The Complexities of Private Equity Valuations: Q&A with Heleen Goussard and Rory Ord, RisCura

How do the International Private Equity and Venture Capital Valuation Guidelines (IPEV) differ from some of the other major valuation standards?

The other major valuation standards are the reporting standards under IFRS and US GAAP, and then the International Valuation Standards. The International Valuation Standards attempt to set a complete set of standards for the performance of independent valuations over all asset classes.

The best way to see the IPEV standards is as an interpretation of IFRS and US GAAP for the private equity environment. The IPEV standards do not attempt to deal with the best practice for valuation in general, as dealt with in the International Valuation Standards, but rather the practical implications of trying to follow best practice per the International Valuation Standards and the reporting standards within the private equity environment.

Can you give a couple of examples of when it might be appropriate/inappropriate to use the Price of Recent Investment (PORI) in assessing the fair value of a portfolio company?

The first time the appropriateness of the PORI is considered is at the time of investment. The factors that need to be considered at this point and would indicate that the use of a PORI is not appropriate include:

- Different rights attach to the new and existing Investments.
- Disproportionate dilution of existing investors arising from new investor(s);
- A new investor motivated by strategic considerations; or
- The transaction may be considered to be a forced sale or “rescue package”

At each subsequent date at which the PORI is used, consideration needs to be given to if the PORI is still appropriate. The PORI will only remain appropriate if there is stable market conditions with little change in the entity or external market environment. There is no specific period of time for which the PORI remains relevant, so consideration needs to be given to the relevancy at each reporting period.

Can you describe the characteristics of an appropriate comparator company for valuation purposes? What are some of the challenges GPs face in finding appropriate comparables in the Southern African marketplace?

The biggest challenge is to find high quality comparators. Ideally the comparator would be operationally very similar, within the same or very similar market, the same size, preferably with a similar growth profile and level of liquidity.

As the people doing these valuations well know, normally you are only able to match about two of these characteristic within the Southern African marketplace, where after adjustments need to be made to the comparator multiples. The method and magnitude of these adjustments is where most of difficulty arises.

Is there anything you’d like to add that you think our readers should know?

The process of valuation and the research done in this field has evolved tremendously in the last 5 to 10 years and what is expected of valuation practitioners has become much more demanding. This trend is also likely to continue as the emphasis on high quality fair value reporting increases.

Heleen and Rory led our October 2015 advanced training programme in valuation reporting.