

DUFF & PHELPS

University of Florida – Professional Speaker Series
September 7, 2007

Agenda

- I. Introduction to Valuation Consulting
- II. Introduction to Duff & Phelps
- III. Representative Clients
- IV. Examples and Sample Engagements
- V. Opportunities
- VI. Q & A

I. Introduction to Valuation Consulting

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What does a Valuation Consultant do?

■ A Valuation Consultant:

- Provides companies with objective, independent, and defensible opinions of value that meet both market and regulatory requirements.
- Combines accounting expertise with leading valuation and corporate finance techniques to fulfill even the most sophisticated financial reporting needs.
- Completes a variety of assignments, including business enterprise valuations, purchase price allocations, intellectual property valuations, stock option valuations, fairness opinions and dispute consulting.

I. Introduction to Valuation Consulting

There have been a number of recent developments that have resulted in a heightened need for supportable, well-documented, independent opinions of value.

These include the implementation of:

- Financial Accounting Standards 141 and 142;
- International Financial Reporting Standard 3;
- International Accounting Standards 36 and 38; and
- *(Soon to be implemented)* Financial Accounting Standard 157.

Other related trends include:

- The convergence of FASB and IASB rules; and
- Increased fair value accounting.

Duff & Phelps is uniquely qualified to satisfy all financial reporting valuation needs, combining decades of fixed and intangible asset valuation experience with our reputation for integrity, quality, objectivity and independence.

We are in a great business – the need for our services is strong, healthy, and growing.

II. Introduction to Duff & Phelps

II. Introduction to Duff & Phelps

- Duff & Phelps is one of the **world's leading independent financial advisory firms** serving client needs in the **areas of valuation/appraisal**, investment banking and transaction advice, and dispute consulting.
- Our professionals bring practical experience, responsiveness and a collaborative approach to satisfy our clients' needs with the **rigor and independence** that the market demands.
- We are a **uniquely positioned financial advisory firm**, unrestricted by audit or rating agency independence issues and not constrained by regulatory restrictions.
- Our services include **financial reporting and tax valuation**, transfer pricing, real estate and fixed asset services, merger and acquisition advisory, fairness and solvency opinions, due diligence, and dispute consulting.
- With more than **850 employees** serving clients worldwide through offices in the **United States, Europe and Asia**, Duff & Phelps is committed to delivering insightful advice and service of exceptional quality, integrity and objectivity.

We have performed over 38% of the purchase accounting valuations since the implementation of SFAS 141 for deals over \$100 million.







II. Introduction to Duff & Phelps



Global Office Locations

Duff & Phelps Service Offerings

Valuations for financial reporting purposes is a core service offering

Financial Reporting Valuation	Tax Valuation & Consulting	Real Estate & Fixed Asset Services	Investment Banking	Transaction Advisory Services	Dispute Consulting
 <ul style="list-style-type: none"> ▪ Purchase Price Allocation ▪ Asset Impairment Testing ▪ Intellectual Property Valuation ▪ Business Valuation ▪ Contingent Asset and Liability Valuation ▪ Variable Interest Entity Valuation ▪ Fresh Start Accounting ▪ Option Valuation ▪ Valuation of Non-Competes 	 <ul style="list-style-type: none"> ▪ Tax Valuations <ul style="list-style-type: none"> – Tax Planning – Tax Restructuring – Purchase Price Allocation – Estate & Gift Tax – International Transactions – Tax Litigation ▪ Transfer Pricing ▪ Property Tax Consulting ▪ Business Incentives Consulting 	 <ul style="list-style-type: none"> ▪ Real Estate Valuation & Consulting ▪ Fixed Asset Consulting ▪ Real Estate Loan Underwriting Services ▪ Machinery & Equipment Valuation ▪ Cost Segregation ▪ Asset Records Reconciliation 	 <ul style="list-style-type: none"> ▪ Mergers & Acquisitions ▪ Capital Raising & Private Placements ▪ Financial Restructurings ▪ Transaction Opinions ▪ ESOP & ERISA Advisory 	 <ul style="list-style-type: none"> ▪ Due Diligence ▪ Transaction Structuring ▪ Portfolio Investment Valuations ▪ Financial Engineering ▪ Financial Projections & Modeling ▪ Corporate Finance Advisory 	 <ul style="list-style-type: none"> ▪ Bankruptcy Litigation ▪ Intellectual Property Disputes ▪ Commercial and Shareholder Disputes ▪ Fraud, Forensic and Investigative Services ▪ Purchase Price Disputes and Arbitration ▪ Computer Forensic and Electronic Discovery ▪ Business Insurance Consulting ▪ Tax Litigation ▪ Legal Business Solutions

Duff & Phelps Selected Industry Expertise

Broad range of industry experience

Consumer Products



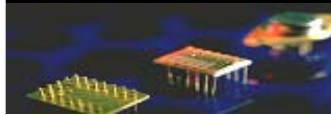
- Beverages
- Distributors
- Food Products
- Health Care Equipment & Supplies
- Household Durables & Products
- Pharmaceuticals & Biotechnology
- Specialty Retail
- Textiles, Apparel, & Luxury Goods
- Tobacco

Industrial Products



- Aerospace & Defense
- Airlines
- Automotive
- Chemicals
- Construction & Engineering
- Energy Equipment & Services
- Gas Utilities
- Industrial Conglomerates
- Machinery
- Metals & Mining
- Multi-utilities & Unregulated Power
- Oil & Gas
- Paper & Forest Products
- Road & Rail
- Transportation
- Water Utilities

Technology, Entertainment, Communications, & Information



- Technology & Entertainment
 - Computers & Networking
 - Internet Software & Online Services
 - Media & Entertainment
 - Hotels, Restaurants & Leisure, Gaming
 - Semiconductors & Semiconductor Equipment & Manufacturing
 - Software
- Communications & Information
 - Cable & Satellite Service Providers
 - Communications Equipment
 - Diversified Telecommunication Services
 - IT services
 - Wireless Telecommunication Services

Financial Services



- Asset Management
- Capital Markets
- Commercial Banks
- Consumer Finance
- Diversified Financial Services
- Insurance
- Thrifts & Mortgage Finance
- Hedge Funds
- Private Equity
- Leasing

Real Estate



- Real Estate Investment Trusts
- Hotels
- Real Estate Developers
- Pension Funds
- Real Estate Securities
- Commercial Mortgage Lenders
- Corporate Real Estate
- Commercial Mortgage Backed Securities
- Property Management
- Real Estate Operating Companies
- Commercial Brokerage
- Golf Course Management and Development

III. Representative Clients

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Telecommunications services



Telecommunications services



Provider of telecommunication and information services



Industrial products company



Telephone and communications company



Defense company



Provider of telecommunication and information services



Wireline telecommunications equipment

III. Representative Clients

	Consumer products company		Quick service restaurant chain
	Consumer products company		Personal products company
	Soft drink manufacturer		Beauty products and personal services company
	Fresh produce company		Women's apparel retail chain

III. Representative Clients



Home improvement retailer



Apparel and accessories retailer



Office supply retailer



Apparel and accessories retailer



Specialty retailer



Home goods retailer



Discount retailers



Various other retailers



IV. Examples and Sample Engagements

Why Do Clients Hire Us?

➤ Allocation of Purchase Price (upon business combination)

- Tangible assets
- Trade Names / Trademarks
- Non-Compete agreements
- Customers
- Technology
- Patents

➤ Income tax purposes

- Business valuations
- Property Tax
- Intellectual Property donations

➤ Acquisition or Divestiture of assets

- May be used to negotiate purchase price or to identify asset(s) to be bought or sold
- May be used to record asset purchase to balance sheet

➤ Fairness / Solvency Opinions

➤ Strategic Planning (e.g., Alliances)

➤ Transfer Pricing

- Intercompany transactions
- International (and domestic) related issues

➤ Licensing Negotiation assistance

➤ Litigation (e.g., Patent or Copyright infringement)

➤ Estate and Gift Tax purposes

➤ Certain regulatory requirements

- Initial Public Offerings

➤ Other miscellaneous purposes

- Collateral-based financing
- Bankruptcy
- Other tax purposes

Purchase Price Allocation - Discovering Value Drivers

The questions that you should ask about the purchase price allocation are:

- What are the most important intangible assets of a target company ?
- How do they drive value and for how long ?
- How well protected are they ?
- How reasonable are the revenues and profits projected to result from these intangible assets ?
- How achievable are the additional revenues and profits needed to validate the purchase price ?

Purchase Price Allocation - Current GAAP

Pre-Acquisition Balance Sheet:

Current Assets 50	Current Liabilities 40
Book Value of Fixed Assets 100	Book Value of Equity & Debt 210
Book Value of Intangible Assets 100	
250 Mill USD	250 Mill USD

Post-Acquisition Balance Sheet before PPA:

	Current Assets 50	Current Liabilities 40
P P A	Book Value of Fixed Assets 100 + ?	Purchase Price = Market Value of Equity + of Debt 460
	Book Value of Intangible Assets 100 + ?	
	Excess Purchase Price 250	
	500 Mill USD	500 Mill USD

Purchase Price Allocation - Intangible Assets

Marketing Based

- Trade Names
- Trademarks
- Internet Domain Names
- Non-Compete Agreements

Customer Based

- Customer Lists
- Order/Production Backlog
- Customer Contracts
- Non-Contractual Customer Relationships

Artistic Based

- Plays, Operas, Ballets
- Books, Magazines, Newspapers
- Musical Works
- Pictures, Photos, Video, etc.

Contract Based

- Licensing, Royalty Agreements
- Lease Agreements
- Franchise Agreements
- Employment Contracts
- Operating and Broadcasting Rights

Technology Based

- Patented Technology
- Unpatented Technology
- Computer Software
- Databases
- Trade Secrets

Purchase Price Allocation - Valuation Methodologies

The premise of value used in the valuation of intangibles for a PPA is Fair Value

- The amount at which an asset or liability could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is , other than in a forced sale

Methodologies

- Once businesses and/or assets/liabilities requiring valuation have been identified, we conclude on appropriate valuation methodologies
- In general, for each business and/or asset/liability, we give consideration to three standard valuation approaches:

Income Approach

Value indicated by the present value of projected **cash flow** attributable to the valuation subject. Derivations include:

- *Discounted Cash Flow Method*
- *Direct Capitalization Method*
- *Relief from Royalty Method*
- *Excess Income Method*

Market Approach

Value indicated by comparison of valuation subject to identical or similar assets traded in active public markets. Derivations include:

- *Market Comparable Method*
- *Market Transaction Method*

Cost Approach

Value indicated by a summation of all costs required to reproduce or replace the valuation subject. Derivations include:

- *Reproduction Cost*
- *Replacement Cost*

Example DCF Model

CLIENT ABC

VALUATION SERVICES RELATED TO THE ACQUISITION OF COMPANY XYZ
AS OF JANUARY 24, 2007
DOLLARS IN THOUSANDS
INCOME APPROACH: DISCOUNTED CASH FLOW METHOD
DISCOUNTED CASH FLOW MODEL

Exhibit II

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	Projected Year Ending							Normalized Residual Year
	9/30/2007	9/30/2008	9/30/2009	9/30/2010	9/30/2011	9/30/2012	9/30/2013	
Income Statement								
Total Revenue	\$ 60,209.6	\$ 64,598.8	\$ 68,765.2	\$ 72,625.2	\$ 75,046.7	\$ 77,465.4	\$ 79,875.7	\$ 82,271.9
Revenue Growth	9.9%	7.3%	6.4%	5.6%	3.3%	3.2%	3.1%	3.0%
Cost of Goods Sold (excluding Depreciation & Amortization)	43,801.3	47,045.6	50,178.4	53,111.4	54,969.1	56,740.6	58,506.1	60,261.3
Selling Expenses	1,224.5	1,313.8	1,398.5	1,477.0	1,526.3	1,575.5	1,624.5	1,673.2
General & Administrative	3,742.8	4,015.6	4,274.6	4,514.6	4,665.1	4,815.5	4,965.3	5,114.3
Total Operating Expenses	48,768.6	52,375.1	55,851.5	59,103.1	61,160.5	63,131.6	65,095.9	67,048.8
EBITDA	11,440.9	12,223.7	12,913.7	13,522.1	13,886.3	14,333.8	14,779.8	15,223.2
Depreciation (Tax)	1,619.3	1,451.3	1,329.9	1,245.8	1,220.5	1,243.5	1,298.0	982.1
Operating Income (EBIT)	\$ 9,821.6	\$ 10,772.4	\$ 11,583.8	\$ 12,276.3	\$ 12,665.8	\$ 13,090.3	\$ 13,481.8	\$ 14,241.1
Income Taxes (Benefit) @ 39.0%	3,830.4	4,201.2	4,517.7	4,787.8	4,939.7	5,105.2	5,257.9	5,554.0
Net Operating Profit after Taxes	\$ 5,991.2	\$ 6,571.2	\$ 7,066.1	\$ 7,488.6	\$ 7,726.1	\$ 7,985.1	\$ 8,223.9	\$ 8,687.1
Cash Flow								
Net Operating Profit after Taxes	\$ 5,991.2	\$ 6,571.2	\$ 7,066.1	\$ 7,488.6	\$ 7,726.1	\$ 7,985.1	\$ 8,223.9	\$ 8,687.1
Plus: Depreciation (Tax)	1,619.3	1,451.3	1,329.9	1,245.8	1,220.5	1,243.5	1,298.0	982.1
Less: Capital Expenditures	(1,060.0)	(1,030.0)	(1,060.9)	(1,092.7)	(1,125.5)	(1,159.3)	(1,194.1)	(1,229.9)
Less: Working Capital Investment @ 20.0% of Revenue	-	(877.8)	(833.3)	(772.0)	(484.3)	(483.7)	(482.1)	(479.3)
Available Cash Flow	6,550.5	6,114.7	6,501.8	6,869.7	7,336.8	7,585.6	7,845.8	\$ 7,960.0
Partial Year Factor	0.6822	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	
Midpoint	0.3411	1.1822	2.1822	3.1822	4.1822	5.1822	6.1822	
Present Value Factor @ 12.8% WACC	0.9597	0.8673	0.7689	0.6816	0.6043	0.5357	0.4749	
Present Value of Available Cash Flow	\$ 4,288.6	\$ 5,303.3	\$ 4,999.2	\$ 4,682.4	\$ 4,433.6	\$ 4,063.6	\$ 3,726.0	
Sum of Present Value of Available Cash Flow	\$ 31,496.7							

Residual Calculation

Residual Cash Flow	\$ 7,960.0
Divided By: Cap Rate (r-g)	9.8%
Equal: Residual Value	\$ 81,224.5
Multiplied by: Present Value Factor	0.4749
Present Value of Residual Value	\$ 38,573.5

Representative Engagements



Valuation of Assets and Liabilities in relation to the \$57B acquisition of The Gillette Company

- Valuation of tangible and intangible assets, including:
 - Manufacturing Assets
 - Trade Names/Trademarks (multiple brands and sub-brands)
 - Technology (Product and Process)
 - Customer Relationships (destination and non-destination brand)
- Discussions with marketing, engineering, product development, finance, and sales personnel (including visits to Boston, Cincinnati, and Germany)
- Detailed analysis of expected synergies to identify those specific to P&G
- Valuation of 125 legal entities for tax purposes



Valuation of Assets and Liabilities of Cingular Wireless LLC (in relation to \$91B acquisition of BellSouth Corporation)

- Valuation of tangible and intangible assets, including:
 - Network assets (nationwide)
 - Trade Name/Trademark (with an analysis of debranding and related effect on value)
 - Federal Communications Commission licenses at a county level
 - Customer groups (post-paid, pre-paid, etc.)
- Discussions with over 100 Cingular/AT&T representatives regarding all aspects of the business (including multiple visits to AT&T and Cingular headquarters)
- Construction of detailed projections for the overall business and business segments using company input and industry trends



V. Opportunities

V. Opportunities

Duff & Phelps will be conducting interviews on campus September 27 & 28

Please submit your resume to:

- 1) The CRC; and
- 2) www.duffandphelps.jobs.

Please feel free to contact us with any questions or comments.

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VI. Q & A
