Many businesses have experienced significant declines in market capitalization as a result of the unprecedented impact of and market reaction to COVID-19. Some of these impacts may be tied to temporary factors and extreme volatility in the markets, while others reflect longer lasting or even permanent shifts in the business or industries in which these companies operate. This will affect financial reporting for both March 31 quarter-end and beyond. The impact of COVID-19 also raises a number of valuation considerations to be aware of when valuing a fund’s investment holdings.

Private equity
The overall market decline resulting from world-wide reaction to COVID-19 signals that privately held equity investments will need repricing. In evaluating the nature and extent of the impact on a business, its income forecasts and valuation assumptions, funds should consider issues such as:
- Store or facility closures.
- Loss of customers or customer traffic.
- The impact on distributors.
- Supply chain interruptions.
- Production delays or limitations.
- The impact on human capital.
- Regulatory changes.
- The risk of loss on significant contracts.

Debt/Credit
The slow down in the economy from COVID-19 will likely lead to many performing instruments becoming distressed. This can be anticipated through the monitoring of several key factors, including:
- Declines in enterprise value/coverage ratios.
- Breaches of financial covenants.
- Key customer or supplier impacts that will lead to diminished cash flow in the future.

Valuing distressed debt may be more complex than a straightforward yield analysis, with special attention needed to determine:
- Likelihood of default.
- Ability to make cash payments in both near and longer term.
- Waterfall coverage for different tranches under a distressed/liquidation value.
- The impact of the crisis on the value of collateral.
- Ability to restructure the instrument.

Real estate
Real estate investments are generally less susceptible to market volatility but are subject to similar business pressures, as tenants face the pressures described above.
- Given the ongoing decline in energy markets at the same time as the COVID-19 crisis, geographical areas with a dependence on sectors, such as oil and gas, are facing even more significant impacts.
- In addition, real estate investments in the hospitality, gaming/transportation industries, such as hotels, casinos, parking garages, etc., will see significant short-term and potentially long-term effects on their underlying real estate forecasts and valuations.
- Other real estate asset types such as data centers, cell tower/telecommunication/data, and warehouse/logistics may see increased long-term demand as businesses adjust their operations to a post-COVID-19 world.

Market Data Discrepancies
- As comparable company metrics are on a lagging basis, market multiples will be depressed relative to historic multiples, as the denominator (BEV or Equity) has declined significantly while the metrics do not accurately reflect the impact of COVID-19 on the underlying business financials.
- Revised analyst estimates for the public companies may also not be formalized, which will have a similar impact on the use of forward-looking multiples. It is important to consider this when selecting the appropriate multiple to apply to a portfolio company’s metrics, particularly if those metrics have already been adjusted downward.
- Care should be given to ensuring the public companies and the portfolio company are being compared on an apples-to-apples basis.
- Discount rates built up using historical data may not reflect the current environment or outlook for the business going forward.
Other considerations

Reforecasting and modeling:
Given the immense uncertainty in the near and medium term, consider alternative scenarios in your forecasting process and performing enhanced modeling.

Cash management:
Evaluate whether the portfolio companies have cash to cover operations and obligations under alternative scenarios and stay connected with your lenders.

Normalization of Market Data:
Given the disconnect in market data (“unaffected” metrics vs. “affected” market prices), it is important to document the nature of the selected multiples (actual vs. normalized) and how they align against the portfolio company’s financial metrics. While there is no preferred method, care should be made to ensure that the comparison is apples-to-apples between the public comps and the portfolio company.

Deloitte industry impact

Reforecasting and modeling:
84% Consumer and Industrial Products 83% Life Sciences & Health Care
Deloitte serves 84% (or 161 companies) of the 192 FG500 C&IP companies Deloitte serves 83% (or 19 companies) of the 23 FG500 LSHC companies
71% Energy & Resources 91% Technology, Media, & Telecommunications
Deloitte serves 71% (or 80 companies) of the 113 FG500 E&R companies Deloitte serves 91% (or 48 companies) of the 53 FG500 TMT companies
89% Financial Services 89% Public Sector
Deloitte serves 89% (or 106 companies) of the 119 FG500 FSI companies Deloitte serves clients including civil governments, public health and social services, defense, international donor organizations, public safety, transportation, and education.

ValueD™ Value insights. Informed decisions.
ValueD™ is a powerful technology platform that leverages artificial intelligence (AI), market—based benchmarks, and our vast industry experience to assist clients to improve the valuation process, cut through complexity, and provide deeper insights into how valuations are performed through a real-time dynamic view that clients can use to help improve their strategic decision-making.

The ValueD™ advantage—Impairment Analysis
With ValueD, we can help you develop quicker and deeper insights, and provide you with access to dynamic tools that assist in the performance of Reporting Unit and Cash Generating Unit impairment analyses.

ValueD™ provides the ability to perform and weight multiple valuation approaches, source industry and economic market data, estimate discount rates, benchmark projected performance to actual historical performance, and perform comparative analysis to industry peer group companies.

Contact Information
Email: jswiatkowski@deloitte.com
Phone: +1 (617) 437 2603

Who we are:

George Psarianos
Managing Director
Deloitte Transactions and Business Analytics LLP
George has more than 19 years of professional experience and serves as the head of Deloitte’s Portfolio Valuation Services. In George’s capacity as US Portfolio Services Leader, he works with clients within the asset management space where he provides consulting on valuation processes, assists in developing policies and procedures, and performs estimates of value for various investment classes (e.g., equity, debt, loan portfolios, warrants, etc.) for both financial reporting and due diligence purposes.

Contact Information
Phone: +1 (212) 436 6130
Email: gpsarianos@deloitte.com

John Swiatkowski
Specialist Leader
Deloitte Transactions and Business Analytics LLP
John has more than 18 years of experience in advising public and private companies in the investment management sector on issues related to valuation and financial modeling for both themselves and their portfolio companies.

Contact Information
Phone: +1 (617) 437 2603
Email: jswiatkowski@deloitte.com

Enhanced quality
Leverages AI and cognitive technologies coupled with our experience to enhance quality and reliability.

Business insights
Provides benchmarking and insights based on a variety of research and proprietary databases to provide insights that enable informed business decisions.

Dynamic modeling
Offers the ability to dynamically perform multi-variable sensitivity analysis and evaluate alternative scenarios on-demand.

Data analysis
Click-through experience provides an improved understanding of sources and calculations enabling you to uncover and convey true value.

Valuation management
Provides enhanced visibility of project status, enables real-time tracking of data requests, and facilitates response to data requests.

Copyright © 2020 Deloitte Development LLC. All rights reserved.