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# Deloitte Valuation Conference

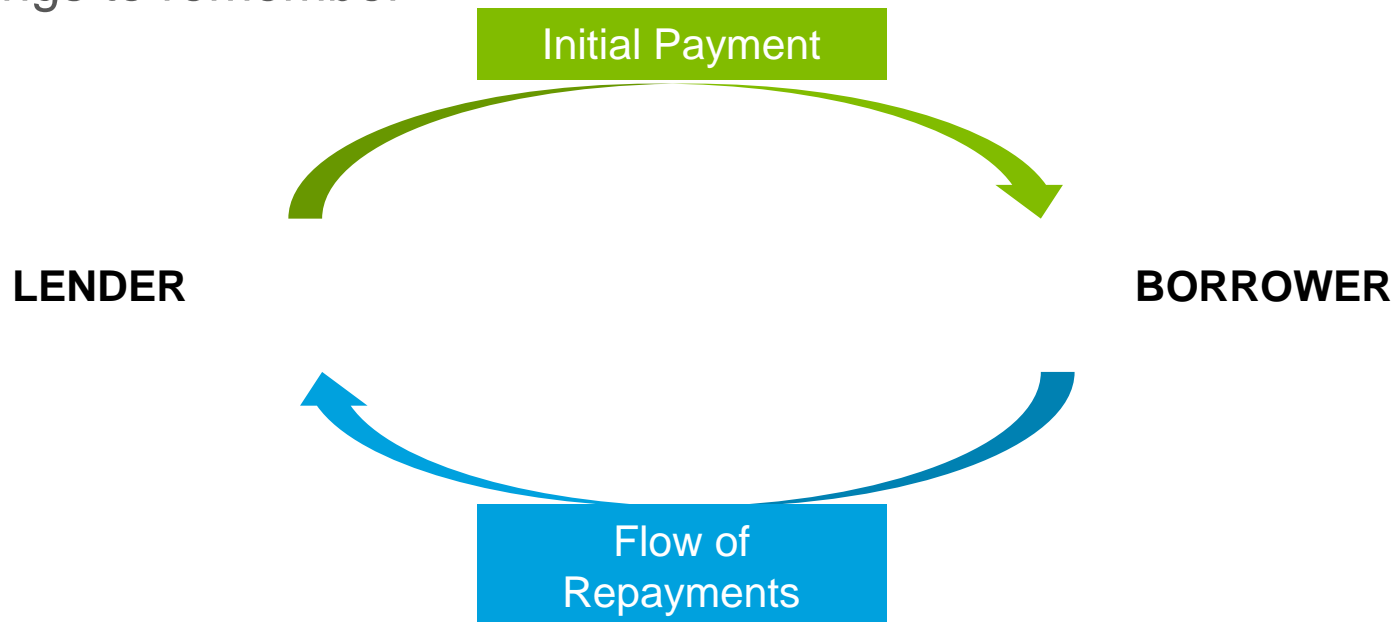
Private debt  
valuation



15 March 2016

# Is Debt hard to Value?

Three things to remember



Known principal

Pre-agreed interest

Settled in Cash

Known maturity

Certainty

**Payoff**

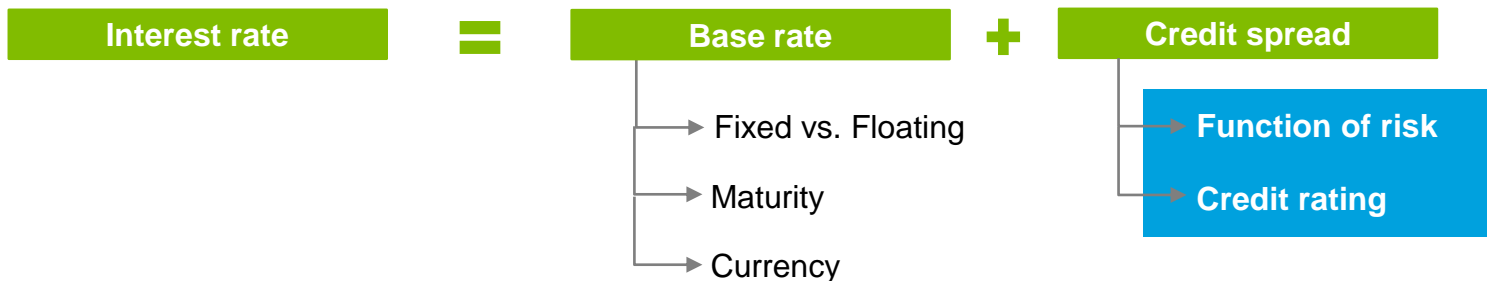
**Timing**

**Risk**

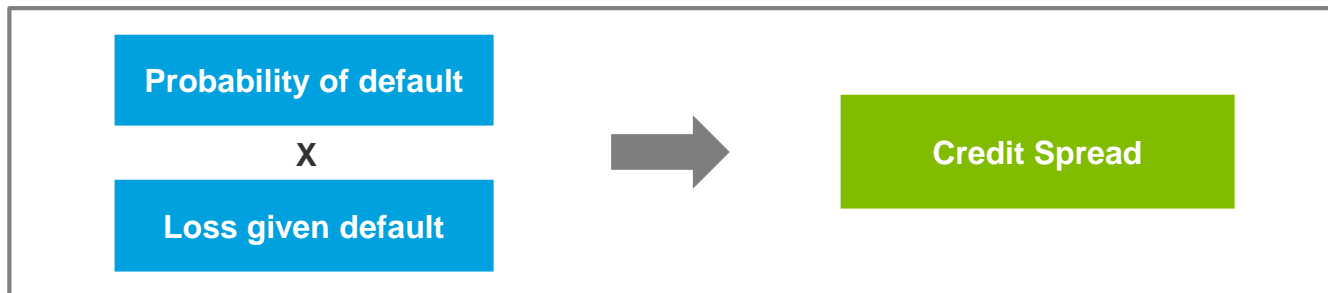
**Debt Valuation**

# Private debt valuation

## Debts and their characteristics



What's risk in the context of debt issuance?

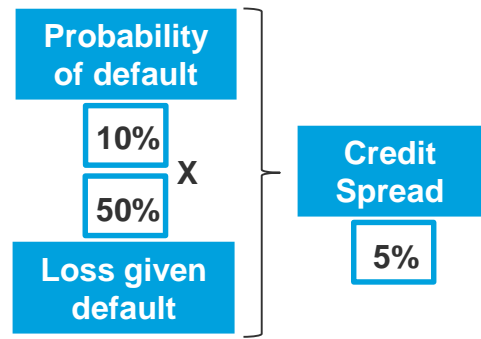


Probability of default?

10 chances out of 10 to be repaid at maturity	0%
9 chances out of 10 to be repaid at maturity	10%
8 chance out of 10 to be repaid at maturity	20%

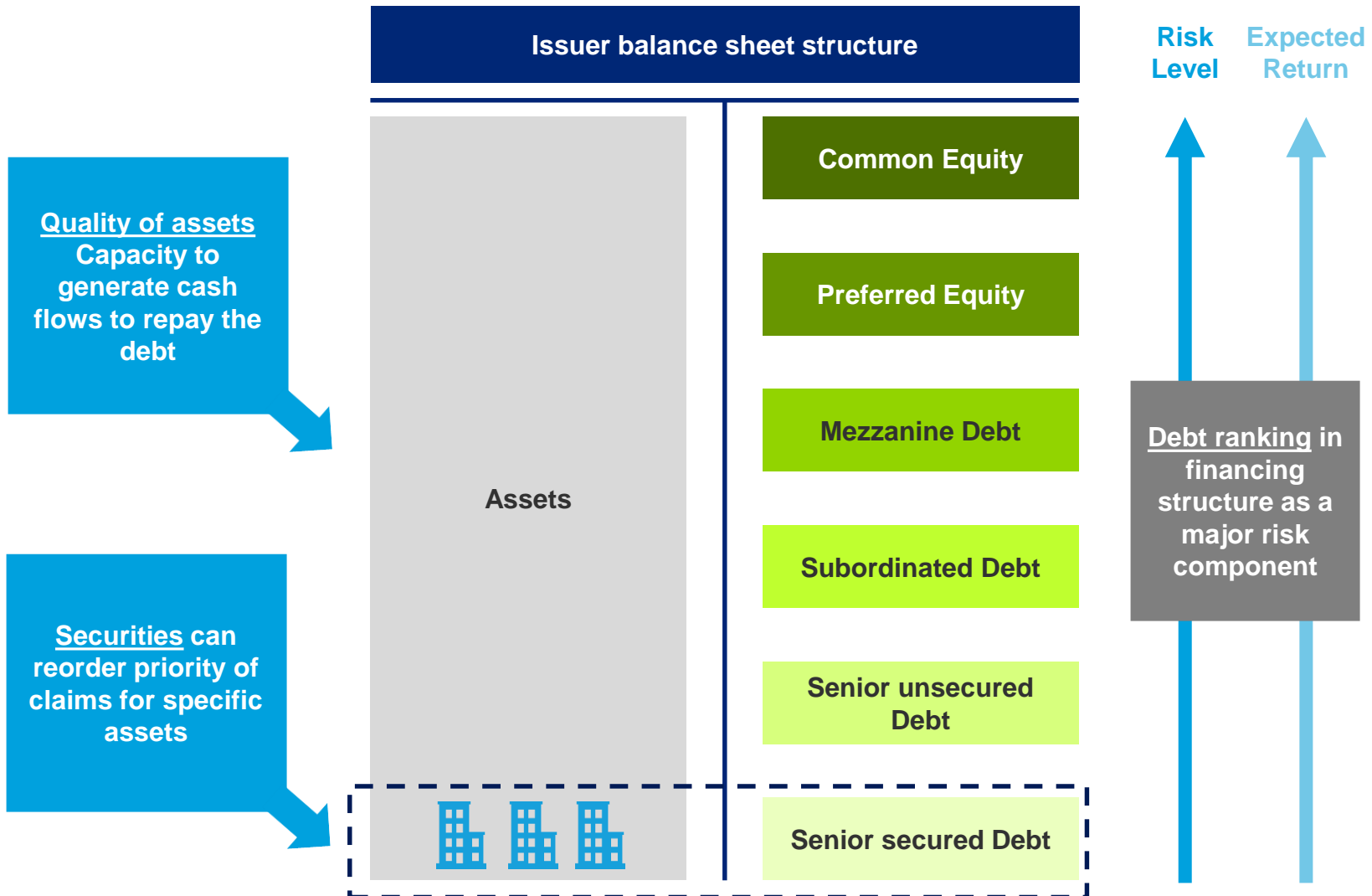
Loss given default?

I loose half of the amount in case of default	50%
I loose everything in case of default	100%



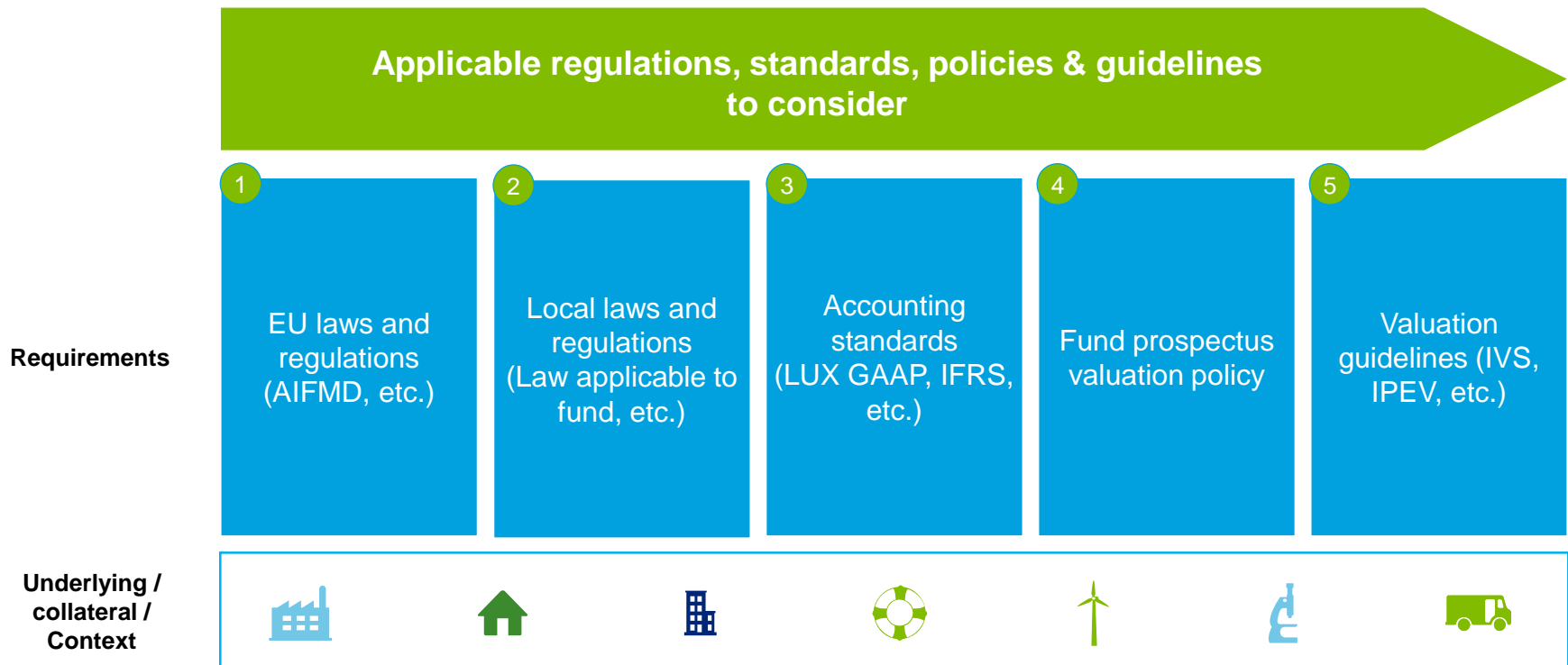
# Private debt valuation

What can affect risk?



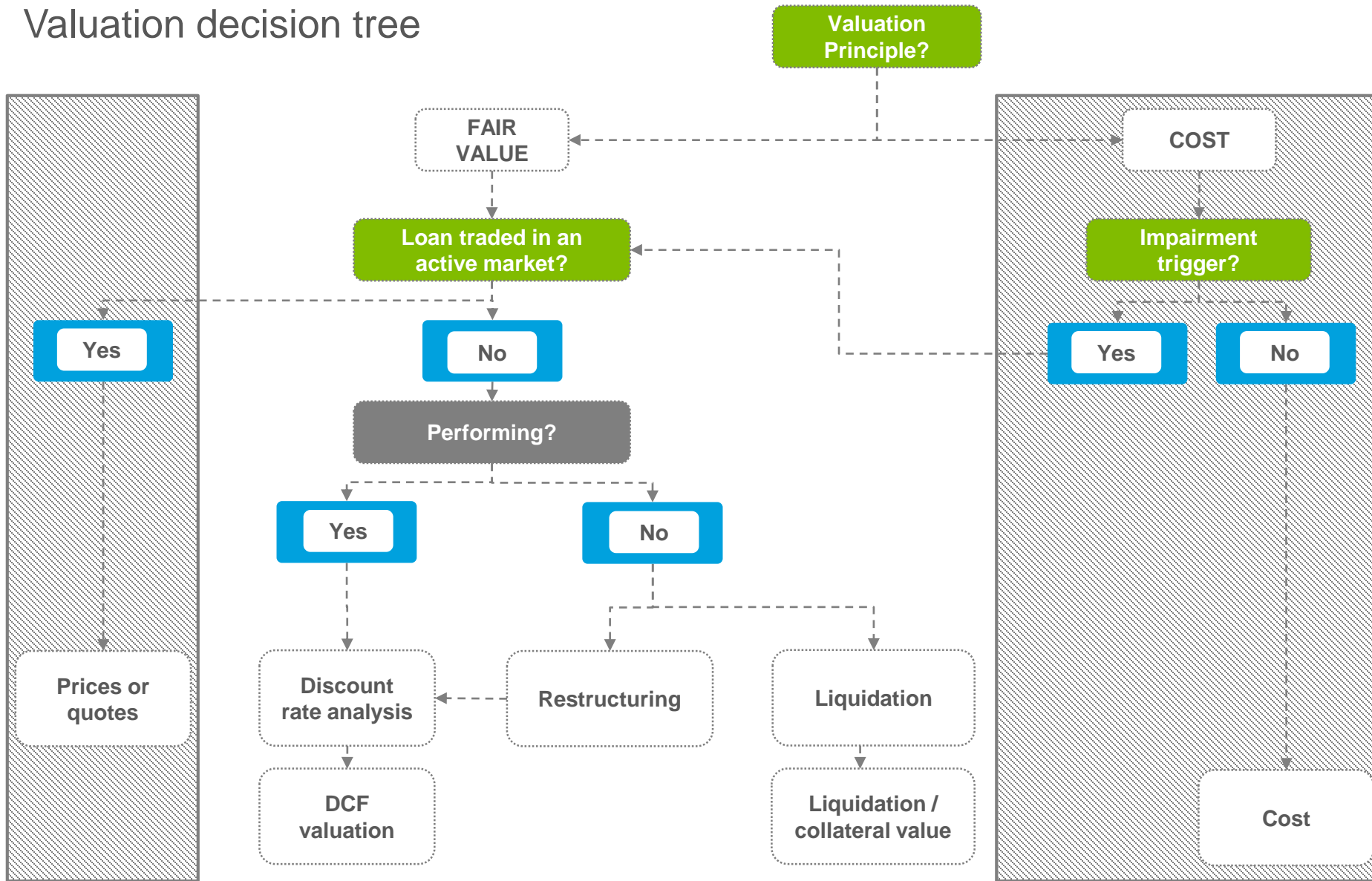
# Private debt valuation

Multiple elements to the valuation framework for private debt vehicles



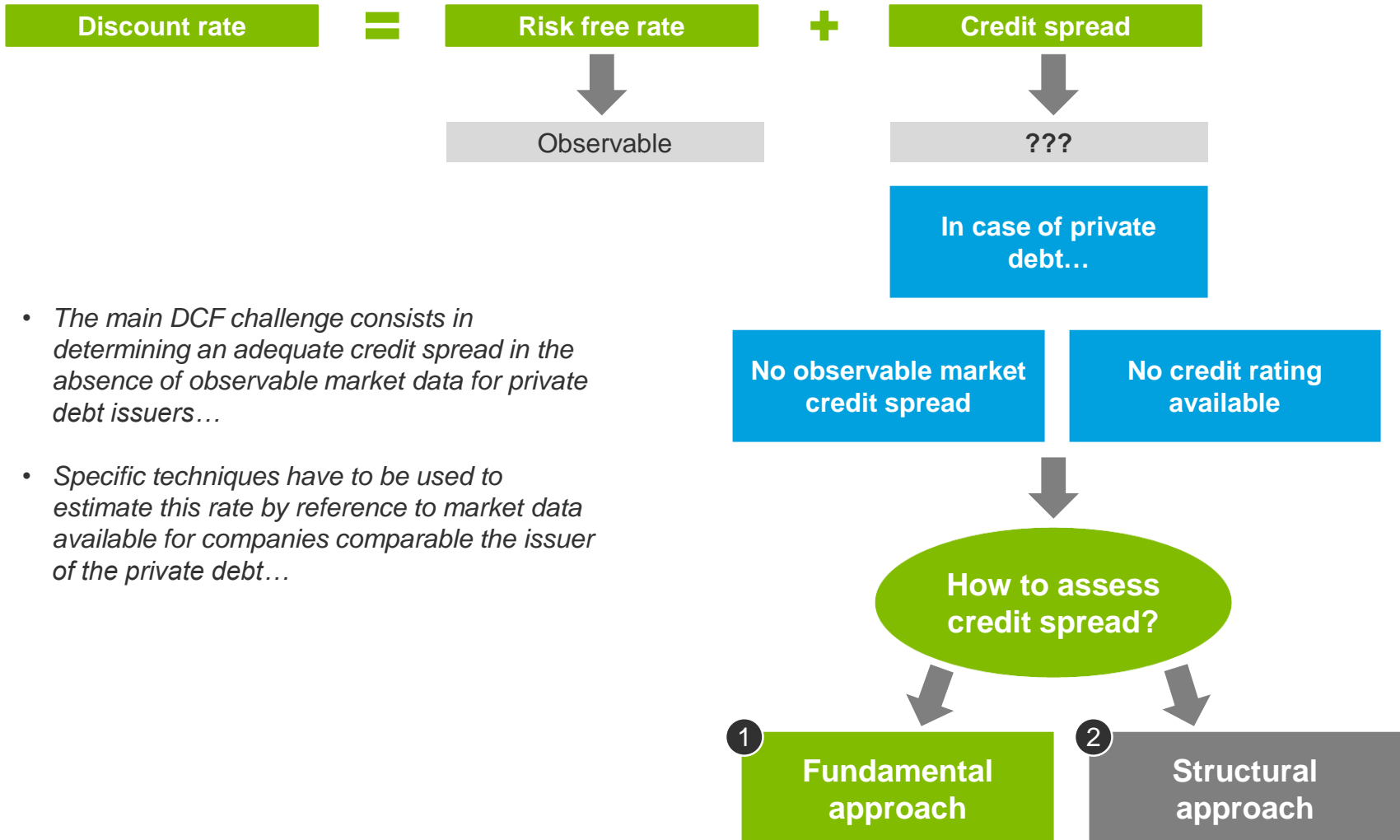
# Private debt valuation

## Valuation decision tree



# Private debt valuation

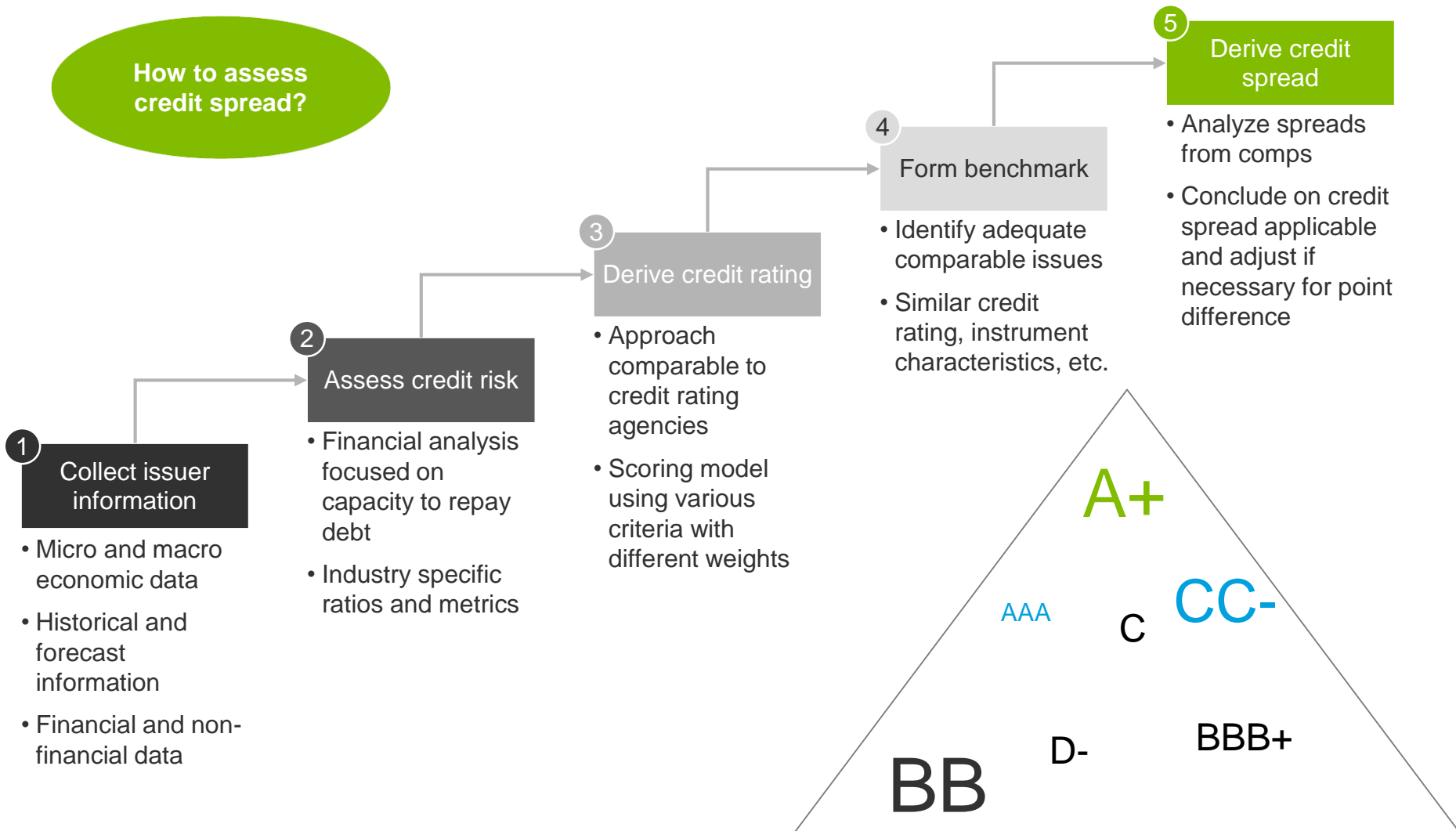
Discount rate estimate, the main challenge



- *The main DCF challenge consists in determining an adequate credit spread in the absence of observable market data for private debt issuers...*
- *Specific techniques have to be used to estimate this rate by reference to market data available for companies comparable the issuer of the private debt...*

# Private debt valuation

## Fundamental approach





# Thank you for listening

If you have any questions or comments, please contact [valuation@deloitte.lu](mailto:valuation@deloitte.lu)



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