PROFESSIONAL INSIGHTS

VALUATION: AN EVOLVING LANDSCAPE

We interviewed experts from Duff & Phelps, A Kroll Business, to obtain a broad perspective from a geographic and valuation specialization standpoint on current issues facing the valuation profession.

Global Perspectives

With valuation leaders:

David Larsen,
Managing Director, Alternative Asset Advisory, Duff & Phelps, A Kroll Business, and member of the IVSC Standards Review Board

Srividya Gopal,
Managing Director and Southeast Asia Leader, Valuation Advisory, Duff & Phelps, A Kroll Business

James Gavin,
Managing Director, Real Estate Advisory Group, Duff & Phelps, A Kroll Business, and member of the IVSC Tangible Assets Standards Board

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How has the COVID-19 pandemic affected your valuation business? How have client needs evolved during this period?

David: Valuation, especially with respect to hard-to-value or illiquid investments, requires the application of informed professional judgement. The COVID-19 pandemic has increased the need to utilize experienced, informed judgement when considering valuation inputs, market participant perspectives and valuation conclusions.

Having a robust valuation process that can be applied consistently while considering current market conditions is critical in providing reliable and transparent valuation conclusions. The COVID-19 pandemic has demonstrated the need for consistency and rigorous judgment for all valuation specialists. Our business has grown strongly as clients continue to invest in individual debt and equity positions and expand the types and complexities of structures that include illiquid investments.

Srividya: In my experience in Southeast Asia and the wider APAC region, the COVID-19 pandemic has resulted in significant changes to macro-economic factors and the business fundamentals of corporates and funds and their investment portfolio. In the first few months of 2020, there were several transactions that were cancelled or renegotiated due to the pandemic. While the interest in transactions has bounced back as corporates and funds start getting used to the new normal of deal-making, evaluation, due diligence and structuring, the uncertainties around global economic recovery are still very significant. Since the pandemic started, there have been considerable impairment write-offs, more for some sectors than others. The value of portfolio investments for several alternative investment funds has dwindled, and several credit investments have gone into distress or non-performing status. There have been more bankruptcies, higher levels of M&A/investment disputes and longer timelines for fund exits.

On the other hand, there has been ample supply of capital in the market because of fewer opportunities to invest and quantitative easing and other policy measures, which may be leading to a speculative rise in prices, not necessarily supported by fundamentals.

All these developments and the impact of the pandemic have required corporate managers, investors, boards of directors and other stakeholders to make critical decisions on the valuation of businesses, assets and liabilities. The importance of valuation has increased significantly, as has the need for experienced and qualified valuation professionals.

James: Srividya's observations relating to the impact of COVID-19 largely encompass what I am seeing from a tangible assets perspective. An additional challenge for tangible assets is that we often rely on physical site inspections to best understand the assets we value. As a result of COVID-19, these opportunities were severely limited, if not altogether eliminated. With greater vaccination rates, we see this trend reversing. There has also been a material increase in transactions that have allowed those of us dealing heavily with real property to see the impact of the pandemic on values, and this information continues to surface daily.

Alternative Asset Advisory is a big component of your service offering; how has this sector evolved in recent years, and what are some of the valuation challenges associated with the growth in alternative investment?

David: Over the past two decades, as capital deployed by the alternative asset industry has dramatically increased, the need to institutionalize valuation practices and processes has expanded. Fund managers are increasingly being more rigorous in exercising judgment and applying applicable guidelines, such as The International Private Equity and Venture Capital Valuation (IPEV) and the American Institute of Certified Public Accountants (AICPA) PE/VC Valuation Guides. Investors need, and regulators increasingly require, fair value estimates to be transparent and conceptually sound. Most alternative investment managers have improved their valuation processes; some are still improving.

One of the outcomes of the pandemic appears to be a greater corporate and political focus on ESG. What is your firm doing in this area? How will valuation expertise play a role in the future ESG agenda?

David: A key factor with respect to ESG is to measure the impact of ESG initiatives reliably and consistently. This includes demonstrating that ESG initiatives deliver investment returns in line with a manager's fiduciary duty to maximize performance in the context of the mandate from their limited partners. We are continuing to build our capabilities to soundly measure the impact of ESG initiatives from not only a qualitative perspective but also, importantly, from a quantitative perspective.

DUFF & PHELPS
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The Duff & Phelps brand will transition fully to Kroll over the remainder of 2021.

You're in the process of rebranding as Kroll, what can you tell us about this, and what it means for the business and your clients?

David: As Duff & Phelps has grown and acquired businesses over the past two decades, we have found ourselves with a number of strong global brands. Strategically, we decided to rebrand under one common name, Kroll, the world's premier provider of services and digital products related to valuation, governance, risk and transparency.

Duff & Phelps is known in the market as a leading provider of independent valuation services; now going to market as Kroll, we have the same team, the same expertise and a continued commitment to provide exceptional service to our clients. The Duff & Phelps brand will transition fully to Kroll over the remainder of 2021.

Since Duff & Phelps was founded in 1932, we have added more than 30 complementary companies to our portfolio, including Kroll as part of our 2018 acquisition. This has helped us become the global leader we are today, with nearly 5,000 professionals in 30 countries and territories around the world serving over 60% of Fortune 100 companies.

United under the Kroll brand, we are better positioned to deliver a seamless experience across our suite of services. We will continue to be the leading independent valuation services provider, using proprietary data and analytics to help clients measure, monitor and maximize value.

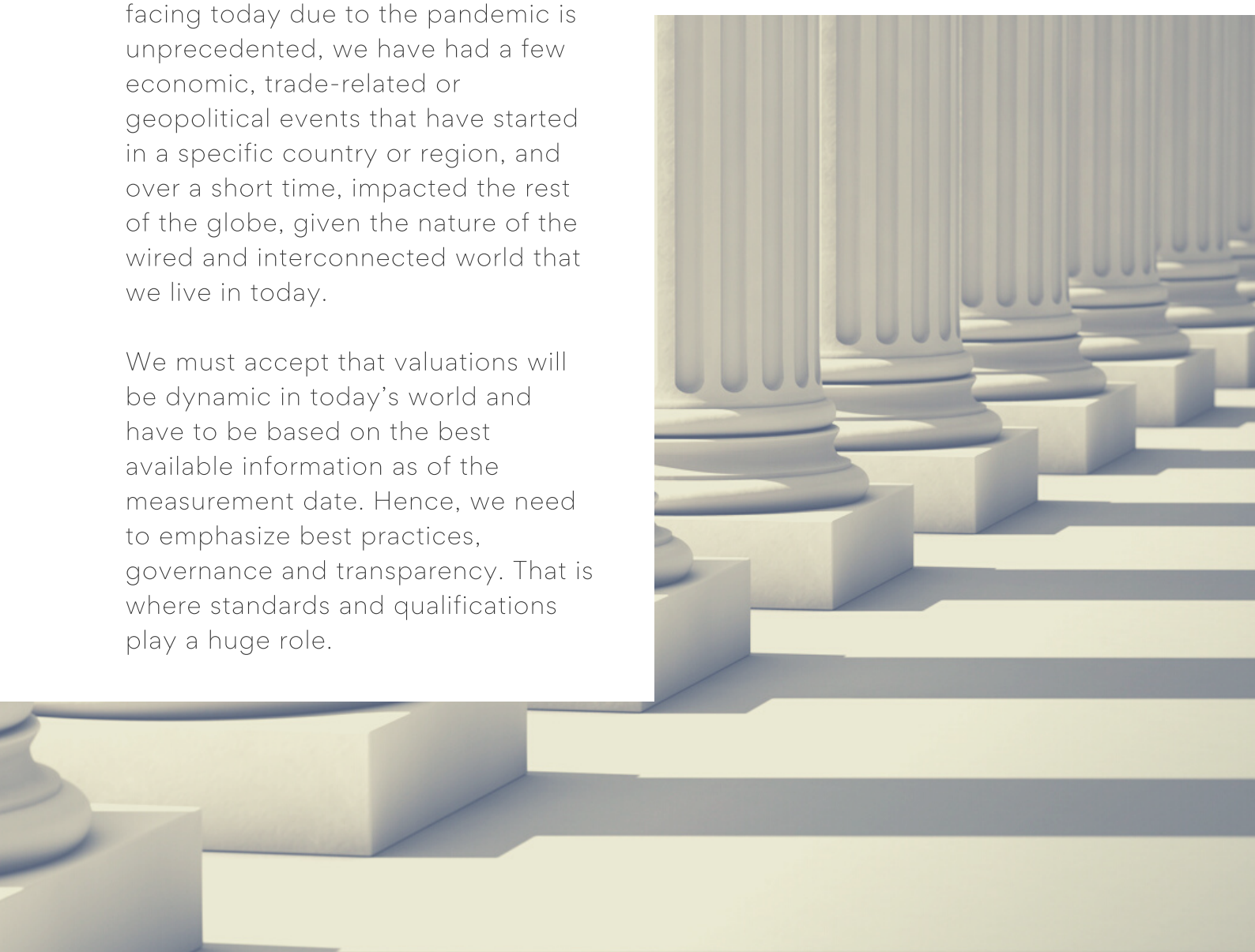
How does Kroll see the importance of International Valuation Standards underpinning the evolving profession; why is it more important than ever to have robust valuation professionalism?

Srividya: The effects of the pandemic have made the role of valuation even more pertinent in today's world. I believe that a key takeaway from the pandemic is an emphasis on the broader adoption of existing standards and qualifications.

The biggest message for all of us is that business cycles are getting shorter and shorter, disruptions will continue and volatility is a given. We have clearly witnessed this in the past two decades. While what we are facing today due to the pandemic is unprecedented, we have had a few economic, trade-related or geopolitical events that have started in a specific country or region, and over a short time, impacted the rest of the globe, given the nature of the wired and interconnected world that we live in today.

We must accept that valuations will be dynamic in today's world and have to be based on the best available information as of the measurement date. Hence, we need to emphasize best practices, governance and transparency. That is where standards and qualifications play a huge role.

That gives rise to the need to have and follow common global standards like International Valuation Standards (IVS) as well as additional guidance from organizations like IPEV and other leading bodies. Additionally, valuation professional organizations (VPOs) lay out standards to uphold ethics, competency and continuing development. The qualifications play a critical role here. It is important for boards and stakeholders to ensure they engage professionals with appropriate qualification from a reputable VPO or organization that places utmost weight on adhering to global standards and continuing professional development and that upholds the quality of the profession.



As a global business, how do you manage the discrepancies within accounting and valuation standards in different parts of the world? Do you find that stakeholders are generally familiar with the differences in standards frameworks and do these differences create challenges?

Srividya: As a global business, we are committed to following global standards, guidance and international best practices. Due to significant efforts put in by the community at large over the last several years, great strides have been made to align global standards in different areas. For example, most countries in APAC and EMEA have aligned with International Financial Reporting Standards (IFRS). The U.S. generally accepted accounting principles (U.S. GAAP) and IFRS have also unified most requirements as it relates to, for example, fair value measurements and business combinations. IVS have become more accepted across the world. In addition to standards, technical guidance provided by organizations like IPEV, AICPA, The Royal Institution of Chartered Surveyors (RICS) or The Appraisal Foundation are referred to by many valuers and users globally. Most standards today are principles-based, as they should be, rather than rules-based. There will always be a certain level of interpretation and judgement involved, but that is necessary, which is why experience and qualifications become critical.

Having said that, we continue to see certain challenges arising broadly from two kinds of discrepancies. First, sometimes users of valuations (for example, corporate managers) are not aware of recent professional developments, and they continue to use legacy practices set up over a decade ago in the name of consistency. Second, sometimes regulators or national bodies, in the interest of localizing their standards, end up significantly amending global standards, ultimately diluting the very core and purpose of those standards. The first issue is easier to change by creating awareness for the latest best practices. The second one is a larger challenge and gets into a debate of whether global standards suit local requirements, where opinions significantly differ. This again requires collective initiative among global standard setters, institutions, the investor community and valuation professionals to drive an alignment of thinking.

How has the perception of valuation changed in the boardroom over the last decade? How is valuation information being used today?

Srividya: I have been in this professional space for over two decades. At that time, while there was a significant amount of theoretical valuation knowledge available from books, there were no common valuation standards. Even if there were standards available in some pockets of the world, there was limited awareness for them in other parts. A lot of it was left to the judgement of the valuer or what a valuer could learn from best practices in their limited circles. There were none or very rudimentary databases, and a significant amount of time was spent collating information from stock market pages, physical newspaper copies and other similar sources. These made a valuer's task extremely challenging and stifling. It is a great advantage that we have extensive standards, guidance and emphasis on governance in today's investment and valuation world, in addition to significant depth and breadth of information and inputs available.

From a boardroom perspective, there is certainly a lot more awareness of the need for independent valuations or fairness opinions, either at the time of the transaction or for subsequent reporting to investors and other stakeholders, both purposes being equally important.

The boardroom thought process is also driven by the requirements from the regulators and investors. For example, the stock exchange and financial services regulators mandate some of these requirements either directly or sometimes indirectly through significant scrutiny and enforcement actions. For alternative investment funds, limited partners are acutely aware that they need to report all assets on a common basis that being fair value; otherwise, there could be a misallocation of assets or erroneous strategic investment decisions being made.

Having said that, I believe a lot still needs to be done to create awareness in boardrooms, with institutions, regulators and the larger stakeholder community of the need to continue to apply common valuation standards, global best practices, professional standards and the right qualification for professionals performing valuations. We need a continued and collective effort between standard setters, institutions and valuers to highlight the importance of standards and qualifications, enhancing good governance.

Duff & Phelps is a sponsor of the IVSC and contributes towards efforts to advance valuation through internationally accepted standards and high levels of professionalism. Why are these imperatives important, and how does the marketplace ultimately benefit?

David: High-quality, globally accepted standards improve the relevance and reliability of valuation estimates. Users of valuation information for numerous purposes, which include but are not limited to financial reporting, taxation, prudential regulation, asset allocation, investment decisions, etc., require consistency, comparability and transparency.

Uniform high-quality valuation standards provide a framework that enhances the ability of investors, regulators and other interested parties to improve their decisions and actions.

James: We understand the importance of having a seat at the table in developing and implementing valuation standards. Our valuation experts span the globe. We experience transaction activity that involves cross-border assets and enterprises subject to various reporting and compliance requirements and have the benefit of being in the frontlines of a myriad of valuation issues. We find that consistency in valuation standards is essential.

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You recently co-hosted a valuation webinar series with the IVSC exploring a range of topical issues; what were some of the salient themes that emerged, and what topics do you think preparers and users of valuation information will be keen to see on future agendas?

Srividya: IVSC and Duff & Phelps, A Kroll Business, recently co-hosted a series of webinars on various current valuation topics relevant to valuers and stakeholders around the globe. We had significant interest from preparers and users of valuations on many of these topics, including the outlook in this post-pandemic world, valuing alternative investments and valuation considerations in treatment of operating leases for financial reporting. There were also topics that will impact valuation metrics, assumptions and disclosures in the present and future such as the impact of ESG on valuation and IBOR reforms.

While valuation was at the core of these topics, valuation can never be looked at in isolation, and hence several experts from different facets of the profession, including regulators, investors, auditors, former ministers, development finance institutions and more, joined the panels to provide a well-rounded perspective. For example, the webinar, The Post-Pandemic Economic Environment and its Impact on Valuation, discussed a range of topics, including how governments have responded to the crisis, their emphasis on fiscal measures, geopolitics and the shifting role of large economies, factors influencing investment strategy, challenges and considerations for valuers, and the need for international cooperation.

Another hot topic is the impact of ESG on measuring stakeholder value creation, which has been of significant interest to governments, regulators, international bodies, investors, valuers and the larger community. As such, the subject of one of the webinars was, Putting Value at the Core of ESG, which brought out several interesting viewpoints and connected with some of the aspects discussed in the two recently published IVSC Perspective Papers on ESG.

Listen again to the 2021 Webinar Series

IVSC Chair and former UK Chancellor of the Exchequer, Alistair Darling, shared his thoughts on the global outlook as part of the IVSC-Duff & Phelps webinar series.

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