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JERSEY FUNDS ASSOCIATION WEBINAR

23 APRIL 2020

PRIVATE EQUITY
VALUATIONS
IPEV- SPECIAL
VALUATION
GUIDELINES: COVID19



AGENDA

IPEV – Special Valuation Guidelines: COVID19

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Q&A

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PRIVATE EQUITY VALUATIONS IPEV- SPECIAL VALUATION GUIDELINES: COVID19

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Audit Director - Private Equity Group
KPMG Channel Islands Limited



INTRODUCTION TO IPEV

International Private Equity and Venture Capital Valuation Guidelines (“IPEV”) established in 2006 to provide a principles-based framework for PE / VC valuation.

Guidelines are for the purpose of financial reporting and are consistent with all financial reporting standards and widely endorsed by 50+ global PE industry bodies including BVCA and Invest Europe.

Not intended to be used for transaction purposes - however financial reporting should be a proxy for a transaction value.

Latest guidelines introduced in 2018 – principles largely consistent since establishment.

Widely used across the PE and VC market.

CORE OF IPEV PRINCIPLES

FV is and remains the most suitable measure of reporting and measurement for Private Equity Portfolio Companies and PE Funds.

Fair value, as ever, represents the amount that would be received to sell an asset in an **orderly transaction** between **market participants** at the **measurement date**;
market participant assumptions in the current market environment should be taken into account – fair value is not a ‘fire sale’ price.

SPECIAL VALUATION GUIDANCE – 31 MARCH 2020 VALUATIONS

“The special valuation guidance reinforces key valuation principles in order to ensure the robustness of information making its way to investors and other stakeholders; in the current global crisis it is vitaly important that that information continues to flow in a timely and consistent manner”

Recognition

- We are living in unprecedented times;
- Valuation will be challenging, and more judgement is needed;
- Therefore, now more than ever, we need robust processes and documentation;
- Valuer needs to identify the impact of the current situation on an asset by asset basis.

Market participant assumptions may be laden with uncertainty, ultimately driving lower asset values.

<http://www.privateequityvaluation.com/Valuation-Guidelines>

APPROACH TO MULTIPLES

Key components of any analysis to form a view on the valuation @ 31 March

- a. Performance / relative standing pre CV19 vrs peers;
- b. Current impact of the CV19 and potential impact to come (revenue, customers, supply chain, productivity and employees);
- c. To establish a full year from Q1 2020 onwards, and prepare adjustable scenario plans based on lock down cases;
- d. Evaluating liquidity (working capital, debt facilities and cash flows) alongside scenario planning.
- e. Bounce back potential – speed of recovery of market and portfolio company
- f. Strategic value – are market participants still keen to own this asset notwithstanding the current uncertainty

Key is to avoid a situation where valuations are not being marked down at March and then a significant reduction in June.



OTHER MULTIPLES CONSIDERATIONS

Use an appropriate multiple which reflect the **current market environment** including risk and uncertainty in projections and historical results i.e likely to be lower than 31 Dec 2019

Transaction comps and offers should carry less weight where pre-covid 19.

Earnings should be maintainable – this is challenging – how would a potential buyer to come up with a maintainable earnings...

Be careful of forward earnings / multiples – many quoted companies have pulled reporting their forward earnings, hence market cops are no longer available.

FUND INVESTMENTS – INVESTORS PERSPECTIVE

Fund interests

Last reported Net Asset Value (NAV) if based on the fair value of underlying investments is generally the starting point for estimating fair value.

Last reported NAV in many cases is **31 December 2019**.



Given the potential significant change in value of underlying investments, LPs will need to not only cash adjust last reported NAV and adjust for publicly traded positions **but will need to adjust for the value change of underlying holdings**—hence the need for GPs to report as timely as possible.

Note: from a LP perspective, **not running a valuation is not an option**, as would result in PE allocations being valued at a more inflated position to public market allocations – this will distort their allocation %, which may result in artificial pressure to sell down PE positions and / or held making PE investments, impacting fund raising.

TIPS & PITFALLS

Use your policy as an anchor to enable consistency over a period and robustness

Price of recent investments was encouraged to be supplemented with alternative valuation techniques in the 2018 update to the Guidelines – this is even more relevant now since those recent transaction prices are no longer reliable indicators of fair value.

Consider triangulation where market multiples are particularly volatile and / or unreliable.

Be careful not to double dip – be cautious not to be exposed to the ‘dominator effect’, where comps earnings have not reduced, yet their multiples have come down significantly.

When valuations have been completed – take a step back in the current environment – what would you pay for this asset in today's market – if not, ask why? Does it make sense

Does the original investment thesis still hold?

May need to be innovative – consider a range, consider increased disclosure

SUMMARY

The current situation requires more robust preparation, review and internal challenge.



The final answer cannot be divorced from the wider economic environment and uncertainty which we are experiencing - Greater uncertainty translates into greater risk and lower values.



More important than ever to apply the overriding market participant view i.e what a willing buyer / seller would transact at as at the valuation date.



This will not be easy and will mean more work.



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Q&A

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Thank
you

#staysafe





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