DUFF & PHELPS

Protect, Restore and Maximize Value

Valuation Insights

Third Quarter 2020

INSIDE

EXECUTIVE SUMMARY

In this edition of *Valuation Insights* we highlight our Reshoring Index, a new analysis of the prior tipping point theory for sectors across the manufacturing industry, featuring an interactive tool displaying the probability of a given sector to reshore. Global economic conditions and U.S. government intervention in the form of two recently signed executive orders has promoted domestic development and manufacturing of essential medicines, which may significantly alter the case for reshoring in the pharmaceutical industry.

In our Technical Notes section, we outline the key accounting, financial and economic analyses that parties and counsel to M&A transactions should undertake during this period of economic disruption.

In our International in Focus article, we showcase the Duff & Phelps 2020 Global Enforcement Review, our latest report on global anti-money laundering (AML) enforcement that provides a brief history of money laundering fines, key AML findings and where regulations are hitting hardest across all regions globally.

In our Spotlight article, we take a closer look at the Dow Jones Industrial Average Special Report, a timely study that analyzed 30 large cap companies on U.S. stock exchanges to reveal the breadth of the stock market recovery and the impact COVID-19 has had on companies' revenues, profit margins, earnings and dividends.

Finally, we summarize the SEC's recently proposed rule to improve fund valuation practices for all registered investment companies at a time when experienced, independent and informed judgement when estimating fair value is required now more than ever.

In every issue of *Valuation Insights*, you will find industry market multiples that are useful for benchmark valuation purposes.

Be sure to check out our library of CPE-eligible webcasts, where our valuation experts discuss issues and topics that may be impacting your business.

We hope that you will find this and future issues of the newsletter informative.

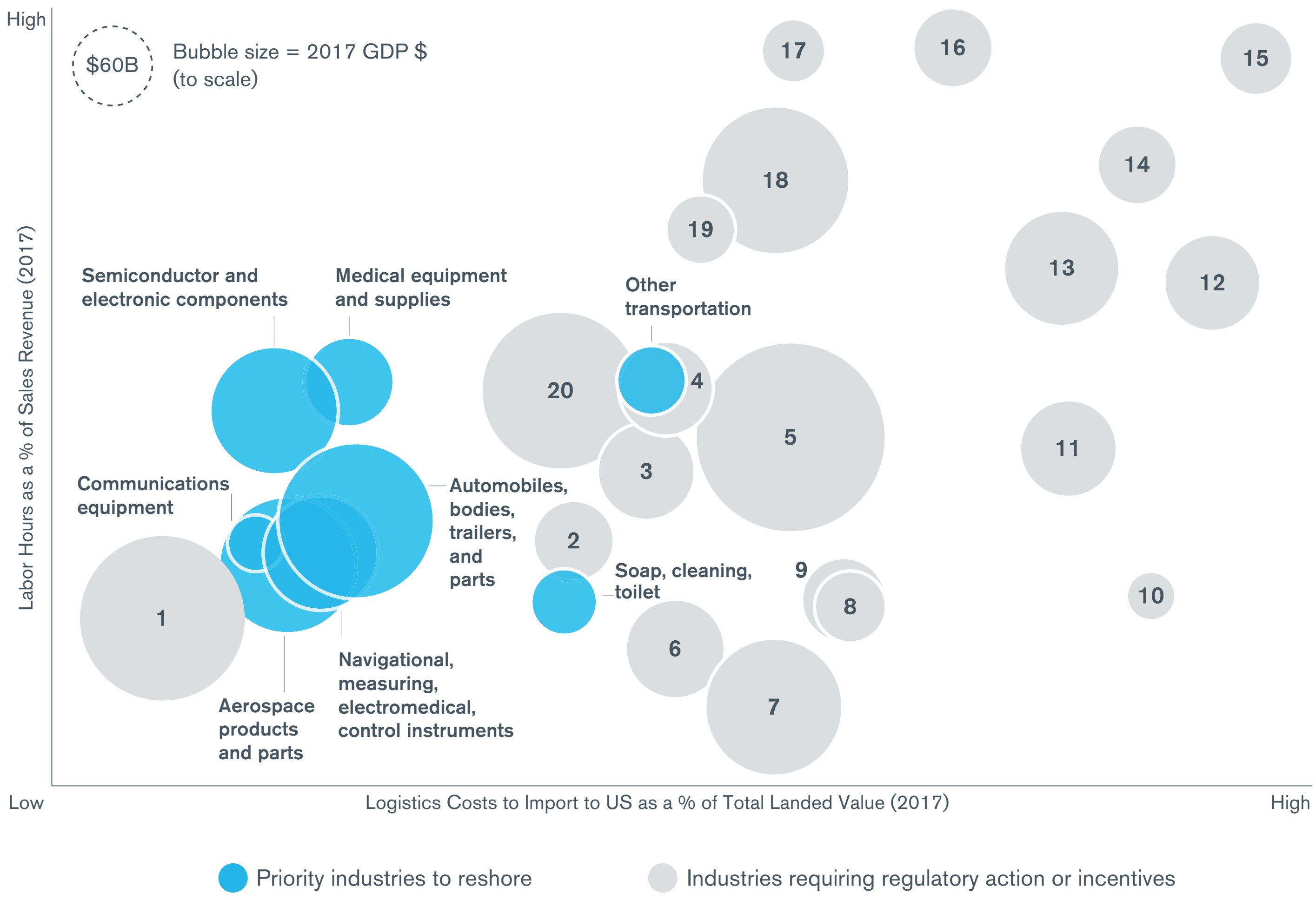
Industry Market Multiples Online

Valuation Insights Industry Market Multiples are online with data back to 2010. Analyze market multiple trends over time across industries and geographies.

www.duffandphelps.com/multiples

Reshoring Pharmaceutical and Medical Device Supply Chains: A New Tipping Point?

In our recently released Reshoring Index, we took a fresh look at the tipping point theory which historically focused on labor and logistics costs to determine whether offshoring of production was a good decision.[1] By adding strategic risk factors, e.g. whether an industry could be deemed critical to U.S. national security, we expanded the number of variables that should be considered in the overall decision. When we expanded the equation, eight industries emerged as most likely to reshore, including soaps and cleansers, automotive parts and telecommunication equipment.



1	Pharmaceuticals and medicines	8	Resin, synthetic rubber, fibers, filaments	15	Furniture and related products
2	Paint, coating, adhesive, other chemical	9	Beverage and tobacco products	16	Printing and related support activities
3	Primary metals	10	Pesticide, fertilizer, agricultural chemicals	17	Textiles, apparel, and leather products
4	Electrical equipment, appliances, components	11	Paper	18	Fabricated metal products
5	Food	12	Nonmetallic mineral products	19	Other miscellaneous manufacturing
6	Basic chemicals	13	Plastics and rubber products	20	Machinery
7	Petroleum and coal products	14	Wood products		

[1] "The Future of Manufacturing: Reshoring and the Global Supply Chain" found at: https://www.duffandphelps.com/insights/publications/manufacturing-reshoring

In our benchmark exercise, the pharmaceutical industry required public sector intervention to justify its reshoring. We cited concerns over access to specialized labor, sensitivity to environmental standards and proximity to raw materials as key impediments to reshoring in this industry. Dr. Amesh Adalja, Senior Scholar at the Johns Hopkins University Center for Health Security, echoed our concerns, stating that "overall manufacturing of medical supplies and ingredients domestically can 'run up the bill'…to five times as high as manufacturing in the typical foreign location associated with drug manufacturing, such as India and China."[2]

This summer the U.S. administration intervened in the pharmaceutical market with two executive orders (EO) promoting the domestic development and manufacturing of essential medicines, medical countermeasures and critical inputs in the associated supply chain. In August 2020, President Trump signed EO #13944 which intervened in the market in several ways—imposing a "Buy American" requirement on U.S. agencies for the purchase of pharmaceuticals, reducing regulatory impediments to the siting of new development and production facilities in the U.S. and increasing regulatory oversight of e-commerce platforms and overseas production facilities.[3] The EO also requires the Secretary of Health and Human Services, in consultation with various other federal agencies, to report to the President on vulnerabilities in the supply chain and recommendations regarding the development of advanced manufacturing techniques.

In addition, EO #13944 contains two mutually reinforcing "sticks" that will likely impose additional challenges on pharmaceutical and medical device companies sourcing from overseas. The first requires the Secretary of Health and Human Services, working through the FDA Commissioner, to "negotiate with countries to increase site inspections and increase the number of unannounced inspections of regulated facilities manufacturing Essential Medicines, Medical Countermeasures, and Critical Inputs."[4] While such international negotiations will take time, and may not always be successful, a follow-on clause gives this guidance more teeth. Specifically, the EO authorizes the FDA to deny "imports of Essential Medicines, Medical Countermeasures, and Critical Inputs if the facilities in which they are produced refuse or unreasonably delay an inspection."[5] Although the EO does not specify what constitutes an unreasonable delay, it is easy to imagine that some overseas suppliers may balk at opening their facilities to additional, likely burdensome inspections at the behest of a foreign government. This could expose importing companies to supply-side disruptions if their products are subsequently denied entry into the U.S.

Earlier this summer, the President signed EO #13922 extending financial incentives to a broader industrial base that is required to respond to COVID-19.[6] This EO authorizes the newly created U.S. International Development Finance Corporation (DFC) to adopt regulations to extend loans under Title III of the Defense Production Act (DPA). Section 302 of the DPA permits loans to private enterprises to "create, maintain, protect, expand, or restore

[2] Kenneth Yood, Melissa Gertler and Dhara Waghala, National Law Review, "President Trump's Executive Order Mandating the Purchase of U.S. Drugs Evokes Criticism" (August 19, 2020) found at: https://www.natlawreview.com/article/president-trump-s-executive-order-mandating-purchase-us-drugs-evokes-criticism.

[3] Presidential Executive Order13944, ""Combating Public Health Emergencies and Strengthening National Security by Ensuring Essential Medicines, Medical Countermeasures, and Critical Inputs are Made in the United States, "Federal Register, Vol. 85, No. 158 at 49929 (August 14, 2020).

[4] Id at Section 3.b.iii.

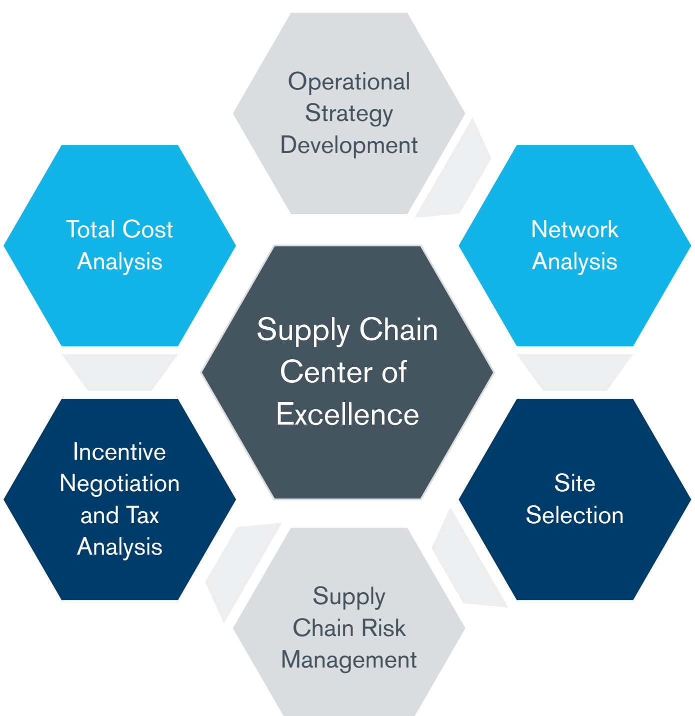
[5] Id at Section 3.b.iv.

[6] Presidential Executive Order 13922, "Delegating Authority Under the Defense Production Act to the Chief Executive Officer of the United States International Development Finance Corporation to Respond to the COVID-19 Outbreak", Federal Register, Vol. 85, No. 97 at 30583 (May 19, 2020).

domestic industrial base capabilities supporting the national response and recovery to the COVID-19 outbreak or the resiliency of any relevant domestic supply chains."[7] Pursuant to the DFC application, eligible uses include hard/physical assets such as machinery and equipment as well as soft/implementation costs such as legal and consulting services.

If your company is thinking about reshoring operations that are critical to the U.S. industrial response to the pandemic, you should consider applying for a DFC loan. Loans are limited to 80% of total project costs and the proceeds may be used for: 1) acquisition, development, ownership or operation of facilities or equipment; 2) working capital; or 3) other costs associated with an approved project, e.g. legal and professional fees. The interest rate is determined on a project-by-project basis and the maximum maturity is 25 years.

The DFC loan program is time-limited for another 20 months and is immediately available for online applications. Compared to most federal programs, the loan application is relatively short, 17 pages in length, and with the assistance of a professional, is not too burdensome. At Duff & Phelps, our professionals can manage your online application. We have multiple services that are a one-stop resource supporting your team through an integrated service:



- Business plan review and refinement
- Network and process design for manufacturing, procurement, distribution and logistics to support business strategy
- Footprint and capacity assessment to optimize product flows from supply base to end customer, based on cost and strategic inputs
- Financial modelling and sensitivity analysis
- Total cost analytics
- Capital structure development to identify financial sources and uses
- Collateral valuations and credit enhancement procurement
- Cost of capital estimates and market comparisons
- Solvency opinions
- Market and feasibility studies
- State and local incentive negotiations
- Economic impact studies
- Site selection based on latest trends, cost comparative analysis, labor availability and other critical location factors
- Supply chain risk management including identification, assessment, mitigation and monitoring of financial, geopolitical, hazard, legal/regulatory, operational and reputational risks to ensure the flow of products, information and cash across the supply chain

For more information about the DFC loan program or how Duff & Phelps can support your online application, please contact:

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[7] Id at Section 2.c.

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Cost of Capital in the Current Environment

September 18, 2020

COVID-19 has generated an unprecedented reaction in both global financial markets and the economy, and the resulting uncertainty highlights significant challenges in estimating cost of capital inputs in the current environment. The infographic below tracks the impact of COVID-19 on some of the financial market and economic indicators used to support the Duff & Phelps Recommended U.S. Equity Risk Premium and accompanying Normalized Risk Free-Rate.

6.0% D&P Recommended U.S. ERP

2.5% Normalized U.S. Risk-Free Rate

For more information, visit:
https://www.duffandphelps.com/costofcapital

Global 10-Year Government Bond Yields

Data as of August 31, 2020

Canada	U.K.	China
0.63%	0.31%	3.01%

U.S.	Germany	Japan
0.72%	-0.42%	0.07%

Brazil	India	Australia
7.17%	6.12%	0.99%

Sources: Bloomberg (Brazil, India), Capital IQ (other countries)

YTD 2020 Stock Market Index Comparison

Data as of August 31, 2020

S&P 500	MSCI All Country World Index	STOXX Europe 600
8.34%	7.98%	-11.86%

Source: Capital IQ

VIX® Index and U.S. Corporate Credit Spreads*

Data as of August 31, 2020

* U.S. Corporate Credit Spreads based on the difference in effective yields between the ICE BofA US High Yield Index and the ICE BofA US Corporate Index. Long-term averages based on 1995 to present for VIX series and 1996 to present for credit spread series.

	VIX Index	U.S. Corporate Credit Spreads
MAX during 2008 Global Financial Crisis	80.9	14.9%
MAX During COVID-19 Crisis	82.7	6.7%
Long-term Average	19.9	3.9%
Current Level	26.4	3.4%

Sources: Capital IQ, FRED® Economic Data

U.S. Consumer Sentiment vs. Business Confidence

Data as of August 31, 2020

	Pre-Covid-19 (Feb 28, 2020)	Post-Covid-19 (Aug 31, 2020)	Long-term average
Consumer Sentiment	101.0	74.1	86.6 (1952–2020)
Business Confidence	99.0	100.7	100.0 (1950–2020)

Sources: Michigan University's Index of Consumer Confidence, OECD's Business Confidence Index

Real GDP Growth – Q1 & Q2 2020

Data as of September 17, 2020

		QUARTER-ON-QUARTER GROWTH (%)	ANNUALIZED QUARTER-ON-QUARTER GROWTH (%)
U.S.	Q1	-1.3%	-5.0%
	Q2	-9.1%	-31.7%
Eurozone	Q1	-3.7%	-14.1%
	Q2	-11.8%	-39.4%
UK	Q1	-2.2%	-8.5%
	Q2	-20.4%	-59.8%
China	Q1	-10.0%	-34.4%
	Q2	11.5%	54.6%
Japan	Q1	-0.6%	-2.3%
	Q2	-7.9%	-28.1%

Sources: FRED® Economic Data (Eurozone, Japan, U.S.), National Bureau Statistics of China, UK's Office of National Statistics.

Quarter-on-quarter growth based on the growth rate from Q4 2019 to Q1 2020 and Q1 2020 to Q2 2020. This rate is annualized by computing the compounded growth rate for four quarters as follows: (1 + Real GDP Q/Q Growth)^4. The annualized rate shows what the quarterly change would be if it lasted a full year.

Real GDP Growth (%) Estimates (Median)

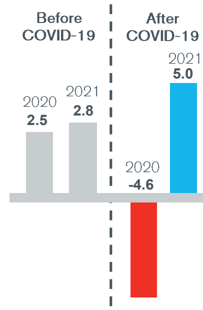
Data as of September 18, 2020

WORLD

Pre- vs. Post-COVID Change in Growth (%)

2020 Median **-7.1**

2021 Median **+2.3***



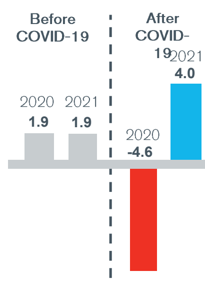
*Difference due to rounding

UNITED STATES

Pre- vs. Post-COVID Change in Growth (%)

2020 Median **-6.5**

2021 Median **+2.2***

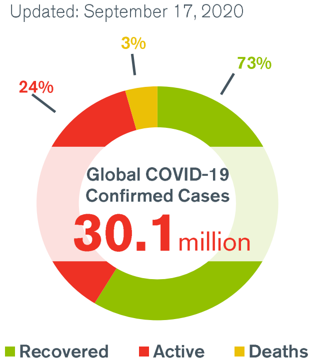


Sources: OECD, IMF, World Bank, Blue Chip Economic Indicators, Consensus Economics, EIU, Fitch Ratings, IHS Markit, Moody's Analytics, Oxford Economics, S&P Global Ratings.

Before COVID-19 median estimates based on data released in December 2019 and early January of 2020. After COVID-19 median estimates based on data available as of the date noted above.

Tracking COVID-19

Updated: September 17, 2020



U.S. Unemployment Rate

Data as of August 31, 2020

December 2019	3.5%
March 2020	4.4%
June 2020	11.1%
August 2020	8.4%

Source: U.S. Bureau of Labor Statistics

Top 10

Confirmed Cases by Country

- United States - 6,833,746
- India - 5,141,905
- Brazil - 4,421,686
- Russia - 1,085,281
- Peru - 744,400
- Colombia - 736,377
- Mexico - 680,931
- South Africa - 653,444
- Spain- 614,360
- Argentina- 589,012

Source: Worldometers.com

Avoiding MAE/MAC and Purchase Price Disputes in a COVID-19 World

This article was reproduced and updated from its original publication in Bloomberg Law on June 18, 2020.

Introduction

The extraordinary uncertainty associated with the current economic environment has increased the importance and complexity of certain tasks conducted by transaction parties and their counsel as part of M&A pre- and post-closing activities.

For example, in the period between contract signing and closing of an M&A transaction, a buyer conducts final due diligence to confirm that no material adverse effect (MAE) or material adverse change (MAC) has occurred in the target's business that has diminished the value of the target, or otherwise created uncertainty about the target's future business prospects to such an extent that the buyer might terminate the deal.

After closing an M&A transaction, it is customary for the parties to attempt to reach agreement on the target's working capital balance as of the closing date and to adjust the purchase price to reflect any significant difference from the estimate used at closing, in the manner prescribed by the purchase and sale agreement. If the parties are unable to reach agreement, M&A agreements typically include a provision that requires the parties to refer the dispute to an independent third-party.

M&A transaction agreements can include contingent consideration, such as an earnout payment contingent on the performance of the acquired business post-close. Earnouts are a common mechanism for the buyer and seller to shift and allocate risk where future performance is uncertain. Under U.S. GAAP and IFRS, for a business combination the fair value of a contingent consideration liability is recognized and measured as of the closing date, and remeasured at each subsequent reporting date until the contingency is resolved. When performance targets are not met, disputes can arise. Each of these activities can be significantly impacted by an increase in uncertainty about the target's future performance.

Current Economic Environment

The World Health Organization characterized the COVID-19 virus as a pandemic on March 11, 2020. It is difficult to fully measure, or even describe, the financial and economic disruptions attributable to the pandemic thus far, or to reliably estimate the long-term consequences. The current economic volatility has led to heightened focus on the potential applicability of MAE clauses for any signed transaction that has not yet closed. If COVID-19 has, for example, led to supply chain disruptions or loss of customers for the target, at what point can it reasonably be determined that an MAE has occurred?

Similarly, for closed M&A transactions, the business dislocations attributable to COVID-19 will likely make the post-closing determination of the target's closing working capital a more onerous and potentially disruptive exercise, as there will likely be significant differences between a seller's and a buyer's estimations of the target's accounts receivable and inventory, among other accounts, in the pandemic environment.

Estimating the fair value of an earnout can become more complex due to the incremental uncertainty associated with the pandemic. Also, changes to fair value of an earnout liability as remeasured at a subsequent reporting date are recognized in earnings (U.S. GAAP) or included in profit or loss (IFRS). Therefore, even for transactions that closed prior to 2020 there can be a sizeable financial reporting impact of the pandemic related to the remeasurement of such unresolved contingent consideration. Disputes are also more likely to arise, for example, if the target's post-close performance suffers due in part to a lack of anticipated investment by the buyer in growth initiatives for the business.

This article outlines the key accounting, financial and economic analyses that parties and counsel to M&A transactions should undertake in this period of unprecedented economic disruption in attempting to resolve MAE and working capital disagreements, to support their litigation or arbitration posture if disagreements can't be resolved through negotiation and to support valuation of contingent consideration for financial reporting purposes.

MAE Disputes: Analytical Approach

The issue of COVID-19 serving as a trigger to terminate a transaction under an MAE clause has already engendered significant legal commentary. Most analyses in the U.S. are informed by Vice Chancellor Laster's landmark ruling in the 2018 *Akorn, Inc. v. Fresenius Akabi AG decision in Delaware Chancery Court. Akorn, Inc. v. Fresenius Kabi AG, et al.,* Del. Ch., C.A. No. 2018-0300, Laster, V.C. (Oct. 21, 2018) (Mem. Op.). *Akorn* is consequential because it represents the first time that the Chancery Court has permitted a buyer to terminate an M&A transaction due to an MAE.

For our purposes, the most noteworthy element of *Akorn* is that the court upheld Fresenius' claim that an MAE occurred due to two separate events: Akorn's breach of the bring down representations and warranties concerning its compliance with certain FDA requirements (including with respect to data security) and its failure to remedy these significant deficiencies (the "bring-down representations" MAE); and the sudden and sustained drop in Akorn's business performance following execution of the merger agreement (the "stand-alone" MAE).

In addressing Fresenius' stand-alone MAE claim—i.e., that Akorn's sharp business decline constituted an MAE—Laster deployed a three-part construct:

- The magnitude of decline in the target's business. Laster ruled that this factor should be determined in part by "measuring a company's performance against its results during the same quarter of the prior year, which minimizes the effect of seasonal fluctuations."
- The duration of the decline. On this issue, Laster cautioned that a "buyer faces a heavy burden when it attempts to invoke a material adverse effect clause in order to avoid its obligation to close," and that "a short-term hiccup in earnings should not suffice; rather the Material Adverse Effect should be material when viewed from the longer-term perspective of a reasonable acquiror."
- The degree of disproportionality of the extraneous event on the target as compared to its competitors or its industry at large. On this factor, Laster found that Fresenius met its burden by demonstrating "that Akorn's poor performance resulted from Company-specific problems, rather than industry-wide conditions." Among other things, Laster relied on evidence that the drop in Akorn's EBITDA was comparatively much greater than that of its peers.

This analytical framework reaffirms that analyses of alleged MAEs, and associated arguments in negotiation or litigation, are highly dependent on the facts and circumstances of each transaction. The *Akorn* ruling is significant because, for the first time, it provides an organized approach, or playbook, for conducting the necessary analyses to determine whether an MAE has occurred.

Mindful of the guidance provided in *Akorn*, and regardless of whether you are assessing your ability to invoke an MAE clause or preparing to contest a claim that a MAE has occurred due to COVID-19, there are at least four quantitative analyses a party to a pending MAE dispute should undertake:

Detailed Historical Financial Analysis of the Target: Analyze the target company's historical results and financial projections to determine the nature, timing and extent of the decline in the target's business in relation to the potential COVID-19 related MAE. It will be important to examine in depth any pre-COVID-19 downturns in determining whether a post-COVID-19 business or financial decline can be persuasively linked to the pandemic.

Industry and Competitor Analysis: Perform detailed industry, competitor and geographic analyses to determine the extent of any disproportionate impact on the target's business due to business or economic disruptions attributable to the pandemic.

Update Short- and Long-Term Forecasts: Revisit short-term and long-term forecasts of the target company to carefully assess the expected duration of the target company's downturn. This will allow for the differentiation between an anticipated short-term reduction and a longer-term adverse effect that more significantly impacts the underlying value of the target's business or the value of the consolidated enterprise to the buyer.

Refreshed Valuation Analysis: Beyond updated forecasts used as cash flow inputs in a discounted cash flow valuation analysis, assess the appropriateness of discount rates used in determining the magnitude of decline in the underlying value of the target company. Whether or not an MAE is found to have occurred, this analysis will better prepare the parties for potential purchase price renegotiations that may bring the transaction to a mutually satisfactory closing.

In sum, while there is no indication that the *Akorn* decision will lower the bar for buyers to make the difficult case that an MAE has occurred, we should expect an increase in MAE challenges to pending transactions in the COVID-19 environment and a more pronounced quantitative focus by courts in weighing the parties' arguments. As has historically been the case, disputes regarding MAEs will be very fact-and-circumstances specific, and parties will be better prepared to defend their respective positions by undertaking the analyses described above.

Post-Closing Working Capital Adjustments

Another customary feature of an M&A transaction—the post-closing determination of the target's closing working capital and making associated purchase price adjustments—will likely become a more challenging exercise due to the COVID-19 pandemic. Working capital disputes can be contentious in the best of times, but in this period of global economic upheaval across national and industry borders, there likely will be an even greater degree of discrepancy between a seller's pre-closing estimate and a buyer's post-closing true-up of working capital.

U.S. GAAP and IFRS provide relevant guidelines to consider when seeking to measure any impact of COVID-19 on a target company's closing balance sheet. They include the following:

- Assessment of compliance with the appropriate basis of accounting preparation, including U.S. GAAP, IFRS, consistent practice, contractually specified and/or other applicable guidance
- Application of FASB's Subsequent Events guidance, ASC 855, which will be critical to loss contingencies estimated in the context of COVID-19 considerations
- Consistency of applied policies, practices and methods across the relevant measurement period

Closing working capital is calculated as of the closing date, and under a GAAP or IFRS basis of preparation, is derived from a balance sheet limited to accounting for those conditions that existed at the closing date but which are informed by additional information learned through the date of preparation of the true-up for those conditions. ASC 855 defines these post-balance sheet subsequent events as Type 1.

By contrast, Type 2 subsequent events either inform conditions or are conditions that did not exist at the balance sheet date and, accordingly, do not affect account balances. In today's environment, the date on which COVID-19 became a condition affecting the target company in relation to the transaction closing date will determine the extent of the pandemic's impact on closing working capital, if any.

In addition, ASC 250 (Accounting Changes and Error Corrections) addresses accounting for a change in an accounting estimate, which is routinely treated as a prospective event and is often an issue in working capital disputes involving improper attempts to use hindsight.

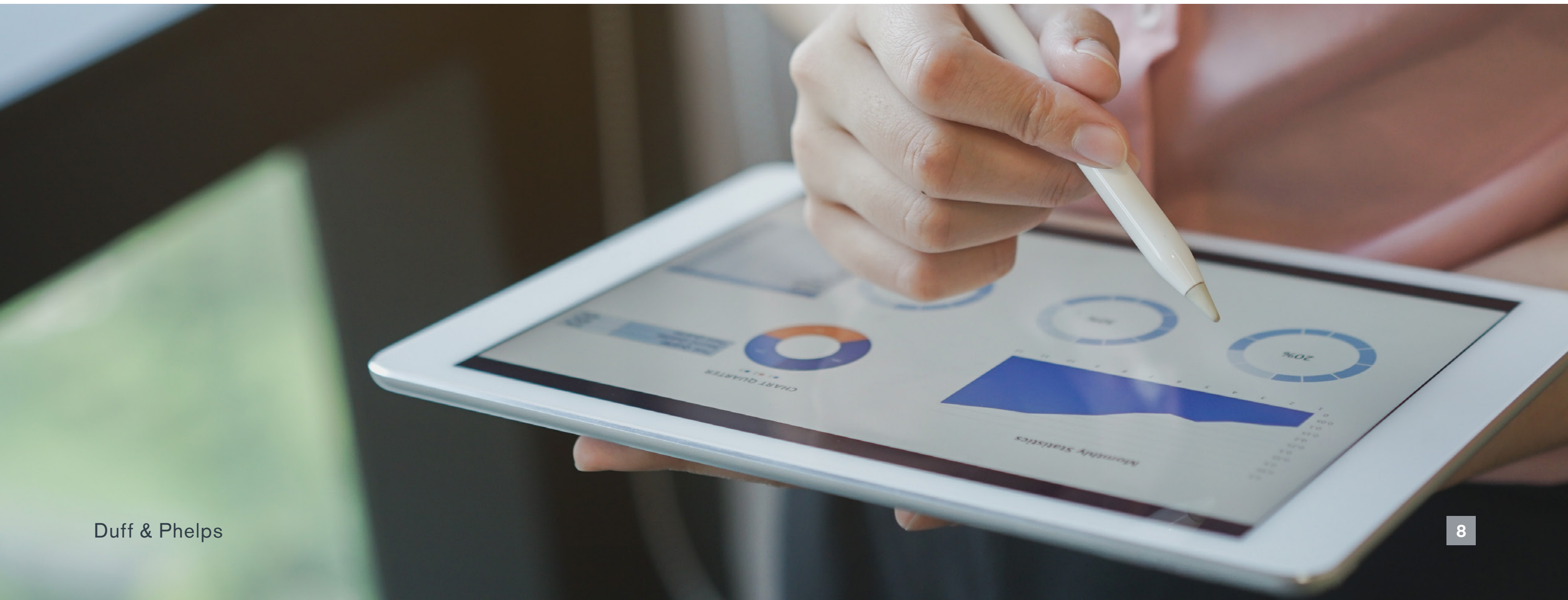
Valuation of Contingent Consideration

Because contingent consideration assets and liabilities are rarely traded and are often structured in unique, highly leveraged ways, they can be challenging to value, even in normal times. The incremental uncertainty associated with the pandemic does not make this valuation task any easier.

The likely pattern of reduced performance in the near term followed by a recovery also has implications for the structuring of contingent consideration arrangements. For example, in normal times we have seen some multi-year earnouts with each year's targets expressed as a percentage increase in revenues or EBITDA over the prior year. Such an arrangement for a 2020 transaction might provide little incentive to the seller for the first year post-close (because it might be impossible to achieve growth in the current economic environment) or for the second year post-close (because growth targets might be achievable with little effort, due to poor first year performance).

Some of the analyses suggested above to assist with the determination of whether an MAE has occurred are also appropriate steps for the valuation of contingent consideration associated with a current or prior transaction, specifically:

- Industry, competitor and geographic analyses to determine the extent of any disproportionate impact on the target's business;
- Updating the expected forecasts of the metrics driving the contingent consideration payoff (e.g., revenues or EBITDA over the earnout-relevant timeframe); and
- Assessing the appropriate inputs to a discount rate calculation given the current environment, including the appropriate company-specific alpha and the obligor's cost of debt.



In addition, for contingent consideration that is structured with a non-linear payoff based on a financial metric (for example, a revenue-based earnout with thresholds, caps, tiers or carry-forwards), the typical valuation methodology applied is a real options approach. Such an approach requires information about the full probability distribution of potential outcomes. In normal times a valuation specialist might use an expected case along with an estimate of volatility based on a historical analysis of comparable companies. However, additional analysis might be appropriate in the current, unusually uncertain environment. For example, identifying scenarios for how the future might evolve and the expected performance of the subject business in those scenarios could provide (a) additional support for the estimate of the expected case projections for the metric of interest and/or (b) an estimate of future volatility that is more closely tied to the facts and circumstances of the current economic environment than the historical volatility that the target or comparable companies have experienced in the recent past.

The result is an improved understanding of the impact of the current environment on purchase price, a rigorous basis for the valuation of the contingent consideration for financial reporting purposes and better support for the contemporaneous understanding of the impact of the pandemic should a dispute arise post-closing.

Conclusion

In the context of M&A transactions, the effects of the pandemic on the parties and the industries and geographies in which they compete will likely add to the complexity of negotiations and disputes relating to the alleged occurrence of an MAE, the process of truing up the target's closing working capital and the valuation of contingent consideration. In this environment, consideration of the unique facts and circumstances of each transaction will be more relevant than ever. M&A transaction participants and practitioners should be especially mindful of the importance of in-depth accounting, financial and economic analyses to support their positions.

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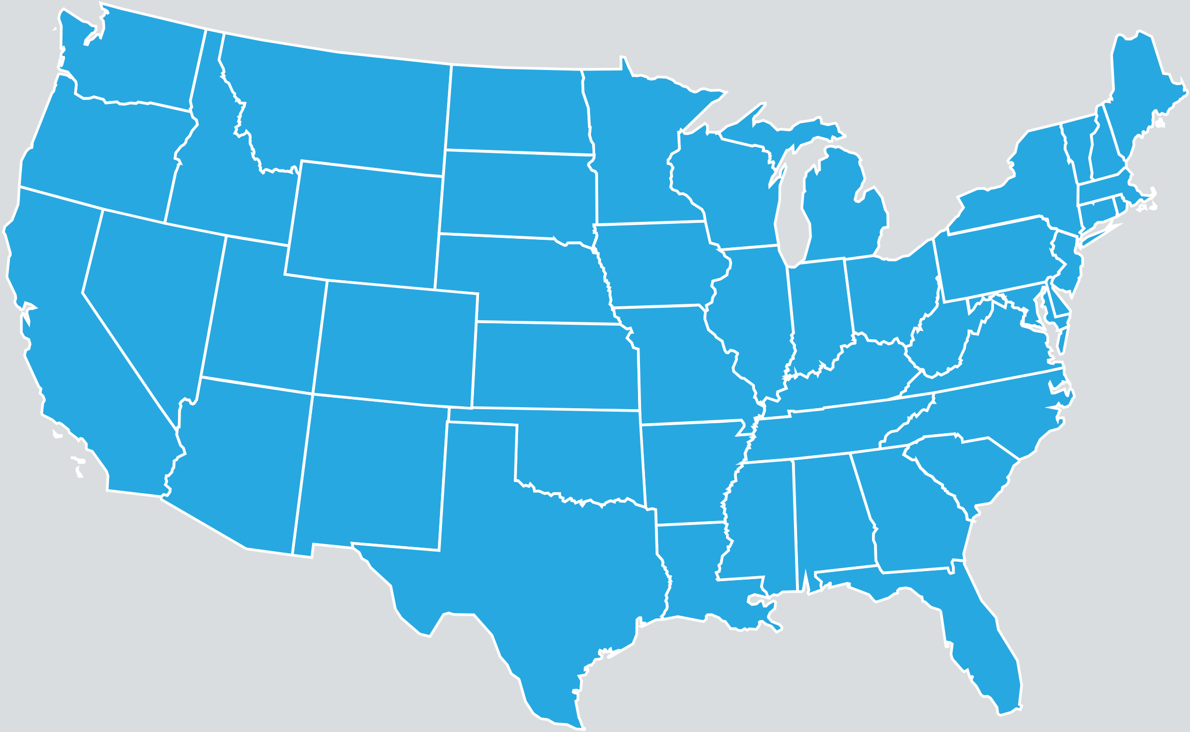

DUFF & PHELPS COVID-19 PROPERTY TAX MAP

U.S. STATE AND LOCAL TAX GUIDANCE

The Duff & Phelps COVID-19 Property Tax Map provides businesses with a snapshot of key measures adopted by U.S. jurisdictions in response to the coronavirus pandemic. With weekly updates, companies can track property tax guidance over time related to tax bills, appeals/hearings, applications, renditions and more.

The Property Tax Map is the result of carefully executed open-source and state and local government data, research and insights from Duff & Phelps' national team of property tax specialists. As the response to the pandemic evolves and moves into recovery, this interactive map will display the latest developments across states and counties.

View the map at **duffandphelps.com/property-tax-map.**

Global Enforcement of Anti-Money Laundering Regulations

The Duff & Phelps Compliance and Regulatory Consulting practice recently launched its seventh annual Global Enforcement Review providing insights into enforcement trends focused on the financial services industry. Our regulatory experience, combined with an in-depth analysis of enforcement penalties issued by key regulators globally, helps firms comply with various regulatory regimes across multiple jurisdictions.

In compiling this research and analysis, we have leveraged Corlytics' extensive RiskFusion Global Enforcement database for January 1, 2013 to June 30, 2020.

Key findings include:

- Fines for anti-money laundering (AML) failings globally totaled $706 million (mn) in the first half of 2020.
- Globally anti-money laundering fines have increased in 2020 since 2019's full-year total of $444 mn.
- Global fines have decreased since previous years (2018: $3,297 mn, 2017: $2,136 mn) and are still lower than the yearly average between 2015–2018 of $1,871 mn.
- While the AML fine values between 2018 and 2019 noticed a significant monetary decline, there was only a 14% decrease in the number of noteworthy cases.
- Of the global fines in 2020, the U.S. represented only 12% of the total value of AML fines, a much smaller percentage than previous years, accounting for—45% in 2019, 58% in 2018, 72% in 2017 and a staggering 97% in 2016.
- Regulators have consistently identified four key AML failings between 2015-2020:
  - Customer due diligence (115 significant cases)
  - AML management (109 cases)
  - Suspicious activity monitoring (82 cases)
  - Compliance monitoring and oversight (62 cases)

Duff & Phelps' seventh annual Global Enforcement Review can be accessed here.

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Dow Jones Industrial Average Special Report

Since the inception of the Dow Jones Industrial Average (DJIA) in 1896, it has historically been a go-to measure of overall U.S. stock market performance.

The DJIA is a price-weighted index, unlike other major equity indices, which are market-cap weighted. In recent years, the DJIA has drawn criticism due to its calculation methodology and has been viewed by some as secondary to the S&P 500. A shake-up in the constituents of the index following a four-for-one stock split by Apple may likely recalibrate the index to be more reflective of the U.S. stock market and economy.

At its beginning in 1896, the DJIA consisted of 12 staple U.S. industrial companies including American Cotton Oil Company (now Unilever), Chicago Gas Company (now People's Gas) and General Electric. As companies in the U.S. have evolved, changes have been made periodically to the constituents of the index to maintain its original purpose of being a go-to measure of overall U.S. stock market performance.

Today, the DJIA is made up of 30 large-cap companies on U.S. stock exchanges from various industries including information technology, healthcare, industrials, consumer staples, etc.

Based on the observed values of major U.S. indices such as the S&P 500, Nasdaq Composite and DJIA, the U.S. stock market appears to have all but recovered since its low point in late March 2020. However, some questions have surfaced.

What has been the breadth of the stock market recovery? What impact did COVID-19 and the economic downturn have on companies' revenues, profit margins, earnings and dividends?

Duff & Phelps analyzed each of the 30 companies currently in the DJIA to answer these questions. The stock market did have a V-shaped recovery based on the major stock market indices, but digging deeper, the story is different for each company. Revenue and profit margins deteriorated quickly in the second quarter of 2020 for most companies, but there were some bright spots. In addition, most of the companies in the DJIA didn't reduce or eliminate dividends to their shareholders during this economic crisis. In fact, many increased them.

Key findings include:

- The DJIA **dropped 37.1%** from its peak at **29,551**, on February 12, 2020, to **18,592** on March 23, 2020.
- Since its low point on March 23, 2020, the DJIA has **increased 50.2%** to **27,930** on August 21, 2020, just **2.1% below** the index's value at the start of the year.
- The DJIA **gained 17.8%** in Q2 2020, its best quarter since 1987.
- **Apple, Microsoft and Home Depot** have mitigated the negative stock price performance of the majority of the constituents in the index.
- **Q2 2020 revenue for Energy and Industrial companies** were **down on average 54.2% and 22.3%,** respectively, compared to Q2 2019, but **IT** was **up on average 1.9%.**
- **Ten of the 30 (33%)** DJIA companies **increased EBITDA margins** in Q2 2020 compared to Q2 2019.
- **Fourteen of the 25[8] (56%)** DJIA companies experienced an **increase in leverage multiples (Debt/LTM EBITDA)** in Q2 2020 compared to Q2 2019.
- **Eighty percent** of the DJIA constituents **increased dividends per share in Q2 2020** compared to Q2 2019.

To view a copy of the full report, click here. You can also email contactus@duffandphelps.com.

[8] Excludes 4 companies in the Financials industry sector and 1 company (Boeing) with negative LTM EBITDA

U.S. Security and Exchange Commission's Fund Valuation Modernization Proposal

On April 21, 2020, the U.S. Securities and Exchange Commission (SEC) proposed a new rule focused on fund valuation practices. When adopted, the rule will apply to all registered investment companies which includes mutual funds, business development companies (BDCs) and unit investment trusts (UITs). The new rule also gives insight into the SEC's thoughts on valuation governance and valuation best practice for private funds managed by registered investment advisers.

Existing SEC valuation rules date back to 1969 and 1970. With the release of the proposed rule, SEC Chairman Jay Clayton stated, "Today's proposal would improve valuation practices, including oversight, thereby protecting investors and improving market efficiency, integrity and fairness."

Determining Fair Value in Good Faith

Section 2(a)(41) of the 1940 Investment Company Act mandates that a fund's board determines fair value in good faith. The nature and character of investments has changed substantially over the past 50 years since the SEC released Accounting Series Releases (ASR) 113 and 118 in 1969 and 1970, and the proposed rule (labeled 2a-5) will rescind ASR 113 and 118.

The proposal document highlights that "to determine the fair value of fund investments in good faith requires a certain minimum, consistent framework for fair value" and a "standard of baseline practices across funds." In addition to providing requirements for estimating fair value in good faith, the proposed rule is designed to provide boards and advisers with a consistent, modern approach to the allocation of fair value functions while also preserving a crucial role for boards to fulfill their obligations under [the Investment Company Act]." Boards retain the responsibility for the good faith determination of fair value; however, they will now be allowed to delegate certain responsibilities to the fund adviser or other valuation specialists. The board will be required to manage and oversee the risks in the valuation process and ensure proper documentation of valuation conclusions but can use qualified experienced resources, including third-party valuation support to exercise their good faith determination of fair value duties.

Alignment with Accounting Standards

The proposed rule is aligned with the requirements of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Topic 820 Fair Value Measurement. Further the proposed rule aligns with 2018 Public Company Accounting Oversight Board (PCAOB) Audit standards which require greater scrutiny when fair value is determined using pricing services or broker quotes.

While proposed rule 2a-5 is congruent with current accounting standards, it does not mirror ASC Topic 820 exactly. This is because the rule needs to fit within the statutory framework of the 1940 Investment Company Act (1940 Act) and give the SEC flexibility, if needed, should there be future changes to accounting standards which the SEC may not deem at that time to be consistent with the 1940 Act. That said, it is clear that if market quotations are available (Level I inputs), fair value is determined as P*Q (market price times quantity of shares). When market quotations are not readily available (Level II and III inputs), the principles espoused by ASC Topic 820 should be followed.

Board Valuation Responsibilities

As previously indicated, the board of a registered investment company (and by analogy the manager of a private fund) is required to determine fair value in good faith. Rule 2a-5 requires that a board directly, or through delegation, undertake the following:

- Assess and manage valuation risks
- Establish and apply fair value methodologies
- Test fair value methodologies
- Evaluate pricing services
- Adopt and implement written fair value policies and procedures
- Maintain records supporting fair value determinations

The board may choose to assign the determination of fair value for any or all individual investments to the investment adviser.

In many ways the proposed rule codifies practices that have evolved over the past decades. Boards retain responsibility for oversight but may use advisers and other engaged valuation expertise to assist in fulfilling their fair value obligations.

Conclusion

Modernization of the existing SEC good faith fair value determination rules has been long expected. At a time of increased public market volatility and economic uncertainty resulting from public health actions taken in response to the COVID-19 pandemic, the need for experienced, independent and informed judgement when estimating fair value is required now more than ever. Alternative investment managers best serve their investors by providing relevant, reliable and transparent information. The SEC's proposed rule to modernize the valuation framework should further assist investors by improving overall fair value policies and processes and thereby providing investors with the fair value information they need.

The SEC received almost 70 comment letters, most supporting the proposal (comment letters are available here). The proposal is available at: Good Faith Determination of Fair Value.

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North American Industry Market Multiples

As of June 30, 2020

Industry	Market Value of Equity to Net Income U.S.	Market Value of Equity to Net Income Canada	MVIC to EBIT U.S.	MVIC to EBIT Canada	MVIC to EBITDA U.S.	MVIC to EBITDA Canada
Energy	6.1	9.7	12.3	12.5	5.1	4.9
Energy Equipment & Services	12.1	8.1	14.8	13.2	5.3	5.7
Oil, Gas & Consumable Fuels	5.9	10.1	11.9	12.5	5.0	4.5
Materials	14.4	15.7	15.7	14.7	9.4	8.6
Chemicals	15.7	—	16.3	—	10.5	—
Containers & Packaging	16.4	—	15.1	—	9.5	—
Metals & Mining	8.5	13.2	10.0	17.6	8.1	8.5
Industrials	16.4	14.9	15.0	15.5	9.4	9.3
Aerospace & Defense	13.8	—	14.0	—	11.2	—
Building Products	19.3	—	14.4	—	10.2	—
Construction & Engineering	13.2	—	12.9	—	6.7	—
Electrical Equipment	15.5	—	13.8	—	10.2	—
Machinery	17.9	—	15.8	18.4	10.6	10.5
Trading Companies & Distributors	15.5	—	14.9	12.4	9.4	10.0
Commercial Services & Supplies	15.7	—	16.4	—	8.6	11.2
Professional Services	17.1	—	15.5	—	11.5	—
Road & Rail	19.5	—	18.8	—	8.0	—
Consumer Discretionary	16.6	10.6	17.0	14.2	9.3	10.1
Auto Components	14.3	—	14.6	—	6.2	—
Household Durables	10.9	—	13.9	—	10.2	—
Leisure Products	22.0	—	24.4	—	11.8	—
Textiles, Apparel & Luxury Goods	14.5	—	15.2	—	7.8	—
Hotels, Restaurants & Leisure	17.4	10.1	20.0	13.0	11.0	9.9
Diversified Consumer Services	14.8	—	16.8	—	8.4	—
Internet & Direct Marketing Retail	21.3	—	17.0	—	13.3	—
Specialty Retail	18.8	—	17.5	—	7.5	—
Consumer Staples	20.3	15.6	17.3	17.1	11.4	10.3
Food & Staples Retailing	21.7	—	16.9	17.1	9.0	9.8
Beverages	21.9	—	19.0	—	15.7	—
Food Products	17.8	—	18.0	14.8	12.2	9.8
Personal Products	15.4	—	18.2	—	10.0	—

Industry	Market Value of Equity to Net Income U.S.	Market Value of Equity to Net Income Canada	MVIC to EBIT U.S.	MVIC to EBIT Canada	MVIC to EBITDA U.S.	MVIC to EBITDA Canada
Health Care	22.3	13.9	20.9	20.2	14.9	12.9
Health Care Equipment & Services	30.9	28.6	20.6	28.6	14.9	17.6
Health Care Providers & Services	19.7	—	15.7	—	9.6	12.9
Biotechnology	11.1	—	17.2	—	12.3	—
Pharmaceuticals	9.7	—	16.1	—	13.6	10.6
Life Sciences Tools & Services	34.8	—	28.5	—	19.3	—
Information Technology	22.8	20.2	21.4	17.5	13.7	14.4
IT Services	24.5	—	21.3	—	13.2	—
Software	27.0	19.9	30.8	16.0	18.6	20.8
Communications Equipment	23.8	—	20.5	—	15.1	—
Technology Hardware, Storage & Peripherals	9.1	—	18.3	—	10.1	—
Electronic Equipment, Instruments & Components	19.3	—	15.4	—	10.6	—
Semiconductors & Semiconductor Equipment	26.2	—	23.0	—	16.5	—
Communication Services	12.5	9.5	15.4	13.3	9.0	8.0
Diversified Telecommunication Services	9.2	—	12.3	—	7.3	—
Media	10.0	8.0	13.8	11.6	8.1	7.5
Entertainment	17.6	—	22.1	—	16.4	—
Interactive Media & Services	28.0	—	—	—	16.7	—
Utilities	20.5	13.5	21.3	19.0	11.9	11.7
Electric Utilities	18.8	—	21.8	—	11.4	—
Gas Utilities	20.9	—	19.7	—	12.7	—

Industry	Market Value of Equity to Net Income U.S.	Market Value of Equity to Net Income Canada	Market Value of Equity to Book Value U.S.	Market Value of Equity to Book Value Canada
Financials	10.5	10.2	0.9	0.9
Banks	10.0	—	0.9	—
Thrifts & Mortgage Finance	11.0	9.8	0.8	1.0
Capital Markets	20.3	—	1.4	1.0
Insurance	13.0	—	0.9	0.9

Industry Market Multiples are available online!
Visit www.duffandphelps.com/multiples

"An industry must have a minimum of 10 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 75 (U.S.), and 31 (Canada); the median number of companies in the calculation sample was 39 (U.S.), and 22 (Canada)."

Sample set includes publicly-traded companies (private companies are not included). Source: Data derived from Standard & Poor's Capital IQ databases. Reported multiples are median ratios (excluding negatives or certain outliers). MVIC = Market Value of Invested Capital = Market Value of Equity plus Book Value of Debt (includes capitalized operating leases). EBIT = Earnings Before Interest and Taxes for latest 12 months (includes adjustment for operating lease interest expenses). EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization for latest 12 months (includes adjustment for operating lease expenses). Note that due to the exclusion of negative multiples from the analysis, the number of companies used in the computation of each of the three reported multiples across the same industry may differ, which may occasionally result in a counterintuitive relationship between those multiples (e.g. the MVIC-to-EBITDA multiple may exceed MVIC to EBIT).

European Industry Market Multiples

As of June 30, 2020

Industry	Market Value of Equity to Net Income	MVIC to EBIT	MVIC to EBITDA
	Europe	Europe	Europe
Energy	9.9	12.1	6.8
Energy Equipment & Services	11.9	12.4	7.2
Oil, Gas & Consumable Fuels	8.2	12.1	5.9
Materials	14.8	14.8	8.0
Chemicals	18.9	19.4	9.2
Containers & Packaging	14.8	14.3	7.7
Metals & Mining	13.4	12.3	7.5
Industrials	15.2	15.4	9.4
Aerospace & Defense	15.6	15.8	9.6
Building Products	17.5	16.2	9.7
Construction & Engineering	12.5	14.0	9.1
Electrical Equipment	21.4	17.0	12.0
Machinery	16.0	15.3	10.0
Trading Companies & Distributors	14.9	13.6	9.8
Commercial Services & Supplies	15.4	15.6	8.7
Professional Services	16.6	15.3	9.9
Marine	10.4	21.7	8.4
Transportation Infrastructure	14.4	14.8	8.7
Consumer Discretionary	13.2	14.6	8.3
Auto Components	10.3	12.8	7.3
Household Durables	11.6	11.8	8.5
Leisure Products	14.3	13.1	8.8
Textiles, Apparel & Luxury Goods	15.5	15.8	9.4
Hotels, Restaurants & Leisure	14.2	17.8	9.0
Internet & Direct Marketing Retail	16.6	14.0	11.4
Specialty Retail	12.3	15.7	6.8
Consumer Staples	20.6	17.9	10.8
Food & Staples Retailing	20.2	18.7	9.2
Beverages	19.6	16.6	11.7
Food Products	20.8	18.1	11.2
Personal Products	25.1	20.8	14.4

Industry	Market Value of Equity to Net Income	MVIC to EBIT	MVIC to EBITDA
	Europe	Europe	Europe
Health Care	28.2	23.1	15.2
Health Care Equipment & Supplies	31.8	25.0	18.1
Health Care Providers & Services	24.8	20.8	11.0
Health Care Technology	28.2	28.7	21.7
Biotechnology	40.5	31.6	22.6
Pharmaceuticals	20.3	18.6	13.0
Life Sciences Tools & Services	56.0	38.7	19.3
Information Technology	22.5	18.3	13.2
IT Services	20.5	16.1	11.0
Software	28.7	23.6	16.5
Communications Equipment	22.0	18.0	16.4
Technology Hardware, Storage & Peripherals	19.8	13.0	12.3
Electronic Equipment, Instruments & Components	20.1	17.4	11.5
Semiconductors & Semiconductor Equipment	29.6	21.3	14.9
Communication Services	15.3	18.1	9.1
Diversified Telecommunication Services	22.8	21.3	9.0
Media	12.2	15.5	8.3
Entertainment	18.5	20.7	13.3
Interactive Media & Services	25.7	21.6	20.5
Utilities	20.9	19.7	11.3
Independent Power and Renewable Electricity Providers	29.6	21.9	12.7

Industry	Market Value of Equity to Net Income	Market Value of Equity to Book Value
	Europe	Europe
Financials	9.2	0.8
Banks	7.4	0.5
Diversified Financial Services	10.4	1.0
Capital Markets	16.5	1.2
Insurance	9.5	0.9

An industry must have a minimum of 10 company participants to be calculated. For all reported multiples in Europe, the average number of companies in the calculation sample was 92 and the median number of companies in the calculation sample was 53.

Sample set includes publicly-traded companies (private companies are not included). Source: Data derived from Standard & Poor's Capital IQ databases. Reported multiples are median ratios (excluding negatives or certain outliers). MVIC = Market Value of Invested Capital = Market Value of Equity plus Book Value of Debt (includes capitalized operating leases). EBIT = Earnings Before Interest and Taxes for latest 12 months. EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization for latest 12 months. Note that due to the exclusion of negative multiples from the analysis, the number of companies used in the computation of each of the three reported multiples across the same industry may differ, which may occasionally result in a counterintuitive relationship between those multiples (e.g. the MVIC-to-EBITDA multiple may exceed MVIC to EBIT).

UPCOMING WEBCASTS

SEPTEMBER 2020

Webcast: Threat Management

September 29 | 2 p.m. ET

Webcast: Kroll Artifact Parser and Extractor (KAPE) Intensive Training and Certification

September 30 | 10 a.m. ET

OCTOBER 2020

Webcast: Impact of COVID-19 on Global Real Estate – Duff & Phelps / GRI Survey

October 13 | 9 a.m. ET

Webcast: Transfer Pricing Guidance for MNEs in the Wake of COVID-19

October 21 | 10 a.m. ET

Webcast: Sales and Use Tax in the Current Economic Climate

October 21 | 12 p.m. ET

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