DUFF & PHELPS

A KROLL BUSINESS

Valuation Insights

SPECIAL SPAC EDITION

SECOND QUARTER 2021

INSIDE

EXECUTIVE SUMMARY

Special purpose acquisition companies (SPACs) have exploded as an alternate vehicle to take a company public without undergoing the same rigor as the traditional IPO process. The number of SPAC IPOs during 2020 was nearly four times the 2019 total, and the first quarter of 2021 alone has already eclipsed the record high 2020 totals.

Given the proliferation of SPACs, the regulation and oversight around this ecosystem will likely continue to increase. In April, the SEC issued new guidance related to SPAC warrant liability accounting and valuation. As a result, the SEC effectively halted all in-progress offerings, business combinations and new IPO filings until SPACs resolved the accounting and related valuation questions with respect to their warrants issued.

In this special edition of *Valuation Insights*, we provide an overview of the SPAC market and highlight the benefits and risks associated with de-SPAC transactions. In addition, we address a number of important financial reporting, tax and valuation considerations for SPACs: from valuing founder shares and other SPAC investments to transfer pricing considerations and risks associated with acquisitions of target companies with international operations and related party transactions involving spin outs.

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

Be sure to check out our library of CPE-eligible virtual events and webcasts, where our valuation experts discuss issues and topics that may be impacting your business.

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.
https://multiples.duffandphelps.com/

SPAC Market Overview

The SPAC market has boomed over the past several years, with continued increases in IPO activity and record completions of de-SPAC transactions. Since January 1, 2020, 89 de-SPAC transactions have been completed, totaling over $145 billion of transaction enterprise value. An additional 117 announced de-SPAC transactions are pending close, 96 of which have been announced in the first quarter of 2021. There are 433 SPACs actively seeking acquisition targets, representing over $125 billion of IPO proceeds. A number of additional SPACs have filed for IPOs, many of which filed in the first quarter of 2021, demonstrating the explosive growth of the SPAC market[1].

Although SPAC IPO activity continued to climb well past record highs, with the number of IPOs during 2020 nearly 4x the 2019 total and the first quarter of 2021 alone eclipsing the previously record setting 2020 totals, the market has begun to see a bit of a cool down. The private investment in public equity (PIPE) market has been slightly less active in recent months as investors have become more disciplined with the due diligence process. SPAC boards have also increased the use of independent fairness opinions as a best practice. Additionally, the U.S. Securities and Exchange Commission (SEC) has increased its scrutiny on SPAC deals, most recently with the change in accounting treatment for SPAC warrants. However, the current slowdown is expected to be short-lived as these developments are ultimately beneficial for SPAC investors, giving them more resources to bolster their trust in the process. Given the current market valuations, potential capital gains tax changes coupled with more traditional financial sponsors and financial firms getting involved, it is reasonable to believe there will be plenty of high-quality, private equity-backed companies and corporate carve-outs to support SPAC momentum for the foreseeable future.

The De-SPAC Deal: Risk vs. Reward

With the abundance of recent activity in both IPOs and de-SPAC transactions, there are a number of factors that make de-SPAC deals relatively easier to complete compared to traditional IPOs. First, investors in the SPAC IPO are backing the SPAC sponsor to find an attractive company to acquire. The SPAC sponsors typically have a successful track record of prior investments (i.e., many SPAC sponsors are private equity managers). Consequently, the SPAC investors tend to show the sponsors some level of trust when asked to approve the de-SPAC deal. Second, there is generally more disclosure for de-SPAC deals relative to traditional IPOs. For many de-SPAC deals, both historical and projected financials are provided to the public, while only historical financials are provided for traditional IPOs. Finally, de-SPAC deals with PIPE investments can provide another remote indication of the value of the target since many of the PIPE investors are not affiliated with the sponsor or the target.

These benefits are not met without some additional risks, however. The SPAC sponsor is subject to reputational risk as it needs to acquire a company and provide a shareholder return, investment risk as it has an equity interest in the SPAC and litigation risk from potential shareholder lawsuits as evidenced by a significant increase in Directors and officers (D&O) insurance premiums for SPAC board members. Additionally, the target company is subject to operational risk as it is expected to execute on its business plan and projections provided to the public, investment risk as target company investors typically roll much of their investment into public shares and litigation risk shared with the SPAC sponsor. A well-managed process with thorough due diligence, use of corporate governance best practices and proper investor transparency should mitigate many of these risks and maximize shareholder returns.

Read our recent SPAC Update for latest market activity, league tables, de-SPAC market performance and Asia Pacific SPAC insights.

[1] Data presented from January 1, 2020 through March 31, 2021

Valuing Founder Shares and other SPAC Investments

SPACs have been around since the 1990s. Yet, 2020 saw more SPAC IPOs than in all previous years combined and was the first year where SPAC IPOs exceeded traditional IPOs. The first quarter of 2021 saw a continued expansion in the number of SPACs formed. In a statement on April 8, 2021, the U.S. Securities and Exchange Commission said: "over the past six months, the U.S. securities markets have seen an unprecedented surge in the use and popularity of Special Purpose Acquisition Companies."

SPAC founders include a wide range of investors, from corporate entities to sports stars. Increasingly, alternative asset managers have formed SPACs as an investment vehicle on its own or as a vehicle to provide an exit route for underlying portfolio company investments. In other cases, the fund manager only provides an underlying portfolio company of a fund as the acquisition target for a SPAC.

Since April 12, 2021, and in response to SEC guidance, much of the SPAC ecosystem has been focused on SPAC warrant liability accounting and valuation (see companion article in this publication). However, it is important to remember that alternative investment managers must continue to rigorously and reliably estimate and report the fair value of all their investments on a timely and periodic basis, including investments in various SPAC securities and in underlying portfolio companies that my be targeted by a SPAC for acquisition.

Fair Value Reminder

Alternative investment funds are required by FASB ASC Topic 946 to measure and report all investments at "fair value" as defined by FASB ASC Topic 820. FASB ASC Topic 820 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." We know that the fair value of actively traded securities (sufficient volume and frequency to determine a price) is the publicly traded price. The fair value of private (non-actively traded) investments is estimated using informed judgment and various valuation techniques to determine what a market participant would pay for the investment at the measurement date.

Valuing SPAC-related Investments

There are several types of investments that an alternative investment fund may make with respect to SPACs. These include, but are not limited to the following, with a summary of the valuation approach highlighted for each:

- **Publicly traded units:** In a typical SPAC IPO, public investors receive a unit consisting of a share of Class A common stock plus a fraction of a warrant with a strike price of $11.50 per share. The unit issuance price is $10. The shares/warrants detach typically after 52 days and the Class A shares and warrants are traded on an exchanged. Fair value for actively traded units is the exchange price.
- **Publicly traded shares:** Post detachment the fair value for actively traded shares is the exchange price.
- **Publicly traded warrants:** Post detachment the fair value for actively traded warrants is the exchange price.
- **Founder shares:** Typically classified as Class B shares. Prior to the SPAC filing for the IPO, the sponsor will pay a nominal amount (usually $25,000) for a number of founder shares which gives them up to 20% of the total shares outstanding after completion of the IPO. The 20% founder shares are often referred to as the "promote." Often the fair value of Class B shares is determined by starting with the publicly traded share price and applying a probability of success factor or the price implied by publicly traded warrants and then adjusting for the time (discount for lack of marketability) until conversion and completion of a lockup period, if any.
- **Private placement warrants:** Private warrants may have similar terms as publicly traded warrants, or they may have terms which differ. Often the fair value of private warrants is estimated through an option pricing model such as Black Scholes, using appropriate inputs.
- **Other securities:** In addition to the aforementioned common shares and warrants, other new securities can include:
  - Equity-earnout shares
  - Private investment in public equity (PIPEs)
  - Convertible notes
  - Forward purchase agreements
  - Working capital loans
- Such investments are valued based on the terms of the agreement, the probability of a successful business combination and applicable market participant assumptions.
- **Underlying portfolio company:** The estimation of the fair value of portfolio company investments uses various valuation techniques and inputs based on the facts and circumstances and the assessment of the appropriate market participant buyer. In the context of a pending SPAC acquisition, the SPAC publicly traded share price may provide an additional data point as to how the public markets are valuing the underlying target company. Depending on the timing of the proposed acquisition and the state of regulatory review, it may be appropriate to place some weighting on the public share price of the SPAC when valuing the underlying private company which is the acquisition target of a SPAC.

Conclusion

Estimating fair value for illiquid or non-traded investments requires experienced, informed judgment. Investors in alternative investment funds need fund managers to provide reliable fair value estimates. Conceptually, investments in SPAC securities are no different than investments in traditional public or private debt and equity interests, yet the nuances of such investments must be carefully considered.

For more information, contact:

David Larsen, Managing Director
david.larsen@duffandphelps.com

Steve Nebb, Managing Director
steven.nebb@duffandphelps.com

SPAC ADVISORY SERVICES

Given the proliferation of special purpose acquisition companies (SPACs), scrutiny of this vehicle is likely to continue to increase. SPAC executives and sponsors will need to ensure they are in compliance with regulatory reporting requirements and have sufficient governance policies in place to withstand added inspection and potential litigation.

We continue to work with clients to help navigate the ongoing challenges and complexities associated with SPAC transactions.

GOVERNANCE, RISK AND COMPLIANCE

- Extracting and reviewing contract clauses for potential risks in legal agreements
- Assessing security and privacy compliance
- Analyzing sponsor incentives, conflict of interest disclosures and sponsor fiduciary obligations to SPAC and to other clients
- Reviewing controls surrounding the receipt of material non-public information
- Evaluating SPAC's corporate governance and reporting
- Assessing fraud risk of internal controls to determine the appropriate policies and procedures
- Providing investigative support for identified internal malfeasance

TRANSACTION ADVISORY

- Financial due diligence on de-SPAC targets
- Buy-side due diligence on the target acquisition company, including key management
- Sell-side due diligence on the SPAC sponsors/founders
- Audit and analysis of reasonableness of the financial projections of the SPAC target

TRANSACTION OPINIONS

- Fairness opinions rendered to the board of directors of the SPAC on de-SPAC transactions

VALUATION ADVISORY

- Warrant valuations for financial reporting
- Valuations for business combinations (ASC 805 and IFRS 3)
- Valuation of interests in SPACs (founders' interests, PIPES, restricted shares)
- Tax valuations and transfer pricing

DUFF & PHELPS

A KROLL BUSINESS

SPACs and Valuation of Warrant Liabilities

SPACs raise funds from an IPO and are required to make an acquisition ("de-SPAC") within 24 months. On April 12, 2021, the U.S. Securities and Exchange Commission (SEC) issued a Staff Statement on Accounting and Reporting Considerations for Warrants Issued by Special Purpose Acquisition Companies ("SPACs"). The statement highlighted the fact that the accounting for complex financial instruments may be challenging, especially with respect to certain agreements commonly found in SPACs. While SPACs have typically classified warrants on their balance sheets as equity, under certain circumstances, the SEC has highlighted that GAAP would require warrants to be classified as a liability and measured at fair value every quarter, with changes in fair value reported in quarterly earnings.

Since the SEC statement was issued in April, all SPACs have reevaluated their historical accounting conclusions and, in many cases, restated their prior financial statements to reflect warrants as a liability. Many SPAC founders who are contemplating a new IPO are now reporting warrants as liabilities from day one. Other SPAC founders are contemplating revisions to warrant agreements which would prevent them from being treated as a liability for accounting purposes.

Valuing SPAC Warrant Liabilities

Generally, SPACs at their IPO issue a publicly traded unit which includes a share of common A stock and a fractional warrant. After a period of time, usually within two months, the warrant and the common A stock detach from the unit, resulting in the warrants (public warrants), the common A stock and the unit all separately traded on an exchange. Many SPACs may also issue class B common stock and private placement warrants (private warrants) to founders or the providers of acquisition capital.

Fair value determinations for complex financial instruments require experienced, informed judgement. Valuation complexities exist when valuing the public warrants prior to detachment and the private warrants when deemed to have different terms from the public warrants. Generally, a Monte Carlo simulation approach is used to fair value the public warrants. This approach is the well-accepted technique to capture the redemption features akin to a barrier option.

Prior to detachment, the fair value of the public warrants is also used to bifurcate the value of a unit into the common stock and public warrant components. After detachment, public warrants are valued using the observable market price. Private warrants are valued using the Black Scholes model if they have different terms from the public warrants, or are valued using the public warrant price if deemed equivalent to the public warrants. Informed judgement is required when considering the inputs to the simulation and option price models. The key considerations include: identifying comparable SPACs with publicly traded warrants from whom an implied volatility can be derived, the probability of a successful de-SPAC event and the time to the expected de-SPAC.

Impact of Classifying SPAC Warrants as a Liability

Some SPAC founders have argued that the reclassification of warrants from equity to a liability on the SPAC balance sheet is much ado about nothing. The change has no cash impact and the quarterly change in fair value results in non-cash expense or income. The fair value of the warrant liability will increase or decrease depending on several factors, most importantly the change in the underlying share price and the publicly traded warrant price. For example, if the fair value of a SPACs warrant liabilities was $20 million at the IPO date in October, $80 million on December 31, and $60 million on March 31, the SPAC would show an expense of $60 million ($20 mn - $80 mn) for the fourth quarter and income of $20 million ($80 mn - $60 mn) for the first quarter—all non cash. Yet, many astute SPAC investors realize that the warrant liability provides an indication of potential dilution which will impact public shareholders at the time of a business combination.

SPAC Valuation Considerations

The SEC's focus on the proper classification and valuation of SPAC warrants was somewhat of a wakeup call for many SPAC founders, boards of directors and the management of de-SPAC'd companies. Using SPAC entities to bring private companies public has increased exponentially over the past year. Agreements which give rise to complex financial instruments should be thoroughly reviewed for the proper accounting treatment, and when required to be reported at fair value, appropriate, informed judgment should be exercised in estimating value.

For more information, contact:

Louisa Galbo, Managing Director
louisa.galbo@duffandphelps.com

David Larsen, Managing Director
david.larsen@duffandphelps.com

Duff & Phelps Is Becoming Kroll

NEW NAME. SAME TRUSTED PARTNER.

We begin this new chapter with a fresh look and a clear and confident vision for the future. Duff & Phelps, a Kroll business, delivers a seamless experience across our full suite of services, with a cohesive approach to bringing tech-forward solutions to the market. Our goal is to produce greater value for our clients and partners along with compelling career opportunities for our people.

Duff & Phelps has helped clients make confident decisions in the areas of valuation, real estate, taxation and transfer pricing, disputes, M&A advisory and other corporate transactions. Built on the strength and equity of our legacy brands, we are an independent advisory firm with nearly 5,000 professionals in 30 countries and territories around the world.

Our sharp analytical skills, paired with the latest technology, allow us to give our clients clarity—not just answers—in all areas of business.

Learn more at www.duffandphelps.com

DUFF & PHELPS
A KROLL BUSINESS

Transfer Pricing for SPACs

As SPACs continue to look for targets (notwithstanding the valuation issues that have recently been put forward by the SEC), it is likely that many target companies will have multinational operations and, as such, will be subject to transfer pricing rules. It is also likely that some de-SPAC transactions may involve U.S. domestic companies acquiring companies with international operations, creating new transfer pricing issues for those acquiring entities. Similarly, in the case of a SPAC transaction involving a spin out, understanding how the spin company will transact between related parties, and how that may differ from the company from which it will be spun, is critical. There may also be transactions, such as temporary services agreements, between the spin company and the remaining company that need to be priced considering the arm's length standard. Spin companies should also be aware of the transfer pricing issues associated with any anticipated intercompany financing or leverage pushdowns that may be contemplated.

Needless to say, as SPACs take advantage of investment opportunities in jurisdictions beyond the U.S., there will be an obvious increase in the transfer pricing (TP) challenges and risks associated with international operating models. This expansion, together with the overall attention on TP aspects of international business, more generally, will raise TP risk management issues for the group. In this article, we discuss some pre- and post-acquisition transfer pricing issues to keep in mind.

For any acquisition, financial due diligence is necessary for a prudent investor to understand and evaluate the risks associated with the target. Tax is generally a critical component of financial due diligence; however, transfer pricing, despite falling under the tax umbrella, is often overlooked or the due diligence review is limited. Given the fact that transfer pricing has become a key focus of taxing authorities, it merits more than just a cursory review. Frankly, transfer pricing risks in the context of acquisitions are often hidden from plain sight and need to be carefully identified and addressed in the diligence process to avoid tax surprises post acquisition. Likewise, there may be hidden opportunities for the newly combined entity to take advantage of that the diligence process can uncover.

At a minimum, transfer pricing diligence should address the following:

- Identify intercompany transactions of the target and assess the related transfer pricing policies:
  - Certain controlled transactions may be more readily identifiable, while others may not be as apparent and may require a deeper dive into the target's operations, including, for example, financial guarantees and intangible-related transactions.
  - Request any existing transfer pricing documentation prepared for the target. If none exists, it may be necessary to evaluate the arm's length nature of the material intercompany transactions to assess the magnitude of risk.
- Understand audit history and any audit-related transfer pricing inquiries (or controversy)
  - Asking about the transfer pricing audit/controversy history of the target helps indicate which jurisdictions and transactions pose higher risks
- Identify value-driving intangibles and understand intangible ownership structure
  - Take time to understand the legal and economic owner(s) of the valuable intangibles that can have substantial contributions to value. Transfer pricing due diligence should also consider whether the substance of the intercompany transaction is consistent with the form explicitly put in place by the company.

Evaluating and taking inventory of the transfer pricing risks allows the investors to: (1) have more transparency into the risks of their investments, and therefore to make more informed decisions about investing; and (2) negotiate a purchase price that reflects the inherent risks. In certain

[1] *Data referenced in this first paragraph is available in the Duff & Phelps Market Report: Special Purpose Acquisition Companies. Spring 2021.*

cases, investors will walk away from a deal because the diligence process uncovered transfer pricing risks that were too large to handle in negotiations. All that said, aside from the risk management perspective, transfer pricing due diligence often identifies planning opportunities that can add value to the investment (e.g., optimizing transfer pricing policies or modifying the organizational structure to lower the effective tax rate).

Another area where transfer pricing comes into play is in the de-SPACing process. While sponsors seeking domestic targets, typically, set up a domestic SPAC and sponsors seeking foreign targets set up a foreign SPAC, there may arise situations where a foreign SPAC identifies a domestic target (and vice versa). In these instances, the SPAC would, typically, attempt to expatriate to the jurisdiction of the foreign target prior to business combination, requiring a valuation for tax purposes. Any such tax valuation would need to consider the current and anticipated transfer pricing policies and may need to model in the transfer pricing impact of any plans to reorganize or restructure the target post-acquisition. Regardless, there will likely be a need to align transfer pricing policies from either the acquirer or target perspective (and sometimes both) and an acquisition can be an ideal time to make changes to the location of economic ownership of IP.

In short, many issues related to transfer pricing that are relevant for SPACs are similar to those present in any acquisition involving a multinational target company. However, given the speed with which SPAC acquisitions need to take place, the ability to quickly perform transfer pricing due diligence will be key to successful mergers.

For more information, contact:

Susan Fickling, Managing Director
susan.fickling@duffandphelps.com

Ryan Lange, Director
ryan.lange@duffandphelps.com

North American Industry Market Multiples

As of March 31, 2021

	Market Value of Equity to Net Income		MVIC to EBIT		MVIC to EBITDA	
Industry	U.S.	Canada	U.S.	Canada	U.S.	Canada
Energy	10.6	11.6	16.8	18.9	8.7	9.4
Energy Equipment & Services	—	—	26.8	—	9.5	9.9
Oil, Gas & Consumable Fuels	10.8	12.2	15.6	20.5	8.7	9.3
Materials	22.3	14.8	18.9	10.9	11.3	8.5
Chemicals	22.1	—	22.8	—	12.7	—
Containers & Packaging	27.5	—	17.2	—	9.9	—
Metals & Mining	16.5	14.9	18.9	10.8	11.3	7.7
Industrials	27.0	19.7	21.5	18.0	13.3	10.4
Aerospace & Defense	30.6	—	21.5	—	13.9	—
Building Products	24.1	—	18.2	—	12.1	—
Construction & Engineering	20.7	—	18.7	—	9.1	—
Electrical Equipment	27.4	—	21.1	—	14.1	—
Machinery	33.6	—	26.8	—	17.2	—
Trading Companies & Distributors	27.4	15.9	19.5	13.0	13.4	7.5
Commercial Services & Supplies	23.3	26.5	22.3	14.0	10.9	11.6
Professional Services	23.1	—	18.7	—	13.3	—
Road & Rail	26.5	—	22.1	—	7.7	—
Consumer Discretionary	20.1	23.1	17.7	18.2	11.3	14.5
Auto Components	25.5	—	22.5	—	11.5	—
Household Durables	11.9	—	15.7	—	11.2	—
Leisure Products	24.8	—	15.5	—	11.2	—
Textiles, Apparel & Luxury Goods	25.5	—	20.9	—	11.6	—
Hotels, Restaurants & Leisure	30.3	—	28.9	—	16.5	—
Diversified Consumer Services	16.8	—	17.0	—	9.5	—
Internet & Direct Marketing Retail	23.0	—	—	—	15.2	—
Specialty Retail	20.1	—	14.7	—	8.6	—
Consumer Staples	20.0	17.7	16.8	16.8	11.6	10.5
Food & Staples Retailing	12.8	—	15.4	14.5	8.3	8.9
Beverages	26.7	—	21.9	—	17.1	—
Food Products	19.6	22.8	17.7	—	12.6	—
Personal Products	16.2	—	14.7	—	10.1	—

	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	22.8	20.8	21.5	20.5	15.3	15.2
Health Care Equipment & Supplies	23.9	—	21.5	20.8	15.3	13.5
Health Care Providers & Services	19.2	—	15.6	—	11.4	14.4
Biotechnology	16.6	—	15.8	—	12.4	—
Pharmaceuticals	11.0	22.3	19.9	26.1	12.1	18.7
Life Sciences Tools & Services	40.4	—	35.0	—	23.4	—
Information Technology	29.8	27.0	25.8	28.1	16.5	21.6
IT Services	30.7	—	26.3	—	15.6	—
Software	34.7	40.7	29.4	—	20.2	29.4
Communications Equipment	32.1	—	31.7	—	16.2	—
Technology Hardware, Storage & Peripherals	20.7	—	21.1	—	11.7	—
Electronic Equipment, Instruments & Components	24.1	—	20.9	—	12.8	—
Semiconductors & Semiconductor Equipment	33.0	—	27.4	—	20.1	—
Communication Services	12.5	14.1	17.2	13.6	10.3	8.6
Diversified Telecommunication Services	11.2	—	14.1	—	7.1	—
Media	13.1	10.7	15.1	12.4	10.4	7.9
Entertainment	13.5	—	—	—	20.5	—
Interactive Media & Services	31.7	—	—	—	16.0	—
Utilities	21.5	14.6	22.8	21.4	12.7	13.2
Electric Utilities	21.5	—	23.6	—	11.8	—
Gas Utilities	18.1	—	20.5	—	11.7	—

	Market Value of Equity to Net Income		Market Value of Equity to Book Value	
Industry	U.S.	Canada	U.S.	Canada
Financials	14.1	12.4	1.1	1.3
Banks	14.1	—	1.1	—
Thrifts & Mortgage Finance	13.5	10.7	1.0	—
Capital Markets	19.6	7.9	2.0	1.3
Insurance	14.1	11.4	1.0	1.2

Industry Market Multiples are available online!
Visit https://multiples.duffandphelps.com

"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 32 (Canada); the median number of companies in the calculation sample was 38 (U.S.), and 22 (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 March 31, 2021

Industry	Market Value of Equity to Net Income	MVIC to EBIT	MVIC to EBITDA
	Europe	Europe	Europe
Energy	13.5	17.2	9.2
Energy Equipment & Services	15.5	16.7	10.5
Oil, Gas & Consumable Fuels	12.9	17.4	8.1
Materials	21.1	19.6	11.2
Chemicals	28.8	26.7	13.7
Containers & Packaging	18.6	17.2	10.3
Metals & Mining	13.7	13.2	9.8
Industrials	25.6	21.0	12.9
Aerospace & Defense	23.3	24.1	12.9
Building Products	29.6	23.0	13.1
Construction & Engineering	19.7	19.1	11.3
Electrical Equipment	26.2	23.4	14.5
Machinery	30.7	23.5	15.2
Trading Companies & Distributors	23.3	19.1	12.9
Commercial Services & Supplies	29.4	20.6	11.0
Professional Services	28.9	21.3	14.8
Marine	15.2	19.8	10.8
Transportation Infrastructure	19.9	17.5	13.5
Consumer Discretionary	23.3	21.6	13.3
Auto Components	27.7	25.1	11.9
Household Durables	20.8	20.4	13.1
Leisure Products	18.9	19.6	13.5
Textiles, Apparel & Luxury Goods	27.4	21.1	14.4
Hotels, Restaurants & Leisure	26.3	29.1	16.6
Internet & Direct Marketing Retail	30.2	26.2	22.8
Specialty Retail	18.0	16.3	8.6
Consumer Staples	21.8	19.2	12.1
Food & Staples Retailing	21.6	19.1	8.6
Beverages	26.4	23.5	16.1
Food Products	21.0	19.1	12.0
Personal Products	25.9	21.6	16.1

Industry	Market Value of Equity to Net Income	MVIC to EBIT	MVIC to EBITDA
	Europe	Europe	Europe
Health Care	32.3	25.6	16.9
Health Care Equipment & Supplies	45.5	32.7	23.3
Health Care Providers & Services	28.8	25.8	13.0
Health Care Technology	34.5	25.3	24.8
Biotechnology	27.5	18.4	19.9
Pharmaceuticals	22.2	17.7	12.4
Life Sciences Tools & Services	41.2	36.3	21.3
Information Technology	31.5	24.7	16.5
IT Services	27.1	21.6	14.2
Software	40.1	29.9	20.3
Communications Equipment	23.9	20.6	15.1
Technology Hardware, Storage & Peripherals	27.0	17.8	14.4
Electronic Equipment, Instruments & Components	28.3	24.7	17.1
Semiconductors & Semiconductor Equipment	56.5	31.1	20.8
Communication Services	20.6	19.1	12.5
Diversified Telecommunication Services	21.0	18.9	8.7
Media	19.3	18.0	11.9
Entertainment	27.4	18.1	15.9
Interactive Media & Services	36.6	29.0	18.8
Utilities	23.2	21.4	12.8
Independent Power and Renewable Electricity Providers	31.7	34.0	14.9

Industry	Market Value of Equity to Net Income	Market Value of Equity to Book Value
	Europe	Europe
Financials	14.6	0.9
Banks	12.2	0.6
Diversified Financial Services	17.8	1.3
Capital Markets	20.3	1.8
Insurance	13.8	1.0

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 82 and the median number of companies in the calculation sample was 43.

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).

ON-DEMAND CPE WEBCASTS

The time is now for virtual learning.

Catch up on the latest insights and developments in valuation, financial reporting, taxation and risk management. Each webcast qualifies for 1.0 CPE credit.

Browse our library of CPE-eligible webcasts at **www.duffandphelps.com/cpe-webcasts**

DUFF & PHELPS
A KROLL BUSINESS

SPAC Market Report

Duff & Phelps, A Kroll Business, provides a quarterly report on SPAC market activity and de-SPAC transaction highlights.

Click here to receive the SPAC Market Report.

CONTRIBUTORS

Robert Bartell

Susan Fickling

Louisa Galbo

Ryan Lange

David Larsen

Steve Nebb

Jennifer Terrell

Jamie Warner

EDITOR

Sherri Saltzman

About Duff & Phelps, A Kroll Business

For nearly 100 years, Duff & Phelps has helped clients make confident decisions in the areas of valuation, real estate, taxation and transfer pricing, disputes, M&A advisory and other corporate transactions. For more information, visit www.duffandphelps.com.

About Kroll

Kroll is the world's premier provider of services and digital products related to governance, risk and transparency. We work with clients across diverse sectors in the areas of valuation, expert services, investigations, cyber security, corporate finance, restructuring, legal and business solutions, data analytics and regulatory compliance. Our firm has nearly 5,000 professionals in 30 countries and territories around the world. For more information, visit www.kroll.com.

M&A advisory, capital raising and secondary market advisory services in the United States are provided by Duff & Phelps Securities, LLC. Member FINRA/SIPC. Pagemill Partners is a Division of Duff & Phelps Securities, LLC. M&A advisory, capital raising and secondary market advisory services in the United Kingdom are provided by Duff & Phelps Securities Ltd. (DPSL), which is authorized and regulated by the Financial Conduct Authority. Valuation Advisory Services in India are provided by Duff & Phelps India Private Limited under a category 1 merchant banker license issued by the Securities and Exchange Board of India.