

Scotland Asset Manager Breakfast Briefing

24 June 2020

ALVAREZ & MARSAL

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Agenda

Welcome

Donald Campbell, Senior Adviser

Introduction to Alvarez & Marsal

Charlotte Walker, Associate

Market update

Daniel Parry, Managing Director

Fund tax update

Jordan Brown, Director

Valuation update

Richard Bibby, Managing Director

Guest presentation

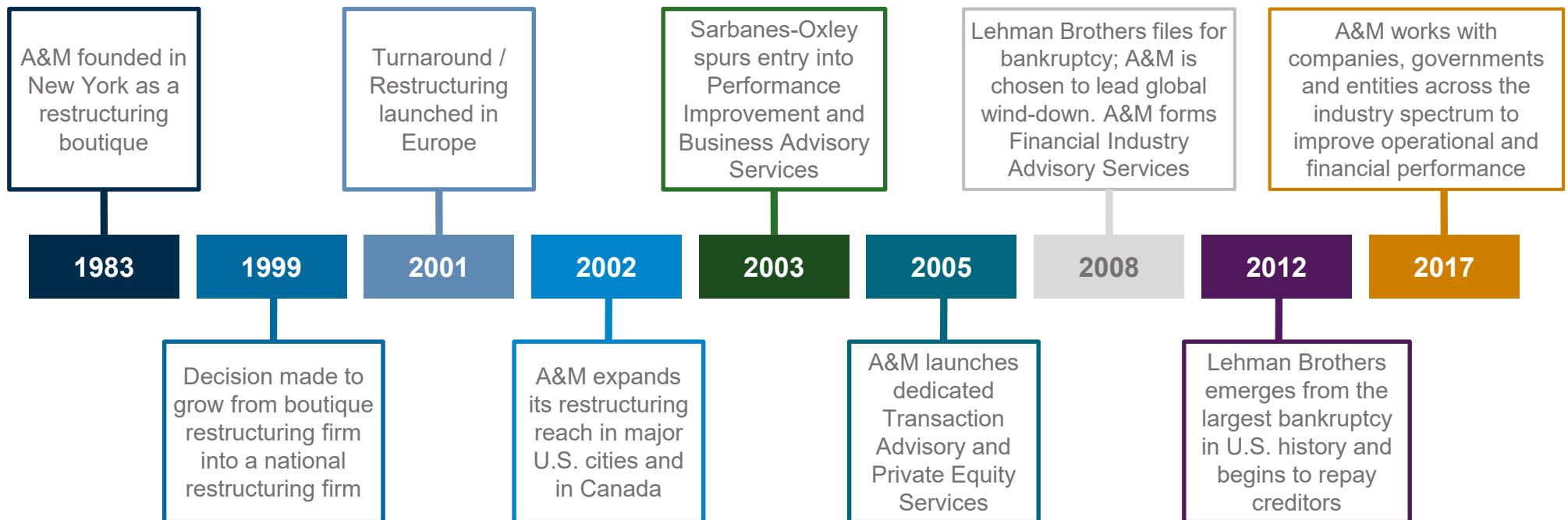
Kathleen McLeay, CEO
NCM Fund Services Limited

Welcome

Introduction to Alvarez & Marsal




A&M History

A&M has grown from three employees to more than 4,000, becoming the leading independent global professional services firm.



Taxand Member Firms and Locations

Global and local support

-  A&M Headquarters
-  A&M Taxand Locations
-  Taxand Locations



- Automotive & Suppliers
- Consumer Services
- Energy
- Chemicals
- Healthcare & Life Sciences
- High Tech
- Manufacturing
- Private Equity
- Public Sector
- Real Estate
- Renewable Energies
- Retail
- Transportation and Airlines

Americas	Europe	Africa, Asia and Australia
Alvarez & Marsal Taxand, LLC – U.S. Bruchou, Fernandez Madero & Lombardi – Argentina Garrigues – Brazil Borden Ladner Gervais LLP – Canada Barros & Errazuriz – Chile Gomez-Pinzón Abogados – Colombia Mijares, Angoitia, Cortes y Fuentes – Mexico Garrigues – Peru Alvarado Tax & Business Advisors LLC – Puerto Rico Taxand – Venezuela	Alvarez & Marsal Taxand UK LLP LeitnerLeitner – Austria AB Taxand – Belgium LeitnerLeitner – Croatia Eurofast Taxand – Cyprus LeitnerLeitner – Czech Republic Bech-Bruun – Denmark Borenus – Finland Arsene Taxand – France Flick Gocke Schaumburg – Germany Zepos & Yannopoulos – Greece LeitnerLeitner – Hungary William Fry Tax – Ireland Herzog Fox & Neeman (HFN) – Israel LED Taxand – Italy ATOZ – Luxembourg	Avanzia Taxand – Malta Taxand – Netherlands Advokatfirmaet Selmer DA – Norway Crido Taxand – Poland Garrigues – Portugal TaxHouse – Romania Pepeliaev Group – Russia LeitnerLeitner – Serbia BMB Partner, s.r.o. – Slovakia LeitnerLeitner – Slovenia Garrigues – Spain Skeppsbron Skatt AB – Sweden Tax Partner AG – Switzerland Corrs Chambers Westgarth – Australia Hendersen Taxand – China ELP – India PB Taxand – Indonesia Kojima Law Offices – Japan Yulchon – Korea Axcelasia Taxand – Malaysia Taxand Mauritius – Mauritius Salvador & Associates – Philippines Withers KhattarWong – Singapore ENSafrica – South Africa

ALVAREZ & MARSAL

A&M Taxand - Scotland

A&M Taxand proudly launched a new office in Glasgow on February 3, 2020.

OUR TEAM



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A&M Taxand Service Lines

We provide a full suite of tax services both in the UK and internationally.

CORPORATE & INTERNATIONAL TAX ADVISORY

- Corporate tax advisory
- Hybrid mismatches
- Tax efficient financing
- Legal entity rationalisation
- Tax strategy
- Dispute resolution
- Tax compliance, reporting & accounting
- Restructuring/ Insolvency
- Reorganisations

PE AND FUNDS TAX

- Fund structuring and transactions
- Carried interest planning
- Advising fund managers
- Disguised Investment Management fees
- Disguised remuneration
- ERS reporting
- Valuations
- Partnership/personal compliance

MERGERS & ACQUISITIONS

- Tax due diligence
- Tax structuring
- Post merger integration
- Divestment

TRANSFER PRICING & SUPPLY CHAIN

- Design of global transfer pricing policy and strategy
- BEPS compliance
- Documentation
- TP policy implementation assistance
- Business model efficiency
- Thin capitalisation.
- IP Planning
- Controversy – MAP, APA

INDIRECT TAXES

- UK and International VAT advisory & compliance
- Cash-flow efficiencies
- Real Estate VAT advisory
- VAT process reviews and improvement implementation.
- Indirect tax implications associated with M&A and supply chain changes including post-merger integration
- Custom duty efficiencies

REWARD & EMPLOYMENT TAXES

- Employment tax advisory & compliance
- CIS advisory and compliance
- UK and Internationally mobile employees advisory.
- Design and implementation of equity/ non-equity incentive arrangements
- Carried interest arrangements for fund managers.

Market update

Market update

- **Fund raising**

- Pre-lockdown v post lockdown

- **Issues in the current environment**

- Impact of covid-19 on investors' allocations;
- Narrow sector expertise more relevant?;
- Effect on leverage models and financing;
- Secondary transactions; and
- Fund extensions, carry resets, management fees

Fund tax update

Co-investment – Loss relief (equity)

- **Realised loss**

- Capital Gains Tax (“CGT”) loss relief;
- Income Tax loss relief.

- **Unrealised loss**

- Where equity is “worth next to nothing”, **negligible value (“NV”) claims** could be made to treat the equity as being sold, and immediately reacquired, for current market value.
- NV claim can be made by either writing to tax office or through Self Assessment tax return.
- Loss relief available:
 - CGT loss relief; or
 - Income Tax loss (must claim by first anniversary of 31 January following the year of NV claim).

Co-investment – Loss relief (debt)

- **Lender (Fund)**

Debt characteristics

- Debt held as an investment; and
- Debt can be realised at a profit.

No

Yes

Simple debt

Qualifying corporate bond ("QCB")

Non-qualifying corporate bond ("NQCB")

Possible CGT loss relief if section 253 TCGA 1992 "Relief for loans to traders" applies

No CGT loss relief

CGT loss relief

- **Borrower (UK incorporated and UK tax resident company)**

- Any release of the obligation to repay debt could be subject to Corporation Tax at 19% unless:
 - Borrower and lender are "connected" under section 348 Corporation Tax Act ("CTA") 2009; or
 - A specific exemption applies such as:
 1. Section 322(4) CTA 2009 Debt for equity swap
 2. Section 322(5)-(6) CTA 2009 Insolvent liquidation
 3. Section 361A CTA 2009 Corporate rescue condition.

Carried interest – Loss relief

- **Overview**

- Where the Disguised Investment Management Fee and Income-Based Carried Interest rules do not apply, UK taxation of carried interest may fall under CGT carry rules or Statement of Practice D12 (“SPD12”).

- **CGT carry rules**

- Apply when carried interest “arises” to the individual performing investment management services to an investment scheme.
- Subject to specific “enjoyment conditions”, “arises” is interpreted to be when cash is distributed to the individual.

- **SPD12**

- Apply when no cash is distributed to the individual and specific “enjoyment conditions” do not apply.

- **Loss relief**

1. Where the Fund **receives** cash from an overall loss making investment:
 - Carried interest should be deemed to “arise” under CGT carry rules;
 - Carried interest holders should be subject to CGT at 28% on cash distribution received; and
 - Tax loss relief **should not be** available for carried interest holders.
2. Where the Fund **does not receive** any cash from an overall loss making investment:
 - Carried interest should not be deemed to “arise” under CGT carry rules;
 - SPD12 should therefore apply with the ability to benefit from “base cost shift”; and
 - Tax loss relief **should be** available for carried interest holders.

Carried interest – Loss relief (cont'd)

- **Considerations**

- Acquisition Multiple classes of shares/loan notes;
- Exit Cash repatriation to the Fund.

Valuation update

Valuation Services team

Richard Bibby

Managing Director | Head of EMEA Valuation & Business Modelling Services

Richard is the head of A&M's EMEA Valuation and Business Modelling Services practice and has more than 20 years valuation experience across all sectors and industries.

Richard has worked on a variety of valuation assignments, principally focused on advice to the banking, asset management and wider financial services sector, in particular to private equity, infrastructure, real estate, corporate asset management firms and European-based banking groups. Richard has been responsible for:

- Many financial reporting and tax related valuations and opinions, including Business Combinations (IFRS 3 / ASC 805 / FRS 102), impairment testing, investment fair value reporting, share option valuations and related tax valuation advice;
- Valuations of businesses on behalf of banks for financial restructuring purposes;
- Investment portfolio valuations in particular to infrastructure, private equity, hedge and real estate investors;
- Fairness opinions and other mergers & acquisitions related valuations; and
- Reports in cases of expert witness, disputes and determination.



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Alex Bowler

Associate | Valuation & Business Modelling Services

Alex is an associate with Alvarez & Marsal in London. He has 4 years of valuation experience.

Alex specialises in valuations of businesses and tangible assets, having performed numerous valuations for Purchase Price Allocation and financial reporting purposes. His primary areas of concentration are the Energy Sector, Infrastructure, Consumer Products and Telecommunications, but has worked across numerous additional industries, including:

- Valuation of a major UK water network for net asset value reporting purposes;
- Valuation for financial reporting purposes related to the acquisition of a power plant business in the UK and Australia;
- Valuation of intellectual property rights of a UK pharmaceuticals company for tax reporting purposes;
- Valuation of an investment in a European consumer products business for recapitalisation purposes;
- Valuation advisory services to a European bank in relation to the bank's internal valuation procedures;
- Valuation of a proposed share scheme of a major global real estate company for tax reporting purposes; and
- Valuation of an IT services company in the Netherlands for potential restructuring purposes.



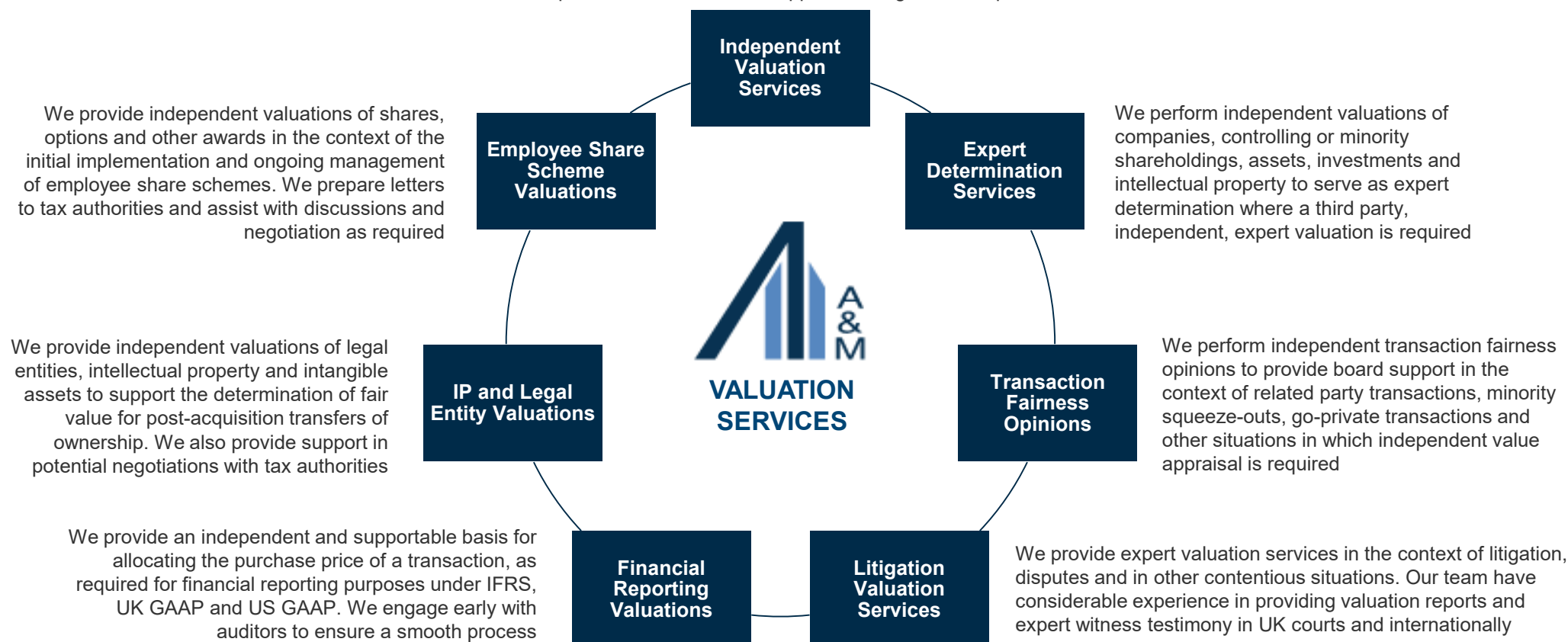
abowler@alvarezandmarsal.com

Direct: +44 (0) 207 863 4726

Overview of Valuation Services

We value businesses, shares, minority interests, loans, intellectual property and other classes of asset or investment for small and large corporates, funds and individuals

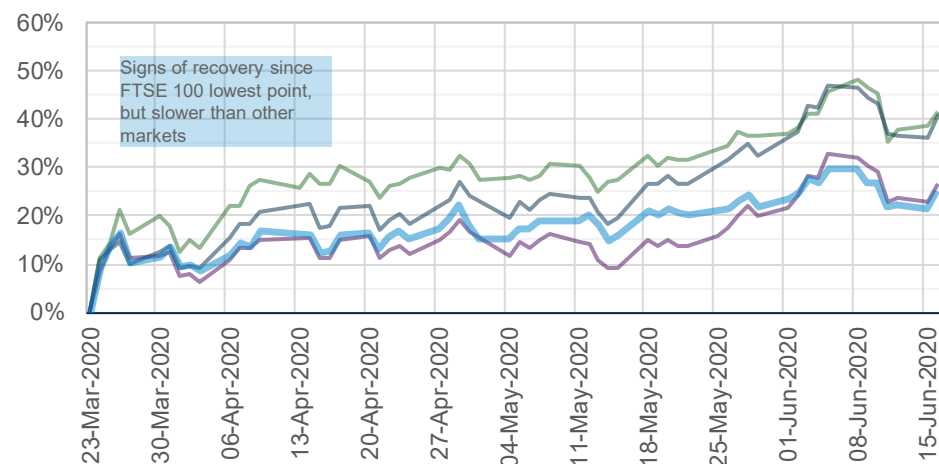
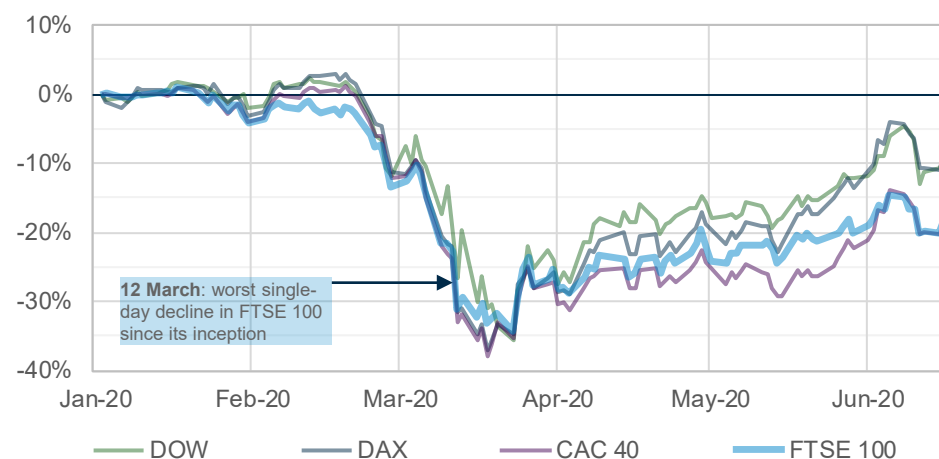
We provide robust, independent valuations of portfolio companies and investments to support quarterly, semi-annual and annual reporting of fund performance. We can provide limited scope valuation reviews of portfolio investments to support existing valuation processes



Impacts of Covid-19

The Covid-19 pandemic has created significant uncertainty across the global economies and financial markets

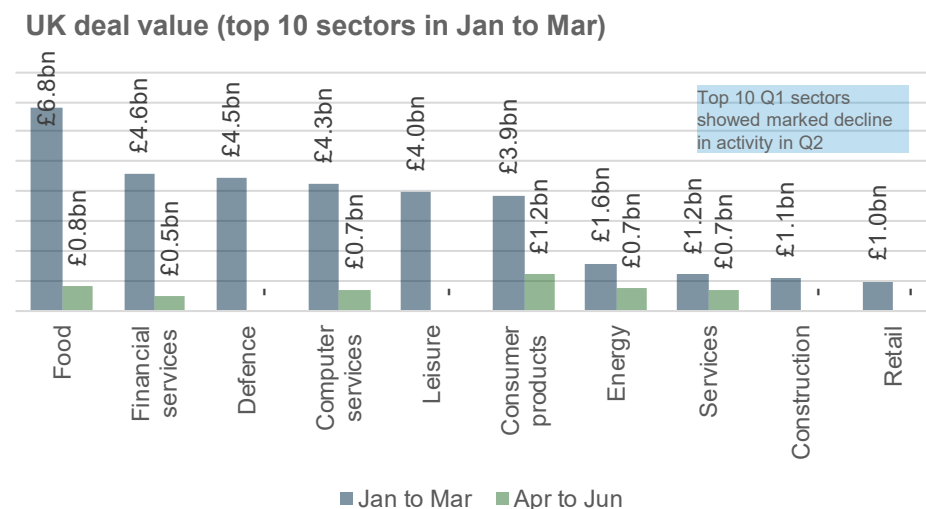
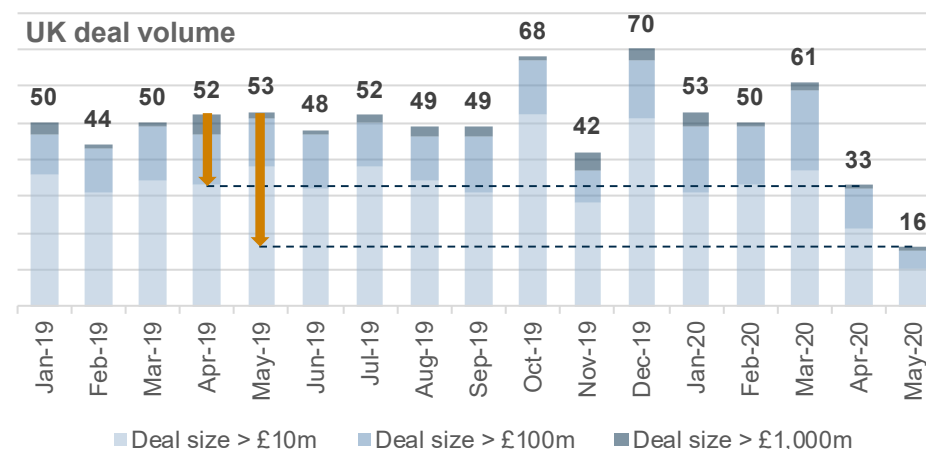
- The significant global disruption has been felt by businesses small and large, with financial markets suffering dramatic losses
- While many markets have rebounded strongly, the FTSE 100 is down **-20%** from the beginning of the year, though has increased **+25%** from its lowest point in March
- We have observed the effect of the collapse and recovery phase of markets on valuations and supporting clients through the sector-specific implications
- In theory, movements in public markets should be indicative of changes in valuations of private companies
- However, private companies have historically often been observed as being less volatile than public companies and there are many factors to consider in their valuation



Impacts of Covid-19

After a strong start to the year, UK-based deal activity has shown the effects of investor appetites

- After a number of high-value deals coming in the first three months of 2020, both the size and volume of deals has declined significantly, with a **-37%** decrease in April and **-70%** in May year-on-year
- As expected, most sectors have shown significantly less deal activity, with 227 UK-based deals in Jan to Mar vs 71 in Apr to Jun, a **-69%** decrease
- The total deal value in same periods was £32.9bn vs £9.3bn respectively, a **-72%** decrease
- In fact, no sectors saw an increase in volume of closed deals in Q2 vs Q1, but the least affected were in infrastructure, ecommerce, media and biotechnology
- The biotechnology sector has attracted much global investor interest and saw the same volume of UK deals close in Q2 as in Q1, and a large increase of in deal value mainly due to a single transaction



Impacts of Covid-19

There were just 3 >£1bn deals closed in the UK Q2, compared to 7 in Q1

Total deal value closed in Q1 was more than 2x higher than in Q2

Top UK deals Jan to Mar

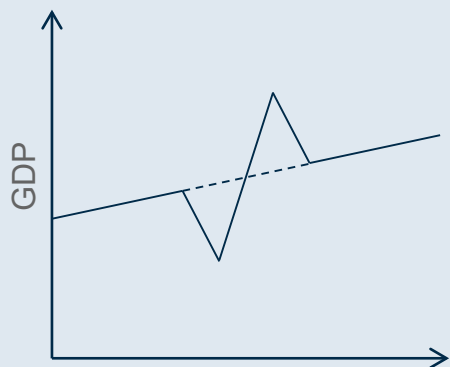
Completed Date	Target Company	Target Sector	Bidder Company	Deal Value (£m)
31-Jan-2020	Just Eat Plc	Food	Just Eat Takeaway.com NV	6,780
17-Jan-2020	Cobham Plc	Defence	Advent International Corporation	4,146
03-Jan-2020	Avon Products, Inc.	Consumer products	Natura Cosméticos S.A.	3,880
02-Mar-2020	Sophos Group Plc	Computer services	Thoma Bravo, LLC	3,140
03-Mar-2020	Ei Group plc	Leisure	Stonegate Pub Company Limited	3,000
05-Feb-2020	Athora Holding Ltd.	Financial Services	Apollo Global Management, LLC, others	1,524
03-Jan-2020	Galliford Try Homes Limited	Construction	Vistry Group plc	1,075
23-Mar-2020	Audiotonix Limited	Consumer products	Ardian	833
27-Mar-2020	The Ritz Hotel (London) Limited	Leisure	Private investor	800
13-Feb-2020	Pension Insurance Corporation plc	Financial Services	CVC Capital Partners Limited, others	750
				25,928

Top UK deals May to Jun

Completed Date	Target Company	Target Sector	Bidder Company	Deal Value (£m)
15-May-2020	iQ Student Accommodation Limited	Real estate	Blackstone Group L.P.	4,660
01-Apr-2020	LGC Limited	Biotechnology	Investor Consortium, others	3,000
04-Jun-2020	Charlotte Tilbury Beauty Limited	Consumer products	Puig, S.L., others	1,200
08-Jun-2020	Iceland Foods Limited (63.1% Stake)	Food	Management Vehicle	820
01-May-2020	Huntsworth Plc	Media	Clayton, Dubilier & Rice, LLC	514
14-Apr-2020	Energy Assets Group Limited	Energy	Electricite de France S.A., others	500
30-Apr-2020	PHS Group Limited	Services	Bidvest Group Limited	495
28-Apr-2020	Jagex Ltd.	Computer services	PSI Platinum Fortune, LLC (GP)	403
29-Apr-2020	Ebury Partners UK Limited (50.1% Stake)	Financial Services	Banco Santander, S.A.	350
16-Apr-2020	KLG Europe	Transport	Sinotrans Limited	342
				12,285

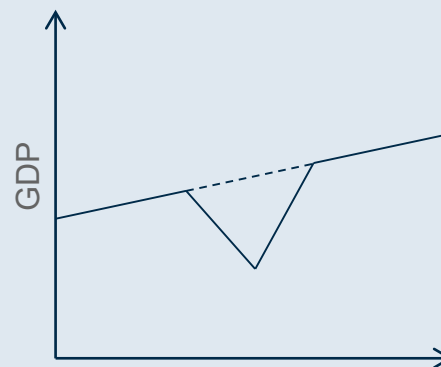
Impacts of Covid-19

Market recovery



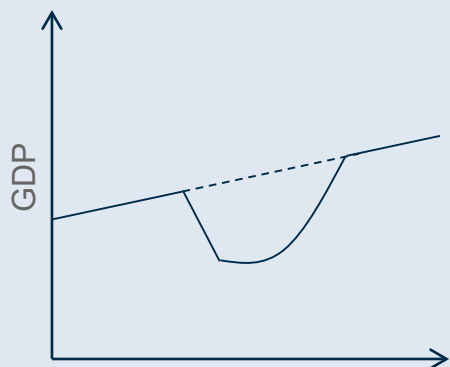
Z-shaped recovery

The most optimistic recovery profile – the economy rebounds with consumers spending all their income saved during lockdown and GDP recovering its decline in full, before returning to its original trajectory.



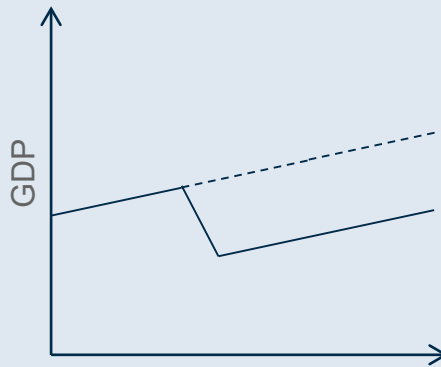
V-shaped recovery

A relatively short, sharp dip in the economy is followed by short return the pre-Covid trajectory when restrictions are removed and consumers return to their original spending habits.



U-shaped recovery

A longer recovery period recognising phased alleviation of restrictions and consumer's return to normal spending. This profile assumes the economy returns to its pre-Covid trajectory when vaccines eventually become available.



L-shaped recovery

Lost GDP will never be recovered in this profile due to permanent impacts on businesses and the ability of consumers to keep spending. This can be compared to the permanent impacts of the 2008 crash.

Valuation considerations

Valuations are, in many cases, likely to be impacted by the wider market. Many factors must be considered in times of unprecedented uncertainty and volatility

- What are the **purpose** and **basis** of the valuation? Who is the **market participant** and to what extent would they consider extensive macroeconomic uncertainty?
- Is it appropriate to mark a valuation of a **private** investment up or down because of trends exhibited in the **public** market?
- What other implications are there to **cash flows**? How will **growth** and **margins** be impacted?
- For **how long**, if at all, are normal business operations likely to be impacted due to Covid-19 related factors? Are there restrictions on operating, adjusted tariffs, commodity supply issues?

While the individual inputs and assumptions in many valuations are likely to change, valuers may also look adjust their approach to determining a concluded value

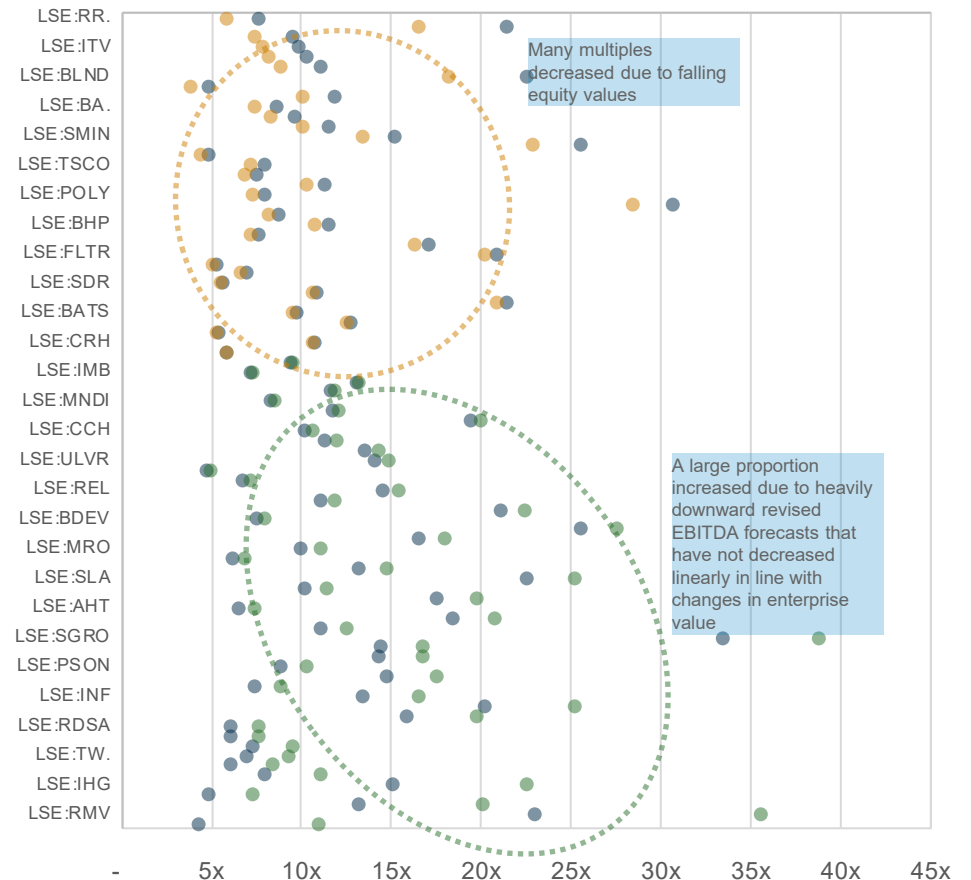
- Valuers may tend towards a **different valuation approach** as a result of cash flow issues or lack of comparability to public market effects
- Valuations are likely to factor in increased uncertainty in several variables which may be reflected in **increased concluded valuation ranges**
- Valuers may tend to adopt **sensitivity and scenario analyses** where possible to capture probability-weighted outcomes, attempting to take a rounded view on expectations considering the high uncertainty

Market-based valuation approaches

Market multiples are commonly used in valuations of privately held companies and need to consider future maintainable earnings and an appropriate market-derived multiple of earnings

- Forward-looking listed peer multiples that make assumptions about the future earnings of companies are often applied, while backwards-looking multiples can also be applied but may not reflect the true earnings potential of businesses
- With potential large impacts on some sectors it is important to consider whether historical multiples carry any relevance as future expectations may be disjointed from historical performance
- When analysing forward multiples, valuers must consider the earnings potential of the subject and the comparable companies
- Valuers should take care to ensure that any broker forecasts have been appropriately adjusted for any Covid-19 related factors

FTSE 100 FY2020 forward-looking EV/EBITDA multiples
Jan (BLUE) and Jun (DECREASED/INCREASED)

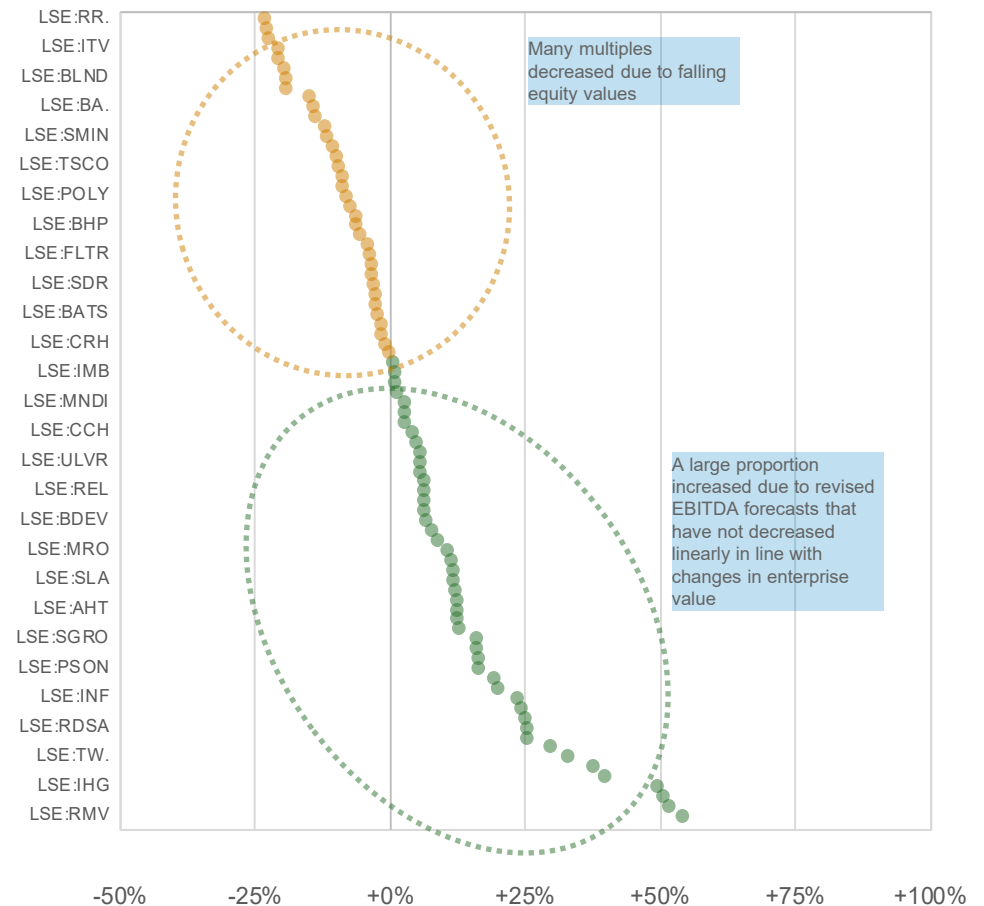


Market-based valuation approaches

Market multiples are commonly used in valuations of privately held companies and need to consider future maintainable earnings and an appropriate market-derived multiple of earnings

- Publicly listed companies generally exhibit a higher level of volatility than private company valuations, which are susceptible to lagging behind movements in public markets
- As previously shown, a decrease in transaction volumes will likely mean less relevant transaction multiples can be deduced, since transactions completed prior to the impact of Covid-19 may be less relevant

FTSE 100 Change in FY2020 forward-looking EV/EBITDA multiples From Jan to Jun (DECREASED/INCREASED)

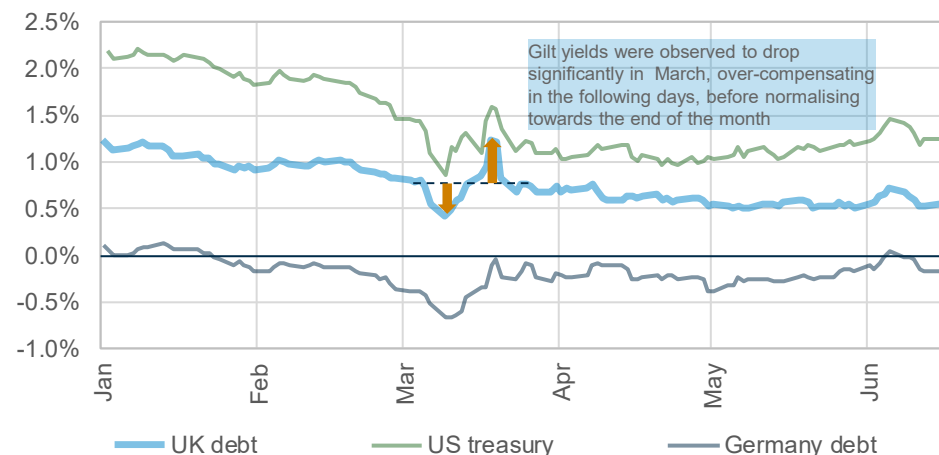


Income-based valuation approaches

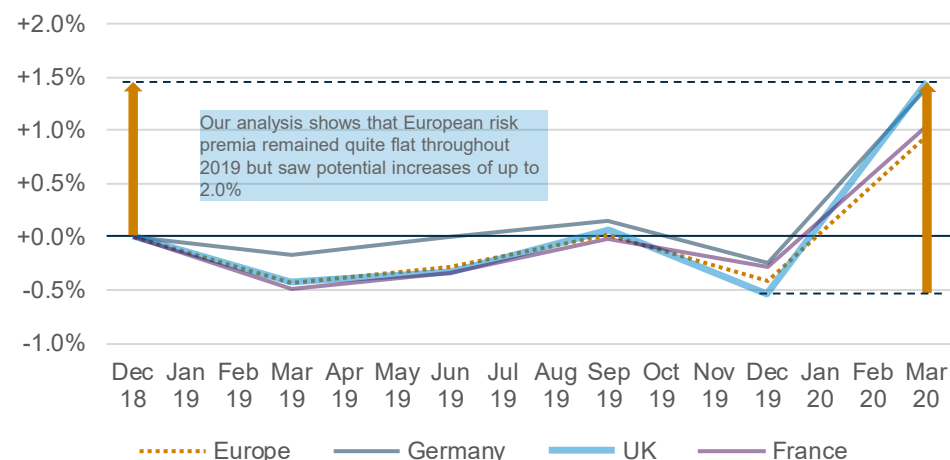
Key inputs to the Capital Asset Pricing Model are responsive to macroeconomic events and may have a distorted impact on cost of capital calculations in discounted cash flow analyses

- We have observed significant fluctuations in government debt yields. Valuers must consider carefully whether these represent long-term market expectations or temporary responses to macroeconomic factors
- UK bond yields dropped by **-0.5%** in March, before rebounding, but are still **-1.0%** down from the beginning of the year
- An increase in market risk premium may be appropriate to reflect the increased risk perceived by investors, and could have a compensating effect versus declining risk-free rates. A&M performs its own analysis of implied market risk premia in Europe and we have observed increases of up to **+2%** resulting from the impact of Covid-19
- It is critical to consider the perceived resilience of each business on an individual basis and there will be no one-size-fits all set of assumptions

Government bond yields (20 year)



Implied market risk premium – movement from baseline (A&M analysis)



Income-base valuation approaches

Careful consideration of revisions to financial projections is required and valuers will need to make extra effort to understand the basis of their preparation

- Forecasts need to be **scrutinised** and **challenged** as growth and margins will be highly uncertain for many businesses
- **Benchmarking** projections against comparable companies is critical and will highlight inconsistencies which should be discussed
- It may be possible, in the absence of updated projections, to apply an **α -factor** to the CAPM, though we generally consider this approach to be highly subjective

While the individual inputs and assumptions in many valuations are likely to change, valuers may also look adjust their approach to determining a concluded value

- Valuers may tend towards a **different valuation approach** as a result of cash flow issues or lack of comparability to public market effects
- Valuations are likely to factor in increased uncertainty in several variables which may be reflected in **increased concluded valuation ranges**
- Valuers may tend to adopt **sensitivity and scenario analyses** where possible to capture probability-weighted outcomes, attempting to take a rounded view on expectations considering the high uncertainty

Exit multiple

Financial debt

Long-term growth rate

Industry-specific adjustments

Property and assets

Liquidity issues

Country risk premium

β time period

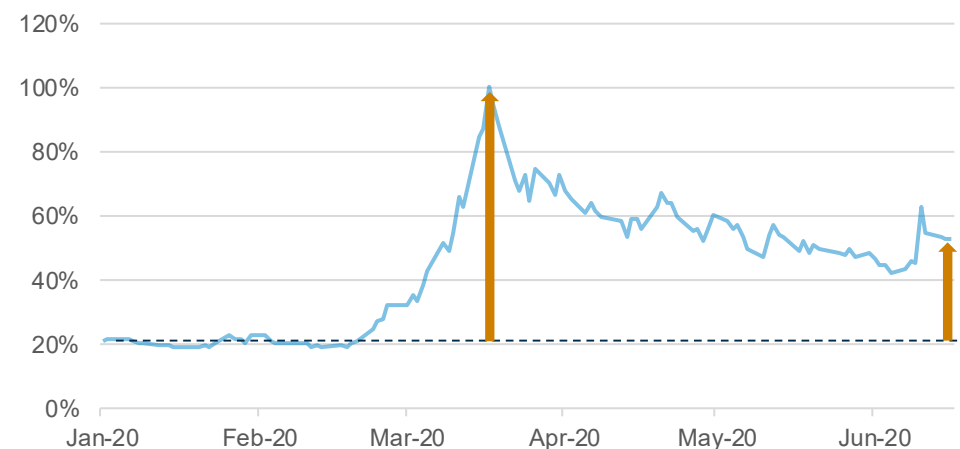
Currency exchange rates

Tax valuations

A key concern for fund managers is the valuation of Management Incentive Plans (MIPs) for tax purposes. These will potentially be subjected to adjustments resulting from the many impacts of Covid-19

- Our experience of valuing MIPs (including growth shares, profits interests, stock ownership plans, carried interests etc) has given us insight into the potential impacts faced by fund managers
- MIPs are usually based on unique sets of criteria and require individual approaches to valuation in order to capture their specific mechanisms
- These valuations are often structured around Black-Scholes pricing models, binomial trees or Monte Carlo simulations, depending on the level of flexibility required
- An additional key parameter in the application of these models is volatility. As volatility is generally averaged over a time period (much as β in the calculation of discount rates), it is a key consideration

VIX 30-day forward-looking S&P 500 volatility estimate index



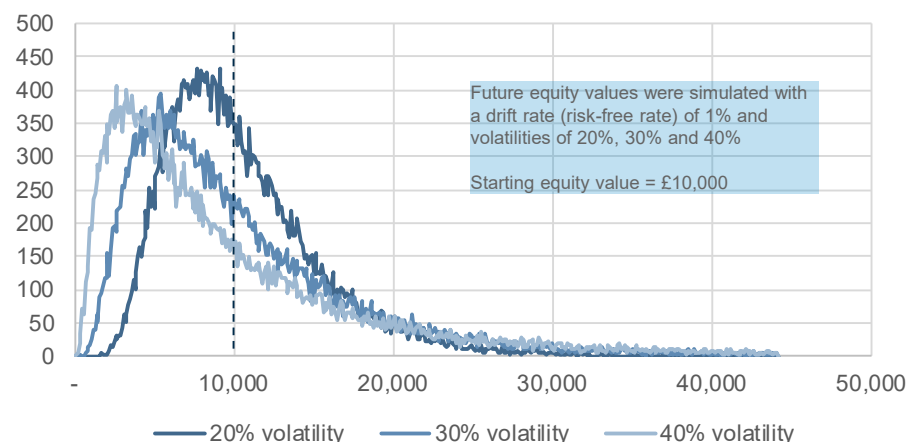
- Volatilities saw a distinct rise to as high as 100% in mid-March, somewhat steadying to c.50% in June
- If volatilities applied in option pricing models are skewed by recent anomalies, this can have a significant impact on the valuation of MIPs

Tax valuations

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Frequency of Monte Carlo simulations at future equity values



- A change in volatility of just a few percent can have a significant impact on valuation results

Tax valuations

Changes in starting equity or volatility are key concerns during market uncertainty in many types MIP valuations

- An example carried interest valuation shows how sensitive these mechanisms can be to small adjustments in equity value and volatility
- Fluctuations of this magnitude have been observed. It is clearly critical for a valuer to assess the impact of these sensitivities

Black Scholes Option Values		Option 1 Above hurdle		Total
Starting Equity Value	1,000,000	1,000,000		NA
Exercise Price	-	1,500,000		NA
Expected Term	5.0 yrs	5.0 yrs		NA
Volatility	20.00%	20.00%		NA
Risk-free Rate	0.50%	0.50%		NA
Black Scholes Call Option Value	1,000,000	58,519	-	NA
Differential in value		941,481	58,519	1,000,000
Allocation: proportion of value				
LPs		100.0%	80.0%	NA
GP		-	20.0%	NA
Total		100.0%	100.0%	NA
Allocation: value				
Limited partners		941,481	46,815	988,296
Carried interests		-	11,704	11,704
Total		941,481	58,519	1,000,000

		Starting equity sensitivities				
		800,000	900,000	1,000,000	1,100,000	1,200,000
Volatility sensitivities	20%	3,891	7,118	11,704	17,749	25,278
	30%	14,089	20,442	28,018	36,751	46,561
	40%	27,289	36,014	45,727	56,332	67,743
	50%	41,456	52,036	63,405	75,471	88,158
	60%	55,598	67,693	80,419	93,697	107,464

Guest presentation – NCM Fund Services Limited

nem

*fund & depositary
services*

Practical Issues that can arise for a Fund Manager when a downturn hits

24 June 2020

- NCM acts for over 250 entities - with gross assets of over £3 billion and a long established link to servicing, investing and running private equity funds.
- We are a niche boutique firm where Fund Managers have direct access to the owners, who between them have over 50 years' private equity experience.
- Our senior team delivers strong continuity of service and are highly qualified to offer a full service provision to funds including Fund Administration and Management Services.
- We are an independent well capitalised company, 100% owned by management team.
- Average fund size of NCM's administrative clients is c. £50m.

NCM are different because...

- Clients find the relationship with our staff invaluable due to high quality personnel and extremely low staff turnover.
- We are supportive, provide personal attention and very much care about providing an exceptional level of service.
- We have a highly qualified private equity team, dedicated to knowing our clients well and providing a tailor-made personal approach to suit our clients' needs.
- Our Senior Management Team have all worked in fund management, as well as fund administration, so we think like the client and see the bigger picture.
- Clients have unique access to the Senior Management Team who have the experience to recognise what is important at each stage of the life of the fund and its manager.
- Clients regularly refer others to us which we consider to be the best measure of their satisfaction.

Senior Management Team



Kathleen McLeay
Chief Executive

- > 19 years in private equity
- > 20 years qualified lawyer
- > 11 years CEO of NCM
- > First class Honours Law degree



Henry Chaplin
Chairman

- > Over 30 years in private equity
- > Director of a number of private equity and financial firms
- > Fund manager of the only hydro-electric fund in the UK



Douglas Graham
Finance Director

- > 20 years qualified chartered accountant
- > 9 years Finance Director of NCM
- > 9 years in corporate finance at RBS





Management resource, fees and future

- Pressure to reduce fees
- Manager still has costs and expenses
- Impact on management time - increased portfolio management etc
- Impact on carry and ability to raise further funds
- Fund costs

Investment period considerations

- Practical ability to invest
- Impact on management fee
- Investor consent usually required - timing
- Impact on IRR and life of fund
- Restrictions in LPA re further funds etc may impact management plans

Fund life considerations

- Investor consent usually required
- Can be divergence in investor positions
- Reduced management fee?
- Impact on IRR and carry
- Ability to actually divest?
- Roll into a further vehicle/secondary buyers etc. - various options

Valuation of investments and impact on audit and accounts

- Close liaison with administrators and auditors required
- Impact on management fee if linked to valuation
- Directors Report
- Education of auditors and provision of information
- Ongoing discussion and communication - internal and external

- Close liaison with investors crucial
- Communication
- No surprises and honesty
- Understand where they might be able to help
- Formal processes to be followed re extension, fees etc
- May not be unified

How NCM can help...

- Cash forecasting and budgeting
- Sending out investor communication and dealing with queries
- Drafting notices etc. and collating responses
- Reviewing drawdown profiles for investors
- Modelling impact on carry etc for managers
- Advising what we have seen others do - rarely something we have not seen before!



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Questions

