Asian Development Bank

Valuations in Restructuring

David Chew
DHC Capital
david.chew@dhccapital.com

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Overview of valuation methodologies

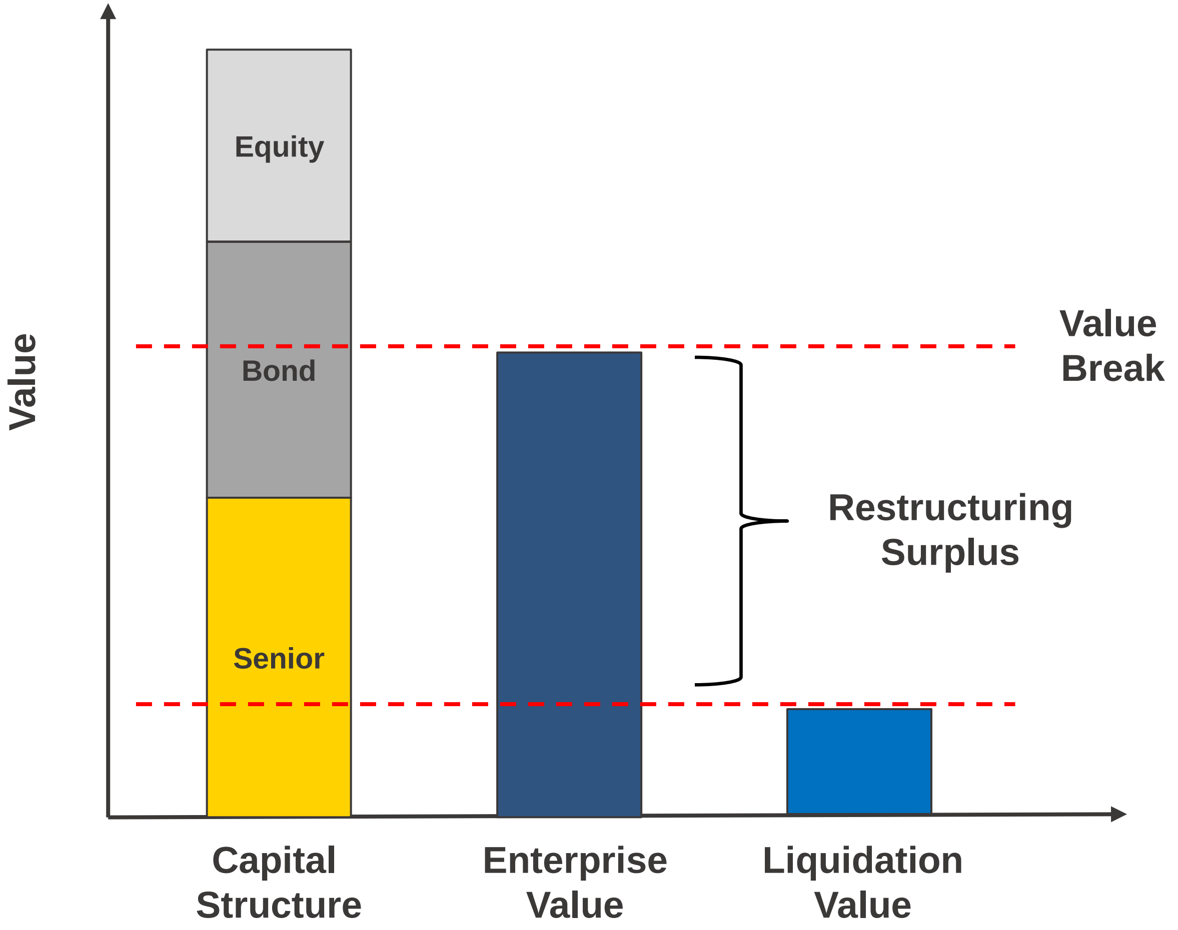
Four primary valuation methodologies in a restructuring context

Discounted cash flow (DCF)	▸ Discount unlevered free cash flow over the forecast period and the terminal value at the weighted average cost of capital to determine Enterprise Value (EV) ▸ Terminal value is the value at the end of the forecast period. Use relative valuation or perpetuity approach ▸ Risk: Significant reliance on assumptions
Relative valuation	▸ Valuation derived from comparable company analysis and comparable transaction analysis ▸ Based on commonly used multiples (e.g. EV/EBITDA, EV/EBIT or P/E) ▸ Important to distinguish between Enterprise Value or Equity Value multiples ▸ Risk: Identifying comparable companies with similar characteristics
Asset based valuation	▸ Assumes that the company is a going concern ▸ Determined based on market value attributed to assets minus the market value of liabilities ▸ Special consideration: Identifiable intangible assets. Either addition (listing status) or subtraction (goodwill write off)
Liquidation value	▸ Assumes assets sold on piecemeal basis ▸ Typically determined based on applying a recovery percentage to each asset category minus costs of realisation ▸ Used in conjunction with Entity Priority Model (EPM) / Liquidation Analysis Model to determine %'age return to creditors for each entity in the group. Acts as comparator to determine quantum of restructuring surplus

Use of valuations

Debt Restructuring

- Value break concept
  - Identifying the part of the capital structure that will **<u>not</u>** receive a full recovery – where the value would “run out” (fulcrum security)
- Allocating the “restructuring surplus”
  - The value that is preserved as a result of implementing the restructuring over the relevant alternative



Use of valuations

Distressed M&A

- Sale of company as a going concern
- Sale of non-core assets to raise cash for repayment of creditors

White knight / equity investor

- Enterprise value minus sustainable debt post restructuring = value for equity

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About DHC Capital

DHC Capital is an investment banking and financial advisory firm specialising in solving critical business challenges due to liquidity pressures or financial stress and distress.

DHC Capital provides independent and conflict-free advice on financial and operational restructuring to corporates, creditors, investors and other stakeholders, both in and out of Court. DHC Capital also advises clients on structuring and executing bespoke capital raising and accelerated M&A transactions to meet short term liquidity requirements, raise capital to unlock shareholder value or meet growth objectives. DHC Capital will further provide directors or executives into corporates involved in a restructuring process or on behalf of creditors and investors to monitor and protect their investments.

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