

# VALUATIONS - FORECASTING

Let's talk business beyond the literature



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*“Knowing the worth is empowering”*

— CA Vaibhav Jain



FORECASTING –  
The Science & Art of Numbers

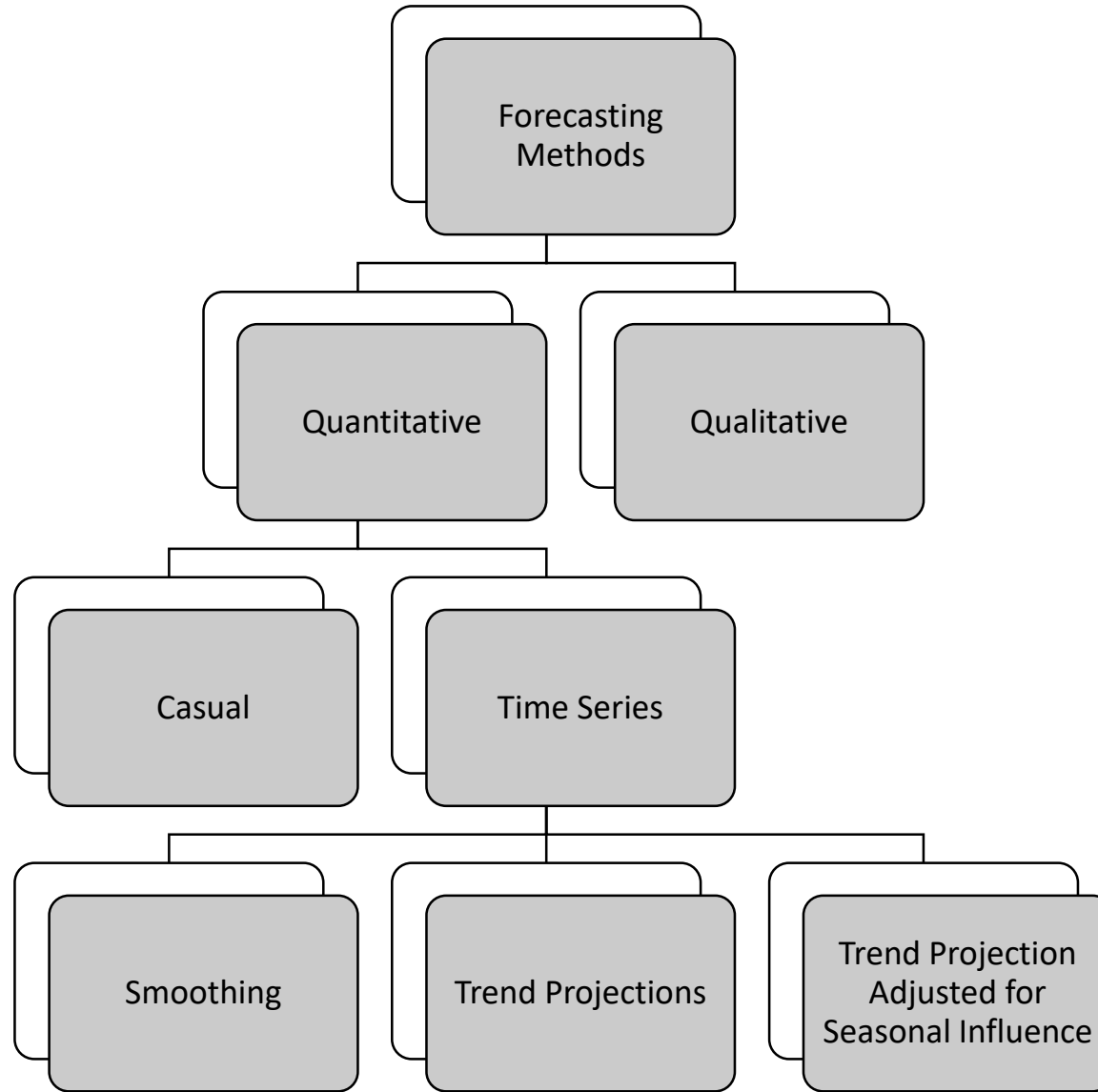


## FORECASTING - Key Drivers

- Quantitative Approaches to Forecasting
- Components of a Time Series
- Measures of Forecast Accuracy
- Smoothing Methods
- Trend Projection
- Trend and Seasonal Components
- Regression Analysis
- Qualitative Approaches



# FORECASTING - Key Drivers



# M&A - TYPICAL ISSUES



## Tax Issues

- Compliance with prescribed conditions for tax neutrality
- Interpretative variances of the law – Applicability of 56 (2) (x) for primary issuance of shares
- Applicability of GAAR for proposed restructuring



## Regulatory Approvals

- SEBI, CCI, NCLT
- Leased Property – Prior approval of leasing authorities like MIDC etc.
- Presence of sectoral Regulator such as RBI, IRDA etc.



## Integration Management

- Transfer of licenses and people
- Harmonization of policies, software etc.
- Measure for smooth transition of control - Retaining KMP



## Stamp Duty

- Whether setoff will be available in case if inter state mergers ?
- Does it make sense to execute the transactions in a different location?
- Reckoner value vis-à-vis Fair value mismatch



## Valuation Considerations

- How to deal with valuation mismatches ?
- Transfer at Book Value vis-à-vis Fair Value – Implications
- Adequacy of consideration in light of deeming tax provisions



## Accounting and Commercial Approvals

- Whether the transaction could result in recording Goodwill under IND AS ?
- Impact of transactions on Market Capitalization and Key Ratios
- Market perception of transaction



## Stakeholder Approval

- Majority of Minority shareholder approval whether needed?
- Restrictive debt covenants



# DIRECTIONAL CHANGES IMPACTING M&A

## On the Tax Front

- Lowering of Tax Rates and Abolishment of MAT
- Introduction of GAAR and increased focus on substance
- Implementation of BEPS Action Points
- Shift of Dividend taxation from Company to Shareholders
- Re-introduction of LTCG on listed shares

## On the Regulatory Front

- Restrictions on multi layered structures under Companies Act
- Functioning of regulatory authorities such as NCLT High Courts etc. through the electronic mode
- Increased limits for creeping acquisition from 5% to 10% under the takeover code – presently up to 31st March 2021
- Introduction and recalibration of the IBC to address evolving issue – Section 29A etc.
- Enabling provisions to permit Outbound merger – Corresponding tax neutrality provisions yet to be introduced
- Overseas Direct Listing of companies – Final norms awaited
- Further relaxation of FDI norms – 100% FDI permitted in insurance intermediaries, Coal and Lignite etc.
- Relaxation of ECB norms – giving access to foreign funds for repayment of rupee debt, working capital and general corporate purposes to Indian corporates
- Forthcoming action by RBI to review and approve externalisation of business by Indian companies on case to case basis – Vyome Biosciences



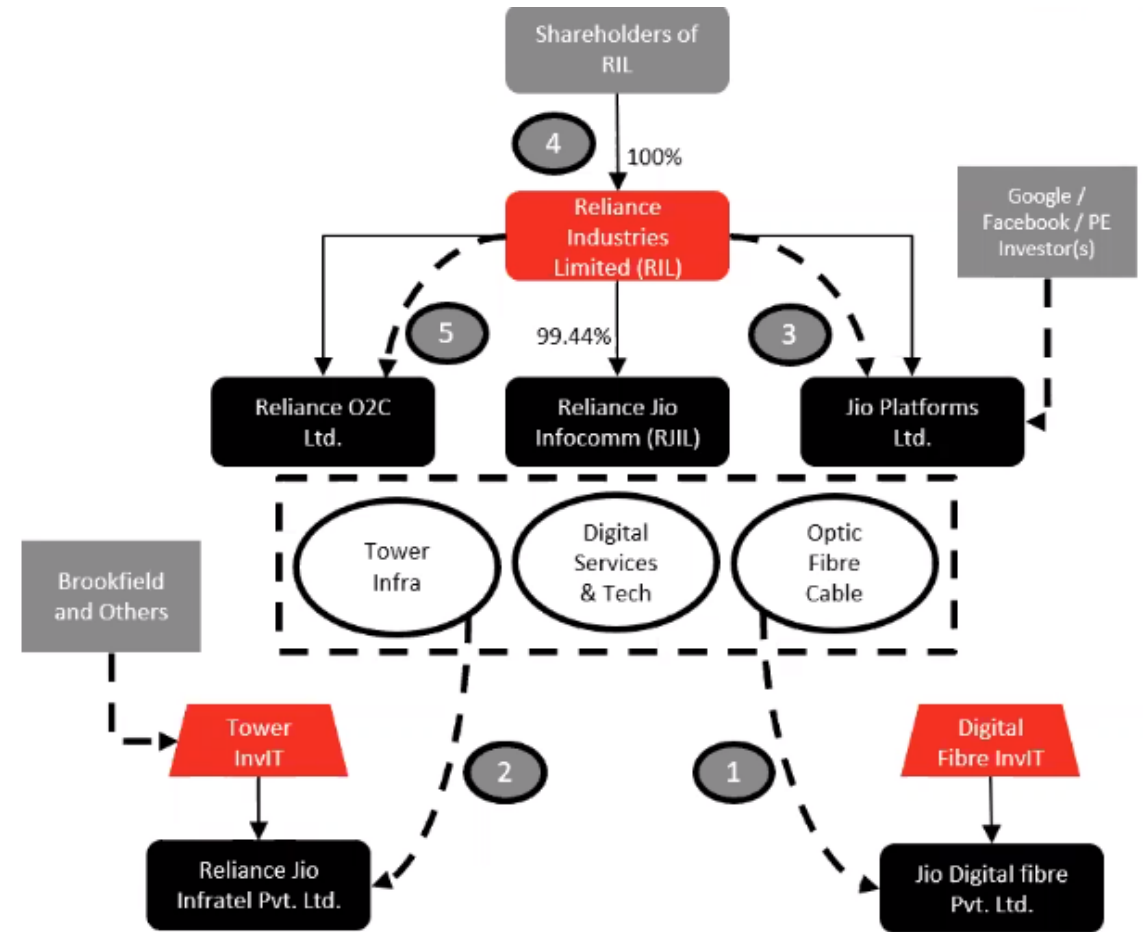
# RELIANCE INDUSTRIES: Road to a debt free company

- 1 Demerger of Optic Fibre Business by RJIL to Jio Digital Fibre at Fair Value**

  - Converted OCPS and Sec. Premium into NCDs
  - Tagged above NCDs with undertaking to reduce net-worth
  - Recorded business at Fair value in demerger
  - 100% shares of Jio Digital Fibre transferred to InvIT
  
- 2 Slump Exchange of Tower Business by RJIL to Reliance Jio Infratel Private at Book Value**

  - Converted OCPS and Sec. Premium into NCDs
  - Tagged above NCDs with undertaking to reduce net-worth
  - Recorded business at book value
  - 100% shares of Infratel transferred to InvIT
  - **Brookfield invested 25K Crs in Tower InvIT**
  
- 3 Creation of Jio Platforms and related structuring**

  - RIL infused 177K Crs into Jio Platform as OCPS and 5K Crs as equity
  - Jio Platform used above money to
    - Purchase 100% stake of RJIL from RIL for 65K Crs
    - Infused further 105K Crs into RJIL as OCPS
  - RJIL through NCLT scheme assigned debt of 105K Crs along with cash of 105K Crs to RIL (**RJIL became net debt zero**)
  - **Facebook, Google and others invested 152K Crs in Jio Platforms (aggregating to 32.97% stake)**



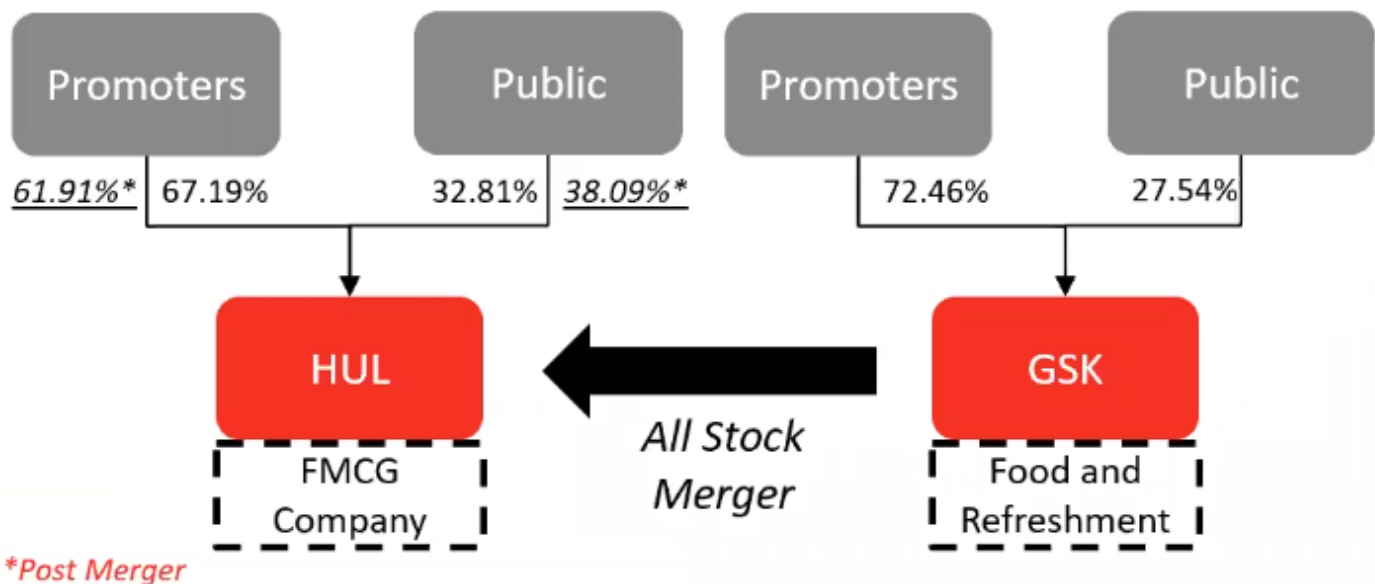
- 4 Rights issue by RIL**

  - 53K Crs Rights issue subscribed
  - 13K Crs (25%) amount
  
- 5 Slump Sale of O2C Business into WOS at Book value**

  - Ready for Aramco Deal?



# HUL - GSK: Deal



| Particulars  | INR Crs          |                       |
|--------------|------------------|-----------------------|
|              | Pre-MCap         | Post-MCap (July 2020) |
| GSK          | ~30,600          | NA                    |
| HUL          | ~3,80,000        | ~5,24,689             |
| <b>Total</b> | <b>~4,10,600</b> | <b>~5,24,689</b>      |

*Deal is expected to be EPS accretive of ~5% to 6% for HUL*

- HUL to merger GSK with itself in an all stock transaction valued at 31,700 Crs
- Brands owned by GSK (Boost, Viva and Maltova) to be retained by merged entity
- The 'Horlicks' brand for India was acquired by HUL from GSK UK for a consideration of INR 3 045/- Crs
- Difference between the value of shares issued on effective date and the net assets recorded in the books shall be recorded as Goodwill
- Horlicks Ltd (UK) and GSK PTE Ltd (Singapore) [GSK Promoter entities] sold their entire stake of 5.7% stake in HUL through block deals in May – 20 over the Indian Stock Exchanges

## HUL - GSK: Key Implications

### Key Takeaways

- All stock deal meant that the cash flow and open offer is eliminated.
- Merger shall be tax neutral for GSK and shareholders of GSK u/s 2(1B) of the IT Act.
- HUL could claim depreciation on Goodwill recognised pursuant to Merger resulting in tax savings. – See Note below
- GSK Promoter entities encashed the shares in a tax efficient manner through sale in stock exchange
  - Horlicks Ltd UK – LTCG at 10%
  - GSK Pte (Singapore) – May avail treaty benefit

### Extracts of Unilever Results

We expect around €1.3 billion of the goodwill to be deductible for tax purposes. While we believe there is legal basis to claim the Horlicks goodwill as tax deductible, we expect challenges to this from the Indian tax authorities.

## BUYBACK: Ongoing Offers

| Name of Company                                | Sun Pharma | Emami Limited | Kalpataru  | Delta Corp | JK Paper   | Sterlite   |
|--|------------|---------------|------------|------------|------------|------------|
| Date of Board Approval                         | 17-03-2020 | 19-03-2020    | 20-05-2020 | 28-03-2020 | 28-04-2020 | 24-03-2020 |
| Previous closing price before board meeting    | 368.55     | 189.35        | 187.55     | 59.3       | 102.65     | 63.55      |
| Maximum Buyback Price                          | 425        | 300           | 275        | 100        | 130        | 150        |
| Current Market Price as on 28th July 2020      | 482.6      | 242.25        | 242.45     | 85.95      | 97.15      | 129.25     |
| Offer Size (in cr)                             | 1700       | 191.99        | 200        | 125        | 100        | 145        |
| Promoter Shareholding on date of board meeting | 54.69%     | 52.74%        | 54.37%     | 32.77%     | 48.89%     | 53.63%     |
| Potential Promoter Shareholding after buyback  | 55.61%     | 53.49%        | 57.05%     | 34.36%     | 51.09%     | 54.95%     |



# M&A - VALUATION



## KEY TERMS

- **Firm Value (or “Enterprise Value”)**
  - ▶ The total value of an operating business regardless of its capital structure
- **Equity Value (or “Market Value of Equity”, “Market Value” or “Market Cap”)**
  - ▶ The value of an operating business to its equity holders
  - ▶ The value of an operating business after the satisfaction of its creditors and preferred claim holders

**Firm Value**

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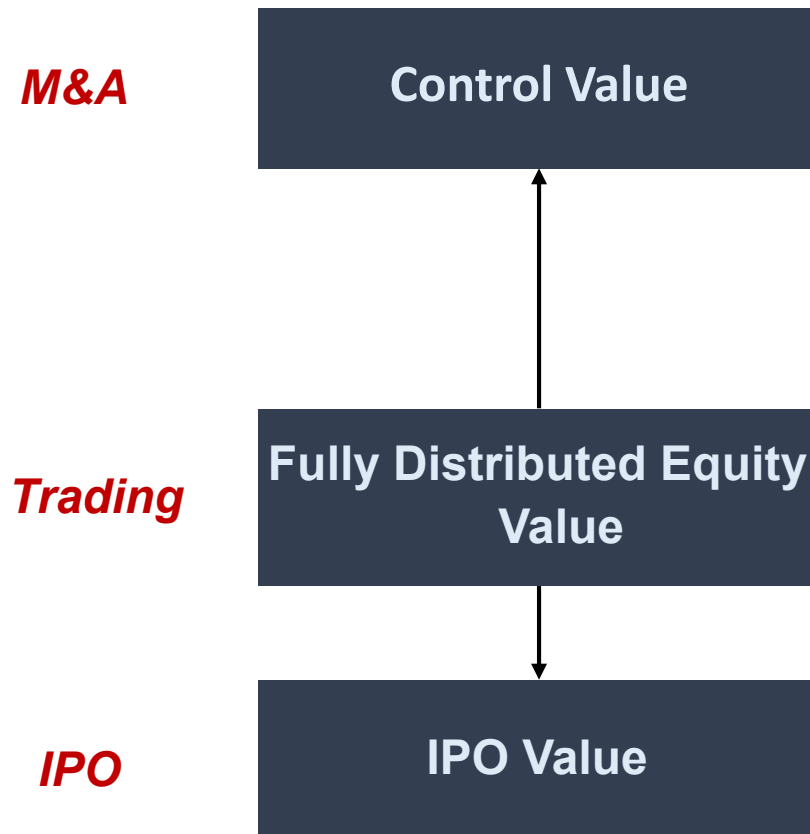
**Net Debt**

=

**Equity Value**

- **Net Debt**
  - ▶ The sum of:
    - Total indebtedness for borrowed money
    - Preferred claims against the value of the business
  - ▶ Less the sum of:
    - Cash and cash equivalents
- **Preferred Claims against the Value of the Business**
  - ▶ May include preferred stock, “out-of-the-money” convertible securities or minority interests

# KEY TERMS



- **Typically involves a premium over the publicly traded equity value**
  - ▶ Ability to control the Board, management and strategy of the business
  - ▶ Ability to integrate with other assets and capture synergies
  - ▶ Ability to access all cash flows and create the optimal capital structure
- **Commonly represented by publicly traded equity value**
  - ▶ Assumes adequate liquidity in the market
  - ▶ Generally subject to existing Board, management and strategy
  - ▶ Access to cash flow limited to dividends
- **Typically involves a discount to the publicly traded equity value**
  - ▶ Discount reflects a lack of market history and therefore certain liquidity and valuation risk
  - ▶ Also reflects an attempt to “entice” shareholders of similar companies to buy IPO (bargain price)



# DEAL DYNAMICS

## Why Deals Happen and Don't Happen

| Why Deals Happen   | Why Deals Don't Happen   |
|--|--|
| <ul style="list-style-type: none"><li>• Compelling Strategic Rationale for a Transaction<ul style="list-style-type: none"><li>• Diversification vs. Focus (Broaden or Narrow Business Mix)</li><li>• Manage Market Position and Scale (Commit to a Product / Market or Exit)</li><li>• Geographic Expansion vs. Retrenchment (Globalization / Cost of Entry)</li><li>• Vertical Integration vs. Outsourcing</li><li>• Defensive (What If Our Competitor / Pursuer Wins?)</li></ul></li><li>• Compelling Financial Rationale for a Transaction<ul style="list-style-type: none"><li>• Low Relative Cost or High Relative Opportunity</li><li>• Financing Markets (Ability to Leverage Equity Returns)</li><li>• Equity Market Perception / Reaction (Valuation Metrics / Business Model / Growth / Profitability)</li><li>• Financial Synergies (Different Value Available to Different Owners)</li><li>• Financial Stress (Company Selling Subsidiary to Raise Cash)</li><li>• Financial Sponsor Exit</li></ul></li><li>• Other Reasons<ul style="list-style-type: none"><li>• Management Ego</li><li>• Change in Management</li></ul></li></ul> | <ul style="list-style-type: none"><li>• Insufficient Strategic or Financial Rationale</li><li>• Management / Board of Directors Resistance (Social Issues)</li><li>• Market / Shareholder Concerns (Dilution / Lack of Understanding / Credibility)</li><li>• Inadequate Financial Resources Available to the Buyers</li><li>• Anti-Trust Considerations</li><li>• Changes in Relative Valuation</li><li>• Accounting, Tax, Legal, and Environmental Issues Are Insurmountable</li><li>• Regulatory (Domestic or Abroad)</li></ul> |

# DEAL DYNAMICS

## Types of Deals and Structures

### Types of Deals and Processes

- Exclusive Sale
  - Private Sale to a Single Buyer
  - Limited Auction (Formal vs. Informal)
  - Full Auction (Public vs. Private)
- Buy-Side Mandate
  - Willing Target Pursuing a Sale Process
  - Unsolicited Approach – Target Attitude Unknown (Formal vs. Informal)
    - Friendly Negotiations
    - “Bear Hug” – Target is Resistant (Disclosure Issues)
    - Hostile Offer
- Equity Restructurings
  - Spin-off – shares of subsidiary distributed tax-free to all parent shareholders on a pro-rata basis
  - Split-off – shares of subsidiary distributed tax-free to self-selected parent shareholders
  - Targeted Stock – distributed tax-free in either manner outlined above or IPO’
- Leveraged Buyouts and Recapitalizations

### Subsid./Private Company Transaction Structures

- Asset Sale
  - Transaction of specific assets and liabilities
  - Required if operations are not held in a distinct subsidiary or set of subsidiaries
  - Provides the buyer the ability to deduct transaction goodwill for tax purposes
- Stock Sale

# DEAL DYNAMICS

## Role of Financial Advisor

### A financial advisor performs a broad range of functions in the M&A process

- **Drive the Process** – From “cradle to grave”
- **Valuation Advice** – Provide comprehensive financial analysis to formulate (buyside) or evaluate (sellside) a bid
- **Diligence** – Assist client in the completion of a thorough and organized diligence process
- **Marketing** – Assist client in preparing diligence materials and public / investor communications
- **Structuring** – Structure transaction to meet the needs of the parties
- **Market Intelligence** – Provide industry knowledge, a perspective on any public market activity and the ability to assess the likelihood of other potential bidders of the target
- **Bidding Strategy** – Advise the client on the best way to ensure success
- **Financing** – Arrange financing alternatives (if necessary)
- **Negotiations** – Increase negotiating flexibility and leverage by acting as a go-between with the other side
- **Opinion** – Deliver fairness opinion (if appropriate)
- **Market Reaction** – Anticipate market reaction and marketability of securities

## Football Field

**A football field summarizes the various metrics and assumptions used to determine the valuation of a company or business segment**

- Fairness Opinion
  - ▶ Presents the range of “fair value” for a Board of Directors’ consideration in a sale context
  - ▶ Provides guidance to justify a bid value in a buy-side
- Sell-Side
  - ▶ Summarizes proposed positioning and target valuation range based on preliminary analysis
- Buy-Side
  - ▶ Demonstrates knowledge of the asset, suggests how other buyers might approach valuation and provides bid range guidance
- Internal Reference
  - ▶ For example – supports loan to value analysis when examining financing alternatives

**Important to remember that the valuation metrics used will vary depending on both the industry and the assignment**

# Summary of Valuation Methodologies

Multiple types of valuation analyses will be included in a valuation summary depending on industry, type of presentation, available information and numerous other factors

| Metric                               | Considerations  | Trading Value | Control Value | Private Co. Metric |
|--------------------------------------|---|---------------|---------------|--------------------|
| <b>Trading Multiples</b>             | <ul style="list-style-type: none"> <li>Forward P/E, P/CF, EV/EBITDA, EV/Revenue most common – may show more than one metric</li> </ul>  | ✓             |               | ✓                  |
| <b>Comparable Transactions</b>       | <ul style="list-style-type: none"> <li>LTM P/E, P/CF, EV/EBITDA, EV/Revenue most common – may show more than one metric. Operational metrics used too, particularly in commodity-oriented businesses</li> </ul> |               | ✓             | ✓                  |
| <b>Premiums Paid</b>                 | <ul style="list-style-type: none"> <li>Make sure to apply premium to unaffected price (i.e. pre-announcement or pre-leak)</li> <li>Alternatively, may apply premium to trading multiples</li> </ul>             |               | ✓             |                    |
| <b>Leveraged Buyout</b>              | <ul style="list-style-type: none"> <li>Choose appropriate target range of IRR</li> <li>Solve for price based on fixed leverage and range of exit multiples</li> </ul>   |               | ✓             | ✓                  |
| <b>Discounted Cash Flow</b>          | <ul style="list-style-type: none"> <li>Option to show with and/or without synergies</li> </ul>  |               |               | ✓                  |
| <b>Sum-of-the-Parts</b>              | <ul style="list-style-type: none"> <li>Use for distinct business segments or individual assets with different value parameters</li> </ul>   |               |               | ✓                  |
| <b>Stock Price Trading Ranges</b>    | <ul style="list-style-type: none"> <li>Used as reference point</li> <li>52-week most common; also 3-months, 6-months, period since significant event</li> </ul>   | ✓             |               |                    |
| <b>Equity Research Price Targets</b> | <ul style="list-style-type: none"> <li>Used as reference point</li> <li>High/low research price targets; check length of time forward and ensure consistent (or discount back)</li> </ul>                       | ✓             |               |                    |

# Sources of Assumptions/Data

**An analysis is only as good as its inputs**

## The Projections

- Consideration must be given to which projections to use – can present multiple cases or one case only
- Fairness opinion valuations may involve a base case and a downside and should be provided by or blessed by management
- Buy-side valuations may involve management case and revised due diligence case
- If preliminary valuation, consider adding due diligence contingencies for unknown factors that may impact value

## The Key Assumptions

- *Trading Comps*: must have back-up for all analysis and consistently apply methodology (e.g. exclude finance subsidiaries, include / exclude underfunded pension liabilities, etc.)
- *Transaction Comps*: be sure to use publicly available data if creating a fairness opinion for a public company; and be thorough in your search – have rationale for exclusion of deals
- *Exit multiples*: justify LBO and DCF exit multiples through trading and transaction comps or cycle analysis
- *WACC*: perform a detailed WACC analysis to justify discount rates for DCF
- *Leverage*: discuss leverage assumptions to make appropriate LBO valuation
- *Premiums*: clearly define the transaction size, time period and reference point of premiums used in analysis
- *Share count*: use exercisable or outstanding options where appropriate
- *Change in Control Costs*: review proxy materials to determine if change in control costs are relevant

**Always keep good back-up of all data sources and assumptions**



# Determining Appropriate Valuation Ranges

## Science, Art or Sanity?

### “Science” vs. “Art”

- “Science”
  - ▶ Market information; financial data
  - ▶ Mechanics of valuation methodologies
- “Art”
  - ▶ Valuation inputs and assumptions are based on industry knowledge, experience and common sense
  - ▶ Senior bankers and industry coverage will opine on the appropriate ranges and assumptions

### Step Back and Look at the “Bigger Picture”

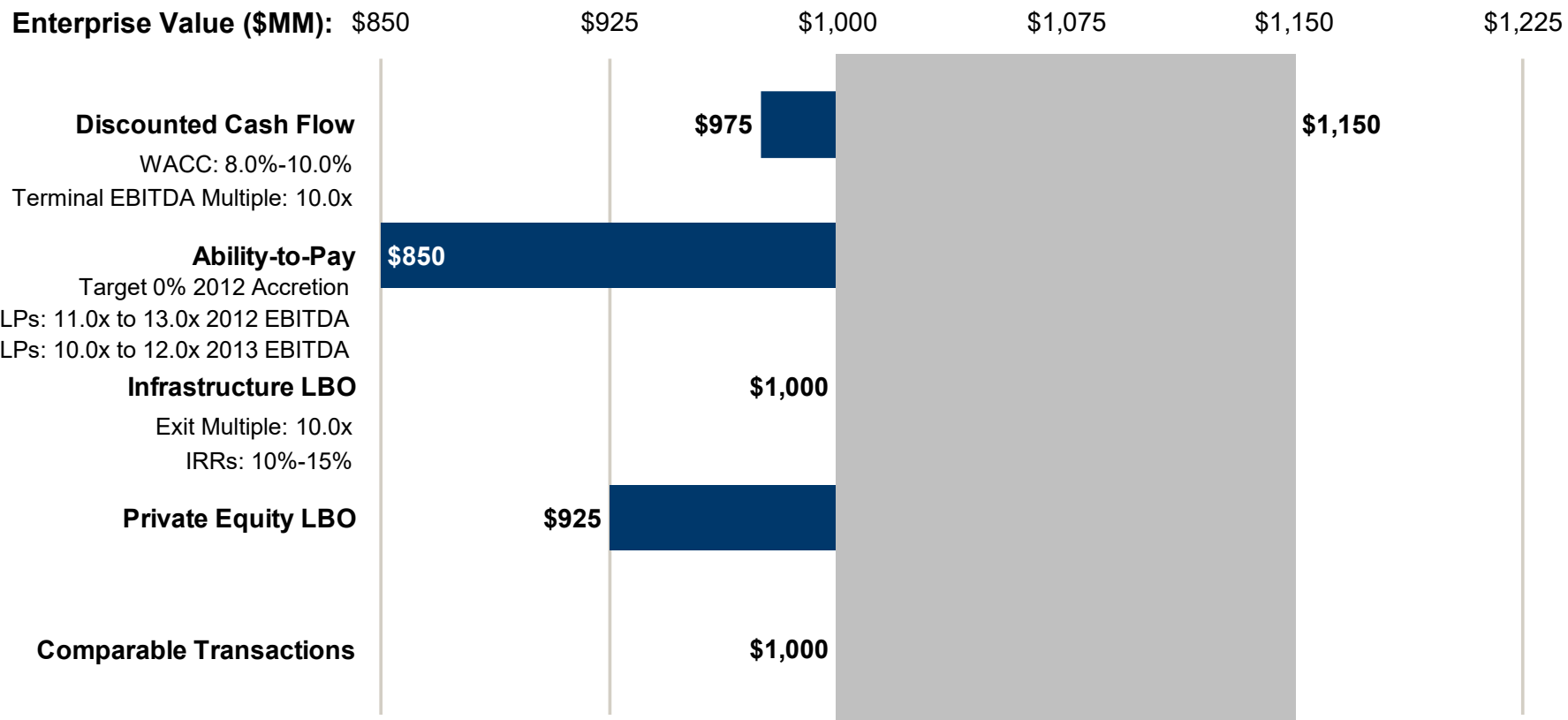
- Individual valuation ranges may seem reasonable, but do they make sense with respect to one another?
  - ▶ *i.e.*, Transaction multiples vs. trading multiples
- Are assumptions consistent between methodologies?
  - ▶ *i.e.*, DCF or LBO exit multiples vs. trading multiples or transaction multiples

### Sanity Check

- Is the valuation range too wide or too narrow?
- Go back and check the assumptions and calculations
  - ▶ Are there any outliers in the comparable multiples?
  - ▶ Are the earnings drivers correct? (*i.e.*, FCFE & earnings for equity value multiples, EBITDA for enterprise value multiples)
  - ▶ Have I used the right share count (exercisable vs. outstanding options)?
  - ▶ Is implied perpetuity growth rate appropriate?
  - ▶ What metric does the industry trade on?

# Preliminary Valuation – the “Football Field”

## Preliminary Review of Valuation Parameters



| <u>EBITDA Multiple</u> | <u>Statistic</u> |       |       |       |       |       |       |
|------------------------|------------------|-------|-------|-------|-------|-------|-------|
| 2011                   | \$66.5           | 12.8x | 13.9x | 15.0x | 16.2x | 17.3x | 18.4x |
| 2011 PF                | \$80.8           | 10.5x | 11.5x | 12.4x | 13.3x | 14.2x | 15.2x |
| 2013                   | \$91.9           | 9.2x  | 10.1x | 10.9x | 11.7x | 12.5x | 13.3x |
| 2014                   | \$102.4          | 8.3x  | 9.0x  | 9.8x  | 10.5x | 11.2x | 12.0x |

# Preliminary Valuation – Analysis

## Purchase Price Ratio Analysis

| PPR Analysis                              |                   |       |       |         |         |         |         |         |         |
|---|-------------------|-------|-------|---------|---------|---------|---------|---------|---------|
| (\$ in millions)                          |                   |       |       |         |         |         |         |         |         |
|   |                   | \$900 | \$950 | \$1,000 | \$1,050 | \$1,100 | \$1,150 | \$1,200 | \$1,250 |
| <b>Enterprise Value</b>                   |                   | \$900 | \$950 | \$1,000 | \$1,050 | \$1,100 | \$1,150 | \$1,200 | \$1,250 |
| Less: Projected OpCo Debt (6/30/11)       |                   | (294) | (294) | (294)   | (294)   | (294)   | (294)   | (294)   | (294)   |
| <b>Implied Equity Value to the Buyer</b>  |                   | \$606 | \$656 | \$706   | \$756   | \$806   | \$856   | \$906   | \$956   |
| Less: Projected HoldCo Debt (6/30/11)     |                   | (305) | (305) | (305)   | (305)   | (305)   | (305)   | (305)   | (305)   |
| <b>Net Proceeds to Sponsor A</b>          |                   | \$301 | \$351 | \$401   | \$451   | \$501   | \$551   | \$601   | \$651   |
| <b>Enterprise Value as a Multiple of:</b> | <b>Statistic:</b> |       |       |         |         |         |         |         |         |
| 2011E PF EBITDA                           | \$80.8            | 11.1x | 11.8x | 12.4x   | 13.0x   | 13.6x   | 14.2x   | 14.9x   | 15.5x   |
| 2012E Cash EBITDA                         | 71.9              | 12.5x | 13.2x | 13.9x   | 14.6x   | 15.3x   | 16.0x   | 16.7x   | 17.4x   |
| 2013E Cash EBITDA                         | 91.9              | 9.8x  | 10.3x | 10.9x   | 11.4x   | 12.0x   | 12.5x   | 13.1x   | 13.6x   |
| 2014E Cash EBITDA                         | 102.4             | 8.8x  | 9.3x  | 9.8x    | 10.3x   | 10.7x   | 11.2x   | 11.7x   | 12.2x   |

# Discounted Cash Flow– Analysis

## DCF Analysis

(\$ millions)

|                                  | 2H 2011E | 2012E  | 2013E  | 2014E   | 2015E   | Year-End<br>2016E |
|----------------------------------|----------|--------|--------|---------|---------|-------------------|
| EBITDA                           | \$37.4   | \$80.3 | \$97.1 | \$104.6 | \$111.3 | \$115.0           |
| Contract Amortization            | (4.1)    | (8.3)  | (5.2)  | (2.2)   | (1.8)   |                   |
| Maintenance Capital Expenditures | (0.9)    | (2.7)  | (2.0)  | (2.0)   | (2.1)   |                   |
| Growth Capital Expenditures      | (22.6)   | (19.9) | (2.0)  | -       | -       |                   |
| Unlevered Free Cash Flow         | 9.7      | 49.4   | 87.9   | 100.4   | 107.4   |                   |

### Terminal Value Calculation

|                                  |       |        |        |        |        |           |
|----------------------------------|-------|--------|--------|--------|--------|-----------|
| 2016E EBITDA                     |       |        |        |        |        | 115.0     |
| FWD EBITDA Multiple              |       |        |        |        |        | 10.0x     |
| Terminal Enterprise Value of FCF |       |        |        |        |        | \$1,149.7 |
| Discount Rate                    | 9.0%  | 9.0%   | 9.0%   | 9.0%   | 9.0%   | 9.0%      |
| Discount Factor                  | 0.979 | 0.917  | 0.842  | 0.772  | 0.708  | 0.679     |
| PV of Cash Flows                 | \$9.5 | \$45.3 | \$74.0 | \$77.5 | \$76.1 | \$780.1   |

|                                  |                  |
|----------------------------------|------------------|
| <b>Enterprise Value</b>          | <b>\$1,062.1</b> |
| Less: OpCo Debt (6/30/11)        | (\$294.4)        |
| Less: HoldCo Debt (6/30/11)      | (\$305.0)        |
| <b>Net Proceeds to Sponsor A</b> | <b>\$462.7</b>   |

| Discount Rate | PV of Cash Flows | Present Value of Terminal Value Based on EBITDA Multiples of: |         |         |         |         | Preliminary Enterprise Value |           |           |           |           | Preliminary Equity Value to the Buyer |       |       |       |       |
|---------------|------------------|---|---------|---------|---------|---------|------------------------------|-----------|-----------|-----------|-----------|---------------------------------------|-------|-------|-------|-------|
|               |                  | 9.0x  | 9.5x    | 10.0x   | 10.5x   | 11.0x   | 9.0x                         | 9.5x      | 10.0x     | 10.5x     | 11.0x     | 9.0x                                  | 9.5x  | 10.0x | 10.5x | 11.0x |
| 10.0%         | \$275.9          | \$673.8   | \$711.3 | \$748.7 | \$786.2 | \$823.6 | \$949.7                      | \$987.1   | \$1,024.6 | \$1,062.0 | \$1,099.5 | \$655                                 | \$693 | \$730 | \$768 | \$805 |
| 9.0%          | \$282.5          | \$702.1   | \$741.1 | \$780.1 | \$819.1 | \$858.1 | \$984.6                      | \$1,023.6 | \$1,062.6 | \$1,101.6 | \$1,140.6 | \$690                                 | \$729 | \$768 | \$807 | \$846 |
| 8.0%          | \$289.3          | \$731.8   | \$772.5 | \$813.2 | \$853.8 | \$894.5 | \$1,021.2                    | \$1,061.8 | \$1,102.5 | \$1,143.1 | \$1,183.8 | \$727                                 | \$767 | \$808 | \$849 | \$889 |

# Discounted Cash Flow– Analysis (Upside Case)

- The valuation below includes all of the potential expansion projects and is discounted at a 10% rate to account for the additional risk associated with un-contracted projects

| DCF Analysis                      |          |        |        |         |         |                  |
|-----------------------------------|----------|--------|--------|---------|---------|------------------|
| (\$ millions)                     |          |        |        |         |         |                  |
|                                   | 2H 2011E | 2012E  | 2013E  | 2014E   | 2015E   | Year-End 2016E   |
| EBITDA                            | \$37.4   | \$80.3 | \$97.1 | \$117.0 | \$123.9 | \$127.8          |
| Contract Amortization             | (4.1)    | (8.3)  | (5.2)  | (2.2)   | (1.8)   |                  |
| Maintenance Capital Expenditures  | (0.9)    | (2.7)  | (2.0)  | (2.0)   | (2.1)   |                  |
| Growth Capital Expenditures       | (22.6)   | (38.0) | (18.2) | (2.0)   | -       |                  |
| Unlevered Free Cash Flow          | 9.7      | 31.2   | 71.8   | 110.8   | 120.1   |                  |
| <b>Terminal Value Calculation</b> |          |        |        |         |         |                  |
| 2016E EBITDA                      |          |        |        |         |         | 127.8            |
| FWD EBITDA Multiple               |          |        |        |         |         | 10.0x            |
| Terminal Enterprise Value of FCF  |          |        |        |         |         | \$1,278.4        |
| Discount Rate                     | 10.0%    | 10.0%  | 10.0%  | 10.0%   | 10.0%   | 10.0%            |
| Discount Factor                   | 0.976    | 0.909  | 0.826  | 0.751   | 0.683   | 0.651            |
| PV of Cash Flows                  | \$9.5    | \$28.4 | \$59.3 | \$83.2  | \$82.0  | \$832.5          |
| <b>Enterprise Value</b>           |          |        |        |         |         | <b>\$1,094.3</b> |
| Less: OpCo Debt (6/30/11)         |          |        |        |         |         | (\$294.4)        |
| Less: HoldCo Debt (6/30/11)       |          |        |        |         |         | (\$305.0)        |
| <b>Net Proceeds to Sponsor A</b>  |          |        |        |         |         | <b>\$494.9</b>   |

| Discount Rate | PV of Cash Flows | Present Value of Terminal Value Based on EBITDA Multiples of: |         |         |         |         | Preliminary Enterprise Value |           |           |           |           | Preliminary Equity Value to the Buyer |       |       |       |       |
|---------------|------------------|---|---------|---------|---------|---------|------------------------------|-----------|-----------|-----------|-----------|---------------------------------------|-------|-------|-------|-------|
|               |                  | 9.0x  | 9.5x    | 10.0x   | 10.5x   | 11.0x   | 9.0x                         | 9.5x      | 10.0x     | 10.5x     | 11.0x     | 9.0x                                  | 9.5x  | 10.0x | 10.5x | 11.0x |
| 11.0%         | \$255.9          | \$719.4   | \$759.3 | \$799.3 | \$839.3 | \$879.2 | \$975.3                      | \$1,015.3 | \$1,055.2 | \$1,095.2 | \$1,135.1 | \$681                                 | \$721 | \$761 | \$801 | \$841 |
| 10.0%         | \$262.4          | \$749.3   | \$790.9 | \$832.5 | \$874.1 | \$915.8 | \$1,011.7                    | \$1,053.3 | \$1,094.9 | \$1,136.6 | \$1,178.2 | \$717                                 | \$759 | \$801 | \$842 | \$884 |
| 9.0%          | \$269.2          | \$780.7   | \$824.1 | \$867.4 | \$910.8 | \$954.2 | \$1,049.8                    | \$1,093.2 | \$1,136.6 | \$1,180.0 | \$1,223.3 | \$755                                 | \$799 | \$842 | \$886 | \$929 |



# Queries & Closing Thoughts





THANK YOU

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