



Organismo Italiano di Valutazione

2013 OIV Business Valuation International Conference

Illustrative Examples in Bases of Value: IVS vs. PIV

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Organismo Italiano di Valutazione

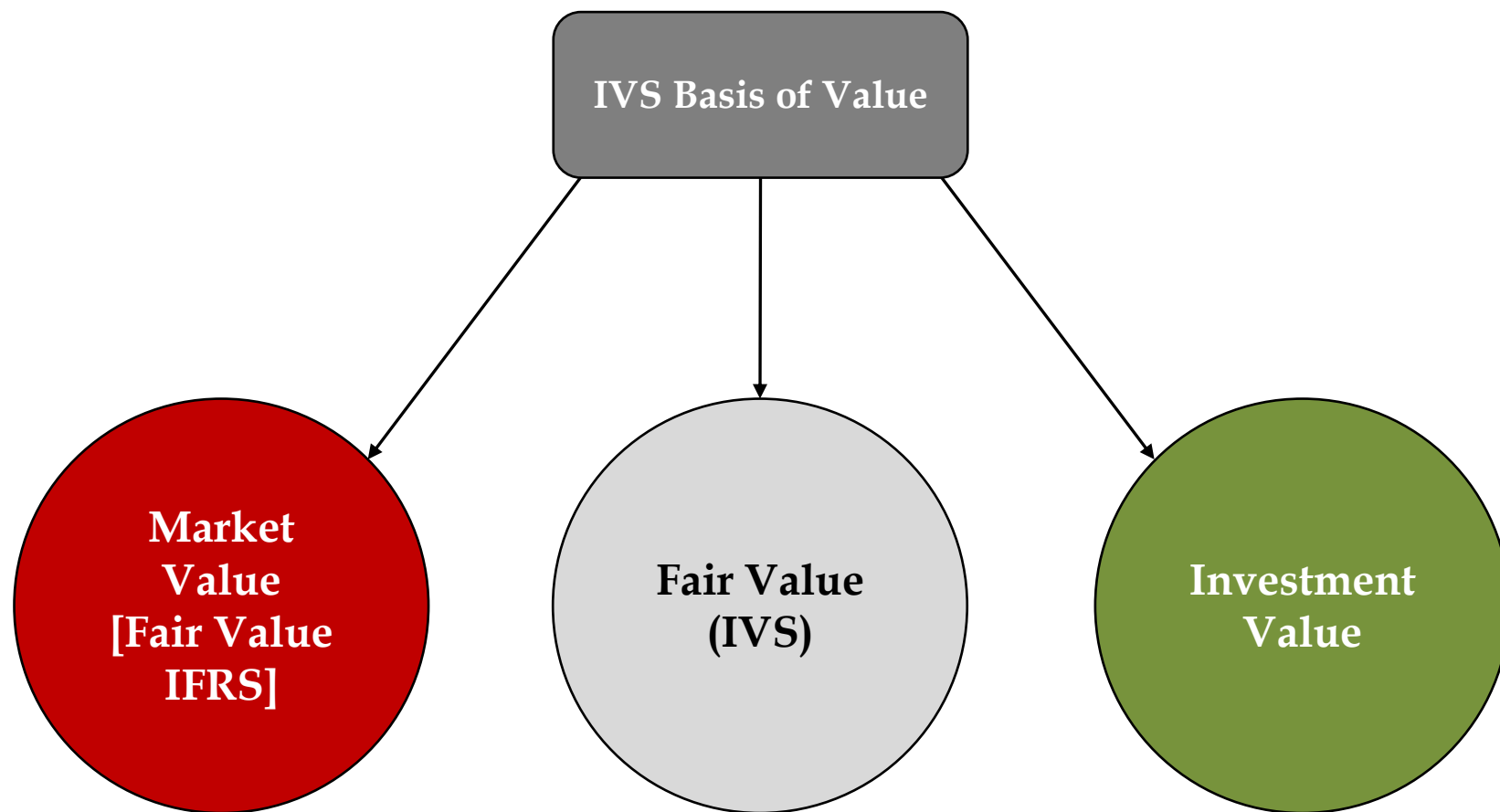
IVSC Professional Board Illustrative Examples Project

The Illustrative Examples do not form part of the IVS.

The intention is to develop further chapters on other topic including, but not limited to:

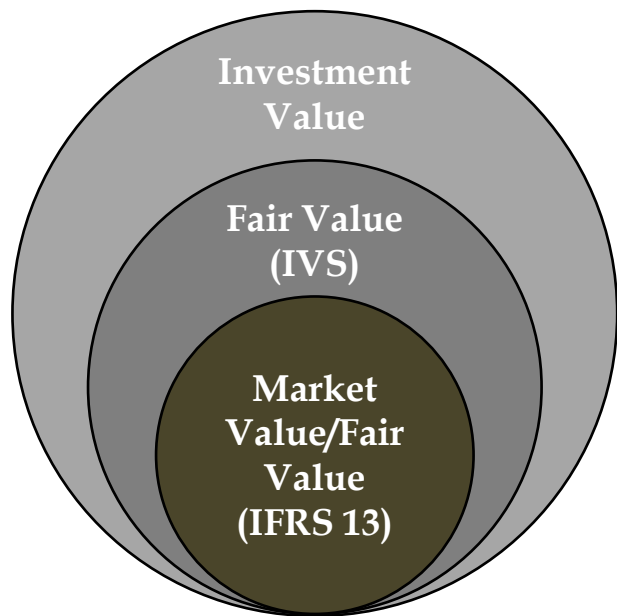
- Market Participants
- Market
- Proper Marketing
- Forced Sales
- Assumptions and Special Assumptions
- Aggregation and Unit of Account
- Highest and Best Use
- Transaction Costs
- Valuation Date

IVS Basis of Value

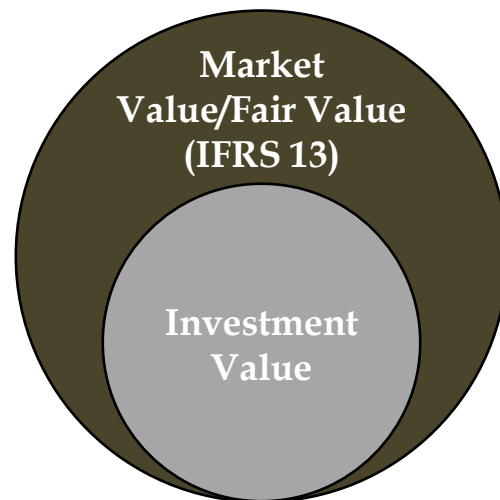


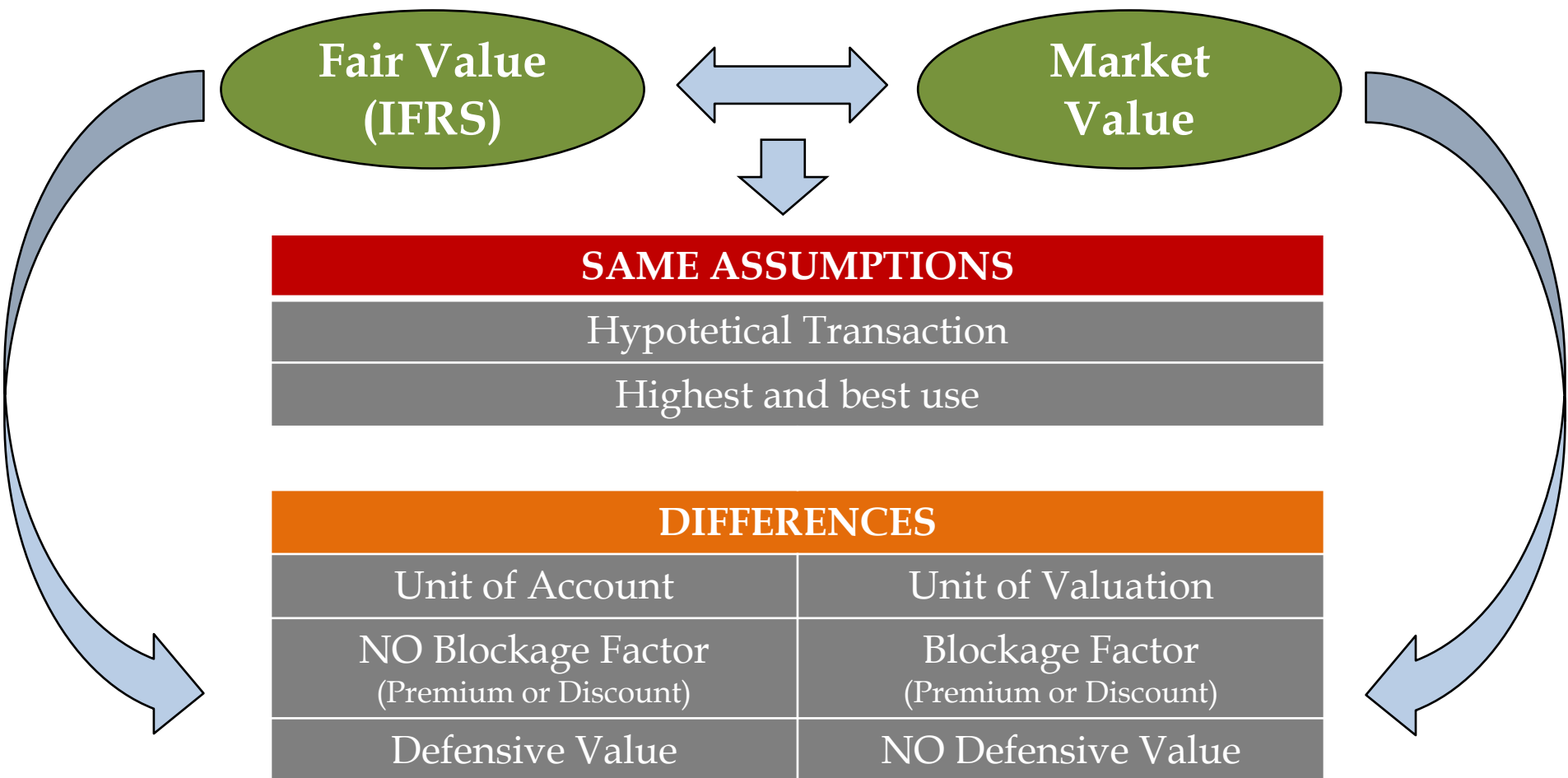
Example: Fair Value (IVS) vs Investment Value

Specific Buyer

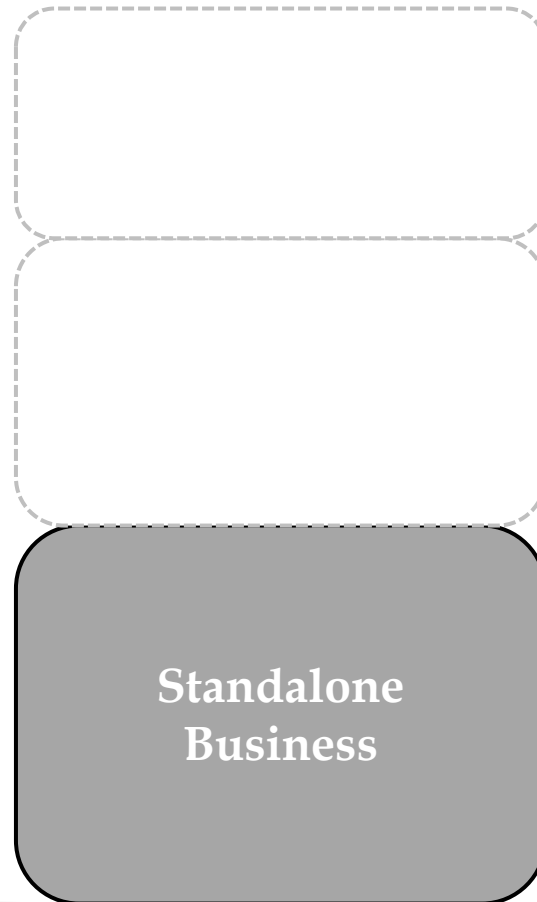


Family Business

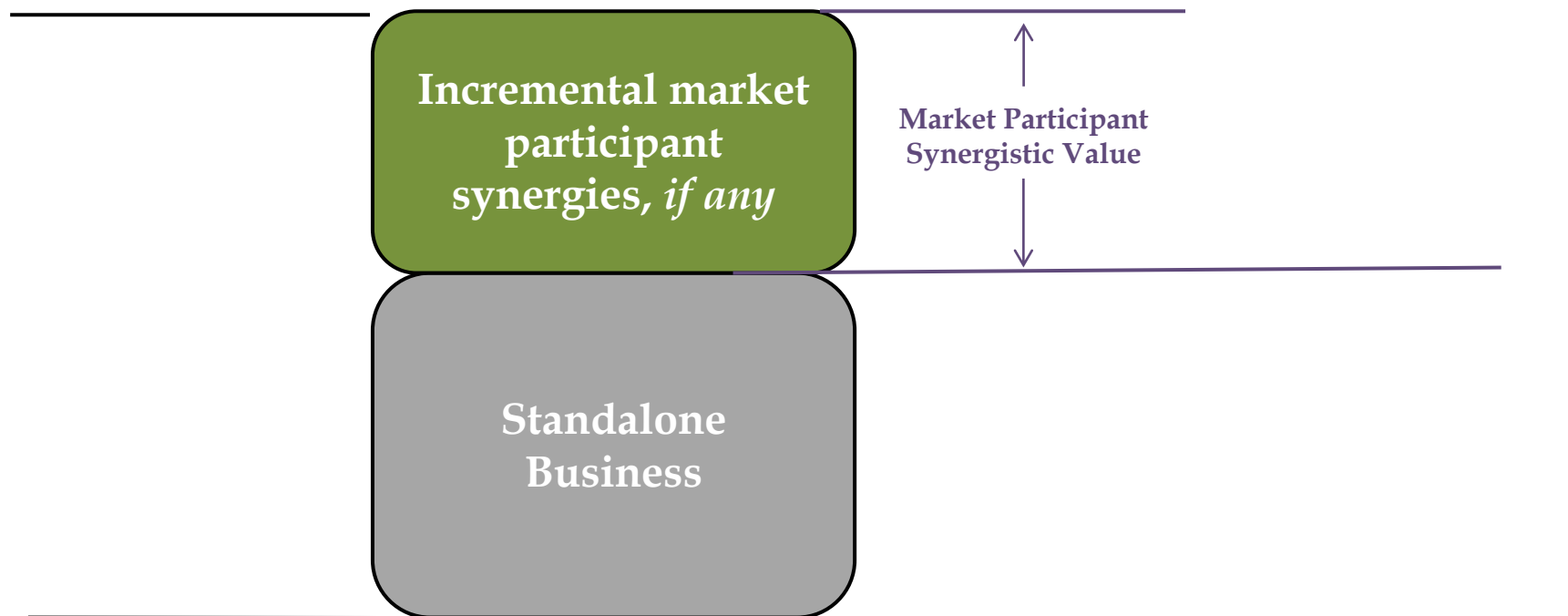




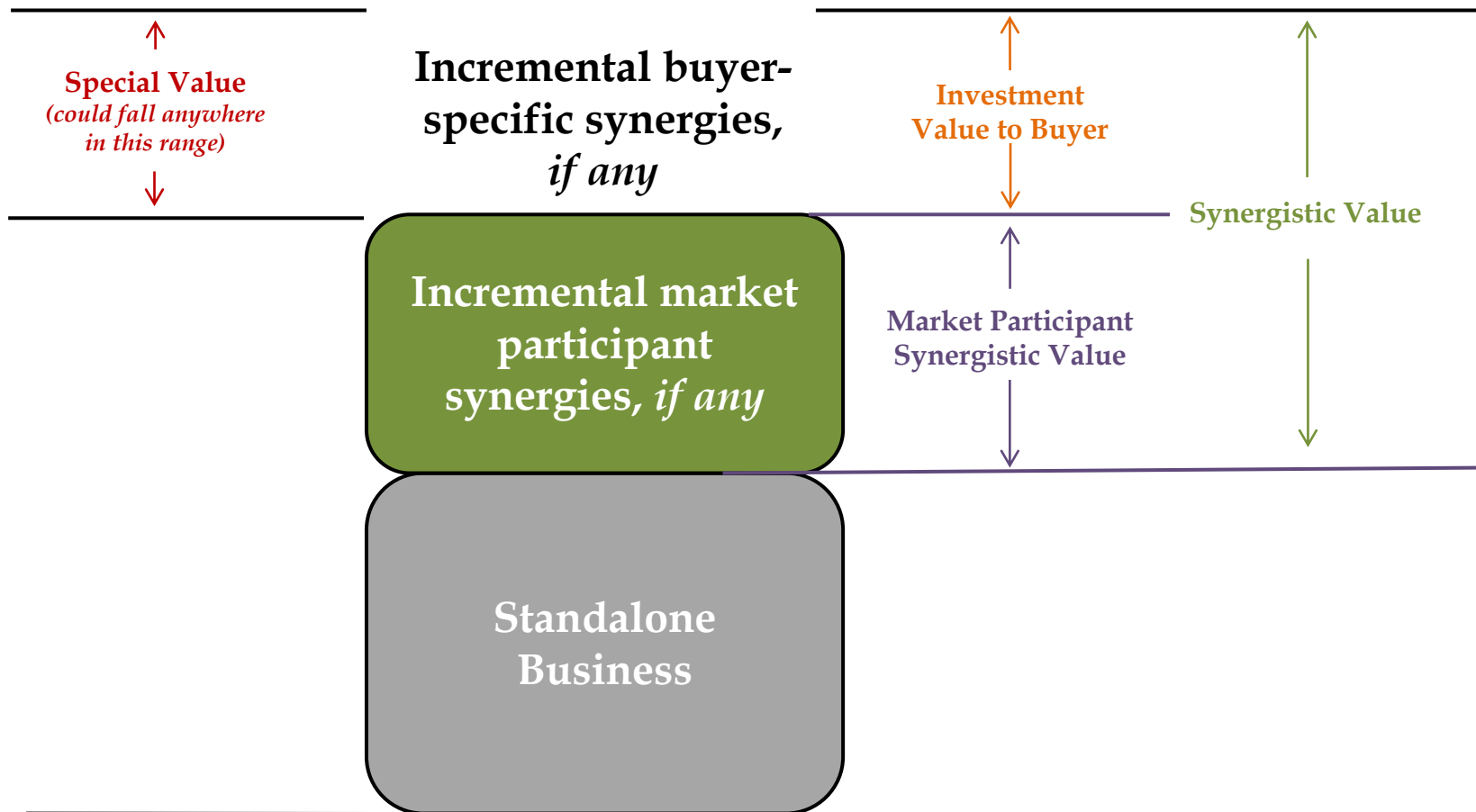
Analysis of PFI Components



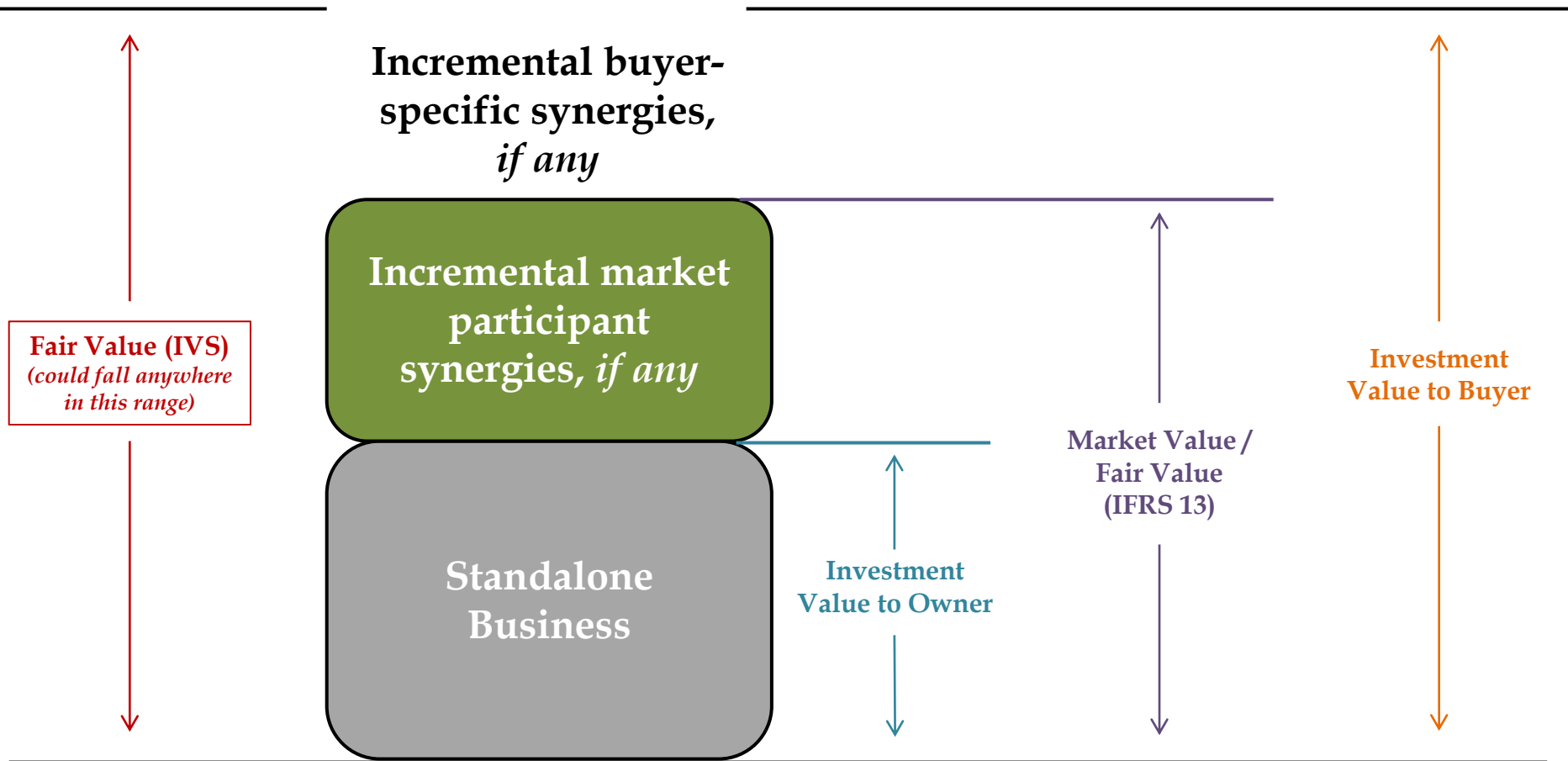
Analysis of PFI Components



Analysis of PFI Components



Analysis of Prospective Financial Information (PFI) Components



A local hotel owner is considering selling his hotel property.

1° Local owner engages a valuer to estimate Market Value. Valuer determines that the highest and best use of the Hotel is the existing use.

Market Value



Highest and best use of the property is the existing use

A local hotel owner is considering selling his hotel property.

1° Local owner engages a valuer to estimate Market Value. Valuer determines that the highest and best use of the Hotel is the existing use.

Market Value



Highest and best use of the property is the existing use

2° An International hotel chain engages a valuer to estimate the Investment value. Valuer considers specific synergies

Investment Value



Entity specific assumptions regarding specific benefits

A local hotel owner is considering selling his hotel property.

1° Local owner engages a valuer to estimate Market Value. Valuer determines that the highest and best use of the Hotel is the existing use.

Market Value



Highest and best use of the property is the existing use

2° An International hotel chain engages a valuer to estimate the Investment value. Valuer considers specific synergies

Investment Value



Entity specific assumptions regarding specific benefits

3° The owner of an adjacent beach engages a valuer to estimate the Special Value of the hotel

Special Value



Increase in value due to special external synergies

A local hotel owner is considering selling his hotel property.

1° Local owner engages a valuer to estimate Market Value. Valuer determines that the highest and best use of the Hotel is the existing use.

Market Value



Highest and best use of the property is the existing use

2° An International hotel chain engages a valuer to estimate the Investment value. Valuer considers specific synergies

Investment Value



Entity specific assumptions regarding specific benefits

3° The owner of an adjacent beach engages a valuer to estimate the Special Value of the hotel

Special Value



Increase in value due to special external synergies

4° The owner of the beach and the hotel owner negotiate the transaction

Fair Value (IVS)



Arms' length exchange that will reflect interests of the parties

A manufacturer is contemplating an acquisition of another business.

The potential acquirer estimates the following value for the transaction:

- Target Standalone Value = 1.000
- Acquirer Standalone Value = 2.000

| Opportunity | Value of Opportunity | |
|---------------------------------------|----------------------|--------------------|
| | Target | Acquirer |
| | | Market Participant |
| G&A Savings | | 10 |
| Transportation savings | | 30 |
| Distribution channel leverage | | 200 |
| Product line opportunity* | 300 in total | 300 in total |
| Waste reduction/productivity increase | 50 | |

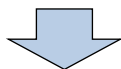
* a jointly enabled opportunity

Calculation of Investment Value and Synergistic Value to Specific Acquirer

INVESTMENT VALUE OF COMBINED BUSINESS

| | |
|--|--------------|
| Standalone Valuation of Target | 1.000 |
| G&A Savings | 10 |
| Transportation savings | 30 |
| Distribution channel leverage | 200 |
| Product line opportunity | 300 |
| Waste reduction/productivity increase | 50 |
| Standalone Valuation of Acquirer | 2.000 |
| Investment Value to Specific Acquirer | 3.590 |

Investment Value



| | |
|--|--------------|
| Investment Value to Specific Acquirer | 3.590 |
| - Standalone Valuation of Target | -1.000 |
| - Standalone Valuation of Acquirer | -2.000 |
| Synergistic Value to Acquirer | 590 |

Synergistic Value

Calculation of Market Value of the Target and Synergistic Value to Market Participant

| | |
|---|--------------|
| Standalone Valuation of Target | 1.000 |
| Market Participant Synergies | |
| G&A Savings | 10 |
| Distribution channel leverage | 200 |
| Waste reduction/productivity increase | 50 |
| Market Value of the Target | 1.260 |
| Market Participant Synergistic Value | 260 |

Market Value of the Target

a Standalone Valuation of Target **1.000**

Market Participant Synergies

G&A Savings 10

Distribution channel leverage 200

Waste reduction/productivity increase 50

b Market Participant Synergistic Value **260**

Transportation savings 20

Product line opportunity 120

c Specific Synergistic Value **140**

Supposed negotiated at this arm's length transaction

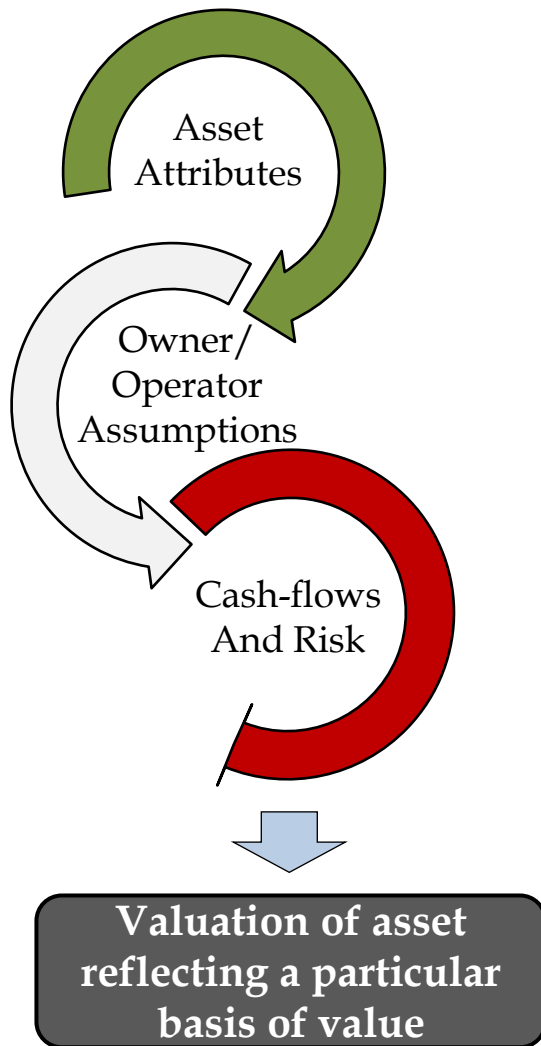
d = b + c Total Synergistic Value to Acquirer **400**

e = a + c Fair Value (IVS) **1.400**

Fair Value (IVS)

f = a + b Market Value **1.260**

Different valuation conclusion in relation of different sets of elements...





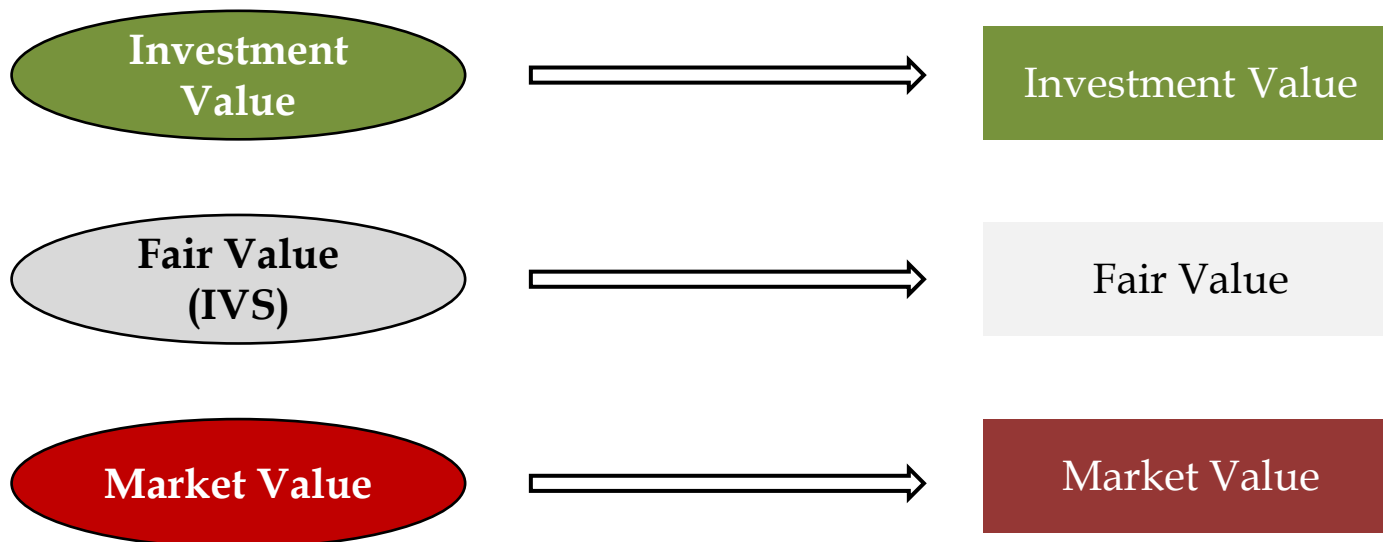
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OIV ED PIV.01.2013: Conceptual Framework

Exposure Draft: Conceptual Framework for Italian Valuation Standards (PIV)

IVS Basis of Value

OIV Basis of Value



Basis of Value

Subject

Intrinsic or Fundamental Value Entity

Investment Value Specific holding

Fair Value Between two specific holdings

Market Value Any holdings



One

The specific buyer /current owner/potential buyer

Two holdings

Every participant in the market

Basis of Value

Subject

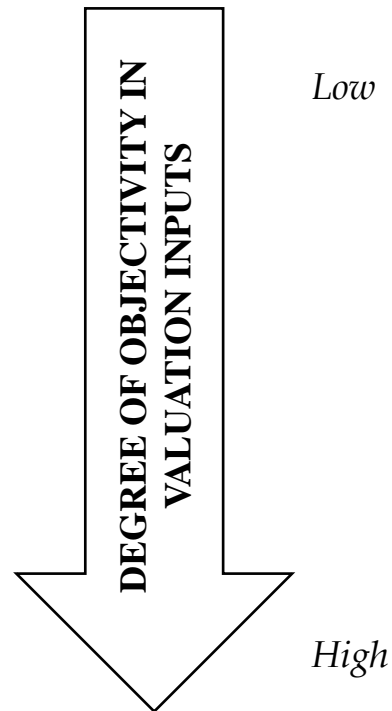
Type

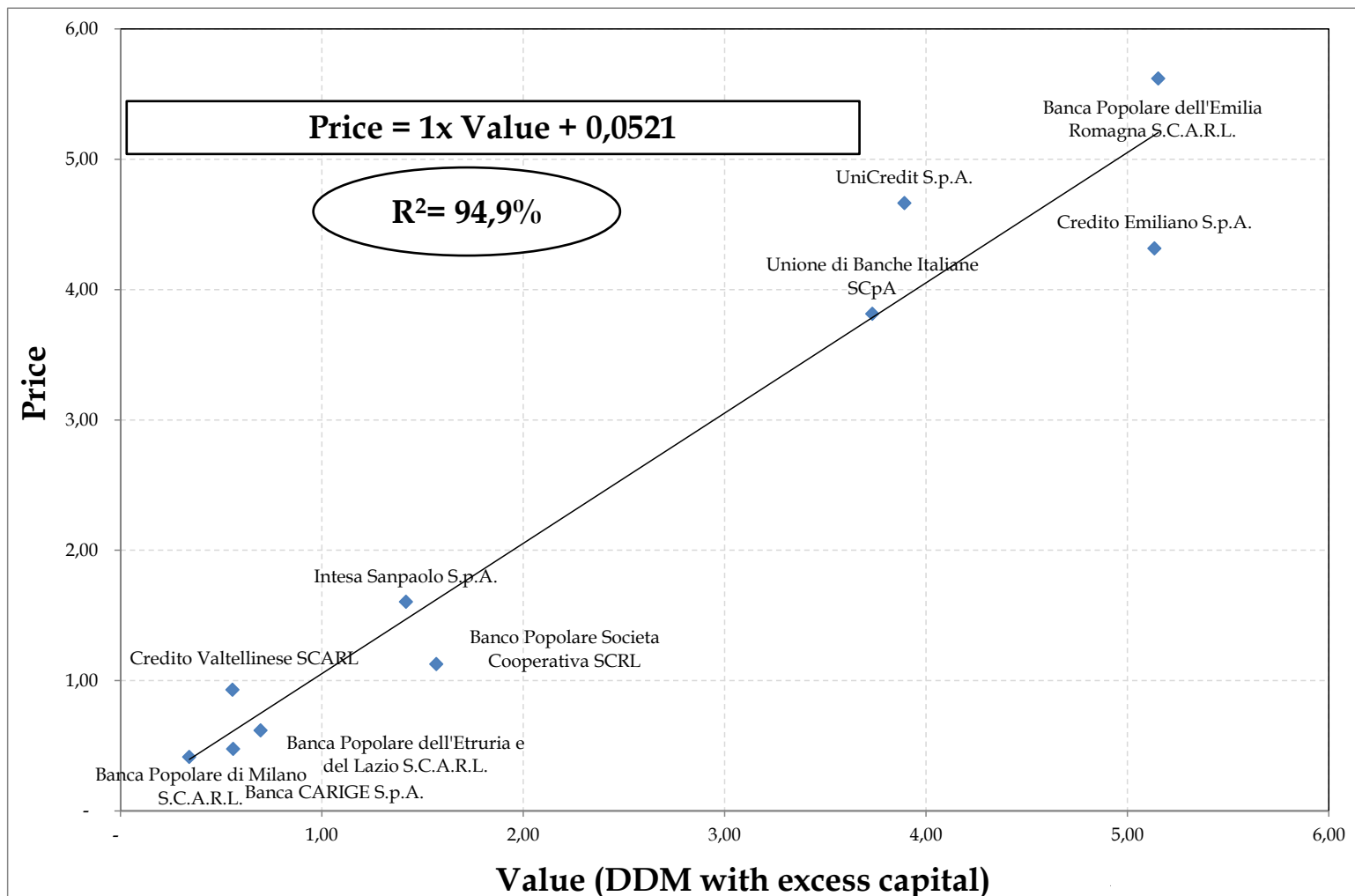
| | | |
|--------------------------------|--------|-------|
| Intrinsic or Fundamental Value | Entity | Value |
|--------------------------------|--------|-------|

| | | |
|------------------|------------------|-------|
| Investment Value | Specific holding | Value |
|------------------|------------------|-------|

| | | |
|------------|-------------------------------|-------|
| Fair Value | Between two specific holdings | Price |
|------------|-------------------------------|-------|

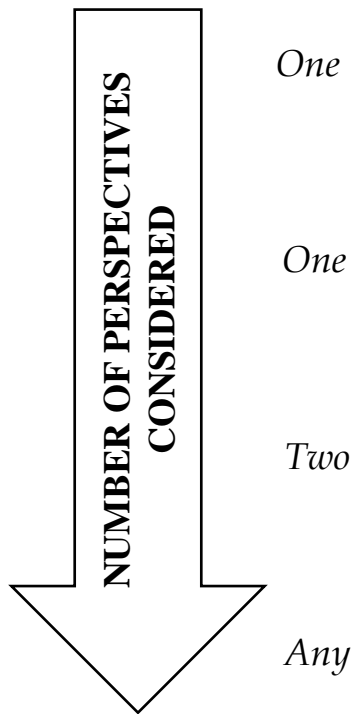
| | | |
|--------------|--------------|-------|
| Market Value | Any holdings | Price |
|--------------|--------------|-------|





Basis of Value Subject Type Perspective

| | | | |
|--------------------------------|-------------------------------|-------|-------------------------------|
| Intrinsic or Fundamental Value | Entity | Value | Standalone |
| Investment Value | Specific holding | Value | Holder perspective |
| Fair Value | Between two specific holdings | Price | Equitative holder perspective |
| Market Value | Any holdings | Price | Holders perspective |



Effective Value

It considers only financial effects that are already reflected in current financial performance or deriving from actions that have already been put in place.

Basis of Value

Intrinsic or
Fundamental Value

Investment Value

Fair Value

Market Value

Effective Value

It considers only financial effects that are already reflected in current financial performance or deriving from actions that have already been put in place.

Potential Value

It considers also planned actions that have not yet been started and potential investments opportunities

Basis of Value

Intrinsic or
Fundamental Value

Investment Value

Fair Value

Market Value

Effective Value

It considers only financial effects that are already reflected in current financial performance or deriving from actions that have already been put in place.

Potential Value

It considers also planned actions that have not yet been started and potential investments opportunities

Basis of Value

Intrinsic or
Fundamental Value

Investment Value

Fair Value

Market Value

It is referred to a value that could be recognized by any market participant

Objective Value

Effective Value

It considers only financial effects that are already reflected in current financial performance or deriving from actions that have already been put in place.

Potential Value

It considers also planned actions that have not yet been started and potential investments opportunities

Basis of Value

Intrinsic or
Fundamental Value

Investment Value

Fair Value

Market Value

It is referred to a value that could be recognized by any market participant

Objective Value

It is referred to a value determined using special assumptions

Subjective Value



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Conclusion: what we want to take home

The benefits will be:

1. Avoid confusion;
2. Reduce errors ;
3. Avoid «cherry picking»;
4. Reconciliate the different basis of value.