SAC CAPITAL

Background

On 1 March 2022, SGX RegCo has provided a business valuation guideline for acquisitions or disposals that meets the Listing Rule thresholds for very substantial acquisitions (VSA) and reverse takeovers (RTO). Under Listing Rules 1015(2) and (3), issuers are to appoint a competent and independent valuer to value the assets being acquired and the incoming business respectively. A summary of the guideline as follows:

Business Valuation Guidelines

1 Disclosure requirements for a business valuation

- The value ascribed to the assets.
- The party who commissioned the valuation.
- The basis including the underlying methodologies and assumptions in arriving at the valuation.
- Date of such valuation.

2 Two emerging trends that might affect business valuations

Issuers should note and seek professional advice to ensure that valuation methodologies and disclosures are up-to-date and reflect best practices for the following trends that might affect business valuations:

- **Intangible assets:** Whether intangible assets and intellectual property under consideration are valued using appropriate methods and ensure that the basis of such valuation are adequately disclosed.
- **ESG matters:** Companies should articulate the ESG benefits or risks of their transactions and how these drivers could affect the company's long-term prospects.

3 Minimum Disclosure for Summary Valuation Letters

- IVAS has issued Practice Note 2: Minimum Disclosure Requirements for Summary Valuation Letters on what should be contained in summary valuation letters.
- For consistent disclosures of business valuations, all companies should refer to this Practice Note in preparing their valuations disclosures. This should be **done early in the valuation process**, to ensure that the Board provides the necessary information to the engaged valuer.

Board Guidelines on Business Valuations

1 Board's expectation on valuation disclosure:

- Key assumptions and estimates used are reasonable, such as forward-looking earnings or cash flow projections, and peer or reference companies.
- Fully disclose material uncertainties that belie the projections.
- Valuation conclusion and limitation(s) in the valuation reports are acceptable

2 SGX observations of Board failure (arising from):

- Not understanding or challenging the management on the assumptions provided or lack of due care while performing the valuation.
- Key projections did not appear reasonable due to deficient disclosures.
- Erroneous inputs into the valuation.
- Valuation practices that were open to doubt.

3 Other key focus by Boards:

- Commercial terms of the transaction are in the best interest of the company and shareholders.
- Valuation is conducted independently by qualified and competent valuation professionals.
- Valuer's track record in any questionable past transactions.
- Valuer's credentials: whether the valuer is a member of a professional business valuation body or authority such as IVAS as a Chartered Valuer and Appraiser.
- Valuer's relevant experience in performing the task at hand.
- Whether the valuation performed is in line with recognised valuation standards (e.g. International Valuation Standards).

Useful References:

Regulator Column - What SGX RegCo expects of business valuations for significant transactions (Please click here)
IVAS- Practice Note 2 on Minimum Disclosure Requirements for summary valuation letters (Please click here)

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