

IPEV 2022 update

Summary of the key updates and clarifications in the 2022 IPEV update

26 January 2023





Agenda

1. Valuations backdrop
2. Context to IPEV
3. Key updates to IPEV effective 1 January 2023
 - 3a Spotlight: economic rights
4. Other considerations for unquoted equity valuations

Context to IPEV

1

While there are current updates, the IPEV is not a new standard

2

The IPEV is intended to reflect current market practice and is updated regularly to reflect best practice

3

The majority of European PE/ VC follow IPEV (or if they don't, should be referencing it)

4

IPEV is designed to be consistent with IFRS 13: Fair Value Measurement

5

The majority of US funds follow the AICPA guidelines, which while not identical, are increasingly more consistent with IPEV

6

It's not 'just guidelines' - the points emphasized by IPEV have material implications for valuation conclusions



International Private Equity and Venture Capital guidelines (IPEV) – effective 1 January 2023

Summary of key updates and clarifications in the latest IPEV. Early adoption is encouraged as the IPEV set out existing market good practice. There are no points raised in the new version of the IPEV that are contradictory to the previous version.



Incorporation of the special guidance issued in March 2020 and March 2022

The new version of IPEV incorporates the additional guidance provided to aid interpretation during COVID and during the market volatility caused by the situation in Russia/ Ukraine. A summary of the March 2020 special guidance can be found [here](#).



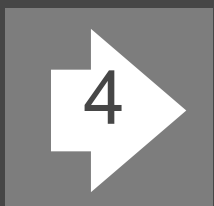
Guidance on distressed or dislocated markets

A new section (5.3) has been included to set out considerations in time of market dislocation. This includes guidance on how to consider overall market risk changes, the challenges in assessing peer companies and a reiteration that the premise of Fair Value remains the same – just because a market is dislocated, does not mean transactions within this market are not comparative or are distressed (though individual transactions may be).



Guidance on distressed transactions

A new section (5.4) of the IPEV has been included to provide guidance on indications that a transaction may be distressed (rather than orderly) and how this should be considered in the context of an orderly valuation. This also reiterates that the basis of value is an orderly transaction.



Blockage factors and discounts

Additional wording has been added in section 3.6 and Appendix 2 to ensure that the IPEV are wholly consistent with the recent update to ASC 820 clarifying treatment of underwriter lock-ups post-IPO. The updated IPEV also provides an example of where a restriction would be deemed attributable to the share itself.

International Private Equity and Venture Capital guidelines – effective 1 January 2023 (continued)

5

Valuing seed and venture capital investments

Section 3.10 has added a new section around the valuation of seed, start-up and early stage investments. In particular, this provides examples of the value indicators (including cash burn ratio) that may be more appropriate for these investments.

6

Calibration to Price of Recent Investment

Section 3.10 has added additional clarification around calibration, particularly with respect to understanding the implications of different rights and preferences between share classes which may change the impact of calibration. The section also emphasizes that the Price of Recent Investment is not a default for Fair Value.

7

Known or knowable information

There is additional clarity in section 2.5 around how to treat information received post Measurement Date, including transactions expected to sign or close after the measurement date. The wording highlights that the basis of value includes only that which is known or knowable at the Measurement Date.

8

Different economic rights in the capital structure

Section 3.10 also provides significant additional guidance on the importance of understanding differing economic rights within a capital structure and highlights that an assumption of a common stock equivalent approach is unlikely to be meaningful for many investments, unless close to IPO. There is additional guidance on the use of scenario-based models, such as option pricing models and the probability weighted expected returns approach.

International Private Equity and Venture Capital guidelines – effective 1 January 2023 (continued)

9

Clarity on adjustments to Enterprise Value (EV)

Within section 2.4 of the amended IPEV, new guidance has been included around factors that should be considered when adjusting the EV to estimate equity value, including working capital requirements, excess cash and surplus assets/liabilities such as pensions and incentive compensation, and ESG factors.

10

Incorporation of ESG guidance

A new section (5.17) has been added setting out conceptually how the consideration of ESG factors may impact valuations. This does not provide a framework for ESG within valuations but highlights potential quantitative and qualitative factors which may impact a valuation.

11

Assessing an appropriate multiple

Additional wording has been added in section 3.4 to clarify the analysis recommended for looking at peer companies in terms of points of difference and how to reflect these in the valuation and supporting calibration.

12

Valuing debt instruments

New guidance has been added around valuing debt instruments in section 3.8 (and 5.6), in particular, highlighting that yield analysis is commonly used and that holding debt instruments at par/ face value/ cost is not consistent with Fair Value, even if repayments are being made on schedule.

Other considerations for unquoted equity valuations

1

The concept of prudence is still not relevant for fair value assessments.

However, consider whether investors have pru val or valuation uncertainty reporting requirements.

2

Consider data and information gaps/ time lags from portfolio companies. Identifying these early and making subjective judgements will be key.

We're seeing this being a particular challenge for debt investments and fund of fund investments where the level of information provided is minimal.

3

When valuing a fund investment, the reported NAV is a starting point to the analysis, rather than the default conclusion.

When the reported NAV is an appropriate starting point for determining Fair Value, it may still be necessary to make adjustments based on the best available information at the Measurement Date.

4

We would expect funds to be prioritising liquidity and survival analysis for portfolio companies and the outcomes of these reviews should be built into fair value analysis.

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