AND RECOVERY TIME



FTSE 100 Index

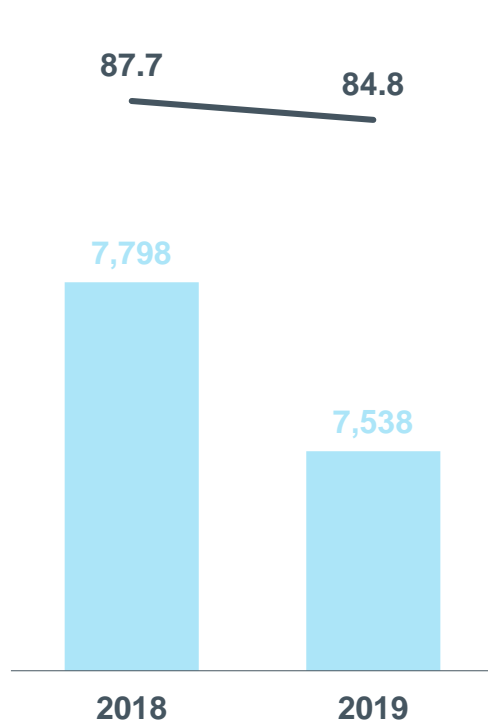


Source: CapitalIQ, updated on 18/05/20  
Legend: Index recovery time

# EUROPEAN MID-MARKET M&A TRANSACTIONS

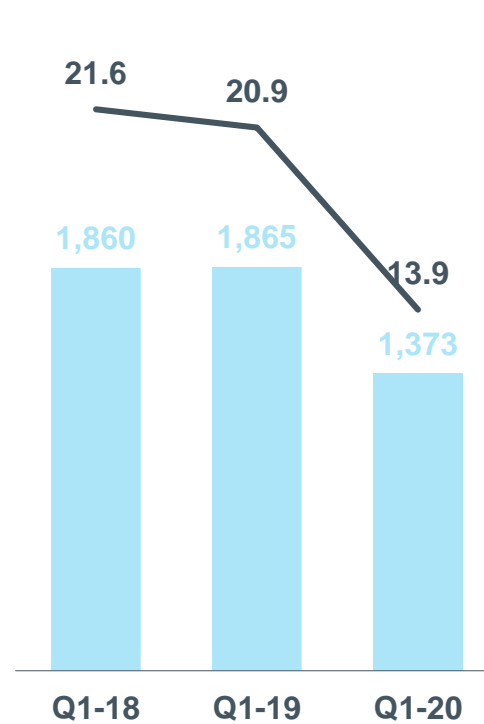


## FY18-19 Overview



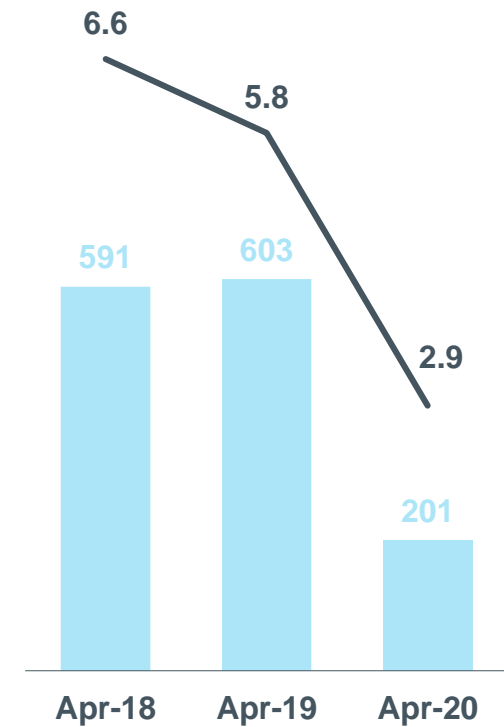
■ Deal Volumes  
— Deal Values (\$B)

## Q1 Overview – FY18-20



■ Deal Volumes  
— Deal Values (\$B)

## Apr Overview – FY18-20



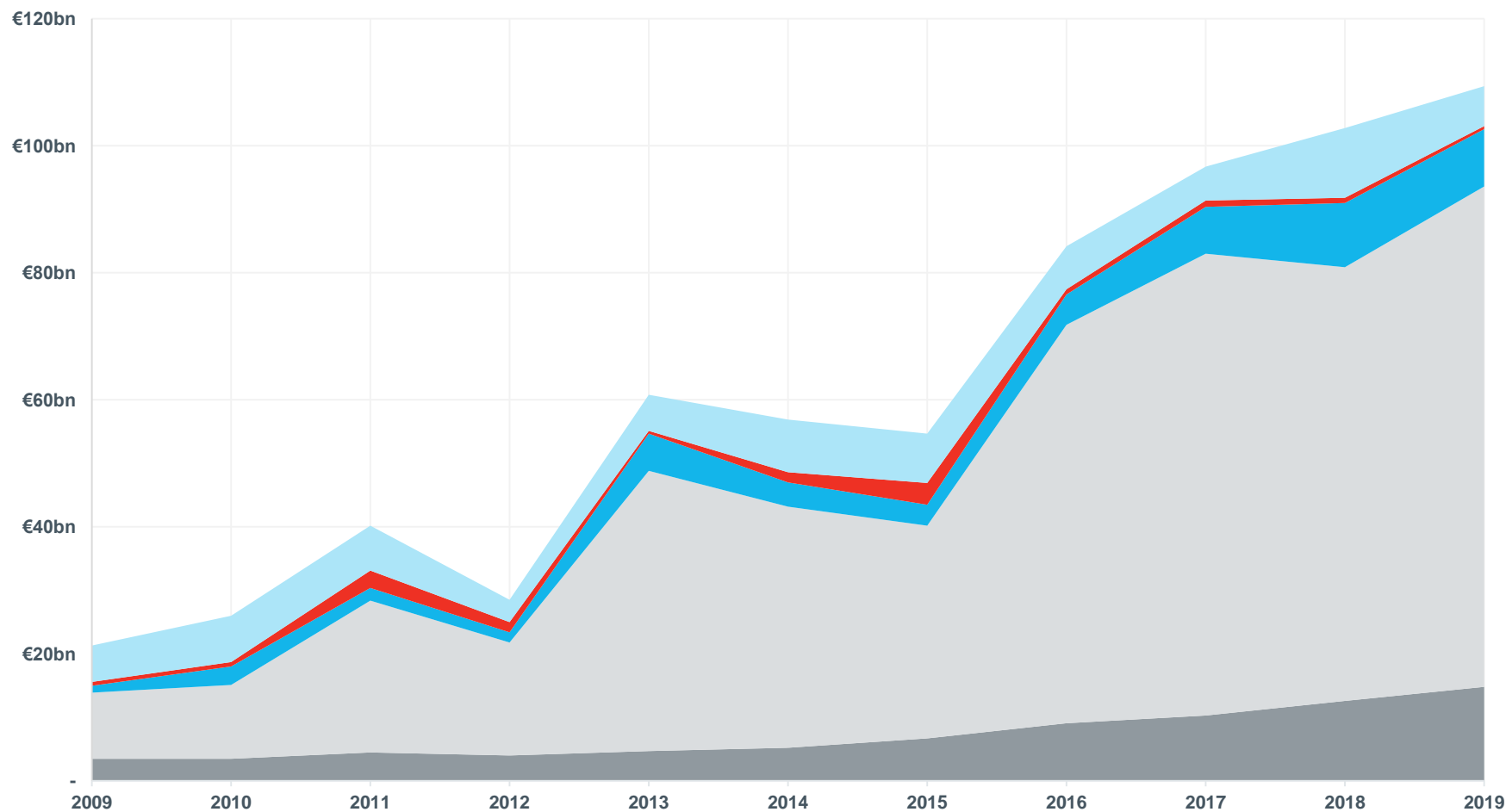
■ Deal Volumes  
— Deal Values (\$B)

Sources: MergerMarket as of 18/05/20 – transactions of targets headquartered in Europe, with EV below £200M; Duff & Phelps Analysis

# EUROPEAN PRIVATE EQUITY – INCREMENTAL FUNDS RAISED



Value (€bn)



Source: Invest Europe/EDC

Notes: Buyout includes rescue/turnaround and replacement capital funds

Venture Capital
  Buyout
  Growth
  Mezzanine
  Generalist

# 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 and 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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**5**

**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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