An idea that delivers …..

Valuations-Corporate Restructuring Transactions
Question Presented

What are the needs of Corporate Restructuring?

How should companies be valued in connection with restructuring?
What makes one valuation plausible and the next completely unbelievable?

Why there is a need to review counterfactual quality of valuation by means of some aphorism?
Corporate Restructuring Introduction

A process through which a company changes the contractual relationship which exists among its creditors, shareholders, employees and other stakeholders.

It can be pre-emptive or forced.

It is no longer a rare or episodic event.

*The business is intensely, vigorously, bitterly, savagely competitive* ... Robert Crandall
Need For Corporate Restructuring

To address poor performance

To pursue new strategic opportunities

To attain credibility in the market – Correct valuation errors
Restructuring Model

Need of Restructuring

SWOT Analysis
Environmental Scan & Financial Analysis
Evaluation of Managerial Structure & Personnel

Determine “VALUE GAP”

Decide Feasibility of Restructuring

Accept

Develop Restructuring Plan

Implement

Evaluate
Valuing Companies in Corporate Restructuring

1. How restructuring is likely to affect the value of firm as going concern
2. What will be the value of restructured entity (Restructured Value)
3. What will be the value under liquidation assumption
4. What is the “VALUE GAP”
The Business Plan

The Business plan key components

- Management
- Core business units
- Projected financial results

The plan comes first, followed by capital structure and related valuation
The Business Plan - Management

- Are they capable of operating under raised capital structure?
- Can they achieve their goals & objectives?
- What is their end game and reward motivation?
What business or segment are part of the ongoing business?

What has changed:
- Products
- Services
- Cost
- Operating Processes

What external factors must be considered:
- Competition
- Long term dynamics (trade policies, commodity Prices, currency/interest outlook, product shifting)
The Business Plan – Projected Results

Review and Challenge Basic Assumptions:
- Revenue
- Operating Results
- EBITDA
- FCFF
- Working Capital & The Balance sheet
- Past Performance vs. Projected Future Performance

Other:
- Market Share
- What do projection imply?
- Is Projection realistic?
- Are inputs untethered to reality?
Business Valuation: Art or Science

- BV is promoted as more Art than Science.
- The art is professional judgement and science is statistics.
- Art is nebulous and synonyms with subjective judgement.
- Valuation conclusions are susceptible to challenge when based mainly on professional judgement.
- Professional judgement should be the method applied to evaluate relevance & reliability of data, applied methodology and the inference derived thereon.
- Professional judgement is not a substitute for properly applied statistical methods analysis and logical reasoning.
A judicious man uses statistics, not to get knowledge, but to save himself from having ignorance foisted upon him.

[ Thomas Carlyle ]

A relevant and reliable valuation conclusion is the product of the analysis of historical financial data, economic, industry and comparative data.

The requisite financial analysis can not be performed absent applied statistical method.

The analysis is most important – how you took the data, analysed it, and wed it to your conclusion. I want transparency; I want to see your thinking – because that’s what appellant courts want to see from me -

[ Judge David Laro ]
**Business Valuation**

‘An act or process of determining the value of a business, business ownership interest, security or intangible assets’

{The International Glossary of Business Valuation Terms}

**Alternative Definition**

‘Business Valuation is a logical, defendable process of arriving at the opinion as to the worth of a business given the information available, assumption & limiting conditions as on the valuation date’
Business Valuation Standards

- BVS are basically codes of practice that are used in business valuation

- The standards are very similar in terms of content and terminology, including a dependence on the eight factors to consider in business valuation which are listed and discussed in IRS Revenue Ruling 59-60
Business Valuation Standards Need

- To promote ‘best practices’ and fairness in valuation services
- To promote credibility, relevancy & transparency of valuation information.
- To enhance quality, consistency, comparability and uniformity of valuation practice
- To enhance reliance on the valuation amongst stakeholder
- To improve corporate governance
- To improve public confidence in valuation
- To improve market efficiency
- Enhance market knowledge and understanding
AICPA Standards for valuation services issued

Uniform Standards of Professional Practice (USPAP) issued by the Appraisal Foundation.

Standards published by the Institute of Business Appraisers (IBA)

American Society of Appraisers (ASA) issued business valuation standards
<table>
<thead>
<tr>
<th>National Association of Certified Valuation Analysts (NACVA)</th>
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<tbody>
<tr>
<td>Internal Revenue Service (IRS)</td>
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<tr>
<td>Canadian Institute of chartered Business valuators standard</td>
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<tr>
<td>Canadian uniform standards of professional appraisal practice</td>
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Valuation Standards

- International valuation standard
- European valuation standard (Blue Book)
- Royal Institute of charter surveyors valuation standard (Red book)
- IFRS 13 Fair Value standard
Business Valuation Process

- Define Valuation Assignment
- Information Collection
- Site visits & Entrance conference
- Environmental Scan
  - Global Economy
  - Domestic Economy
  - Industry overview
- Company overview & historical financial analysis

- Subject interest to be valued
- Ownership characteristics
- Valuation date
- Purpose
- Standard of value
- Premise of value
- Deliverables
- Limitations
- Special instructions.
Business Valuation Process

- Company strategy & risk analysis
- Selection of approaches & methods
  - Income approach
  - Market approach
  - Asset based approach
- Prospective analysis
- Discounts & Premiums
- Value calculation & sanity check
- Value Conclusion
## Purpose Of Valuation

<table>
<thead>
<tr>
<th>Purpose of valuation</th>
<th>Examples</th>
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<tbody>
<tr>
<td>Valuation for transactions</td>
<td>Business purchase, Business sale, M&amp;A (Mergers &amp; Acquisition), Reverse merger, Recapitalization, Restructuring, LBO (Leverage Buy Out), MBO (Management Buy Out), MBI (Management Buy In), BSA (Buy Sell Agreement), IPO, ESOPs, Buy back of shares, Project financing and others</td>
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<tr>
<td>Valuation for court cases</td>
<td>Bankruptcy, Contractual disputes, Ownership disputes, Dissenting and Oppressive shareholder cases, Divorces cases, Intellectual property disputes and others</td>
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<tr>
<td>Valuation for compliances</td>
<td>Fair value accounting, Tax Issues, <strong>DCF valuation under FEMA</strong></td>
</tr>
<tr>
<td>Valuation for planning</td>
<td>Estate planning, Personal financial planning, M&amp;A planning, strategic planning</td>
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Valuation Approaches

The Valuation methodology is organized into a hierarchy of three basic levels

- Approaches
- Methods
- Procedures

**Valuation Approach** - General course of action in which an indication of value is to be developed

**Valuation Method** - a way an Approach can be implemented.

**Valuation Procedures** - specific calculations, data used and other details involved in a method
Valuation Approaches

• **Income Approach** – valuing the business based on some form of economic income stream

• **Market Approach** or Relative approach – valuation by reference to other transactions

• **Asset-Based Approach** – valuation on the basis of assets and liabilities
Valuation Methods

**Income Approach**
- Discounting method
- Capitalizing method

**Market Approach**
- Guideline public company method (GPM)
- Guideline merged and acquired company method (GMAM)

**Asset-Based Approach**
- Adjusted net asset value method
- Excess earnings method
“Value has a value only if its value is valued.”
Thank You!