



# **Impact of COVID-19 on Private Company Valuations**

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# Valuation Considerations

## Impact of Covid-19 on Valuations

- Still possible, but harder to do
- Established methodologies still apply

## The biggest changes

- Inputs
- Risk

# Valuation Considerations

## Typical components

- Historical operating results
- Projected:
  - Revenue, Costs, Expenses
  - Working capital
  - Capital expenditures

# Valuation Considerations

## More consideration given to

- Normalizing historical
- Impact on growth rates and margins on future
- Adjusting multiples
- Scenarios

# Valuation Considerations

## Market trends

- Don't slavishly link, but don't isolate
- Consider differentiating factors and mitigation

# Valuation Considerations

## Discount rates

- Uncertainty a key component of risk
- Risk is a key component of discount rate
- De-risked cash flows and a lower discount rate

# Valuation Considerations

## When considering other transactions

- Price v. Value
- Compulsion
- Is the implied metric applicable?

# Valuation Considerations

## DIY

*“ ... method of building, modifying, or repairing things by oneself without the direct aid of professionals or certified experts”*



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## Getting it wrong

- Penalties – Gross negligence
- Extended period for reassessment
- Increased POD
- Attribution rules
- Different allocation of purchase price
- Double taxation

# Valuation Considerations

## IF DIY

- IC 89-3 (Policy Statement on Business Equity Valuations)

# Valuation Considerations

## DIY

- Start with the numbers but make sure you have a story that supports them
- Prepare a memo (be aware of format expected)
- Watch out for
  - Latent taxes
  - Control discounts

# Valuation Considerations

## Discounts (Private Company Valuations)

- Minority discounts (Control discount)
- CRA
  - Rebuttable presumption that family group acts in concert to control
  - Ratable valuation applies



# Summary

## Covid-19

- More thought about
  - Historical results, Inputs, Risks
  - Disc rates, Market trends
  - Going concern (high debt levels)

## DIY

- It can be done, but ask yourself if it's worth the risk