Duff & Phelps

Protect, Restore and Maximize Value

Valuation Insights

Fourth Quarter 2020

INSIDE

EXECUTIVE SUMMARY

In this edition of Valuation Insights, we highlight Measuring Their Shot: A Study of Professional Golfers' Future Career Value, our inaugural study which ranks male professional golfers by their projected future earnings. The study evaluated over 1,000 professional golfers and ranked the top 60 current players based on our estimate of their Future Career Value (FCV), which reflects the present value of their projected tour winnings and endorsement income over their remaining professional golf careers through the age of 50.

In our **Technical Notes** section, we take a closer look at the Impact of COVID-19 on Global Real Estate, a timely study with the GRI Club that surveyed over 300 senior directors and investors within the commercial real estate industry. The study reveals the impact COVID-19 has had on global real estate markets, financing and valuations, and how different sub-sectors are expected to perform and overall expectations for the future.

In our **International in Focus** article, we showcase the Face Value Returns and Risks Associated with Influencer Marketing, our latest report on the current state of influencer marketing for fast moving consumer goods brands globally. The report provides key findings on whether COVID-19 has affected spend on influencers and the financial and reputational impact of negative influencer experiences.

Given the record number of organizations filing for bankruptcy this year due to the global pandemic, our **Spotlight** article summarizes the main accounting and financial reporting areas that should be considered by CFOs both before and after the Chapter 11 bankruptcy process.

In every issue of *Valuation Insights*, you will find industry market multiples that are useful for benchmark valuation purposes.

We hope that you will find this and future issues of the newsletter informative.

Industry Market Multiples Online

Valuation Insights Industry Market Multiples are online with data back to 2010. Analyze market multiple trends over time across industries and geographies.

www.duffandphelps.com/multiples

Duff & Phelps Launches New Report on Professional Golfers' Future Career Value

Duff & Phelps has launched a new report titled, Measuring Their Shot: A Study of Professional Golfers' Future Career Value, a first-of-its-kind ranking of male professional golfers by their expected future earnings. The study evaluated over 1,000 professional golfers and ranked the top 60 current players based on their Future Career Value (FCV). The golfers' FCV reflects the present value of their projected tour winnings and endorsement income over their remaining professional golf careers through the age of 50. See the Future Career Value Leaderboard below.

FUTURE CAREER VALUE LEADERBOARD

Rank	Player	Country	Future Career Value ($ Millions)
1	Rory McIlroy	Northern Ireland	$309
2	Justin Thomas	United States	$239
3	Tiger Woods	United States	$202
4	Jon Rahm	Spain	$201
5	Xander Schauffele	United States	$197
6	Dustin Johnson	United States	$180
7	Brooks Koepka	United States	$159
8	Bryson DeChambeau	United States	$146
9	Matthew Wolff	United States	$140
10	Patrick Reed	United States	$120

Key Highlights:

- The top 10 professional male golfers have a combined FCV of $1.9 billion out of a total value for all 60 golfers of $4.7 billion.
- Early success is a strong predictor of long-term tournament winnings and significant and sustained endorsements. Players that ranked in the top 10 Official World Golf Ranking (OWGR) by age 22 outperformed those that reached the top 10 later in their careers.
- U.S. golfers dominate the top 10 FCV leaderboard, but geographic diversity is growing. More than half of the top 60 golfers are from 18 different nations (excluding the U.S.).
- Among male professional golfers, the top 60 are distributed globally, among the U.S. (43%), Europe (32%) and the rest of the world (25%). See the graphic to the right for the number of golfers and aggregate FCV by country.
- Our top 10 FCV ranking is closely aligned with the top 10 OWGR as of September 27, 2020. Seventy percent of our leaderboard finished 2019 in the top 10 of the OWGR.
- During their careers, most leading professional male golfers will make more money from endorsements than from tournament winnings. Based on our FCV projections for the top 60 players, nearly 65% of their overall value will come from endorsements.
- Our FCV ranking does not account for earnings accumulated after age 50, which may be significant for professional male golfers. For that reason, our ranking tipped more favorably toward younger players. More than half of the golfers in our top 60 are under age 30.

AGGREGATE FUTURE CAREER VALUE BY COUNTRY

Country	Aggregate Future Career Value ($ in Millions)	# of Golfers
U.S.	$2,530	26
England	$545	9
Northern Ireland	$309	1
Spain	$242	2
Australia	$205	4
Japan	$155	3
Korea	$141	2
South Africa	$99	2
Chile	$89	1
Ireland	$78	1
Norway	$64	1
Scotland	$48	1
Mexico	$47	1
Thailand	$34	1
Italy	$34	1
Sweden	$32	1
France	$30	1
China	$30	1
Germany	$28	1
Total	$4,740	60

Methodology

We wanted to explore whether the principles of valuation could be applied to professional golf careers, to look beyond current and historical player rankings and create an alternate measure based on potential future performance.

While no one can predict the future, using valuation and mathematical modeling principles, one can gain insight into the potential path on which a player's career might unfold.

We started by looking at historical careers of male professional golfers. We created a set of comparable players from which we could estimate current pro golfers' performance, similar to how comparable companies are used in the market approach to valuing businesses.

We created a database of over 1,000 professional golfers using data from 1996 and beyond, which established a historical relationship between a player's age and his OWGR. The dataset gave us an array of historical career paths, helping us find comparable players who most closely matched current professionals (subject players) based on career progression through their current age. Based on statistical similarities, we identified 10 comparable players unique to each golfer in our study to model the remainder of a subject player's career path.

We knew there would be limitations and constraints, like not having access to all the data needed to measure the true brand value for each player. So, we designed a forward-looking analysis that allowed us to rank players based on specified parameters:

- Our FCV ranking is based solely on the present value of each player's potential future tournament winnings and endorsement income he could earn in the remaining years of his professional career.
- For our analysis, we capped careers at age 50 and excluded participation in the PGA TOUR Champions, Legends Tour and other similar tours, even though professional golfers have significant earning potential beyond age 50 and even after their playing days.
- A 10% discount rate was applied to calculate the present value of this defined income stream.
- Expenses and taxes were excluded from our study as they vary among players.
- Our analysis considered data available through September 27, 2020.

There were some notable performances in this year's Masters Tournament. With Dustin Johnson now wearing the green jacket and seven of the 12 players who finished in the top ten (including ties) appearing in the top 11 of our leaderboard, it will be interesting to see how their values grow in the years to come.

Download the full report here. We hope you find it fun and interesting to explore and look forward to your feedback at the clubhouse and on the green.

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Cost of Capital in the Current Environment

COVID- 19 Update - November 13, 2020

6.0%	D&P Recommended U.S. Equity Risk Premium
2.5%	Normalized U.S. Risk-Free Rate

For more information, visit: https://www.duffandphelps.com/costofcapital

Global 10-Year Government Bond Yields

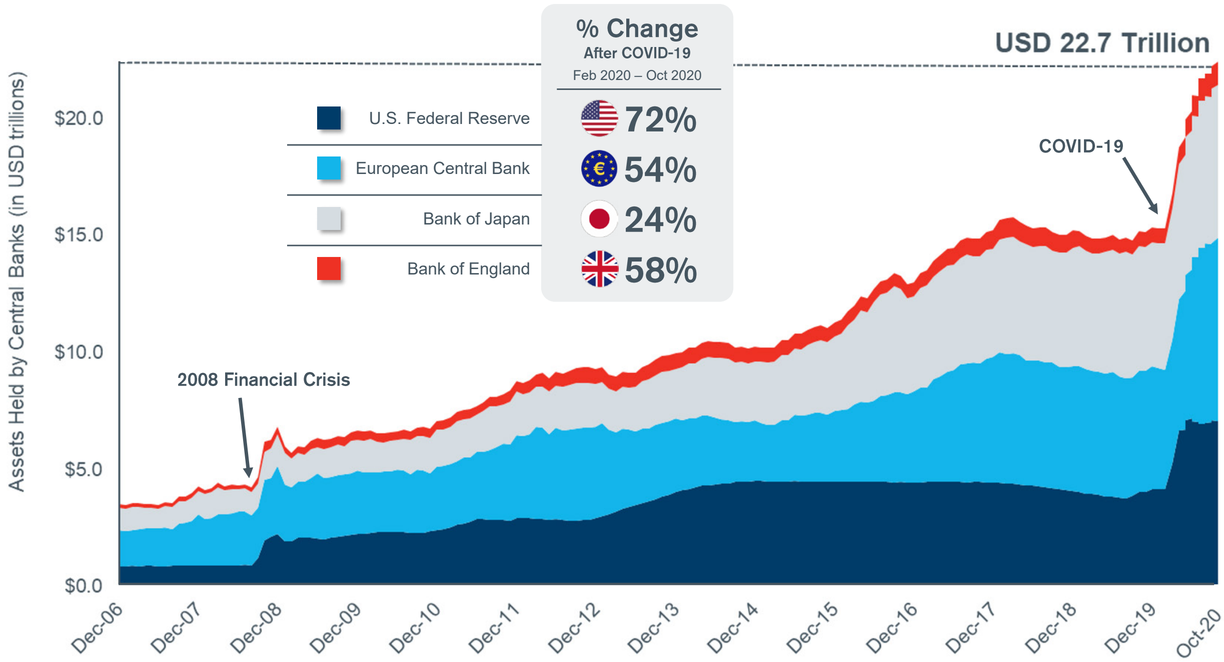
Data as of November 10, 2020

Canada	0.83%
U.K.	0.40%
China	3.18%
U.S.	0.98%
Germany	-0.51%
Japan	0.04%
Brazil	7.61%
India	5.92%
Australia	0.92%

Sources: Bloomberg (Brazil, India), Capital IQ (other countries)

Total Assets Held by Major Central Banks Over Time

Data as of November 10, 2020



Sources: Capital IQ, FRED® Economic Data, Bank of England, Bank of Japan, European Central Bank

YTD 2020 Stock Market Performance

Data as of November 10, 2020

MSCI All Country World Index	6.3%
S&P 500	9.7%
STOXX® Europe 600	-7.6%
CSI 300	20.9%
TOPIX	-1.2%
FTSE 100	-16.5%

Source: Capital IQ

Global Market Volatility

Data as of November 10, 2020

	VIX Index (U.S.)	VSTOXX (Europe)
MAX during 2008 Global Financial Crisis	80.9	87.5
MAX During COVID-19 Crisis	82.7	85.6
Long-term Average	20.0	23.8
Current Level	24.8	25.1

Global Credit Spreads

Data as of November 10, 2020

	U.S. Corporate Credit Spreads	Euro-Denominated Corporate Credit Spreads
MAX during 2008 Global Financial Crisis	14.9%	18.8%
MAX During COVID-19 Crisis	6.7%	7.7%
Long-term Average	3.9%	5.3%
Current Level	2.9%	4.1%

Sources: Capital IQ, FRED® Economic Data, Morningstar Direct

U.S. Corporate Credit Spreads based on the difference in effective yields between the ICE BofA US High Yield Index and the ICE BofA US Corporate Index. Euro-Denominated Corporate Credit Spreads based on the difference in effective yields between Bloomberg Barclays Euro Aggregate Corporate Bond Index series and Bloomberg Barclays Pan-European High Yield Index (EUR) series. Long-term averages based on 1995 to present for VIX series, 1999 to present for VSTOXX series, 1996 to present for U.S. credit spread series, and 1998 to present for Euro credit spread series.

Cost of Capital in the Current Environment

COVID- 19 Update - November 13, 2020

U.S. vs. Eurozone Unemployment Rate

Data as of November 10, 2020

	U.S.	Eurozone
December 2019	3.5%	7.4%
March 2020	4.4%	7.2%
June 2020	11.1%	7.9%
Latest Available*	6.9%	8.3%

Source: U.S. Bureau of Labor Statistics, OECD

*Data through October 2020 for the United States, and September 2020 for the Eurozone.

Real GDP Growth – Q1, Q2, & Q3 2020

Data as of November 13, 2020

		U.S.	Eurozone	UK	China	Japan
QUARTER-ON-QUARTER GROWTH (%)	Q1	-1.3% ↓	-3.7% ↓	-2.5% ↓	-10.0% ↓	-0.6% ↓
	Q2	-9.0% ↓	-11.8% ↓	-19.8% ↓	11.5% ↑	-8.2% ↓
	Q3	7.4% ↑	12.6% ↑	15.5% ↑	2.7% ↑	5.0% ↑
ANNUALIZED QUARTER-ON-QUARTER GROWTH (%)	Q1	-5.0% ↓	-14.1% ↓	-9.7% ↓	-34.4% ↓	-2.3% ↓
	Q2	-31.4% ↓	-39.5% ↓	-58.7% ↓	54.6% ↑	-28.8% ↓
	Q3	33.1% ↑	60.5% ↑	78.0% ↑	11.2% ↑	21.4% ↑

Sources: FRED® Economic Data (Eurozone, Japan, U.S.), National Bureau of Statistics of China, UK's Office for National Statistics

Quarter-on-quarter growth based on the growth rate from Q4 2019 to Q1 2020, Q1 2020 to Q2 2020 and Q2 2020 to Q3 2020. This rate is annualized by computing the compounded growth rate for four quarters as follows: (1 + Real GDP Q/Q Growth)^4. The annualized rate shows what the quarterly change would be if it lasted a full year.

U.S. and Eurozone Consumer Sentiment vs. Business Confidence

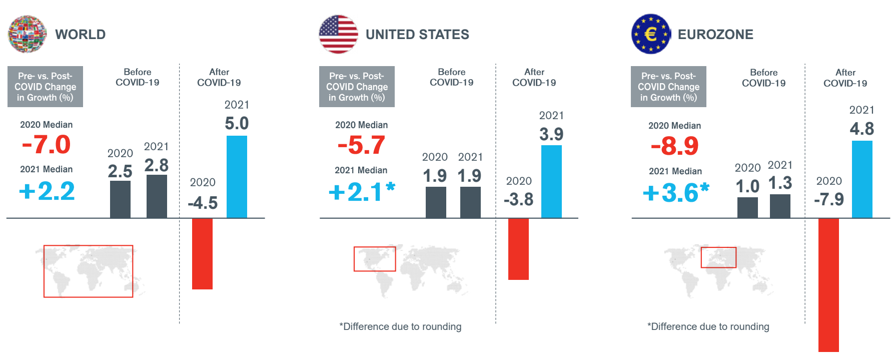
Data as of November 13, 2020

		Pre-Covid-19 (February 2020)		Post-Covid-19 (October 2020)	Long-term Avg.
Consumer Sentiment	U.S.	101.0	↓	77.0	(1952–2020) 86.6
	Eurozone	100.2	↓	98.6	(1973–2020) 100.0
Business Confidence	U.S.	99.0	↑	101.3	(1950–2020) 100.0
	Eurozone	99.1	↑	99.3	(1985–2020) 100.0

Sources: Michigan University's Index of Consumer Confidence, OECD's Business Confidence Index, OECD's Consumer Confidence Index

Real GDP Growth (%) Estimates (Median)

Data as of November 11, 2020

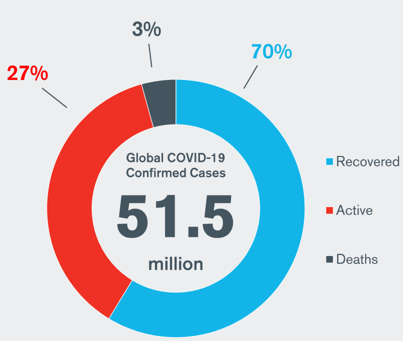


Sources: OECD, IMF, World Bank, Blue Chip Economic Indicators, Consensus Economics, EIU, Fitch Ratings, IHS Markit, Moody's Analytics, Oxford Economics, S&P Global Ratings

Before COVID-19 median estimates based on data released in December 2019 and early January of 2020. After COVID-19 median estimates based on data available as of the date noted above.

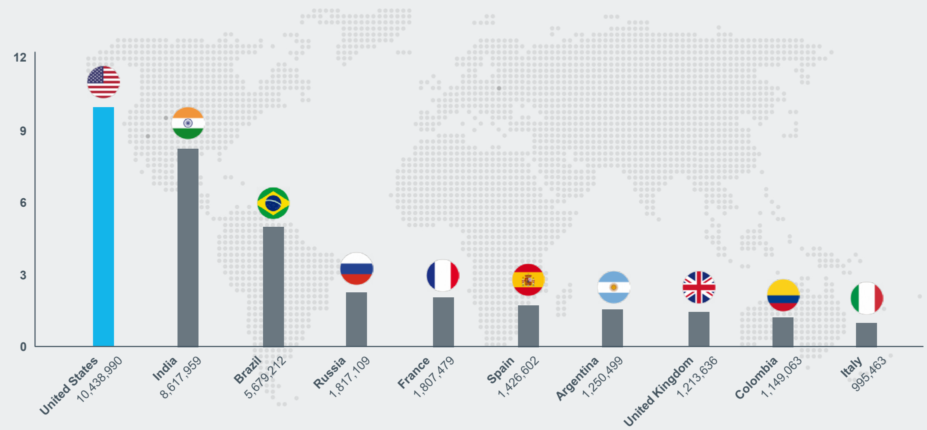
Tracking COVID-19

Data as of November 10, 2020



Source: Worldometers.com

Top 10 Countries by Confirmed Cases



How Has the Global Real Estate Market Been Affected by COVID-19?

Earlier this year, our Real Estate Advisory Group (REAG) collaborated with the GRI Club, the world's largest real estate club, to survey 325 senior directors within the commercial real estate industry and find out how real estate markets were coping during this unprecedented time in investment history.

Our findings include:

- The majority of respondents (64%) fear the impact of a recession on European commercial real estate markets, with almost 80% believing the recovery will be U-shaped and not sharply correct like in a V-shaped recovery.
- Respondents from the U.S. also believe the economic recovery will be U-shaped (83%).
- When asked about how the COVID-19 pandemic has impacted their own country's GDP growth, most respondents anticipated significant contractions of between 5%-10%.
- Respondents expect the worst long-term damage in commercial real estate to be among retail, hotels and restaurants and bars (accounting for 37%, 36% and 16% of responses, respectively).
- More than a third of respondents (36%) believe the industrial and logistics sector will emerge the strongest from the crisis.
- Investors may take comfort in the fact that most respondents said they were slightly more optimistic about the European real estate sector than they were at the start of the pandemic (34%).

Read the full results here. Watch the webinar replay here.

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Are Social Media Influencers Worth the Risk?

Devotion to our digital devices has skyrocketed during the coronavirus lockdown and has supercharged an already booming part of the marketing industry.

In less than a decade, the influencer profession has leapt from a standing start to what is expected to be a $15 billion global industry by 2022.[1]

Now, more than a fifth (22%) of brand and marketing managers at fast moving consumer goods (FMCG) companies around the world spend between $1.1 million (mn)-$5 mn on influencers, whose strong online presence is harnessed by brands to amplify sales of their products.

By 2021, nearly half of marketers at FMCG companies (46%) expect to spend 31%- 50% of their total marketing budget on influencers—up more than 20% compared to the average spent between 2018-2020—while nearly one in 10 will spend over 70%.

The use of influencers can be highly rewarding, but it can be exceptionally risky too. Over four-fifths (85%) of FMCG companies have had their brand negatively impacted due to an association with an influencer, with a quarter (24%) of these companies claiming to have been adversely affected multiple times. Furthermore, 70% of respondents have doubted the number of followers an influencer claimed to have.

To understand more about influencer marketing in 2020 and beyond, Duff & Phelps and Kroll, a division of Duff & Phelps, surveyed over 900 marketing and brand managers within the FMCG market to find out about the specific products they are responsible for and the influencer marketing trends they are seeing. FMCG companies surveyed included those in cosmetics, food and beverage, clothing and consumer electronics.

The respondents were from the U.S., UK, Ireland, Spain, Netherlands, France, Italy, Germany and the United Arab Emirates (UAE).

Key highlights include:

- Eighty-five percent of FMCG companies have had a negative influencer experience, and almost a quarter of respondents reported losses between $100,000-$250,000 resulting from an incident
- By 2021, nearly half of marketers at FMCG companies will spend 31%-50% of their marketing budget on social media influencers
- Almost a third of respondents (32%) said their most successful influencer campaign increased sales by $250,000-$500,000

Download the report to view the full results.

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[1] Source: Business Insider Intelligence 'Influencer Marketing' report:
https://www.businessinsider.com/influencer-marketing-report?r=US&IR=T

Transfer Pricing Audit Readiness

Is Your Tax Department Audit-Ready?

Duff & Phelps' Transfer Pricing practice provides a virtual resource center designed to help multinational companies navigate transfer pricing issues that have emerged as a result of the pandemic. As a trusted partner for clients, we assist in evaluating, supporting and documenting transfer pricing policies and risk areas, based on specific facts and circumstances and business objectives.

Transfer Pricing Evaluation Framework:

1. Assess Current Facts and Circumstances
2. Outline Options and Approaches
3. Practical Support of Intercompany Pricing Decisions
4. Audit Readiness

We are offering complimentary initial consultations to better understand how we can assist.
Learn more at duffandphelps.com/transfer-pricing-audit-readiness

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Fresh Start Accounting – A Busy CFO's Perspective

This article was originally published in FEI Daily on November 9, 2020.

CFOs need to start thinking about the financial reporting implications of Chapter 11 filing long before they emerge.

This year has brought about many challenges—natural disasters, civil unrest, political polarity and a global pandemic—with the latter, arguably, having the most far-reaching impact on our personal and professional lives. And just as individuals are beginning to return to the office, a second wave of infections is starting to look inevitable. The sense of fear regarding the implications of further lockdowns is palpable.

For some, this has led to them hitting the nuclear button named "Chapter 11". This year has seen a record number of US corporates with assets over $1bn filing for bankruptcy, with levels set to surpass those seen during the 2009 financial crisis. For CFOs that have filed, or are contemplating filing, for bankruptcy there will be a lot weighing on their minds. What is the process and how long will it take? How can I protect my employees? How can I maintain relationships with key suppliers? Do I have to continue paying interest on my debts? What taxes are due? What do I have to disclose in my financial statements? Do I even have to prepare financial statements?

Trying to run a finance function in the current environment would be challenging enough. Throw in all the additional administration and complex accounting requirements that comes with a bankruptcy, many finance functions are struggling to stay on top of their workloads. Now is the time to ask for help, if you need it.

CFOs need to start thinking about the financial reporting implications of Chapter 11 filing long before they emerge. Most CFOs will be aware of the requirements of Accounting Standards Codification topic 852, Reorganizations ("ASC 852"), and the need to undertake "fresh start reporting" upon emergence from bankruptcy. However, ASC 852 also comes with additional provisions for accounting during bankruptcy. Beyond ASC 852, given the exceptional circumstances that an organization contemplating filing for bankruptcy finds themselves in, there will be a host of other accounting and financial reporting requirements both before and after the bankruptcy process.

While by no means an exhaustive list, the following article highlights the main areas that should be considered by CFOs as their organisations are going through the Chapter 11 Bankruptcy process.

Before filing for petition

It should come as no surprise that organizations yet to file for bankruptcy will continue to prepare their financial information in full accordance with US GAAP. But given the financial strain that the organization is under, several accounting topics need to be considered. Predominantly these will relate to the impairment of certain assets (e.g., goodwill, intangible assets, long-lived assets, inventory, etc) and accounting for the renegotiation of different contractual agreements (e.g., debt, leases, supplier arrangements, loyalty programs, etc).

With regards to goodwill and long-lived assets, there is no universal answer as to whether the impacts of COVID-19 and the resulting economic lockdowns are a triggering event for an impairment test. However, the likelihood that a triggering event has occurred has increased significantly.

Given the unprecedented shift in demand and consumer behaviours, the risk of inventory impairments is also likely to have increased. Often, organizations in financial trouble introduce sales incentives to increase demand and generate cash that can lead to the write down of its residual inventory. Similarly, with disruptions to supply chains and increased material costs, it may be harder for organizations to recover their inventory costs.

As part of restructuring its operations, an organization contemplating bankruptcy may also seek to modify or terminate some or all its leases. Under ASC 840 (for those not brave enough to early adopt ASC 842), a lease modification may result in a reclassification (i.e., operating to capital or vice versa). For terminations, this will depend upon the original classification. For operating leases, a liability for costs associated with the termination will need to be recorded and any related lease assets, e.g. favourable lease terms, may be derecognized. For capital leases, associated assets and liabilities will be derecognised and a gain or loss recognized for the difference (net of any termination penalties). Under ASC 842 if a lessee rejects a lease any difference between the carrying amounts of the right-of-use asset and the lease liability should be recorded in the income statement as a gain or loss. Related assets (including favour lease intangibles and vendor contributions) will also be derecognised.

However, for those contemplating filing for bankruptcy it will most likely be due to the burden of existing debt. As the US economy continued to grow in unprecedented fashion over the last several years, many companies increasingly took on significant and historically high levels of leverage. The pandemic therefore may serve as an economic tipping point for what may have otherwise been an inevitable crisis for these companies. Debt covenants could already have been breached and while this may not immediately result in enforcement proceedings; at a minimum it may result in creditors exercising acceleration clauses. In this case, debt will need to be reclassified as a current liability.

Many organizations will also be trying to avoid filing for bankruptcy and may attempt to renegotiate their existing debt arrangements. This could result in either a modification, an extinguishment or a "troubled debt restructuring", each of which are accounted for differently.

But the sad truth is that for many they will have to make the hard decision to file for bankruptcy. Beyond the accounting and financial reporting implications of this decisions, there are some important commercial considerations.

For many organizations a significant proportion of the creditors will be unsecured and for some of those they will also be with key suppliers. In order to emerge from bankruptcy as a going concern, it is paramount to maintain a convivial relationships with these creditors, even though they will likely be amongst the most junior creditors in the waterfall (usually sitting only just above equity holders in the claims waterfall).

At the other end of the scale, the most senior creditors will likely emerge as the future equity shareholders. Given the constraints on the United States Bankruptcy Court system (with there only being about 350 federal bankruptcy judges), it is advisable to engage in friendly discussions with major creditor groups before filing for bankruptcy. While the bankruptcy process can be long and expensive, it is possible to enter the process with a "prearranged" or "prepackaged" plan of reorganization. In these situations, an organization can tackle several requirements of a Chapter 11 bankruptcy before filing a petition. A prearranged plan is where negotiations have begun with at least one class of creditors and the key terms of the restructuring have been approved by their representatives (noting that creditor approval is only formally solicited after the Court has approved the disclosure statement); whereas a prepackaged plan is one where the majority of stakeholders have approved the disclosure statement and plan of reorganization. These are then filed along with the petition and supporting voting ballots meaning that the court only must approve the disclosure statement and confirm the plan of reorganization before emergence can occur, which can significantly speed up the process.

After filing for petition

After an organization has filed a petition under Chapter 11, it will continue to apply US GAAP and will now also fall under the scope of ASC 852-10, Reorganizations. The additional financial reporting requirements of ASC 852-10, prior to emergence, are reasonably limited but reflect the changing needs of the users of the financial statements and are aimed at presenting the progression through the bankruptcy proceedings.

Any financial statements prepared during bankruptcy will be labelled as “debtor-in-possession” until the organization emerges from bankruptcy. Transactions related to the reorganization will need to be distinguished from those of the ongoing operations of the business. Also, liabilities are segmented between pre-petition (then further split between those subject to compromise and those that are not) and post-petition, and are separately disclosed on the face of the financial statements.

Pre-petition liabilities are not just those incurred and recorded prior to filing for petition but will also include those creditors that file an “allowed” claim with court that relate to the prepetition period. Until a filed claim is approved it will be accounted for in accordance with ASC 450, Contingencies. Accordingly, the claim will only be recognized when it is probable and reasonably estimable. In practice this typically occurs only once the court has allowed the claim. The claim is then measured at the full amount of the allowed claim, even if it is expected that the creditor will receive less from the bankruptcy settlement.

For liabilities incurred post-petition the expectation is that these will be settled in full and are therefore measured in accordance with GAAP and presented separately.

While requiring some judgement, reorganizational items are those that would not have been incurred had the organization not been in bankruptcy and are separately disclosed. These will include all expenses directly related to the reorganization and restructuring (e.g. any professional fees are expensed as incurred). It will also include any interest income that would not have been earned had the organization not been in bankruptcy.

On the flipside, Chapter 11 restricts the accrual of interest expense on unsecured prepetition liabilities (interest expense can be accrued on secured debt provided the collateral is in excess of its principal), however most organizations will disclose the interest that would have been accrued had this protection not been in place.

Beyond the financial reporting requirements, however, an organization may also be contemplating an alternative ending – a “Section 363” sale. These have become increasingly popular for financially distressed companies to utilize this method to sell significant assets or entire businesses. As the assets are sold free of existing liens or claims, it can generate a better price than would have been the case if the organization was not under Chapter 11. The use of a “stalking horse” is designed to promote interest and maximize value for creditors through starting an auction process. In these instances, you should consider how fees payable to the stalking horse are structured, and how the fees may be impacted by the bankruptcy proceedings in order to correctly account for them. Such fees may be deemed subject to compromise and may be presented as a reorganization item.

With regards to the reorganization plan, unless the organization had a prepackaged deal, there will be an iterative process with various classes of creditors to agree to the final plan (even if this contemplates a Section 363 sale). Once the creditors agree, the court will then approve the plan enabling the organization to emerge from bankruptcy. This will be the later of the date of the court approval and the date when all material unresolved conditions precedent are resolved.

For practical reasons, an organization may choose a more convenient date, say at month end, to prepare its emergence financial statement. This is permitted provided it is after the emergence date, does not straddle a reporting period end (i.e., quarterly or year-end), and that no material transactions occur in the intervening period. While there is no direct rule applicable to this, a period of few days is generally acceptable. However, the bigger the gap the harder it will be to justify that no material transactions have occurred requiring additional disclosures.

Upon emergence

Having successfully emerged from bankruptcy, you will now need to prepare the opening balance sheet for the emerging entity. As this is akin to a newly acquired business, a procedure similar to purchase accounting under ASC 805, Business Combinations is undertaken, provided the organization passes the fresh start reporting criteria. For this there are two tests, one regarding reorganizational value and one regarding change of control, both of which must be passed if the organization is to apply fresh start reporting.

While the standard lists them in this order, practically speaking, it is often easier, and cheaper, to undertake the change of control test first, i.e. the pre-petition shareholders must lose control of the emerging entity by receiving less than 50% of the voting shares of the emerging entity. An organization must demonstrate that its existing shareholders, as a group, have lost control of the reporting entity, but it does not need to demonstrate that a single party has obtained control.

The loss of control contemplated by the plan must be substantive and not temporary. That is, the new controlling interest must not revert to the shareholders that held interests immediately before the plan was filed or confirmed. In this calculation, potentially dilutive instruments, such as warrants and options, are generally disregarded.

If this test is failed, there is no need undertake the more involved reorganizational value test and the organization will account for the plan of reorganization in accordance with GAAP and in particular ASC 310-40, Troubled Debt Restructuring. However, if this test is passed then the reorganizational value test should be undertaken.

It is a common misconception that the reorganization value will be determined by the court. The court-approved value (if provided) will be more aligned to enterprise value and therefore an independent assessment is likely to be required to ascertain what reorganizational value would be (as this is closer to fair value). An assessment would then need to be made by comparing this reorganizational value with the post-petition liabilities and allowed claims. If greater, this criterion is passed.

Once both criteria have been passed the organization is required to assign the reorganizational value to its underlying assets and liabilities in accordance with ASC 805, Business Combinations. Accordingly, and this may come as surprise, if there is a residual value left then goodwill is recorded.

This task is substantial and the use of valuation professionals is essential.

All of the aforementioned considerations in this article are then disclosed in a four column format showing the financial progression from the closing balance sheet of the predecessor entity (column 1); the impact of the plan of reorganization (column 2); the allotment of the reorganizational value (column 3); and then the presentation of the opening balance sheet of the emerging entity (column 4). Whilst this is the single biggest output from fresh start reporting, if all of the above considerations are proactively addressed, this task should be relatively straightforward.

Additionally, as the emerging group are considered new entities, they can adopt new accounting standards and change accounting policies without the need for prior period adjustments. For example, those that haven't early adopted may wish to consider implementing the new leasing standard. Or perhaps not.

There is mistaken belief that fresh start accounting relates solely to the final task of fair valuing the balance sheet of the emerging organization. However, there is significant work, both from an accounting and broader commercial perspective, that needs to be considered long before an organization even files for petition. With all indicators pointing towards an increase in likely bankruptcies, perhaps now is the time to start.

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DUFF & PHELPS

Protect, Restore and Maximize Value

North American Industry Market Multiples

As of September 30, 2020

	Market Value of Equity to Net Income		MVIC to EBIT		MVIC to EBITDA	
Industry	U.S.	Canada	U.S.	Canada	U.S.	Canada
Energy	5.9	12.6	13.0	15.3	6.1	5.8
Energy Equipment & Services	10.9	—	18.4	10.5	6.3	5.9
Oil, Gas & Consumable Fuels	5.9	16.1	12.6	16.8	5.9	5.7
Materials	18.1	20.0	17.6	15.7	9.4	11.4
Chemicals	20.0	—	20.2	—	11.2	—
Containers & Packaging	18.8	—	15.8	—	9.4	—
Metals & Mining	12.4	19.2	12.8	16.2	8.3	11.4
Industrials	20.0	20.5	17.4	18.6	10.8	9.8
Aerospace & Defense	16.6	—	15.6	—	11.2	—
Building Products	24.1	—	16.4	—	12.0	—
Construction & Engineering	13.1	—	11.8	—	6.6	—
Electrical Equipment	18.7	—	16.6	21.3	10.8	—
Machinery	21.3	—	18.4	19.5	12.6	11.6
Trading Companies & Distributors	18.7	23.2	18.2	—	11.0	10.5
Commercial Services & Supplies	19.1	—	17.9	—	9.8	8.6
Professional Services	17.3	—	13.6	—	9.9	—
Road & Rail	24.1	—	20.4	—	7.7	—
Consumer Discretionary	20.5	16.5	18.5	17.8	10.9	12.1
Auto Components	32.0	—	20.5	—	10.3	—
Household Durables	13.4	—	15.5	—	11.5	—
Leisure Products	18.8	—	20.1	—	11.1	—
Textiles, Apparel & Luxury Goods	23.1	—	19.3	—	9.9	—
Hotels, Restaurants & Leisure	26.7	—	30.8	15.5	14.9	—
Diversified Consumer Services	15.2	—	14.9	—	8.2	—
Internet & Direct Marketing Retail	27.2	—	17.4	—	15.0	—
Specialty Retail	17.7	—	15.5	—	7.5	—
Consumer Staples	19.7	17.3	17.8	17.6	11.9	9.7
Food & Staples Retailing	14.3	—	13.7	17.6	9.2	9.2
Beverages	22.4	—	19.1	—	15.8	—
Food Products	20.3	—	19.0	16.4	12.1	9.7
Personal Products	17.4	18.8	18.5	—	9.6	—

	Market Value of Equity to Net Income		MVIC to EBIT		MVIC to EBITDA	
Industry	U.S.	Canada	U.S.	Canada	U.S.	Canada
Health Care	23.7	18.8	21.3	14.7	15.5	11.2
Health Care Equipment & Services	27.6	—	21.3	—	15.0	14.4
Health Care Providers & Services	15.2	—	13.6	—	10.3	14.3
Biotechnology	12.8	—	18.8	—	12.5	—
Pharmaceuticals	12.5	—	16.4	13.1	13.2	10.6
Life Sciences Tools & Services	39.2	—	33.6	—	21.8	—
Information Technology	25.9	23.5	21.8	20.3	13.7	14.4
IT Services	28.9	—	21.8	—	12.6	—
Software	34.7	28.6	35.0	—	21.2	18.9
Communications Equipment	27.9	—	19.4	—	14.4	—
Technology Hardware, Storage & Peripherals	11.3	—	17.0	—	10.0	—
Electronic Equipment, Instruments & Components	22.9	—	18.2	—	11.1	—
Semiconductors & Semiconductor Equipment	26.8	—	25.1	—	15.7	—
Communication Services	13.5	14.0	14.9	13.9	9.5	8.5
Diversified Telecommunication Services	9.1	—	12.1	—	7.2	—
Media	15.5	—	14.3	—	9.1	7.1
Entertainment	19.9	—	—	—	13.8	—
Interactive Media & Services	32.4	—	—	—	18.1	—
Utilities	19.3	15.6	20.4	19.5	11.4	10.7
Electric Utilities	17.2	—	21.7	—	10.8	—
Gas Utilities	18.8	—	18.0	—	11.4	—

	Market Value of Equity to Net Income		Market Value of Equity to Book Value	
Industry	U.S.	Canada	U.S.	Canada
Financials	10.0	10.6	0.8	1.1
Banks	9.5	—	0.8	—
Thrifts & Mortgage Finance	10.0	—	0.8	—
Capital Markets	20.9	—	1.5	1.2
Insurance	12.5	—	0.8	0.9

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"An industry must have a minimum of 10 company participants to be calculated.
For all reported multiples in the U.S. and Canada, the average number of companies in the calculation sample was 71 (U.S.), and 33 (Canada); the median number of companies in the calculation sample was 37 (U.S.), and 24 (Canada)."

Sample set includes publicly-traded companies (private companies are not included). Source: Data derived from Standard & Poor's Capital IQ databases. Reported multiples are median ratios (excluding negatives or certain outliers). MVIC = Market Value of Invested Capital = Market Value of Equity plus Book Value of Debt (includes capitalized operating leases). EBIT = Earnings Before Interest and Taxes for latest 12 months (includes adjustment for operating lease interest expenses). EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization for latest 12 months (includes adjustment for operating lease expenses). Note that due to the exclusion of negative multiples from the analysis, the number of companies used in the computation of each of the three reported multiples across the same industry may differ, which may occasionally result in a counterintuitive relationship between those multiples (e.g. the MVIC-to-EBITDA multiple may exceed MVIC to EBIT).

European Industry Market Multiples

As of September 30, 2020

Industry	Market Value of Equity to Net Income (Europe)	MVIC to EBIT (Europe)	MVIC to EBITDA (Europe)
Energy	10.4	14.2	7.2
Energy Equipment & Services	9.4	15.6	8.7
Oil, Gas & Consumable Fuels	10.6	14.1	7.0
Materials	16.9	16.8	9.6
Chemicals	26.5	23.9	11.4
Containers & Packaging	15.4	14.7	8.8
Metals & Mining	13.9	13.0	8.9
Industrials	19.8	18.0	10.9
Aerospace & Defense	19.0	17.2	11.6
Building Products	23.9	19.4	11.6
Construction & Engineering	14.1	14.7	9.7
Electrical Equipment	26.3	20.6	15.0
Machinery	22.2	19.1	12.3
Trading Companies & Distributors	17.4	16.3	11.1
Commercial Services & Supplies	20.0	18.4	10.0
Professional Services	23.8	18.5	11.5
Marine	11.3	17.7	8.7
Transportation Infrastructure	18.5	18.7	9.9
Consumer Discretionary	17.6	18.2	10.6
Auto Components	19.2	19.4	10.9
Household Durables	14.8	16.3	10.7
Leisure Products	15.3	13.1	10.7
Textiles, Apparel & Luxury Goods	19.2	18.3	12.3
Hotels, Restaurants & Leisure	16.1	22.5	10.9
Internet & Direct Marketing Retail	21.2	20.3	15.5
Specialty Retail	17.4	19.1	7.4
Consumer Staples	21.6	19.4	11.4
Food & Staples Retailing	21.6	18.4	9.5
Beverages	23.4	21.1	14.4
Food Products	21.5	19.6	11.4
Personal Products	19.3	17.4	14.0

Industry	Market Value of Equity to Net Income (Europe)	MVIC to EBIT (Europe)	MVIC to EBITDA (Europe)
Health Care	28.9	23.6	16.0
Health Care Equipment & Supplies	36.4	28.3	20.7
Health Care Providers & Services	25.9	23.5	11.5
Health Care Technology	28.7	23.0	22.3
Biotechnology	27.3	23.2	20.9
Pharmaceuticals	24.0	17.0	13.0
Life Sciences Tools & Services	62.3	36.9	22.7
Information Technology	26.2	21.6	14.2
IT Services	23.3	18.2	12.1
Software	30.6	25.4	18.5
Communications Equipment	22.4	18.0	12.5
Technology Hardware, Storage & Peripherals	24.9	16.0	13.9
Electronic Equipment, Instruments & Components	27.0	20.7	13.5
Semiconductors & Semiconductor Equipment	30.6	21.8	15.2
Communication Services	15.6	18.3	10.9
Diversified Telecommunication Services	19.2	19.9	8.9
Media	13.6	17.1	9.4
Entertainment	19.4	22.6	15.9
Interactive Media & Services	18.0	22.3	20.7
Utilities	23.9	20.8	12.1
Independent Power and Renewable Electricity Providers	30.3	28.7	13.1

Industry	Market Value of Equity to Net Income (Europe)	Market Value of Equity to Book Value (Europe)
Financials	10.9	0.8
Banks	8.8	0.5
Diversified Financial Services	12.6	1.1
Capital Markets	15.6	1.5
Insurance	11.5	0.9

An industry must have a minimum of 10 company participants to be calculated. For all reported multiples in Europe, the average number of companies in the calculation sample was 87 and the median number of companies in the calculation sample was 50.

Sample set includes publicly-traded companies (private companies are not included). Source: Data derived from Standard & Poor's Capital IQ databases. Reported multiples are median ratios (excluding negatives or certain outliers). MVIC = Market Value of Invested Capital = Market Value of Equity plus Book Value of Debt (includes capitalized operating leases). EBIT = Earnings Before Interest and Taxes for latest 12 months. EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization for latest 12 months. Note that due to the exclusion of negative multiples from the analysis, the number of companies used in the computation of each of the three reported multiples across the same industry may differ, which may occasionally result in a counterintuitive relationship between those multiples (e.g. the MVIC-to-EBITDA multiple may exceed MVIC to EBIT).

CONFERENCE HIGHLIGHT

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Duff & Phelps recently held its Global Alternative Investments Conference where industry experts shared their perspectives on the alternative fund sector with a focus on valuation, risk, governance and fund operations.

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