



cutting through complexity

Shareholder risk management

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Jean-Florent Rérolle
jrerolle@kpmg.fr



Agenda

Sudden shifts of value are:

- Frequent
- Lasting
- Strategy related

Implications for companies

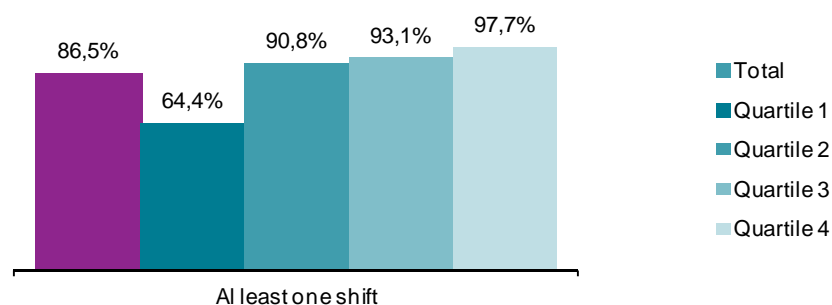
- Understand its financial market positioning
- Build a value creating organization
- Have an ongoing dialogue with investors

Implications for valuers

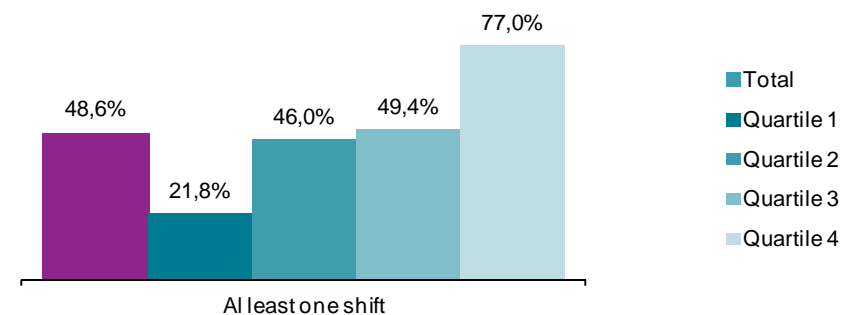
Shareholder risk is frequent

- KPMG study on Sudden Shifts of Value
 - 348 listed French companies (CAC All Tradable Index)
- KPMG identified:
 - 1827 instances of sudden shifts in share price value, of over 20% relative to the index, over a one month period during the past five years
 - 493 shifts of over 30%
 - 86.5% of companies have experienced at least one -20% shift
 - Almost 50% experienced at least one -30% shift

% of companies which have experienced at least one -20% shift



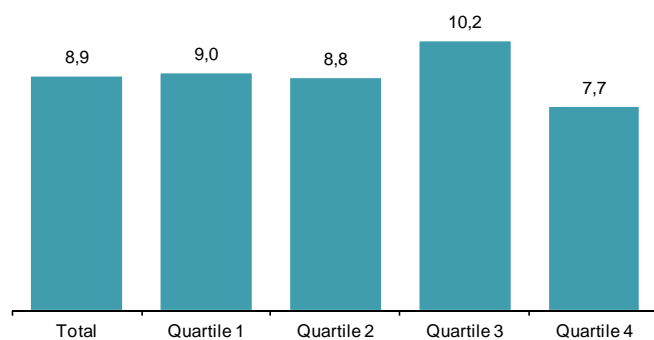
% of companies which have experienced at least one -30% shift



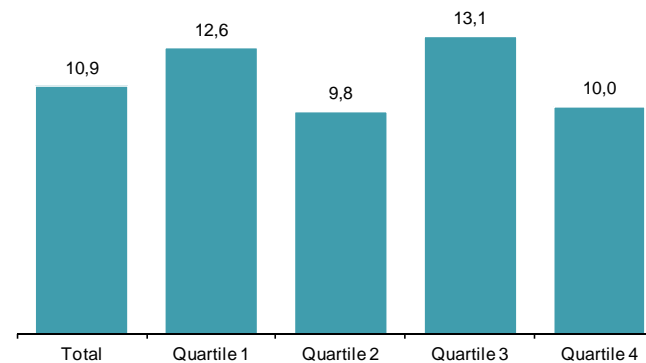
A sudden shift of value is lasting

- 75% of companies that experienced a shift in value during the first 4 years of the study saw their share price recover
- It takes 8.9 months on average to recover from a -20% shift and 10.9 months for a -30% shift

Average recovery time for -20% shifts



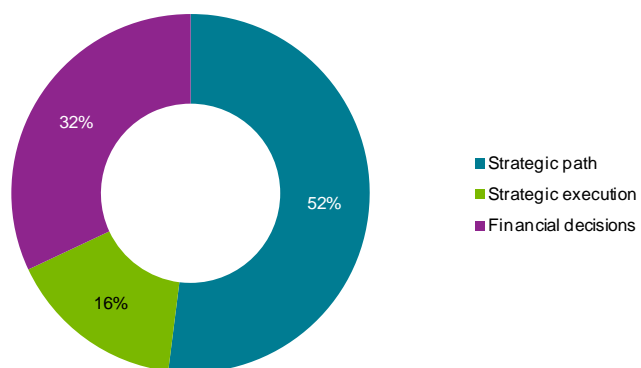
Average recovery time for -30% shifts



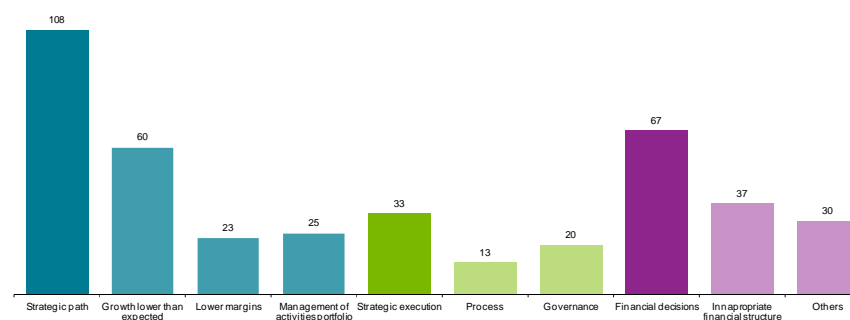
Sudden Shifts of value are strategy related

- KPMG has studied 207 shifts of more than -30%
 - 52% are due to a perceived deterioration of the company's strategic trajectory
 - 32% are related to anxiety-provoking financial decisions
 - 16% are due to faulty strategic execution or poor governance

Breakdown of reasons related to -30% shifts



Number of reasons per category (-30% shifts)



Companies should understand their financial positioning...

- Develop a strong belief in the long term value creation capability of the company
 - Identify links between the business model, strategic trajectory, competitive advantage and value
 - Identify key value drivers and risks for each SBU
 - Determine value of potential strategic scenarios

- Understand market expectations regarding the company and its competitors
 - Assess long term implicit financial hypothesis
 - Get to know your most significant shareholders
 - Identify the non-financial measures that matter for investors

- Evaluate company's ability to deliver on its long term promises

...build a value-creating organization...

- Manage assets
 - Respect value creation principle in all decisions
 - Merge finance and strategic thinking
 - Align performance measurement and compensation with value creation

- Manage enterprise risk
 - Define risk appetite
 - Analyze risk through value lenses
 - Identify the value impact of major strategic risk (competitive advantage period, business model adaptability ...)

- Define long term financial strategy
 - Ensure coherence between business maturity and strategy needs
 - Evaluate the impact of the financial structure on strategic flexibility

...and deploy an investor's exchange

- Remember:
 - Share price depends on investors' expectations
 - Companies are competing in the financial market
 - Investors count more than analysts: look for the lead steers
 - Investors need strategic, long term, balanced and fair information
 - Coherence is key
 - Don't be intoxicated by the short term

- Select and develop an ongoing dialogue with major shareholders

- Never over-commit!

- Show regularly that you are on the right track

How can valuation experts help?

■ Change your mindset!

- | | | |
|---------------|---|-----------------|
| – Specialists |  | Generalists |
| – Opinion |  | Consulting |
| – Risk averse |  | Calculated risk |

■ Refine our methodologies

- Include more non-financial issues in our analysis
 - Strategy
 - Governance
 - Economics and geopolitics
 - Behavioral finance
- Spend more time on scenarios (not the same as sensitivities)
- New approaches?



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