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Inside

02
Feature
New Delaware Voluntary Disclosure Program for Reporting Unclaimed Property

03
Technical Notes
Stakeholders Who Need to Know About ASC 740 and Transfer Pricing

04
International in Focus
IFRS 13 Fair Value Measurement Becomes Mandatory

05
Spotlight
Goodwill Impairment Study: Canadian Edition

06
North American Industry Market Multiples

07
European Industry Market Multiples

08
About Duff & Phelps

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In this edition of Valuation Insights we discuss a new voluntary disclosure program implemented by the State of Delaware which allows companies to report their unclaimed property with added incentives to doing so. If your company is registered in the state of Delaware this program could save you millions of dollars if you take action now.

In our Technical Notes section we discuss the roles and responsibilities of different stakeholders, including the tax and accounting teams as well as the CFO and other company executives, in connection with accounting for uncertain tax positions in transfer pricing.

Our International in Focus section discusses the newly implemented IFRS 13-Fair Value standard and implementation issues that companies can expect.

Finally, our Spotlight article discusses the Duff & Phelps inaugural Canadian Goodwill Impairment Study that was done in conjunction with the Canadian Financial Executives Research Foundation.

In every issue you will find industry market multiples which are useful for benchmark valuation purposes. We hope that you will find this and future issues of this newsletter informative and reliable resources.

Read this issue to find out more.

New Delaware Voluntary Disclosure Program for Reporting Unclaimed Property

If your organization is one of over 800,000 corporations incorporated in the State of Delaware then recent guidelines encouraging companies to voluntarily report any unclaimed property could save your company millions. The State estimates less than 5% of corporations registered in Delaware currently comply with it's unclaimed property laws.

Over the past decade, Delaware has aggressively asserted its enforcement against large and mid-sized companies that the State considered not to be in compliance with its laws. Armed with highly sophisticated third party contingent fee auditors, unlimited statute of limitations and the ability to use sampling techniques to compute liabilities 20-30 years in arrears when researchable records no longer exist, the State has been tremendously successful raising hundreds of millions of dollars from corporations. Many of which have little or no presence in the state.

Many corporations have been critical of Delaware's aggressive (some would say abusive) audit practices that can extend five or more years and lacked any formal administrative process to resolve differences. Several major corporate lobbying groups recently threatened if Delaware did not soften its tone and audit practices they would revolt by taking their corporate charter elsewhere, thus putting at risk hundreds of millions of recurring franchise fees.

In response, Delaware passed legislation in 2012 which provides corporations a window of opportunity to voluntarily come forward to report their unclaimed property liabilities. The new program is advertised as being: "cheaper, faster and easier" for Delaware corporations to "catch-up" on their past due unclaimed property obligations.

The Promise

If a company voluntarily comes forward by indicating its consent to review its historic books and records and report any past due property by June 30, 2014 in exchange the state will:

1. Eliminate any risk of audit
2. Waive any interest and penalties, which if imposed could equal or exceed the potential liability
3. Reduce the period of years a corporation has to report (from 1981 if audited to 1996), or alternatively 1993 if the corporate holder initiates the Voluntary Disclosure Agreement ("VDA") after June 30, 2014, or fails to complete the submission by June 30, 2015.
4. Administer the voluntary submission through the Secretary of State in a more friendly and collaborative manner than corporations may have experienced under previous programs.
5. Complete the review within 9 months.

Who Should Take Advantage of the New Delaware VDA Offering?

Corporations that do not have a history of past reporting with the state: Clearly, any Delaware incorporated business that does not have a history of reporting unclaimed property with the state should strongly consider initiating a VDA.

Corporations that have a history of past reporting, but may have identified additional potential areas of unreported property: After a careful review of prior years' activities or often after migration of accounting systems, many organizations identify certain types of potentially unreported unclaimed property. The most common occurrences are in the form of customer credit balances and poorly documented void check registers.

Merger/Acquisitions: Typically, whether a stock or asset acquisition, the unclaimed property liability of the target carries over to the acquiring company. As such, entering into a VDA to cleanse the past history should be a consideration of any organization that has been acquisitive in the past.

Corporations that previously submitted VDA's or were audited: It is not uncommon after a time consuming audit or VDA submission for resources to be redirected away from ongoing monitoring of future potentially reportable property. The new VDA process provides companies with the opportunity to once again revisit any items or property types that may have gone unreported.

Key Take Aways

1. The new Delaware VDA program presents thousands of companies a fresh opportunity to realize significant cost savings and avoid future audit scrutiny and time.
2. Any corporation that is considering participating should assess the magnitude of any past liability and specific mitigation strategies that may be available to reduce the potential liability whether or not they choose to enter the VDA program.
3. Double jeopardy may come into play. Corporations that do not have a history of filing with the state are on notice that their likelihood of audit increases if they do not voluntarily step forward.
4. Seeking the advice of advisors who are familiar with the process will help to navigate the myriad of information that is required to be gathered as part of the submission. Achieving a favorable outcome will rely heavily on securing proper documentation to support prior years' activities, and how that information is gathered and presented can materially affect the liability.
5. Do not delay, the clock is ticking and most companies will need to make a decision within the next several months. There is a "window of opportunity" for companies to take advantage of the initiative. To gain maximum benefit that window closes June 30, 2014 to initiate a company's intention, and the program sunsets June 30, 2015.

On February 19, 2013 Duff & Phelps is hosting a complimentary webcast on the Delaware VDA program. Visit www.duffandphelps.com/upwebcast to register.

For more information contact Robert Peters at +1 312 697 4924 or Sonia Walwyn at +1 312 697 4662.

Technical Notes

Stakeholders Who Need to Know About ASC 740 and Transfer Pricing

In a recently published Bloomberg BNA portfolio "Accounting for Income Taxes: Uncertain Tax Positions in Transfer Pricing" which is included in the Accounting Policy and Practice Services, Tax and Accounting Portfolio 5004 (the "Portfolio"), the authors (all Duff & Phelps Transfer Pricing Managing Directors) provide an overview of the two-step process required under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740-10[1] and its application to transfer pricing. The following article contains selected excerpts, as a high-level summary, from the Portfolio section, Stakeholders Who Need to Know About ASC 740 and Transfer Pricing.

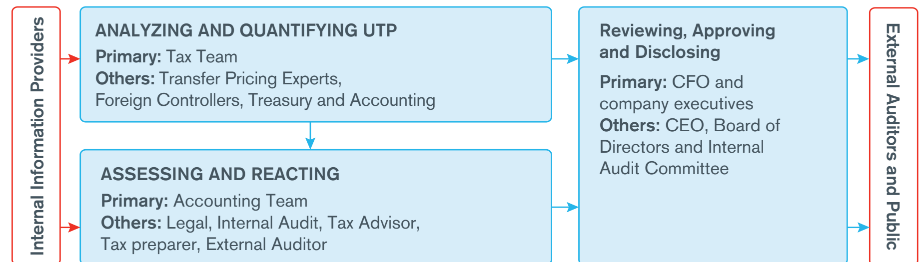
Within the Board comments of FASB Interpretation No. 48, the potential stakeholders are identified as "investors, creditors, donors, and other capital market participants who must make rational investment, credit, and similar resource allocation decisions."[2] However, when evaluating transfer pricing matters for ASC 740-10, the stakeholder group expands to include all of the participants involved with preparing, reviewing and approving a company's accounting treatment of uncertain tax positions ("UTPs") related to transfer pricing under ASC 740-10.

Transfer pricing impacts one of the largest (and typically most risky) expense items a company has: tax. Not only does the company's ASC 740-10 analysis of transfer pricing UTPs cover U.S. federal positions, it also includes global and state and local positions. As a result, the treatment of transfer pricing issues under ASC 740-10 can have a significant impact on a company's stock price, corporate credit rating, and reputation.

Companies have three primary groups that take responsibility for and are most likely to have a high interest in ASC 740-10 analyses of transfer pricing: the tax team, the Chief Financial Officer ("CFO") and company executives, and the accounting team. With so many stakeholders, it is critical that the perspectives of these three groups be in harmony. Accordingly, this makes ASC 740-10 analyses of transfer pricing an important topic with a unique set of issues to address.

To help further illustrate the connections and information flow between the three primary stakeholder groups, Figure 1 diagrams these relationships and exchanges at a high level.

Figure 1



As illustrated above, there are numerous groups supplying information used to recognize and measure UTPs related to transfer pricing under ASC 740-10. Up-front and on-going communication is critical for the stakeholder information gathering and sharing process to be effective. Each of the groups above need to effectively communicate regarding such topics as materiality, acceptable risk, documentation, and internal controls to determine what will be acceptable for the entire company.

For this reason, the focus of this article is on the key items that impact the individual roles taken by the various stakeholders involved.

1. **Tax Team:** The responsibilities of the tax team include identifying, analyzing and quantifying transfer pricing exposures. To properly account for intercompany transactions, the tax team must understand which taxable years are open, what transfer pricing audits have occurred, and what documentation exists to support the nature of the company's intercompany pricing. The tax team is also the group that is responsible for calculating the amounts that are reported on tax returns, which will constitute the actual UTPs that ASC 740-10 analyses are supposed to evaluate.

2. **Accounting Team:** The responsibilities of the accounting team include interpreting and reacting to ASC 740-10's requirements for the unique circumstances of transfer pricing-related UTPs. As part of this process, the accounting team may assist by helping define Units of Account for transfer pricing positions, providing information on the data available for analyzing the UTPs, determining materiality considerations in cooperation with external auditors, and discussing what UTPs can be recognized with auditors.

3. **CFOs and Company Executives:** Under Sarbanes-Oxley (Section 404) requirements, CFOs must approve the controls and procedures surrounding the accuracy and completeness of their financial statement disclosures – in essence, the buck stops with the CFO. With ASC 740-10, companies have been making specific disclosures about uncertainties related to how tax authorities will view their transfer pricing positions. The amounts being disclosed within companies' SEC filings related to ASC 740-10 and transfer pricing are in the hundreds of millions every quarter, and therefore have significant meaning for investors reading the financial statements. As discussed elsewhere in the Portfolio, the ripple effect of these results can impact a company's credit ratings, stock price, shareholders' equity, increase to contingent liabilities, volatility in year-to-year earnings report, and more importantly the company's reputation.

With extensive experience conducting ASC 740-10 analyses to identify and satisfy UTPs for transfer pricing, the Duff & Phelps Transfer Pricing practice can provide more guidance on the responsibilities of the aforementioned stakeholders of ASC 740-10 and transfer pricing.

For additional information or to learn how we can assist your company, please contact Christopher Desmond at +1 312 697 4589, Michelle Johnson at +1 312 697 4680 or Mark Schuette at +1 678 455 6662.

1. FASB ASC 740-10 is formerly known as FASB Interpretation No. 48 ("FIN 48").
2. FIN 48, ¶ B73.

International in Focus
IFRS 13 Fair Value Measurement Becomes Mandatory

Background

In 2011 the IASB issued IFRS 13 Fair Value Measurement, the culmination of a convergence project undertaken with the U.S. Financial Accounting Standards Board (FASB). The IASB and the FASB (together, the "Boards") achieved the goal of establishing a single set of global accounting standards to measure fair value. As a result, IFRS 13 is virtually identical to the revised Accounting Standards Codification (ASC) Topic 820 Fair Value Measurement.

Although early adoption was permitted, IFRS 13 became effective only recently. For companies reporting under IFRS, the new standard became mandatory for annual reporting periods beginning on or after January 1, 2013. Despite some delay, the European Commission finally endorsed IFRS 13 in December 2012, which means that European Union companies filing under IFRS must adopt IFRS 13 as of the effective date.

Fair Value Educational Materials

While a single fair value standard has been around in U.S. GAAP for quite some time, such uniform, unified guidance on measuring fair value did not exist under IFRS until the issuance of IFRS 13.

Throughout the development of this standard, entities in developing countries repeatedly expressed concerns about measuring fair value in their jurisdictions. Examples of concerns included (i) a perceived absence of, or limited access to, market data due to the illiquid nature of some of these markets; (ii) a lack of detailed guidance on how to apply fair value principles in a consistent manner; and (iii) a limited population of practitioners possessing the requisite valuation skills to apply the fair value guidance in these jurisdictions.

In finalizing IFRS 13, the IASB observed that these concerns were not unique to entities located in emerging markets. In fact, entities in developed economies had struggled with similar issues during the global financial crisis, and had also requested guidance on measuring fair value of equity instruments without active markets. [IFRS 13.BC232]

Ultimately, the IASB concluded that fair value should not be measured differently depending on the jurisdiction. However, the Board acknowledged that constituents could benefit from educational materials to ensure fair value is consistently applied across jurisdictions. In this context, the IFRS Foundation is developing educational materials to support the application of IFRS 13 principles across a number of topics. The intent is for topics to be published in individual chapters as they are finalized.

On December 20, 2012 the IFRS Foundation published the first of these chapters, entitled "Measuring the fair value of unquoted equity instruments within the scope of IFRS 9 Financial Instruments." While this chapter can be helpful in illustrating certain fair value concepts, it is not considered authoritative when applying IFRS 13.

The valuation of unquoted equity instruments was one of the areas perceived as challenging by various constituents. The reason is that investors often have limited access and/or lack timely financial information about the investee at the measurement date. This chapter illustrates how fair value can nonetheless be measured in such circumstances.

The chapter presents examples of commonly used valuation techniques for estimating fair value of unquoted equity instruments. Some of the more complex topics include dealing with non-operating items, applying non-controlling interest and lack of liquidity discounts, estimating country risk premiums, and ensuring currency consistency in valuations.

Rather than prescribing the use of specific valuation techniques, the chapter encourages the use of professional judgment and the consideration of facts and circumstances surrounding the measurement. Other long standing guidance on valuing unquoted equity instruments is included in the IPEV Valuation Guidelines (www.privateequityvaluation.com).

What's New on the Horizon?

The IASB recently amended IFRS 10 Consolidated Financial Statements to provide an exemption from consolidation to qualified investment entities, by mandating them to measure certain subsidiaries at fair value through profit or loss in accordance with IFRS 9 or IAS 39 Financial Instruments: Recognition and Measurement. These changes are effective January 1, 2014, with early adoption permitted.

Consolidation has been a significant issue for private equity funds reporting under IFRS, with many investment entities avoiding (where possible) IFRS, just to circumvent consolidation requirements. Counterpart U.S. investment companies are more fortunate in that U.S. GAAP exempts them from consolidating controlled portfolio companies and instead allows these to be measured at fair value.

While this amendment represents significant progress in responding to industry concerns, an important issue remains before we see more investment funds adopting IFRS. In particular, the issue of unit of account for measuring the fair value of controlled investments has been a sticking point, as discussed in the recently updated IPEV Guidelines (December 2012). If required to measure controlled financial instruments as a single unit or individual share, the attractiveness of IFRS for investment companies is greatly diminished. Don't miss the in-depth article on this topic in the next issue of Valuation Insights.

For more information contact David Larsen, Managing Director, at +1 415 693 5330, or Carla Nunes, Director, at +1 215 430 6149

Spotlight

Goodwill Impairment Study: Canadian Edition

Financial reporting in Canada has been undergoing remarkable changes during the transition from Canadian Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS). While the conceptual framework and many of the general principles are similar between IFRS and GAAP, certain aspects can differ significantly. Goodwill impairment rules are one of these differences.

Duff & Phelps and the Canadian Financial Executives Research Foundation (CFERF) will be releasing the inaugural 2012 Goodwill Impairment Study: Canadian Edition (the "Study") in February. The Study, attempts to answer questions relating to goodwill impairment that are top of mind for Canadian financial executives, and includes five areas of analysis:

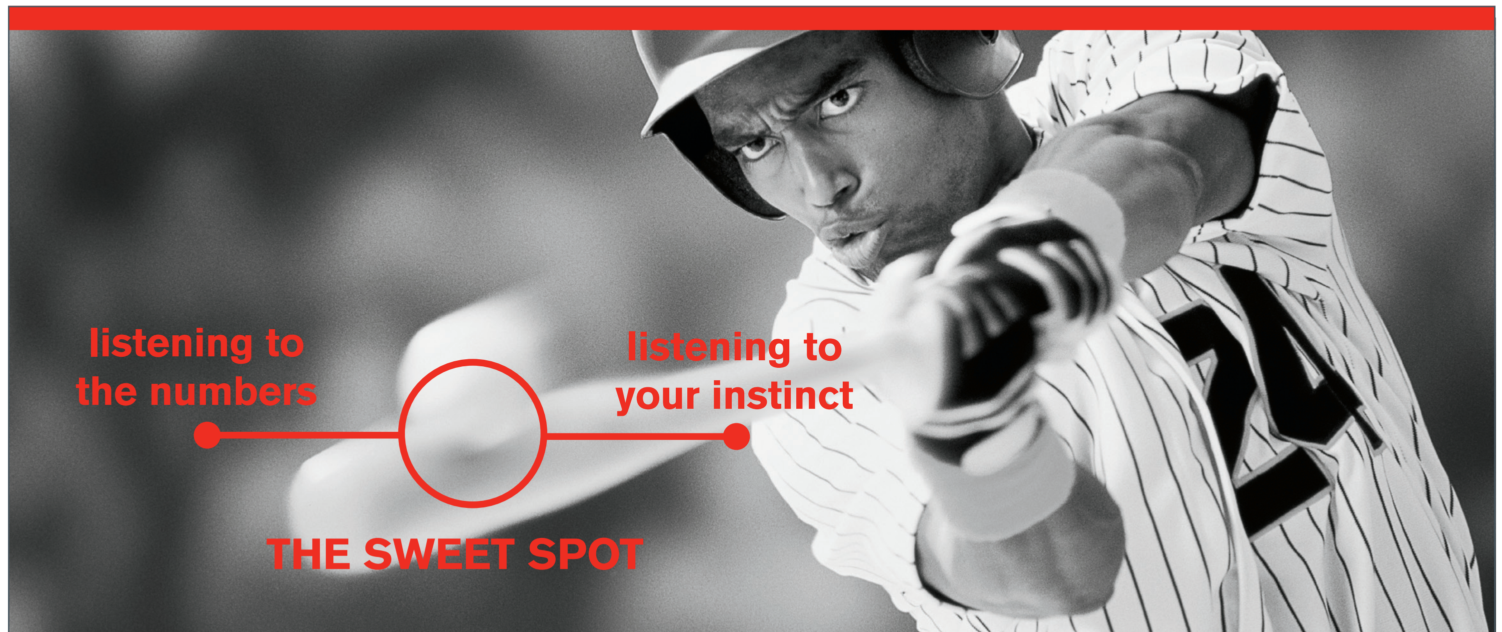
1. Goodwill Impairment and the Impact of IFRS Adoption
2. Summary Statistics by Industry
3. Market-to-Book Value Analysis
4. Returns-Based Analysis
5. CFERF Survey Results and Forum Insights

Study Highlights

- IFRS adoption prompted an incremental $7.1 billion in goodwill impairments recognized in 2010, relative to the originally reported $1.3 billion. Of the total incremental impairments, $5.5 billion was recognized as a one-time adjustment to retained earnings, while $1.6 billion was recognized as an additional 2010 income statement charge.
- The aggregate amount of goodwill impaired in calendar year 2011 by Canadian publicly traded companies was **$11.0 billion,** $8.9 billion (or 81%) of which was recognized by three major companies; therefore the ongoing impact of applying IAS 36 *Impairment of Assets* is yet to be determined.
- In general, companies that did not recognize a goodwill impairment over the 2012 study's 2007–2011 time horizon outperformed those that recorded a goodwill impairment as well as the S&P/TSX Composite Index.

Please visit www.duffandphelps.ca to obtain a complete copy of the Goodwill Impairment Study: Canadian Edition.

For more information contact Andy Harington, Managing Director at +1 416 364 9790, Chris Jones at +1 416 361 2589 or Gary Roland at +1 215 430 6042.



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North American Industry Market Multiples

As of December 31, 2012

Industry	Market Value of Equity to Net Income		MVIC to EBIT		MVIC to EBITDA	
	U.S.	Canada	U.S.	Canada	U.S.	Canada
Energy	16.7	13.0	16.7	12.9	9.1	6.5
Energy Equipment & Services	16.4	8.7	11.5	8.3	8.1	5.1
Integrated Oil & Gas	9.7	—	8.3	—	4.9	7.1
Materials	15.6	11.4	12.2	12.3	8.4	7.9
Chemicals	16.0	10.5	12.1	11.2	8.7	7.2
Diversified Chemicals	16.3	—	13.1	—	8.8	—
Specialty Chemicals	17.1	—	12.5	—	9.4	—
Construction Materials	17.1	16.3	32.6	9.3	12.6	6.6
Metals & Mining	13.4	11.0	13.1	12.6	8.5	8.2
Paper & Forest Products	14.0	16.3	12.1	22.5	6.9	12.1
Industrials	16.5	13.0	12.1	12.3	9.0	8.7
Aerospace & Defense	13.0	7.7	10.7	9.5	7.9	7.5
Industrial Machinery	17.1	10.3	12.2	12.4	9.3	9.9
Commercial Services & Supplies	17.8	18.0	13.2	13.4	8.8	9.0
Road & Rail	17.3	12.9	12.2	12.6	7.6	10.0
Railroads	19.7	—	13.5	—	10.5	—
Consumer Discretionary	16.0	14.0	11.8	12.1	8.5	8.6
Auto Parts & Equipment	8.7	10.1	10.2	8.2	6.5	5.5
Automobile Manufacturers	8.7	—	9.9	—	7.3	—
Household Durables	11.6	—	11.4	—	9.4	—
Leisure Equipment & Products	15.8	—	11.5	—	9.1	—
Textiles, Apparel & Luxury Goods	16.2	29.8	11.7	27.1	10.1	17.5
Restaurants	18.2	17.7	13.7	9.8	8.5	8.7
Broadcasting	10.1	—	10.2	10.8	7.9	8.9
Cable & Satellite	22.1	—	14.9	9.2	8.4	4.9
Publishing	12.3	5.6	10.2	8.4	6.1	6.1
Multiline Retail	15.2	—	11.0	—	7.8	—

Industry	Market Value of Equity to Net Income		MVIC to EBIT		MVIC to EBITDA	
	U.S.	Canada	U.S.	Canada	U.S.	Canada
Consumer Staples	16.8	17.2	12.7	13.8	9.6	9.4
Beverages	18.5	13.4	16.9	14.6	13.4	9.6
Food Products	18.2	20.0	13.8	14.0	9.8	9.4
Household Products	17.6	—	13.3	—	9.5	—
Health Care	18.4	13.5	14.5	20.6	10.6	12.6
Health Care Equipment	20.9	—	14.0	—	11.9	6.7
Health Care Services	18.8	—	14.0	—	8.8	7.9
Biotechnology	22.2	8.4	26.7	—	21.6	21.6
Pharmaceuticals	16.4	12.3	12.3	13.6	9.4	15.6
Information Technology	19.8	17.3	16.4	17.4	12.4	12.4
Internet Software & Services	27.4	23.3	26.9	18.7	16.5	10.8
IT Services	18.2	19.3	13.1	15.4	9.6	13.6
Software	26.0	25.3	22.5	18.8	15.4	16.0
Technology Hardware & Equipment	16.5	8.2	15.0	12.7	11.1	8.5
Communications Equipment	17.3	8.3	18.0	14.3	12.8	9.1
Computers & Peripherals	18.6	—	13.9	—	10.9	—
Semiconductors	24.5	—	22.3	—	16.6	—
Telecommunication Services	14.9	12.7	15.2	12.8	6.2	7.1
Integrated Telecommunication Services	14.9	13.0	14.8	11.3	6.0	6.5
Wireless Telecommunication Services	19.5	—	15.5	—	6.1	—
Utilities	17.2	19.0	14.2	23.8	9.0	11.5
Electric Utilities	15.8	—	13.6	—	8.5	—
Gas Utilities	18.7	—	13.8	—	9.4	—

Industry	Market Value of Equity to Net Income		Market Value of Equity to Book Value	
	U.S.	Canada	U.S.	Canada
Financials	12.1	9.7	1.0	1.2
Commercial Banks	12.2	10.3	0.9	1.9
Investment Banking and Brokerage	23.0	—	1.1	0.6
Insurance	11.3	10.6	0.9	1.1

An industry must have a minimum of 5 company participants to be calculated. For all reported multiples in the U.S. and Canada, the average number of companies in the calculation sample was 112 (U.S.), and 50 (Canada); the median number of companies in the calculation sample was 50 (U.S.), and 9 (Canada). Sample set includes publicly-traded companies (private companies are not included). Source: Data derived from Standard & Poor's Research Insight and Capital IQ databases. Reported multiples are median ratios (excluding negatives). MVIC = Market Value of Invested Capital = Market Value of Equity plus Book Value of Debt. EBIT = Earnings Before Interest and Taxes for latest fiscal year. EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization for latest 12 months.

European Industry Market Multiples
As of December 31, 2012

Industry	Market Value of Equity to Net Income	MVIC to EBIT	MVIC to EBITDA
Energy	12.0	14.5	8.5
Energy Equipment & Services	17.2	15.6	9.9
Integrated Oil & Gas	8.3	5.4	3.8
Materials	12.8	11.3	7.4
Chemicals	16.2	13.1	8.5
Diversified Chemicals	18.8	15.2	8.5
Specialty Chemicals	19.6	13.5	9.2
Construction Materials	17.4	13.0	8.6
Metals & Mining	10.8	9.8	6.6
Paper & Forest Products	11.6	14.8	7.6
Industrials	13.4	12.4	8.5
Aerospace & Defense	13.1	12.4	8.7
Industrial Machinery	13.3	11.5	8.8
Commercial Services & Supplies	16.1	13.2	8.3
Road & Rail	12.2	12.9	6.6
Railroads	15.5	12.8	6.6
Consumer Discretionary	13.8	12.2	8.5
Auto Parts & Equipment	9.4	8.2	5.6
Automobile Manufacturers	7.9	12.2	6.9
Household Durables	13.9	11.5	8.1
Leisure Equipment & Products	14.2	10.5	8.7
Textiles, Apparel & Luxury Goods	16.7	13.5	9.9
Restaurants	15.8	13.4	9.9
Broadcasting	13.8	10.3	8.6
Cable & Satellite	—	18.9	8.5
Publishing	14.5	13.0	9.4
Multiline Retail	12.5	12.0	8.8

Industry	Market Value of Equity to Net Income	MVIC to EBIT	MVIC to EBITDA
Consumer Staples	15.9	14.8	9.7
Beverages	21.3	17.6	11.6
Food Products	13.4	14.0	9.2
Household Products	—	16.0	9.7
Health Care	17.9	14.8	10.9
Health Care Equipment	18.2	13.5	9.9
Health Care Services	11.6	9.2	9.1
Biotechnology	30.7	24.4	16.5
Pharmaceuticals	16.5	13.6	10.1
Information Technology	14.9	12.2	9.3
Internet Software & Services	17.3	15.8	11.2
IT Services	13.4	9.9	8.1
Software	18.0	13.9	10.7
Technology Hardware & Equipment	14.2	11.6	9.1
Communications Equipment	12.5	10.7	8.2
Computers & Peripherals	14.3	12.2	8.9
Semiconductors	16.6	16.3	11.2
Telecommunication Services	13.9	11.5	6.6
Integrated Telecommunication Services	13.1	10.5	5.8
Wireless Telecommunication Services	11.1	10.4	6.4
Utilities	14.9	15.4	8.6
Electric Utilities	13.3	13.8	8.2
Gas Utilities	13.0	12.4	6.7

Industry	Market Value of Equity to Net Income	Market Value of Equity to Book Value
Financials	11.9	0.9
Commercial Banks	10.2	0.5
Investment Banking and Brokerage	15.0	1.1
Insurance	10.4	0.9

An industry must have a minimum of five company participants to be calculated. For all reported multiples in Europe, the average number of companies in the calculation sample was 108 and the median number of companies in the calculation sample was 45. Sample set includes publicly-traded companies (private companies are not included).
Source: Data derived from Standard & Poor's Research Insight and Capital IQ databases. Reported multiples are median ratios (excluding negatives). MVIC = Market Value of Invested Capital = Market Value of Equity plus Book Value of Debt. EBIT = Earnings Before Interest and Taxes for latest fiscal year. EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization for latest 12 months.

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Valuation Insights Contributors

Christopher Desmond
Andrew Harington
James Harrington
Michelle Johnson
Chris Jones
David Larsen
Carla Nunes
Niel Patel
Robert Peters
Gary Roland
Mark Schuette
Sonia Walwyn

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