ASA conference

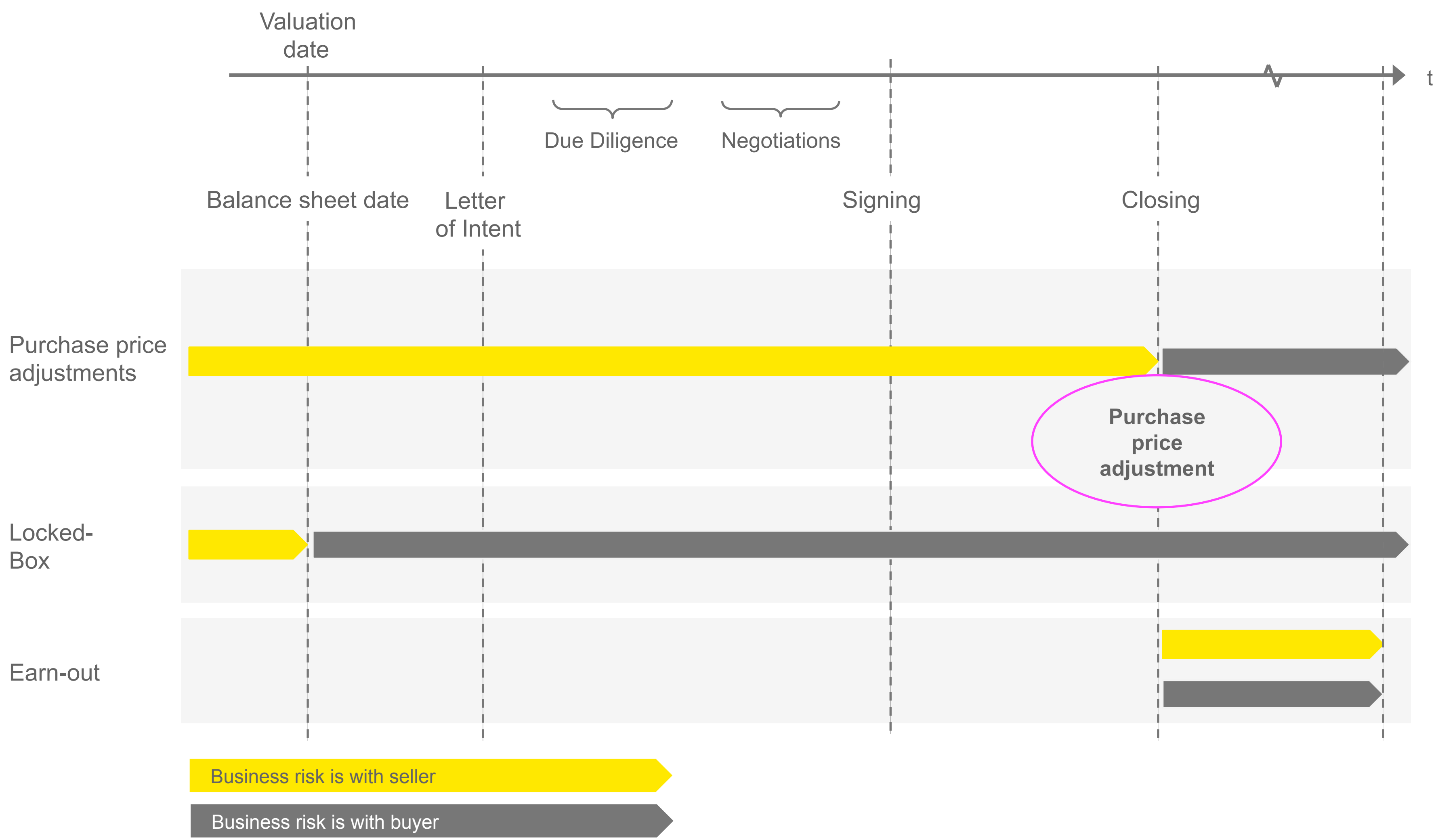
Business valuation versus damage calculation

16 September 2016

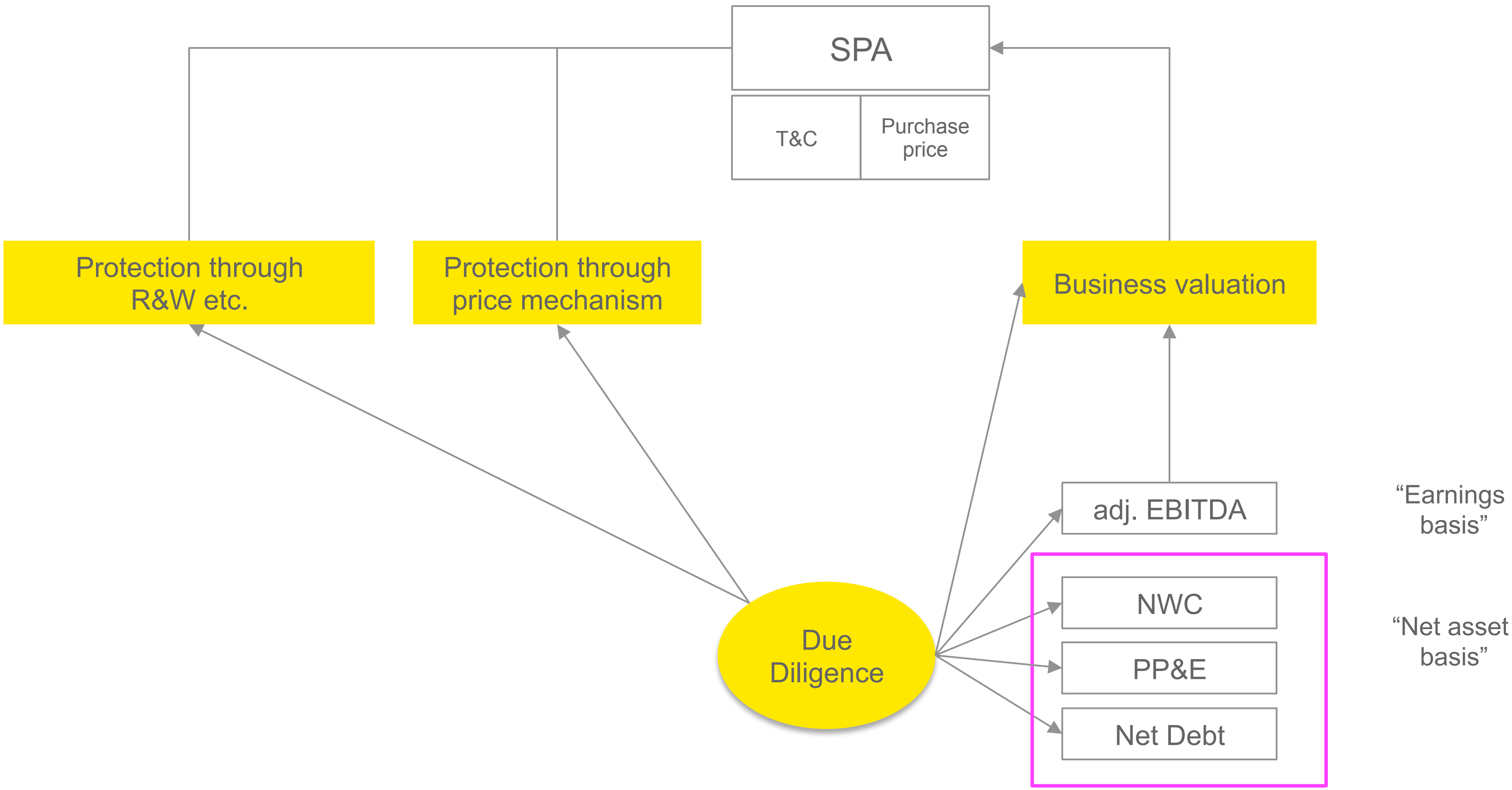
Building a better working world

Table of contents

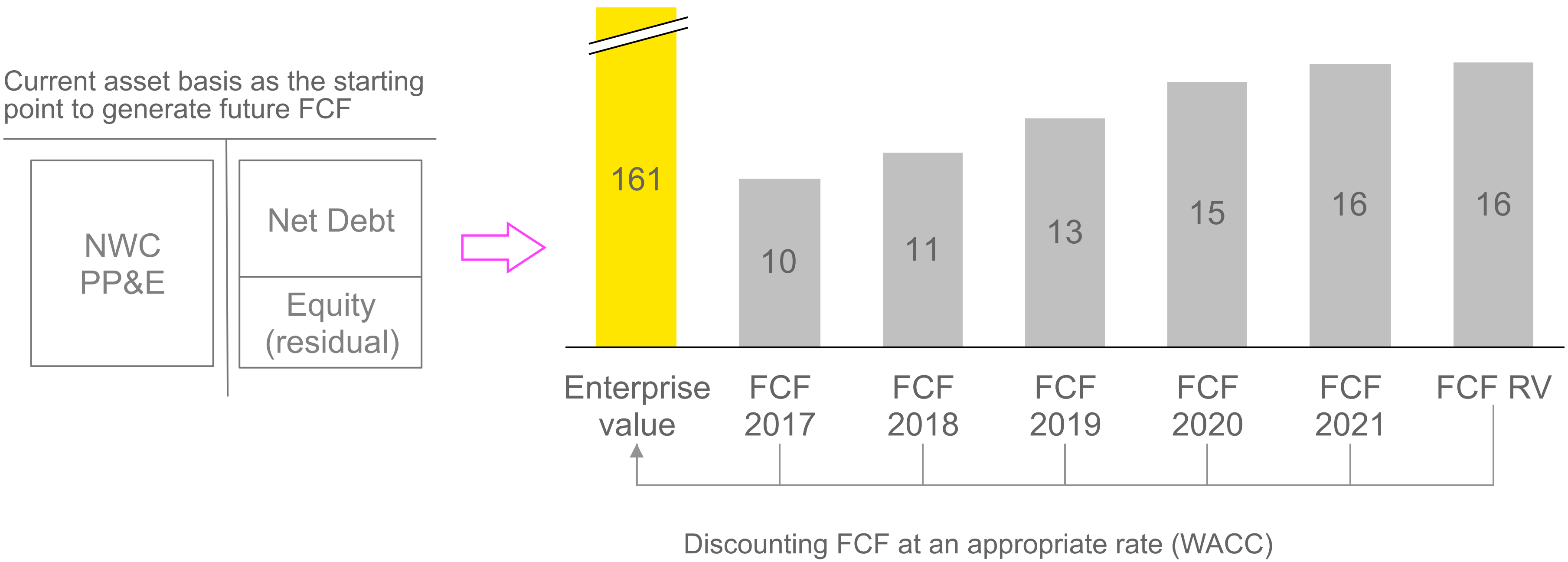
M&A process and SPA (1/2)



M&A process and SPA (2/2)



Discounted cash flow method



Advantages

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- Forward-looking
- Cash-based (i.e., FCF)
- Allows scenario analyses
- Recognised

Disadvantages

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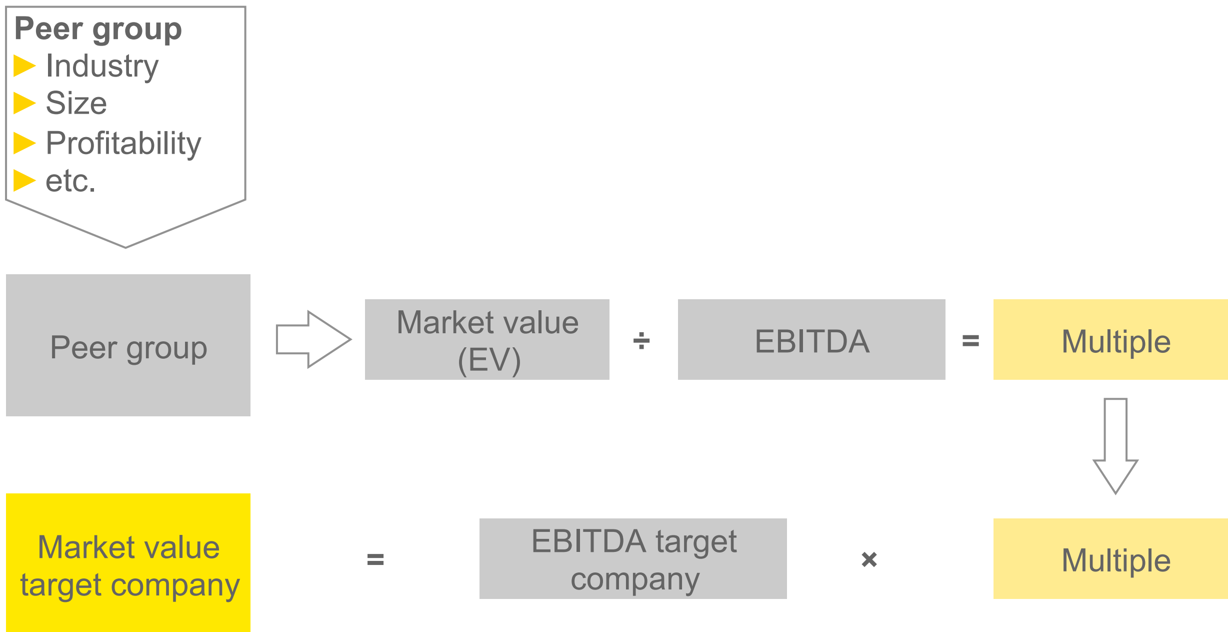
- High subjectivity in estimating future cash flows
- Frequently overvalues company (aggressive planning)
- Substantial effort required

Market approach



Advantages

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- Relatively quick and straightforward application
- Reflects market participants' expectations
- Meaningful as backup valuation method

Disadvantages

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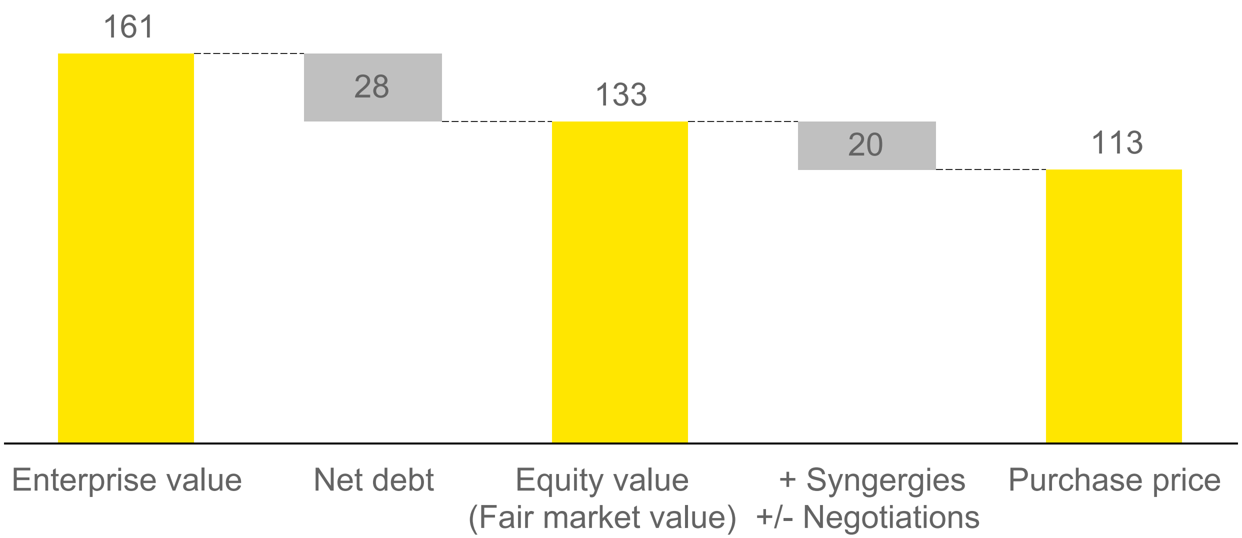
- Limited applicability to SMEs
- Sensitive to market fluctuations (i.e., sentiment driven)

Value versus price

The purchase price paid is a mixture of calculated company value, supply and demand, as well as negotiations.

“*Price is what you pay. Value is what you get.”*
(Warren Buffet, Berkshire Hathaway)



SPA clauses and breach thereof

1) Either the net asset basis as a starting point,
2) the result of the looked box period
3) or the earning power may be impacted by a breach of SPA clauses.

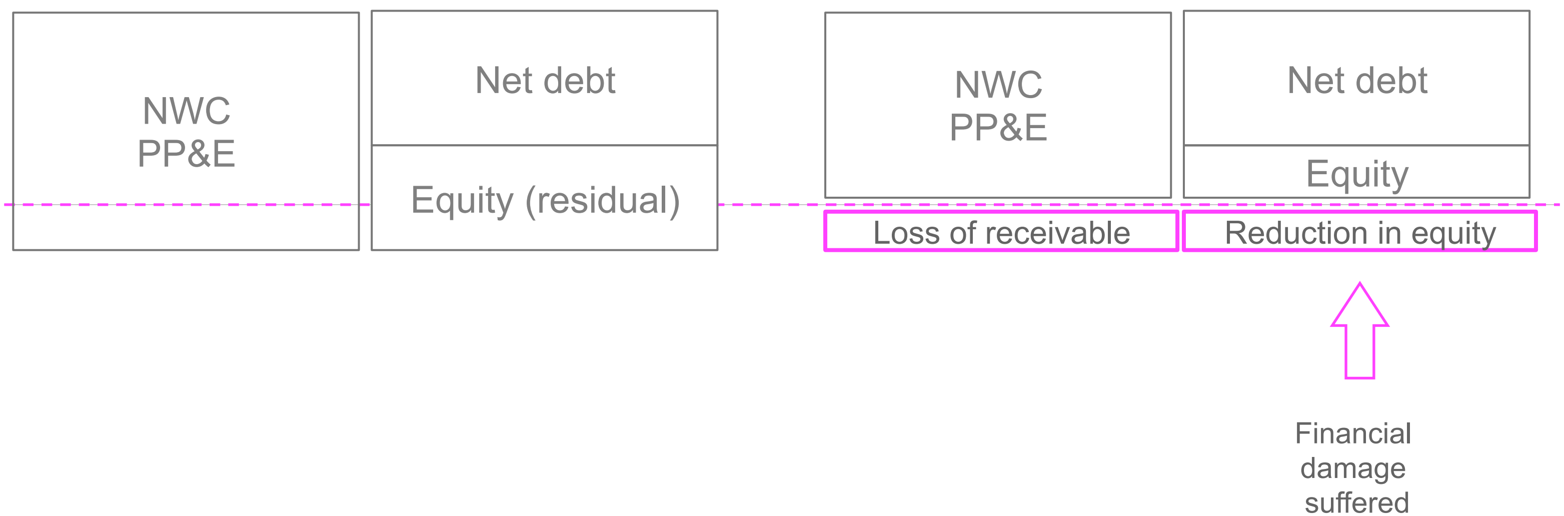
Example 1: Non-collectable account receivable (often specific indemnity)

Example 2: Special bonus paid to shareholder

Example 3: Loss of client contract (which was known to the seller before closing but not disclosed)

Damage calculations | Net asset basis

Example 1: Non-collectable account receivable



Damage calculations | Earnings basis

Example 3: Loss of client contract

CHFm	Base case	Loss case
Enterprise value	161	132
Net debt	(28)	(28)
Equity value	**133**	**104**
Damage as % of equity value		-21%
Purchase price	**113**	**89**
Damage in CHFm		**(24)**

Other calculation methods

- DCF with purchase price as basis
- Valuation of lost client contract
- Historic EBIT based valuation
- Others

Challenges

1. Valuation of underlying purchase price usually not available
2. Can damage be higher than purchase price paid?
3. What discount rate to be used?
4. How long does the loss sustain?
5. Define loss period
6. Mitigation measures
7. etc.

Conclusion
Business valuation is an instrument to calculate damage, especially if earnings power is affected!

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