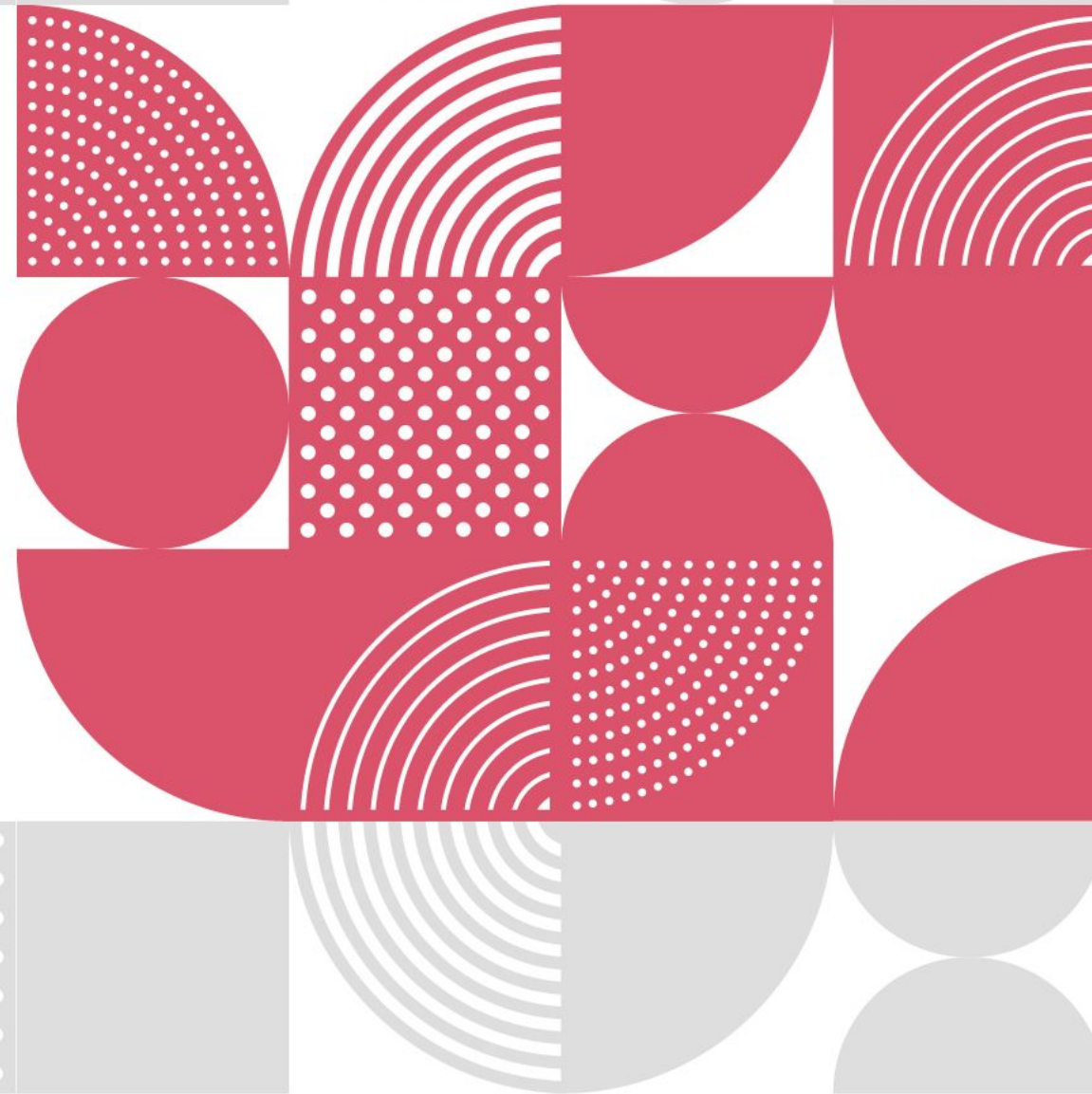


Thank you
for joining.
The event
will begin shortly.



Valuations Landscape Presentation

Presentation by **PwC**
December 2020



Presenting to you today



Albertha Charles
Partner, Valuations



Mike Byrne
Partner, EMEA PE
Funds leader



Katrina Hallpike
Director, Valuations



Kevin Handley
Senior Manager,
Valuations



Paul Silcock
Director, Assurance

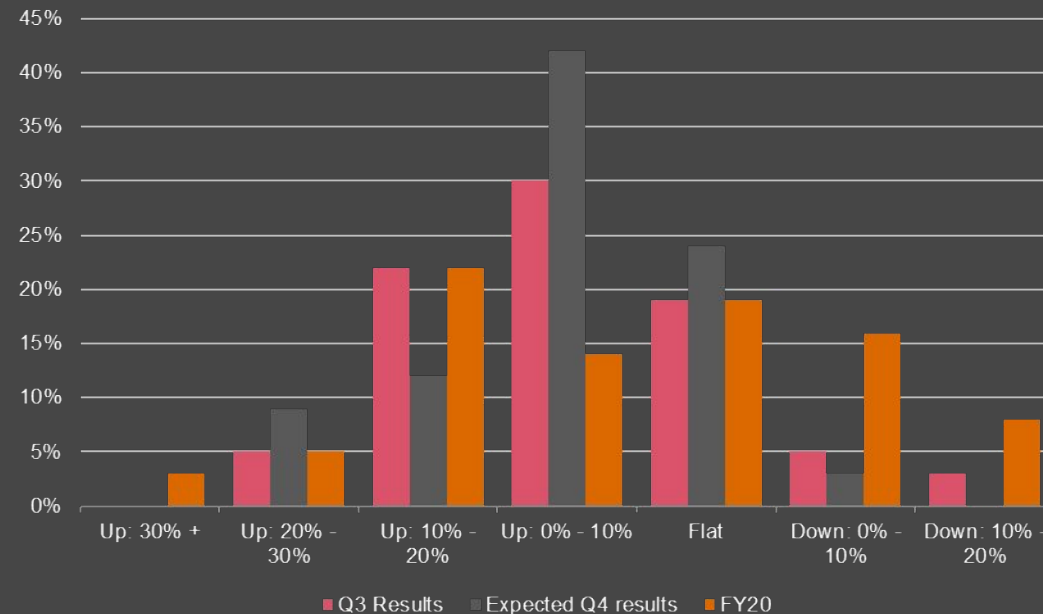
Agenda

1. Introductions
2. Valuation trends in the current market
3. What should managers be mindful of when performing valuations in the current environment
4. IPEV updates
5. How should valuation methodology adjust to deal with the volatility in public markets
6. Other considerations and closing remarks
7. Q&A

After peak volatility and write downs in Q1, and a rebound in valuations in Q2, market recovery has endured through Q3 with this trend expected to continue into Q4.

Quarterly and annual valuation impacts

Actual and expected results



62% of respondents expect valuations to have remained flat or increased compared to the previous financial year, against **24%** who expect valuations to have decreased.

This would suggest that the **c.20%** declines we saw in Q1 have either fully reversed or, in some cases, we are seeing valuation uplifts.

76% of PE survey respondents saw a Q3 valuations increase or remain flat

Only **8%** of respondents saw Q3 portfolio valuations decrease

88% of respondents expect Q4 valuations to remain flat or increase

Market observations - listed share price movements since 1 Jan 2020

YTD market recovery

13% fall in UK
listed shares since 1 Jan

4% fall in European
listed share prices

14% rise in the US
and

5% rise
in European listed PE
share prices

Market movement (2020 YTD)



Share price movements from 1 April onwards demonstrate recovery across the board, however, only the US (S&P 500) and European PE index have recovered to pre-COVID levels

Other key questions we asked...

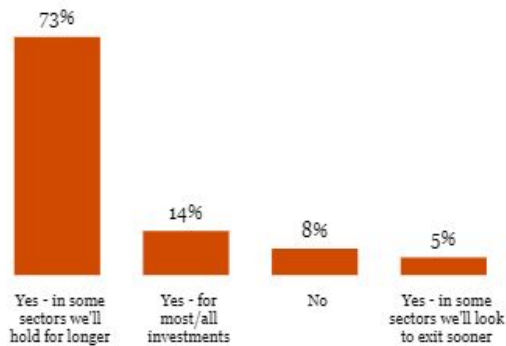
Do you consider COVID-19 to have significantly impacted your exit timings?

Do you consider COVID-19 to have significantly impacted exit strategy?

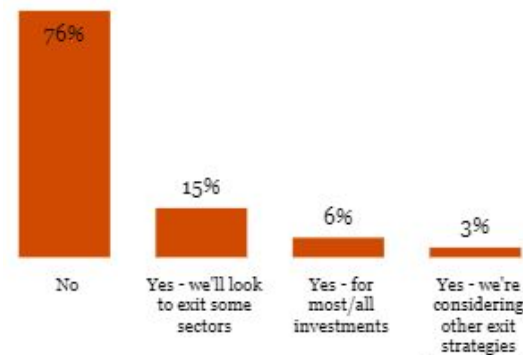
Do you consider your valuation processes to be prepared for a second shock?

How might you change your valuation approach if there was a second shock?

Impact of COVID-19 on exit timings



Impact of COVID-19 on exit strategy



84% of respondents either 'fully prepared' or 'somewhat prepared' for a second market shock from a process perspective.

Over **90%** of respondents would follow a process similar to that which was in place for Q1 with increased scrutiny over market data and use of scenario analysis.

Other valuation considerations we are seeing from our clients

1

Increasing investor scrutiny around valuations of portfolio investments



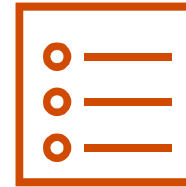
2

A demand for greater transparency around methodology and areas of judgement



3

Going concern and liquidity assessment of underlying portfolio



4

Investors look for more disclosure on outcomes and sensitivities



IPEV Special guidance – effective 31 March 2020

COVID-19 guidance released Friday 27 March. Additional support for application of valuations during the current period of uncertainty and volatility

1	Fair value assumes an orderly transaction rather than a fire sale
2	Consider whether it is appropriate to include the impact of government subsidies
3	Don't 'double dip' valuation risk by adjusting for the same risk in both earnings and the multiple/discount rate
4	Recent transaction prices are likely to be less relevant unless they completed subsequent to COVID-19 impact
5	Levelling considerations should be made around whether there is an active market
6	Market movements are likely to provide a good indication of value shift
7	Estimating fair value should consider liquidity and the risk of failure. A scenario based analysis may well be appropriate
8	A debt investment that is still able to make interest payments does not mean that a value at par is reasonable
9	It is highly likely that last quarterly NAV will not be appropriate for FOF investments
10	It is better to provide a best estimate of fair value than delaying either investor reporting or value adjustments

Relying on the price of recent investment

89% of survey respondents use transactions as a data point for valuation. However, there are some key questions to be asked to ensure this is appropriate, more so during periods of market volatility:

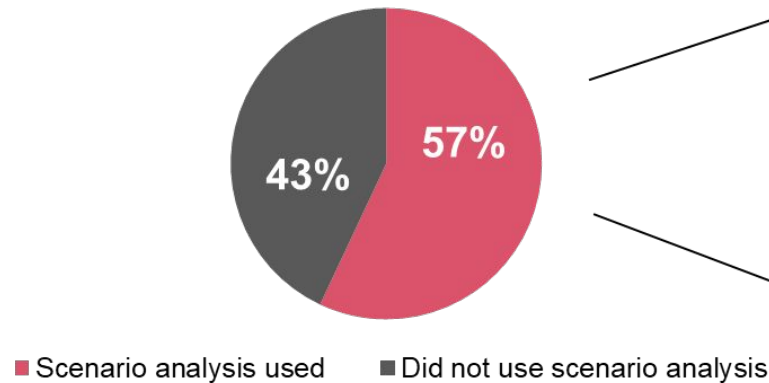
- How recent is the investment?
- Is the transaction arm's length?
- What was percentage stake acquired?
- What was the rationale for the deal?
- What were the instruments acquired?
- Is there any evidence of distress?



Market volatility adjustments and use of scenario analysis

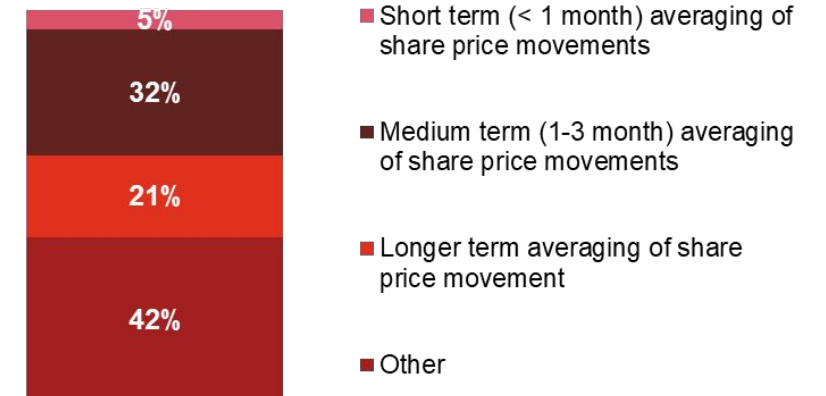
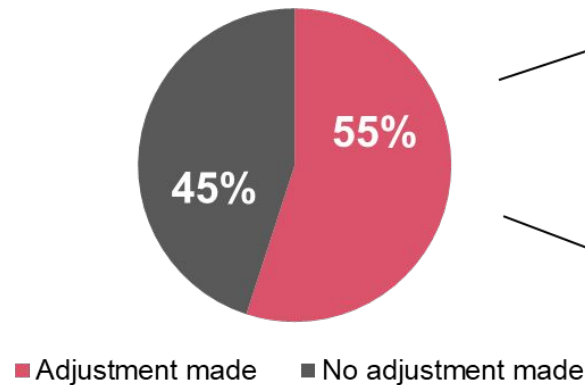
57% of survey respondents made use of scenario analysis, with **32%** targeting the riskiest assets in the most exposed sectors.

Use of scenario analysis



55% of survey respondents made adjustments for share price movement, although only **18%** expect this to continue going forward.

Market volatility adjustments



Valuation in times of market uncertainty

The impact of COVID-19 has far-reaching implications for individuals, businesses and the wider economy. Since the beginning of 2020, we have observed significant volatility in global public equities (increases as well as falls in share prices). In fact, the level of volatility in equity markets around the world has surpassed levels experienced at the start of the financial crisis. Markets seem to have settled in recent months, from peak volatility achieved in late March 2020.

Against the backdrop of public market volatility and concerns regarding the impact of both COVID-19 and oil and other commodity price movements, fair value in the context of investment valuation remains an exit price concept and it is important to remain focussed on market participant assumptions and views when estimating fair value.

Liquidity and funding concerns

As profits are expected to decline and cash flow generation is expected to be limited, a large portion of companies will find it harder to make interest payments. As a result, debt margins have increased.

Companies with high levels of debt and/or limited debt servicing headroom (e.g. because they have low operating margins or are pre-revenue generating) have an increased likelihood of liquidity issues.

In the current climate, additional attention should be paid to understanding the liquidity and solvency position of valuation targets. We are seeing an increasing number of businesses going into administration due to funding and liquidity shortfalls.

Brexit risk and LIBOR transition exposure

There is still significant uncertainty over the extent to which lockdown measures will remain in place over December and the next year, the pace and extent to which a possible vaccine will be rolled out, the degree of economic scarring and the outcome of the UK-EU trade negotiations.

We anticipate that most sectors will return to growth in 2021, with hotels, food service, transport and healthcare leading the way. There is a risk that short-term disruption may turn into more medium, longer term business impact.

LIBOR Reform is a major piece of financial market change, likely to impact the valuation of any financial instrument which makes reference to benchmark or reference interest rates (e.g. LIBOR, Euribor and OIS).

COVID-19 short and medium term impact

The short and medium term growth profile of many companies, and certainly of the economy as a whole, has been significantly changed by the impact of COVID-19. Projections may need to be adjusted to reflect current market expectations.

The current climate may raise questions around existing and emerging credit risk within your investment portfolio. It is critical to understand changing credit risk as well as market risk and to assess the impact of e.g. payment holidays.

Whilst the impact of COVID-19 has clearly changed short and medium term forecast economic growth rates, from a valuations perspective, we believe it is currently too early to conclude that it has changed long term growth rate expectations.

Panel

Q&A

Question 1

“

How much change are you seeing to the fundamentals in valuations for PE backed businesses - is it too much to say that a full examination is needed to ensure that the business post COVID remains valid and viable?

”

Question 2

“

Are comparable company transactions post - COVID should be seen as good evidence of value?

”

Question 3

“

We've previously discussed that not changing valuation models, for instance moving from an Earnings-based model to DCF - does this advice remain valid given how long the pandemic has persisted for and is this consistent with good practice?

”

Question 4

“

Should PE Managers stick with an Earnings/
Multiple-based approach where this is what has
been done historically - what level of evidence
will auditors be looking for around the level of
sustainable earning?

”

Question 5

“

What level of support will PE Managers need to provide for comp's that are consistent with prior years? Will consistency be enough? It's a lot to analyse our whole comp set for all investments.

”

Question 6

“

Last year most PE funds had largely signed off by the time the global pandemic emerged and COVID was treated as a post balance sheet event. What level of disclosure should we be expecting to make in our financial statements this time round?

”

Question 7

“

Non-Executive Directors will be sitting on GP Boards. What key areas should they be focusing on when interacting with Investment Managers?

”

Any questions?

Questions after the event:

Please email michael.j.byrne@pwc.com



Thank you

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