



**Assessing the impact of COVID-19 pandemic on investment valuations**  
**and an update on the evolving investment regime in Mexico**

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# Agenda

- I. Duff & Phelps Firm Overview
- II. Valuation Considerations in the Current Environment
- III. Valuation Examples
- IV. Real Estate Trends Following COVID19
- V. Questions

## Appendices

- A. Duff & Phelps Alternative Asset Advisory

# Alex Stern

## Managing Director, Valuation Advisory Services



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Alex Stern is a managing director in the Valuation Advisory Services practice and is the office leader for Duff & Phelps in Mexico City. He has over 20 years of experience in resolving complex issues for clients, advising on acquisitions, sale mandates, divestitures, capital placement and deployment and other transactional related assignments.

Alex has provided several clients with valuation and modeling consulting services for the purposes of mergers and acquisitions, accounting, tax planning, financing and litigation. By covering all aspects of the M&A lifecycle for corporations and financial sponsors, Alex has gained experience across a wide range of industries. Alex has worked on over 40 transactions representing over \$2B in transaction value, and most deals have involved middle-market companies.

Alex has extensive valuation and M&A advisory experience which includes the following: Advise the largest Spanish bank on the acquisition of the largest mortgage non-bank bank in Mexico; acted as lead advisor for a European staffing and recruiting on their acquisition of a Mexican staffing company; provided buy-side advisory as part of the multi-country team for a UK based company that provides engineering services in relation to an acquisition search in Latin America; provided buy-side advisory to one of the largest food and condiment manufacturers of Japan, in their expansion efforts in Latin America; acted as buy-side advisor and perform a commercial due diligence for a company that provides wireless vehicle tracking services, the company is a U.S. based multinational expanding its footprint in Latin America; advised a Belgian manufacturing company on their cross-border acquisition and due diligence of the largest local player in the Mexican market; led an M&A buy-side initiative to assist clients identify and successfully execute on cross-border transactions in emerging markets; provided valuation services to a steel Service Center for specialized and stainless steel and distribution center for M&A purposes; provided advisory services to a US based hedge fund centered around identification of investment partners in Mexico; led the advisory team that provided restructuring services to one of the largest high-end residential developers in Mexico City.

Prior to joining Duff & Phelps, Alex was a Financial Advisory partner at Deloitte, based in Mexico City and New York, where he led Valuation and Transactions teams and was in charge of new businesses development.

Alex is a Financial Industry Regulatory Authority (FINRA) registered representative, holding the FINRA Series 79 and 63 licenses.

Alex holds a B.S. degree in Industrial Engineering from Universidad Iberoamericana in Mexico City and an M.B.A. from the University of Salford, in Manchester U.K.

Alex speaks fluent Spanish, English and German.

# Robert J. (Joey) Malagon

## Managing Director, Portfolio Valuation



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Robert J. (Joey) Malagon is a managing director in the New York office and part of the Portfolio Valuation service line. Joey has more than 16 years of experience and specializes in the valuation of illiquid securities and interests. He oversees Portfolio Valuation services across Latin America. Joey provides valuation advisory services to alternative asset managers, including private equity, hedge funds and business development companies. He has performed valuations of portfolios of illiquid equity interests held by large private equity funds and has valued management fees and carried interest for private equity management entities. Joey's hedge fund experience includes the analysis of private loans, including senior secured and subordinated debt, convertible preferred and common equity, warrants and other derivatives, and limited partner and general partner interests under the guidelines of ASC § 820 or the equivalent international standard.

Joey's other experience includes the valuation of businesses and intangible assets for a diverse range of companies, including: regional and multinational banks, specialty retailers, industrial manufacturers, distillers and brewers, as well as numerous other companies under the guidelines of ASC § 805 (formerly SFAS 141) and ASC § 350 (formerly SFAS 142).

Joey joined Duff & Phelps in conjunction with the merger of Standard & Poor's Corporate Value Consulting ("CVC") with Duff & Phelps. Prior to joining the New York office of CVC, Joey worked as a senior associate in the Atlanta office of CVC.

Joey received his B.S. in finance from the University of Florida.

# José Luis Silva

## Director, Valuation Advisory Services



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José Luis is Director of the Valuation Advisory Services in the Mexico City office.

Prior to joining Duff & Phelps, José Luis worked as Manager of the Investment Banking division (ECM) of Grupo Financiero Actinver, previous to this experience José Luis was a senior financial consultant at Ernst & Young in its Valuation and Business Modeling practice, and prior to this, he was a tax and transfer pricing consultant in Chevez, Ruiz, Zamarripa, where he began his professional career.

José Luis has carried out business and equity valuation projects in various industries. These engagements have been performed for Initial Public Offers in the Mexican Stock Exchange, Mergers and Acquisitions, business negotiations, corporate planning, litigation support, tax and transfer pricing planning and financial statement reporting requirements.

His experience also includes the valuation of intangible assets such as brands, customer relationships, technology, software and non-compete agreements, among others, in the context of divestiture transactions such as Spinoffs, Carve-Outs, contribution of assets to Joint Ventures; transfer pricing projects and the preparation and review of purchase price allocation studies (PPAs) under IFRS and MEX-GAAP.

His experience in valuation for financial reporting also includes the preparation and review of impairment tests of long-lived assets, intangible assets and goodwill, mainly for multinational groups and public companies, under IFRS and MEX-GAAP.

José Luis holds a BA of Business Administration, a BA of Accounting and Financial Strategy, an MBA and a Master in Finance from Instituto Tecnológico Autónomo de México (ITAM), where he currently is a Master in Accounting candidate. José Luis also participated in the International Business Exchange Program of the University of Chicago Booth School of Business.

José speaks fluent English and Spanish.

# Jorge Yanez

## Vice President, Real Estate Advisory Services



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Jorge has performed more than 400 valuations and consulting assignments, including market research, valuations, analysis of highest and best use and real estate feasibility studies. Jorge has experience with assignments in México, Costa Rica, Peru, Dominican Republic, Brazil and U.S.

Jorge has 9 years of experience advising real estate developers, government agencies, investors and corporate clients in various real estate and personal property matters. Jorge has experience appraising touristic, residential, commercial, industrial and office properties, hospitals, hotels, urban land, rural land, and buildings with a vocation for public service.

Among the most important projects; Jorge has performed appraisals for Daimler, Fibraforte, CMR, AYYA-Inmofin, Valeant, Cinépolis, TBC, OXXO, Grupo Presidente, Grupo MVS, Tyson Foods, Mira Companies, Blackcreek, Wells Fargo, as well as diverse tourist and residential developments such as Diamante Cabo, Cabo Cortés and Chileno Bay.

Jorge is at the beginning of the process to become MAI and has successfully completed the first series of Appraisal Trainee Courses. Jorge has successfully completed the four valuation courses of machinery and equipment offered by the American Society of Appraisers (ASA) and he is in the process of obtaining his M&E credential from the ASA. Finally, Jorge has the Mexican Real Estate certificate to perform appraisals in Mexico issued by the Universidad Autónoma de Zacatecas (UAZ).

### Certifications:

- Certificate of Attendance for a total of 109 hours of education courses from the Appraisal Institute.
- Mexican Real Estate certificate to perform appraisals in Mexico (UAZ).
- Machinery and Equipment valuation courses 201, 202, 203 & 204 of the ASA

# Octavio Ballinas - Guest

## Financial Vice President, National Pension Funds Commission (CONSAR)



Octavio is responsible for the design, implementation and supervision of investment and risk management guidelines for the national pension funds system in Mexico managed by 10 private firms known as AFORE with \$180 billion dollars in asset under management (15% of Mexico GDP), which include the Target Date Fund model in which the national pension system is managed.

Also Octavio designed and supervised all operational and technological requirements for AFORE to obtain licensing for financial derivatives operations (ISDA's and CSA's), establishing capital requirements for AFORE, risk management policies for AFORE; liquidity risk, market risk and credit risk (counterpart and issuing) limits and methodologies.

Octavio is also responsible for the performance and risk measures for AFORE that rule competition between the 10 pension funds in the market, also responsible for the introduction of liability driven investment policies in the national pension system. Octavio analyzed new investment options that suite the investment profile of the national pension system helping the development of productive investments in Mexico.

Prior to CONSAR, Octavio was the CIO of the National Pension Fund Chamber (AMAFORE), where he presided of the investment, risk management and back-office committees. Octavio was in charge of studies and proposals to financial regulators to ease the transition of AFOREs and regulation with financial markets and pension funds best practices. Octavio was responsible for the transition to CSA's best practice as a way to mitigate counterparty risk in financial derivatives operations and the use of liquid bonds as guarantees in margin calls.

Octavio lead the adoption of the Morningstar Analyst Rating as a measure for financial capabilities of AFOREs, designed the performance measures for AFORE financial portfolio. Octavio also developed the statistics and studies published by the Pension Fund National Chamber. Octavio was the spokesperson for the National Pension Fund Chamber in financial forums (national and international).

Before AMAFORE, Octavio was the Technical Manager at Zurich Insurance Company, where he was responsible for the life insurance premium pricing, liabilities valuation and internal audit of the valuation process and for the design of life insurance products.

Octavio holds an Actuary degree from Universidad Anahuac, and a derivative finance specialization diploma from ITAM

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Section I

# Duff & Phelps Firm Overview



## Enhancing Value Across a Range of Expertise

### VALUATION ADVISORY

Valuation and consulting for financial reporting, tax, investment and risk management purposes

- Valuation Services
- Alternative Asset Advisory
- Real Estate Advisory
- Tax Services
- Transfer Pricing
- Fixed Asset Management and Insurance Solutions



### CORPORATE FINANCE

Objective guidance to management teams and stakeholders throughout restructuring, financing and M&A transactions, including independent fairness and solvency opinions

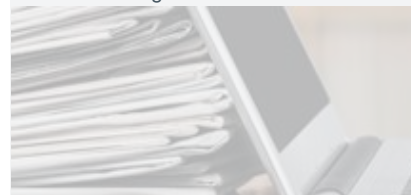
- M&A Advisory
- Fairness Opinions
- Solvency Opinions
- Transaction Advisory
- ESOP and ERISA Advisory
- Commercially Reasonable Debt Opinions
- Distressed M&A and Special Situations



### GOVERNANCE, RISK, INVESTIGATIONS AND DISPUTES

Combined Duff & Phelps and Kroll risk management and mitigation, disputes and other advisory services

- Business Intelligence and Investigations
- Disputes
- Cross-Border Restructuring
- Cyber Risk
- Legal Management Consulting
- Security Risk Management
- Compliance Risk and Diligence
- Compliance and Regulatory Consulting



### PRIME CLERK

Provides bankruptcy and class action claims administration through its proprietary software and industry leading management team.

- Chapter 11
- Strategic Communications
- Contract Review
- Corporate Actions
- Class Action



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Section II

# Valuation Considerations in the Current Environment

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## Update – What Is Happening?

- Sheltering in place requirements are easing or have been removed in US and some parts of Latin America

### In Latin America

- The Covid-19 pandemic is pushing the region to its worst economic contraction in over a century. Limited fiscal space to counter the effects of the crisis clouds the outlook further. (as of June)

### In the US

- US economy surprisingly added 2.5 mill jobs in May, still more than 35 million unemployed
- US Federal Reserve continues massive intervention; \$ 2.3 trillion in lending, other actions
- Federal funds rate 0 to .25% (could it go negative)

### In Mexico

- Banco de Mexico has been lowering the overnight interbank interest rate by 150 basis points since the pandemic started to 5.5% since May 14, 2020.
- During the pandemic a series of unprecedented measures injecting around 30,000 million dollars to stabilize and lower the volatility exchange rate of the Mexican peso against the US Dollar.
- Regulators supported a deferment program offered by the largest commercial banks of between four to six months
- Reduction of the Monetary Regulation Deposit (DRM) by \$50 billion pesos

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# Update – What Is Happening?

## Public Markets Remain Volatile (as of June 22)

- US S&P 500 down 19% in Q1; up 20% Q2 to-date; down 3.2% YTD
- Russel 2000 down 31% in Q1; up 24.3% Q2 to-date; down 13.3% YTD
- IPC down 31% in Q1; up 10.3% Q2 to-date; down 13.6% YTD
- BVL down 2.1% in Q1; up 13.1% Q2 to-date; up 10.6% YTD
- The Merval down 40.7% in Q1; up 65.5% Q2 to-date; down 1.9% YTD
- COLCAP down 32.8% in Q1; up 3.6% Q2 to-date; down 30.4% YTD
- IPSA UP 2.6% in Q1; down 3.9% Q2 to-date; down 1.4% YTD

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## Fair Value has not changed

- Definition of Fair Value: ***the price that would be received TO SELL an asset or paid to transfer a liability in an ORDERLY transaction between market participants at the measurement date.***
- IPEV Board issues special valuation guidance in March 2020 reaffirming their framework for determining Fair Value:

*“During the 2008 crisis the board stated that “fair value [is] the best measure of valuing private equity portfolio companies and investments in private equity funds.” We reaffirm this statement today. Fair value continues to provide investors in funds with the most consistent and comparable decision useful information. The fair value judgements undertaken at 31 March 2020 will be very challenging. Applying the IPEV Valuation Guidelines with rigor and staying true to the principles of fair value will allow managers and valuers to rise to the challenge and extend the track record of providing investors with useful transparent information.”*
- <http://www.privateequityvaluation.com/latest-news/details/IPEV-Board-provides-views-on-estimating-fair-value-at-31-March-2020>

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# What does Fair Value mean in times of market dislocation?

- Fair Value  $\neq$  Fire Sale Price
- Fair Value does take into account market conditions
- Fair Value does take into account what is known and knowable at the measurement date
- Fair Value does reflect a market participant's view as to how much they would pay

Fair Value is the amount that a market participant would pay, in an orderly transaction, taking into account current market conditions and all relevant known and knowable information pertaining to the investment being valued at the measurement date.

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## What is Known and Knowable at June 30, 2020?

- Public market prices may have increased materially since March 31 (depending on the particular market), but remain volatile
- Energy prices, in particular the price of oil, have recovered significantly from March 31
- Selected industries have been significantly impacted by the response to the pandemic
  - Mainly negatively, some positively
- Many individuals and companies are facing a liquidity crunch—how long will their cash resources last?
- Uncertainty has increased; and therefore risk has increased; and therefore a market participants required rate of return has likely increased

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## What may NOT be Known and Knowable at June 30, 2020?

- When effective treatments for COVID-19 will be available
- When a vaccine will be available to prevent the spread of COVID-19
- Will there be a recurrence of COVID-19 cases
- How long shelter in place and travel restrictions will remain in effect
- When will consumer spending return to pre COVID levels
- Is the public market recovery a sustained **V** or could it be a **W** or **VL** or ?
- The timing, depth, and length of a potential economic recession
- When will (or will) unemployment rates return to pre COVID levels

**Uncertainty reigns, outlook is opaque, and risk is elevated**



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# Valuation Methodology – Valuation Approaches

- Market Approach
  - Comparable Company Method
    - Meaningful volatility of late
  - Market Transaction Method
    - Past transactions don't reflect current market conditions
    - Current transactions may reflect distressed situations
  - May include recent and/or upcoming rounds of financing for the subject company
    - Where companies lack liquidity
- Income Approach
  - Discounted Cash Flow Method
    - Increased uncertainty in forecasts
    - Terminal value
      - Exit multiple assumptions may be more challenging
    - Discount rate – how to reflect increased uncertainty without double counting risk

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# Portfolio Company Triage

- Liquidity – is bankruptcy a risk; impact on increase in debt; repayment obligations
- Working capital hole – how large and when/how will it be filled
- Have projections been updated
- Enterprise Value Considerations
  - Revenue
    - » Has customer demand changed
    - » Customer financial health
    - » Customer's customers financial health
  - Supply Chain
    - » Timing and availability of goods
    - » Cost of goods
    - » Supplier financial health
  - Operations
    - » Employee availability
    - » Employee productivity
    - » Additional costs required to keep employees at home or allow them to return to work location

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# Equity Valuation Considerations at June 30

## Q1 v Q2

- Q1 was about signaling an appropriate level of impact in view of rapidly changing market metrics and uncertainty around company specific implications
- Q2 should see the “bid/ask” spread narrow

## Market Indications

- Many markets have broadly rebounded in spite of material uncertainty
- Is this sustainable/real? How do you interpret and apply the data?
- How much should I move the mark relative to Q1?

## Practical Implications

- Continue to be mindful of comparability of data – adjusted drivers applied to unadjusted multiples
- As a sanity check, consider the change in TEV and market caps of the peer group
- Remember the overarching consideration – where would a market-participant price the asset (or liability) as of the Valuation Date – i.e. if you could do it over again today

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## June 30, 2020 Valuation Questions

- How was the investment valued at March 31 and will that impact June 30
- What metric(s) should be used – LTM, NTM, FY+1, normalized, etc.
- Will those who took a wait and see approach at March 31 need to adjust values at June 30
- How should shares that are suspended from trading be valued
- Should recent transactions be used in estimating fair value

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Section III

# Valuation Examples

# Valuing Equity Investments at June, 2020

DUFF & PHELPS

	5/10/2020	6/10/2020	Change Since 5/10/2020
Comparable Company A			
Market Capitalization	\$ 1,000	\$ 700	-30%
Debt	500	500	
Enterprise Value	\$ 1,500	\$ 1,200	-20%
LTM EBITDA (as of 12/31/2019)	150	150	
<b>Implied Multiple</b>	<b>10.0x</b>	<b>8.0x</b>	<b>-2.0x</b>

Subject Company	5/10/2020	6/10/2020	Change Since 5/10/2020
<b>Scenario 1 (Unadjusted EBITDA)</b>			
Selected Multiple	10.0x	8.0x	-2.0x
LTM EBITDA (as of 12/31/2019)	\$ 100	\$ 100	
Enterprise Value	\$ 1,000	\$ 800	-20%
Debt	(333)	(333)	
<b>Equity Value</b>	<b>\$ 667</b>	<b>\$ 467</b>	<b>-30%</b>
<b>Scenario 2 (Adjusted EBITDA)</b>			
Selected Multiple	10.0x	8.0x	-2.0x
LTM EBITDA	\$ 100	\$ 75	
Enterprise Value	\$ 1,000	\$ 600	-40%
Debt	(333)	(333)	
<b>Equity Value</b>	<b>\$ 667</b>	<b>\$ 267</b>	<b>-60%</b>

Multiple Selection Considerations
(1) Discount / Premium
(2) Comparability to the Peer Group
(3) Operational (e.g. outlook, supply chain, customers, etc.)
(4) Financial (e.g. liquidity, leverage)

**BE MINDFUL OF MIXING / MATCHING ADJUSTED AND UNADJUSTED FIGURES**

# Valuing Equity Investments at June, 2020

## Multiple Selection – Forward Multiple

DUFF & PHELPS

	5/10/2020	6/10/2020	Change Since 5/10/2020
<b>Comparable Company A</b>			
Market Capitalization	\$ 1,000	\$ 700	-30%
Debt	500	500	
Enterprise Value	\$ 1,500	\$ 1,200	-20%
NTM EBITDA (unadjusted)	200	200	
<b>Implied Multiple</b>	<b>7.5x</b>	<b>6.0x</b>	<b>-1.5x</b>
<b>Comparable Company B</b>			
Market Capitalization	\$ 1,000	\$ 700	-30%
Debt	500	500	
Enterprise Value	\$ 1,500	\$ 1,200	-20%
NTM EBITDA (adjusted)	200	150	
<b>Implied Multiple</b>	<b>7.5x</b>	<b>8.0x</b>	<b>0.5x</b>

**BE MINDFUL OF MIXING / MATCHING ADJUSTED AND UNADJUSTED FIGURES**

# Value of a Business – Using a DCF Method

## In Good Times: Economic Expansion



Growth rate (g) is positive

$$\text{Enterprise Value} = \frac{\text{FCF}_0 * (1 + g_1)}{(1 + \text{WACC})^1} + \frac{\text{FCF}_1 * (1 + g_2)}{(1 + \text{WACC})^2} + \dots + \frac{\text{Terminal Value} = \text{FCF}_n * (1 + g_{LT})}{(\text{WACC} - g_{LT})^n}$$

... n periods



Discount Rate is lower

WACC = Weighted Average Cost of Capital

Value is higher

Projected future cash flows are discounted to present value using a discount rate



Definitions:

$g_{LT}$  = Long-term Growth Rate

FCF = Free Cash Flows

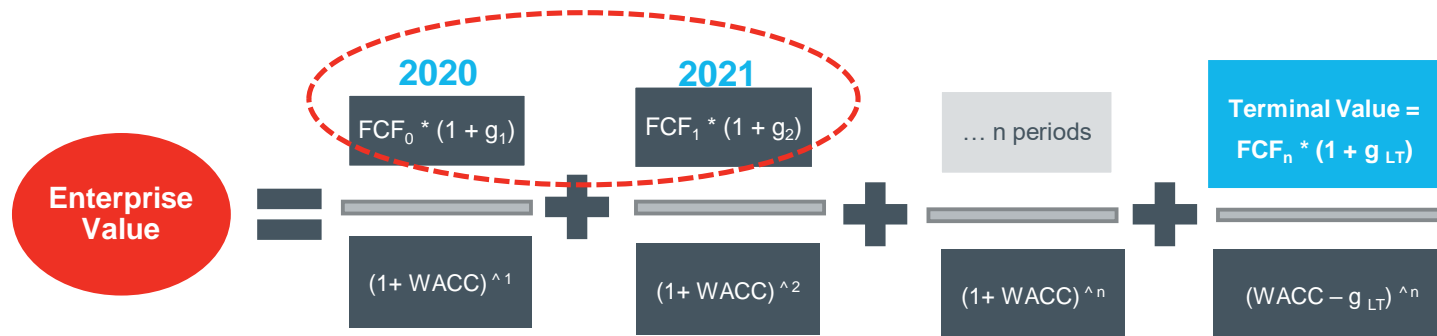


# Value of a Business – Using a DCF Method

## In Bad Times: Economic Recession



Growth rate ( $g$ ) is low or negative



Discount Rate is higher

WACC = Weighted Average Cost of Capital

Value is lower

Projected future cash flows are discounted to present value using a discount rate



Definitions:

$g_{LT}$  = Long-term Growth Rate

FCF = Free Cash Flows

## The Risk-free Rate ( $R_f$ ) – Spot Rate or “Normalized” Rate?

During periods in which risk-free rates appear to be abnormally low due to flights to quality or massive monetary policy interventions (i.e. QE or quantitative easing)

⇒ Duff & Phelps recommends normalizing the risk-free rate



# Other Cost of Capital Inputs

## Selected Tips

Cost of Capital Input	Post Coronavirus Considerations
<b>(Asset) Beta – Unlevered</b>	<ul style="list-style-type: none"><li>• Significant equity market declines can lead to greater debt % in the capital structure</li><li>• May significantly distort the calculated unlevered betas. Hamada unlevering formula may exacerbate the issue.</li><li>• Consider using other unlevering methods (e.g. Harris-Pringle) in the current environment</li></ul>
<b>Pre-Tax Cost of Debt</b>	<ul style="list-style-type: none"><li>• Don't automatically assume BBB rating for industry peers.</li><li>• Subsidized or below-market interest rate loans should not be used in WACC calculation. Instead, discreetly model the associated benefits and add those to the value of the firm.</li></ul>
<b>Capital Structure</b>	<ul style="list-style-type: none"><li>• Corporate finance theory tells us to use market value weights for debt component</li><li>• Don't automatically assume debt book value = market value</li><li>• Review Fair Value footnotes in annual &amp; interim financials</li><li>• Consider averages instead of point-in-time capital structure</li></ul>

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Section IV

# Real Estate trends following COVID19

# Real Estate Impacts COVID-19

- High uncertainty over the precise course of the Real Estate market
- Certainty about short term volatility and medium term contraction of the Real Estate market
- Certainty about an overall increase of capitalization rates of Real Estate assets
- Certain Real Estate industries / sectors have been significantly impacted

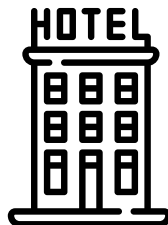
	Average		% Change
	31/12/2019	9/4/2020	
<b>Public REIT Sector</b>			
1 Office	6.4%	7.3%	0.9%
2 Retail / Commercial	6.7%	9.0%	2.3%
3 Industrial	5.0%	5.6%	0.5%
4 Residential	4.9%	5.6%	0.8%
5 Diversified	5.9%	7.5%	1.6%
6 Healthcare	6.2%	7.3%	1.2%
8 Net Lease	6.1%	8.0%	1.8%
9 Self-Storage	5.1%	5.4%	0.3%
10 Data Center	5.7%	5.5%	-0.2%
11 Hotel	8.1%	10.4%	2.3%

*Note: Moment in Time Implied Cap Rates in Volatile Traded Market  
Source: Robert A. Stanger & Co., Inc*

# Real Estate Impacts by sector COVID-19

## Hospitality

- The most impacted asset class. Several hotels closed, some hotels have reported occupancies below 5%.
- Long term: 2020 is expected to be a lost year for revenues.
- Industry analysts suggest it will take all 2021 to regain what was in place at the end of 2019.
- Though times for companies with high debt levels, as a result of no operating cash / liquidity.
- Industry economics and analysts indicate large short-term cap rate increases.
- Well capitalized hotel owners/operators are using downtime for cap ex improvement projects.



## Retail

- High demand and income growth in the grocery, medical and technology retail sectors.
- Total retail store sales were down 8.7% from February to March 2020.
- Enclosed malls are in negotiation about retail terms with almost all tenants. Many rent concessions / reliefs / deferrals expected.
- Rents in decline. No market activity.
- Most shopping operators estimate reopening until July or August 2020, depending on the location.
- In the USA between 10-15% of tenants will not return despite rent relief. 20-30% restaurants may not return.
- An increase in capitalization rates is expected.



# Real Estate Impacts by sector COVID-19

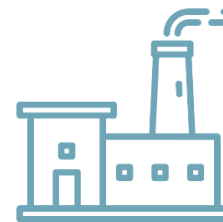
## Office

- Impacts will start primarily in 2020 2H and 2021.
- In the USA rent collections have been down 10%-30%.
- In the USA; 20%-30% of tenants requested rent relief citing COVID-19. Free rent in exchange for lease extensions expected.
- Expectation that values will decline 5%-20% in the short-term.
- De densification of office working spaces.
- Co-working spaces may no longer be viable alternatives.
- It is expected that in the USA between 10 to 20 million Jobs will be lost, which will considerably impact this sector.
- Increased vacancy and capitalization rates is expected.
- Increase in capex and sanitization expenses expected.



## Industrial

- Favorable high demand on e-commerce.
- Increased demand of bulk storage and distribution centers.
- Small business tenants will be the most affected. Delayed payments should be expected.
- On a short term rent deferrals and extended lease up time should be expected.
- It is expected that transactions in the following quarters will decrease due to economic deacceleration.
- Slight capitalization rate increases are expected, nevertheless, this will be the least impacted sector.



# Real Estate Impacts by sector COVID-19

## Multi-family

- In USA between 5% to 10% of units have requested Covid-related reliefs.
- Renewals are 10% higher than historical averages.
- New lease applications have decreased.
- Oversupply partially due to the release of dwellings that used to be in digital platforms such as Airbnb.
- In USA, asking rents have decreased 1-3%.
- Due to coming financial crisis, demand of renting versus buying should increase in the mid term.
- This sector will not be as affected as the office, hospitality and retail sectors.





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# Audience Questions

## Resources:

- IPEV Valuation Guidelines and IPEV Board Special Guidance
- AICPA Article: Investment Companies: Measuring Fair Value in Times of Significant Uncertainty
- AICPA Accounting and Valuation Guide: *Valuation of Portfolio Company Investments of Venture Capital and Private Equity Funds and Other Investment Companies*
- Duff & Phelps
  - Frequently Asked Questions: *Measuring the Fair Value of Private Debt and Equity Investments in Times of Significant Uncertainty*
  - Your Duff & Phelps service team

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# Final Comments

## Resources:

- Alex Stern: +52 55 6820 6978; alex.stern@duffandphelps.com
- Joey Malagon: +1 212 871 6989; robert.malagon@duffandphelps.com
- Jose Luis Silva: +52 55 6820 6938; jose.silva@duffandphelps.com
- Jorge Yañez: +52 55 6820 6935; jorge.yanez@duffandphelps.com

**Thank you for attending!**

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Appendix A

# Duff & Phelps Alternative Asset Advisory

# Duff & Phelps Alternative Asset Advisory

Duff & Phelps is a market leader in providing investors and managers with valuation services related to alternative investments, specifically securities and positions for which there are **no "active market" quotations**.

## Key Highlights

- » Duff & Phelps' client base consists of **400 alternative asset** fund managers and investors in the **U.S. and globally**
- » We perform in-depth valuation analyses of all asset types for clients across the spectrum of banks, hedge funds and private equity firms globally:
  - **70% of the top 25** largest Hedge Funds
  - **70% of the top 25** largest Private Equity Funds
  - **50% of the top 25** largest publicly traded Hedge Fund platforms (business development companies or "BDCs")
  - **80% of the top 30** Limited Partners listed by PEI
  - Our client base includes **18 BDCs** (17 public, 1 private)
  - **Venture capital, Private debt and mid-market private equity funds** are the fastest growing segment of our client base
- » We review or value over **10,000 investment positions** on a quarterly basis, including derivatives and structured products
- » We have **17 full-time Managing Directors** and draw from D&P's pool of over 1,000 valuation professionals with wide ranging sector and asset class expertise across the spectrum

## What we do

- » Duff & Phelps provides an objective and independent third party perspective on all classes of illiquid securities assisting alternative investment managers in the U.S. and globally
- » Duff & Phelps assists clients with design and implementation of best in class valuation policies and procedures including drafting and ongoing review of valuation processes and procedures to ensure best practice
- » Our services sought by our clients for several mission critical applications include:
  - Financial and management reporting
  - Transaction support
  - Audit and stakeholder requirements

**Duff & Phelps' Alternative Asset Advisory practice enables alternative investment managers to enhance their valuation process with the *independence and objectivity* that investors require.**

# Alternative Asset Advisory - Practice Overview

Creating enhanced transparency in the Alternative Asset Investment Space

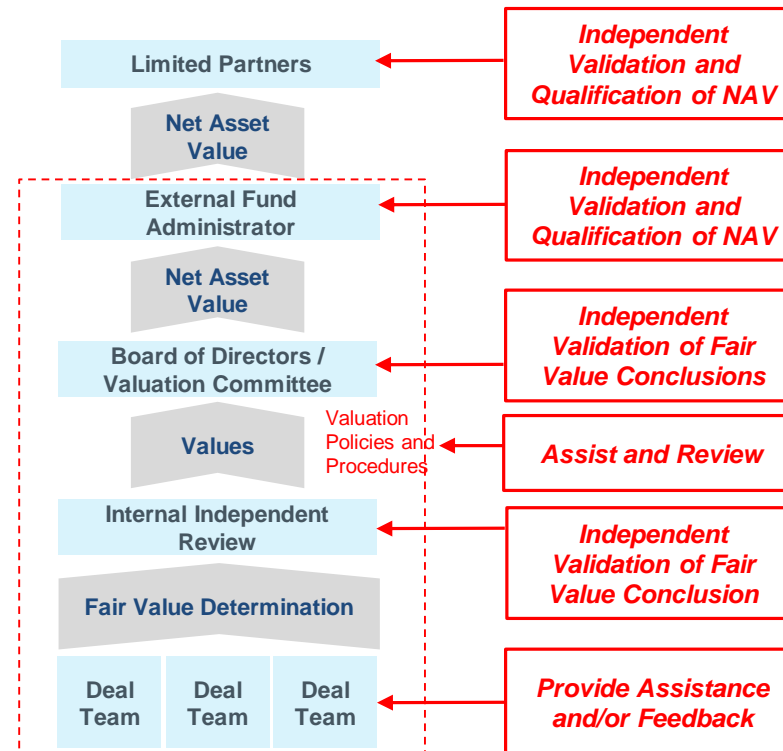
## Who We Are

*Duff & Phelps is a global industry leader in the alternative asset investment space, with expertise in all classes of illiquid securities and clients across North America, Europe, the Middle East, and Asia*

## How and Where We Can Help

*Duff & Phelps provides an independent and objective view on valuation that enhances our clients' financial reporting process and internal control environment*

## Typical Engagements



# Unparalleled Industry Thought Leadership

Creating enhanced transparency in the Alternative Asset Investment Space

## Industry Thought Leadership

- » Service on FASB's Valuation Resource Group
- » Participation in the U.S. Securities and Exchange Commission's mark-to-market roundtable in November 2008
- » Membership on the American Institute of Certified Public Accountants' Alternative Investments Net Asset Value Task Force
- » Leadership in drafting the Private Equity Industry Guidelines Group's (PEIGG) U.S. Private Equity Valuation Guidelines
- » Membership on the International Private Equity and Venture Capital Valuations Board, focused on providing global guidelines for valuing private equity. Duff & Phelps co-drafted the IPEV Valuation Guidelines
- » Active member of Alternative Investment Management Association (AIMA)
- » Special advisor to the Institutional Limited Partners Association
- » Quoted by media outlets including Wall Street Journal, Financial Times, New York Times, CFO Magazine, CNBC, Fox Business News, Private Equity International, and Hedge Funds Review on issues impacting alternative investments valuation.

## Benefits of Duff & Phelps Alternative Asset Advisory

- » Duff & Phelps review provides an independent and objective view on valuation that enhances our Client's valuation and financial reporting process
- » We ensure that our Clients' valuations methodology is compliant with current guidance and financial reporting requirements
- » We ensure that our Clients' methodology and approach is aligned with industry best practise using our experience and insight
- » Our involvement provides additional assurance to investors as to robustness of valuation process
- » We provide support for finance teams challenging and supporting deal team values
- » Our discussions with LPs indicate an increased focus on importance of timely, accurate reporting
- » At our Clients' request, and with a signed third party release letter, we communicate with LPs directly
- » Duff & Phelps review valuations prepared to ensure:
  - Objective and independent valuation conclusions
  - Compliance with guidelines and regulations
  - Consistent and robust approach with work-paper support

# Our Areas of Expertise Span the Full Spectrum of Illiquid Assets and Securities

We are a recognized market leader, providing valuation services to the alternative investment management community. We currently review thousands of positions across a broad range of industries and clients.

Alternative Assets	Corporate Securities	Structured Products	Contractual Agreements	Options & Other Derivatives
<ul style="list-style-type: none"> <li>» Private/Direct Loans</li> <li>» Real Estate</li> <li>» Private Equity and Venture Capital (Direct)</li> <li>» Private Equity and Venture Capital (Co-invest)</li> <li>» Hedge Fund and Private Equity General Partnerships (GPs)</li> <li>» Hedge Fund and Private Equity Limited Partnership Interests (LPs)</li> <li>» In-Kind Distributions</li> <li>» Other Illiquid investments</li> <li>» Non-performing loans (NPLs)</li> </ul>	<ul style="list-style-type: none"> <li>» Convertible debt</li> <li>» Callable debt</li> <li>» Private Secured and Unsecured Loans</li> <li>» Distressed Debt</li> <li>» Other Debt Instruments</li> <li>» Preferred and Non-Public stock</li> <li>» PIPEs</li> <li>» Illiquid Common Equity</li> <li>» Employee stock options (FAS 123/IFRS2) and Restricted Stock</li> <li>» Warrants</li> <li>» Securities with embedded derivatives</li> <li>» Allocation of value among various claim holders</li> <li>» Common stock of highly leveraged companies</li> <li>» Contingent stock</li> </ul>	<ul style="list-style-type: none"> <li>» Residential whole loans, MSR and Residential Mortgage Backed Securities (RMBS): Subprime, Alt-A, Option ARMs, RPL, NPL, SFR, fix and flip</li> <li>» Asset-Back Securities and Structured Notes</li> <li>» Commercial Real Estate (CRE) Loans, CMBS, CRE CDOs and CRE CLOs</li> <li>» Marketplace lending/P2P loans and securities</li> <li>» Various types of CDOs including ABS CDO, CBO, CLO, CDO<sup>2</sup>, Synthetic CDOs, Reg-Cap transactions, and Trust Preferreds.</li> <li>» Collateralized Fund Obligations (CFOs) – Hedge Fund and Private Equity Interests</li> </ul>	<ul style="list-style-type: none"> <li>» Executive compensation plans</li> <li>» Contracts with contingent payments</li> <li>» Employee stock options (FAS 123/IFRS2)</li> <li>» Management Incentive plans associated with portfolio companies (FAS123R/IFRS2)</li> </ul>	<ul style="list-style-type: none"> <li>» Futures &amp; Forwards</li> <li>» Swaps - Interest Rate, Variance, Dividend, Energy and Volatility Swaps</li> <li>» Options - Equity, Interest Rate, Currency, Commodity &amp; Energy Options</li> <li>» Credit Default Swaps and other credit derivatives</li> <li>» Warrants (Debt)</li> <li>» Other OTC derivatives</li> <li>» Catastrophe bonds</li> </ul>

# Sector Expertise

We have over a decade of experience in the portfolio valuation and alternative investments space, as well as experts covering all major asset classes, including Real Estate, Structured Products, Technology, Industrial Products, and Healthcare:

<b>Experience</b>	18 full time Managing Directors to ensure timely, intelligent responses to your issues and questions that bring you unparalleled market intelligence and insights.
<b>Breadth</b>	The broadest exposure to deal sizes ranging from lower middle market to the largest syndicated deals. Approximately 10,000 valuations of private investments were performed in 2018. These engagements involved billions of dollars in positions across all industries in both domestic and international geographies.
<b>Capacity</b>	Industry leading ability to leverage our 1,300+ valuation professionals with deep industry and product experience. Over 200 professionals regularly work on alternative asset advisory engagements.
<b>Resources</b>	As a large firm, we invest in leading technology to leverage investment data and bring market leading experience and insights to our clients.
<b>Product Knowledge</b>	Expertise with the most complex debt, equity, real estate and derivative investments in companies across the business lifecycle.
<b>Thought Leadership</b>	Our professionals are actively involved in shaping both the US and international landscape on Fair Value reporting issues, including co-authoring the current PEIGG and IPEV Fair Value guidelines.

*Our experience with complex portfolios has given us unparalleled insight in valuing a broad range of alternative investments. As the largest valuation firm in the alternative asset space, we have valued a diverse array of investment classes, enabling us to approach our clients' valuation needs with confidence. This exposure puts us at the forefront of industry trends and valuation methodologies.*



# Global Regulatory Affiliations

Duff & Phelps Managing Directors provide input to regulators and standard-setters, and actively contribute to the development of valuation industry best practices.



Banking and Securities  
Commission – Mexico



Financial Reporting  
Standards Council - Mexico



Commission of the Savings  
System for Retirement - Mexico



U.S. Securities and  
Exchange Commission



International Accounting  
Standards Board



Financial Accounting  
Standards Board



American Institute  
of CPAs



International Valuation  
Standards Council

# Global Regulatory Affiliations (cont.)

Duff & Phelps Managing Directors provide input to regulators and standard-setters, and actively contribute to the development of valuation industry best practices.



Appraisal  
Institute



Securities and Exchange  
Commission of Brazil



Financial Conduct  
Authority United Kingdom



The Appraisal  
Foundation



Monetary Authority  
of Singapore



Financial Markets  
Regulator  
France



National Securities  
Market Commission  
Spain



Institute of Management  
Accountants

# Global Regulatory Affiliations (cont.)

Duff & Phelps Managing Directors provide input to regulators and standard-setters, and actively contribute to the development of valuation industry best practices.



Association of PE & VC  
Fund -Mexico



AMERICAN CHAMBER  
MEXICO

Institutional Limited  
Partner Association



Institute of Administration  
and Appraisals of National  
Assets - Mexico



INSTITUTIONAL  
LIMITED PARTNERS  
ASSOCIATION

Institutional Limited  
Partner Association



Alternative Investment  
Management Association



National Venture Capital  
Association



Invest Europe



British Private Equity and  
Venture Capital  
Association



Singapore Venture Capital  
Association

# Duff & Phelps publications



For more information, please visit: <https://www.duffandphelps.com/insights/publications/cost-of-capital>

For more information about our global locations and services, please visit:  
[www.duffandphelps.com](http://www.duffandphelps.com)

#### **About Duff & Phelps**

Duff & Phelps is the global advisor that protects, restores and maximizes value for clients in the areas of valuation, corporate finance, disputes and investigations, cyber security, claims administration and regulatory issues. We work with clients across diverse sectors on matters of good governance and transparency. With Kroll, the leading global provider of risk solutions, and Prime Clerk, the leader in complex business services and claims administration, our firm has nearly 4,000 professionals in 25 countries around the world. For more information, visit

*M&A advisory, capital raising and secondary market advisory services in the United States are provided by Duff & Phelps Securities, LLC. Member FINRA/SIPC. Pagemill Partners is a Division of Duff & Phelps Securities, LLC. M&A advisory, capital raising and secondary market advisory services in the United Kingdom are provided by Duff & Phelps Securities Ltd. (DPSL), which is authorized and regulated by the Financial Conduct Authority. M&A advisory and capital raising services in Germany are provided by Duff & Phelps GmbH, which is a Tied Agent of DPSL. Valuation Advisory Services in India are provided by Duff & Phelps India Private Limited under a category 1 merchant banker license issued by the Securities and Exchange Board of India.*