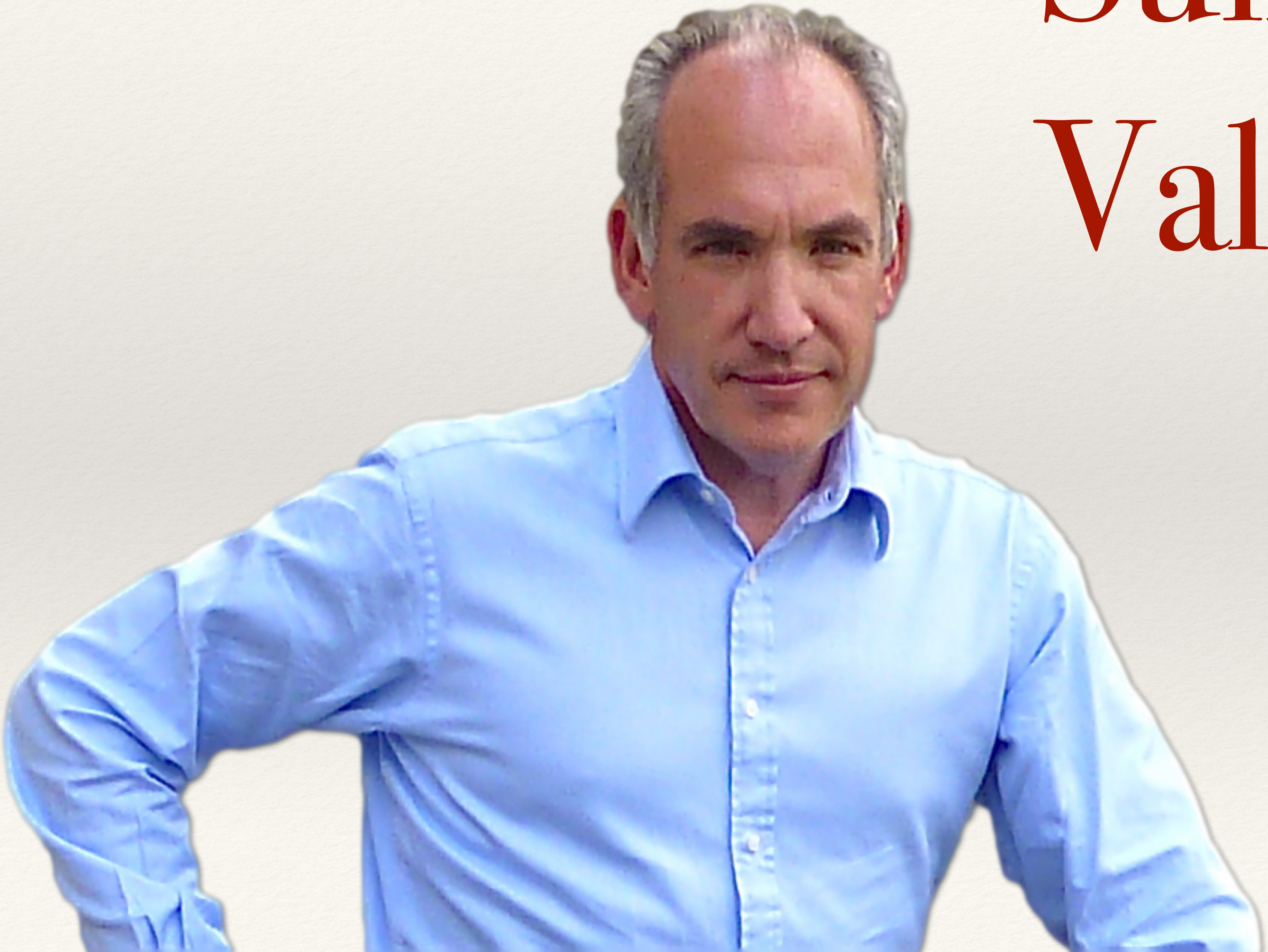


Sum of the Parts Valuation

Sum of the Parts Valuation

- Sum of the Parts Valuation (SOTP) is also referred to as a "Break Up" valuation
- The value is calculated based on the sum of the different operating divisions or businesses within a company

Sum of the Parts Valuation

- This is most applicable for larger, multi national businesses and conglomerates
- Each part is valued with the method or multiples most applicable to that business
- These need to take into account the profitability, scale and growth rate of each part of the business
- Different sectors have different valuations and ratings

Sum of the Parts Valuation

- The Enterprise value is calculated for each business
- The company's net debt is then deducted to arrive at an Equity value for the whole group

Business A		6x EBITDA
Business B	+	12x PAT
Business C	+	1.5x Revenues
Net Debt	-	
Non Operating Assets and Liabilities	- /+	
Equity Value	=	

Sum of the Parts Valuation

- The two scenarios when this approach is most useful is:
  - In a corporate defence when a company is trading at a discount to the sum of its parts
  - Restructuring to unlock value by spinning off businesses or divisions which are undervalued

Sum of the Parts Valuation

- To be effective, an SOTP valuation needs to be prepared thoroughly

Sum of the Parts Valuation

- Detailed financial information needs to be collated for each business
- This can be provided by management
- Alternatively there are other document sources which can be used

- Management Financial Information
- Investor Presentations
- Research Reports
- Annual Reports / 10K
- Rating Agency profiles and tear sheets

Sum of the Parts Valuation

- For each business information on the last 12 months (LTM) of trading should be collected
- Note that the sum of the financial data should total to the sum of the group as a whole
- Revenues, EBITDA, EBIT and Net Income

Sum of the Parts Valuation

- The central overhead can be allocated on a percentage of revenues basis or treated as a standalone deduction in its own right
- Depreciation and Amortisation needs to be allocated on an appropriate "pro rata" basis
- Revenues or % of Assets
- These adjustments require common sense and judgement. If necessary make a note of your assumptions here.

Sum of the Parts Valuation

- The appropriate range of multiples needs to be assessed for each part being valued
- Use a range not a single value
- Beware the impact of overhead costs on overstating profits
- If necessary, prepared a DCF for each segment (I said this requires work)

Sum of the Parts Valuation

- The sum of the value ranges provides an aggregated Enterprise Value for the business
- Deduct net debt and other non operating financial items to arrive at the equity value for the whole

Sum of the Parts Valuation

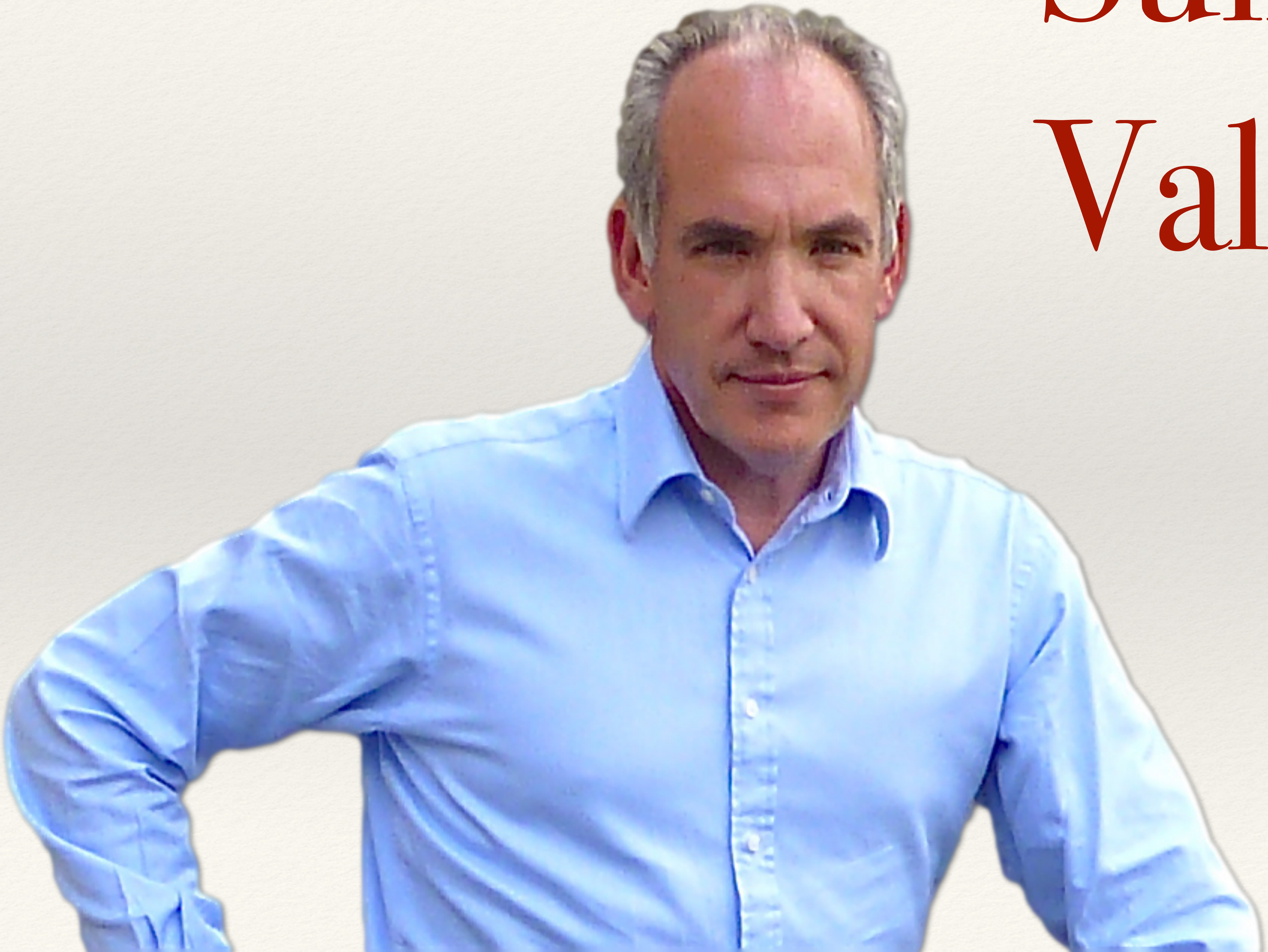
- Divide the equity value by the number of shares in issue to arrive at a per share value
- Don't forget the dilutive impact of options and any convertibles

Sum of the Parts Valuation

- You can now compare your results to the current trading level, the offer that you are considering or considering making
- Is the company under valued?
- Is the company over valued?

Sum of the Parts Valuation

- It is worth double checking to make sure that the individual valuations make sense and that there is no “rogue” value either increasing or depressing the sum of the parts.



Sum of the Parts Valuation