



Valuation Issues During Uncertain Times

Duff & Phelps Presenter

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Introduction



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- Over 15 years experience in valuation
- Specializes in business and intangible asset valuations for financial reporting, tax reporting, and strategic advisory
- Member of the Technology, Media, and Telecom valuation practice
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Legal Entity Valuations

Common Cases Where Legal Entity Valuations are Needed

Legal entities are commonly valued for **internal planning purposes** related to **reorganizations and restructurings** of multinational companies (MNCs):

- Simplification of business structure after a merger or acquisition;
- Spin-off transactions;
- Supply chain optimization;
- Intercompany debt issuance;

Legal entities are also valued when **multinational companies are purchased** and a valuation of the underlying entities is required to **establish tax basis**.

- § 338(h)(10) election – underlying assets;
- § 338(g) election – underlying assets / legal entities;
- Checking or unchecking legal entities or branches;
- Acquisitions involving both stock of legal entities and assets;
- Pre-closing purchase price allocations.

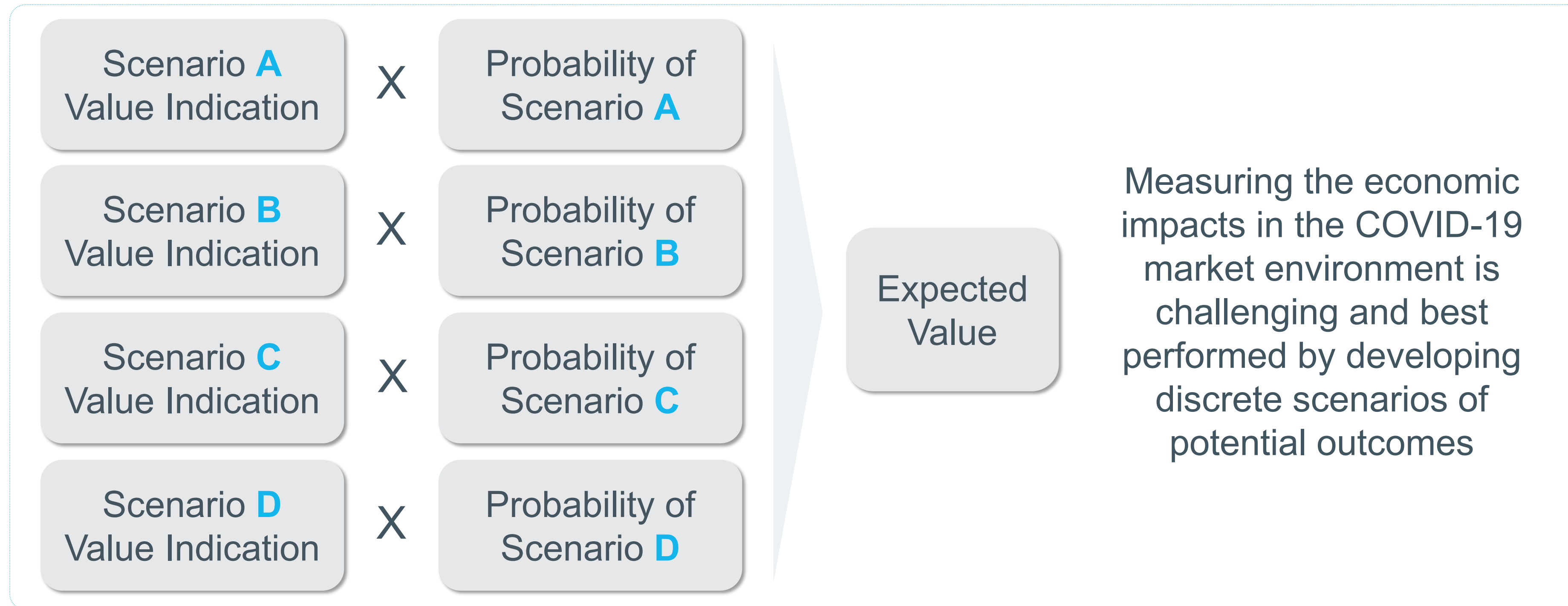
Valuation Approaches – Selection

- Valuation standards require consideration of the relative reliability of available valuation methods, which includes:
 - ✓ Market Approach
 - ✓ Income Approach
 - ✓ Cost Approach
- Key consideration in any valuation exercise is the selection of valuation approaches and the weighting of the indications in arriving at a conclusion
- Market Approaches are often less reliable in periods of dislocation, particularly if they rely on data observed prior to the event causing the uncertainty (e.g., COVID-19)
- Income Approaches have the advantage of being more adaptable to differences in markets and entity-specific expectations
- Cost Approaches are typically only applied in business or legal entity valuation to assess a potential floor value

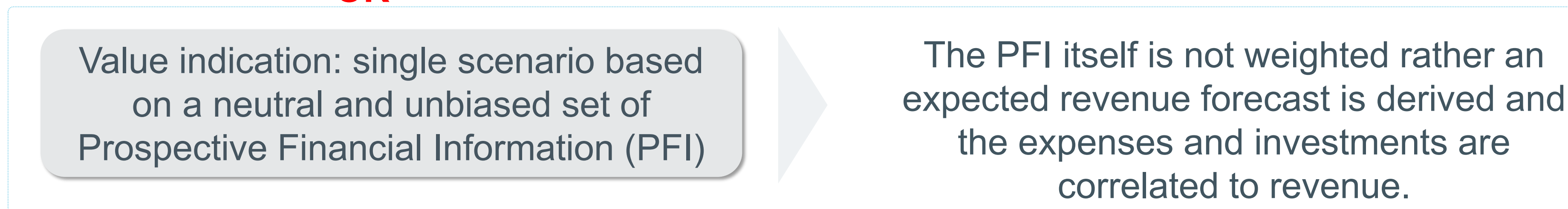
Market Approach – Key Considerations

- Two common applications of the market approach, each requiring different considerations:
 - ✓ Market Comparables Method (MCM)
 - ✓ Market Transaction Method (MTM)
- Under the MCM, data inputs such as market multiples or market capitalization are of more limited reliability because of increased volatility in the financial markets.
 - ✓ Enterprise Value should be derived with appropriate consideration of recent price trends (not necessarily as of a specific date) and with appropriate sensitivities.
 - ✓ The current crisis affects not only equities, but debt as well.
 - ✓ In the current environment, the market approach may be more appropriately applied by considering forward rather than trailing multiples.
- To the extent there are comparable market transactions, the market transaction method should be applied with caution. One should understand the economics embedded in the deal price and whether it is reflective of current market conditions.

Income Approach - Scenario-based Projections



OR



Income Approach - Assessing Scenarios

- The company should evaluate scenarios and associated probabilities considering factors such as:
 - 1 Customer demand, pricing and diversification
 - 2 Supply chain diversification and disruptions, including increased costs from the relocation of operations or a need to replace suppliers
 - 3 The company's industry, location, and the expected duration of the outbreak
 - 4 Competitors' activities
 - 5 Government and central bank measures
 - 6 Workforce disruptions
 - 7 Credit downgrades and covenant breaches
 - 8 Government and other authorities' estimates of the expected duration of the crisis
 - 9 GDP growth, projections and outlook
 - 10 Interest rate and foreign exchange rate fluctuations, and
 - 11 Other impacts
- Cash flow projections should consider short-term, medium-term and long-term expected impacts.

A Scenario Value Indication

B Scenario Value Indication

C Scenario Value Indication

D Scenario Value Indication

Income Approach – Discount Rates (ERP)

January 2008 – Present

