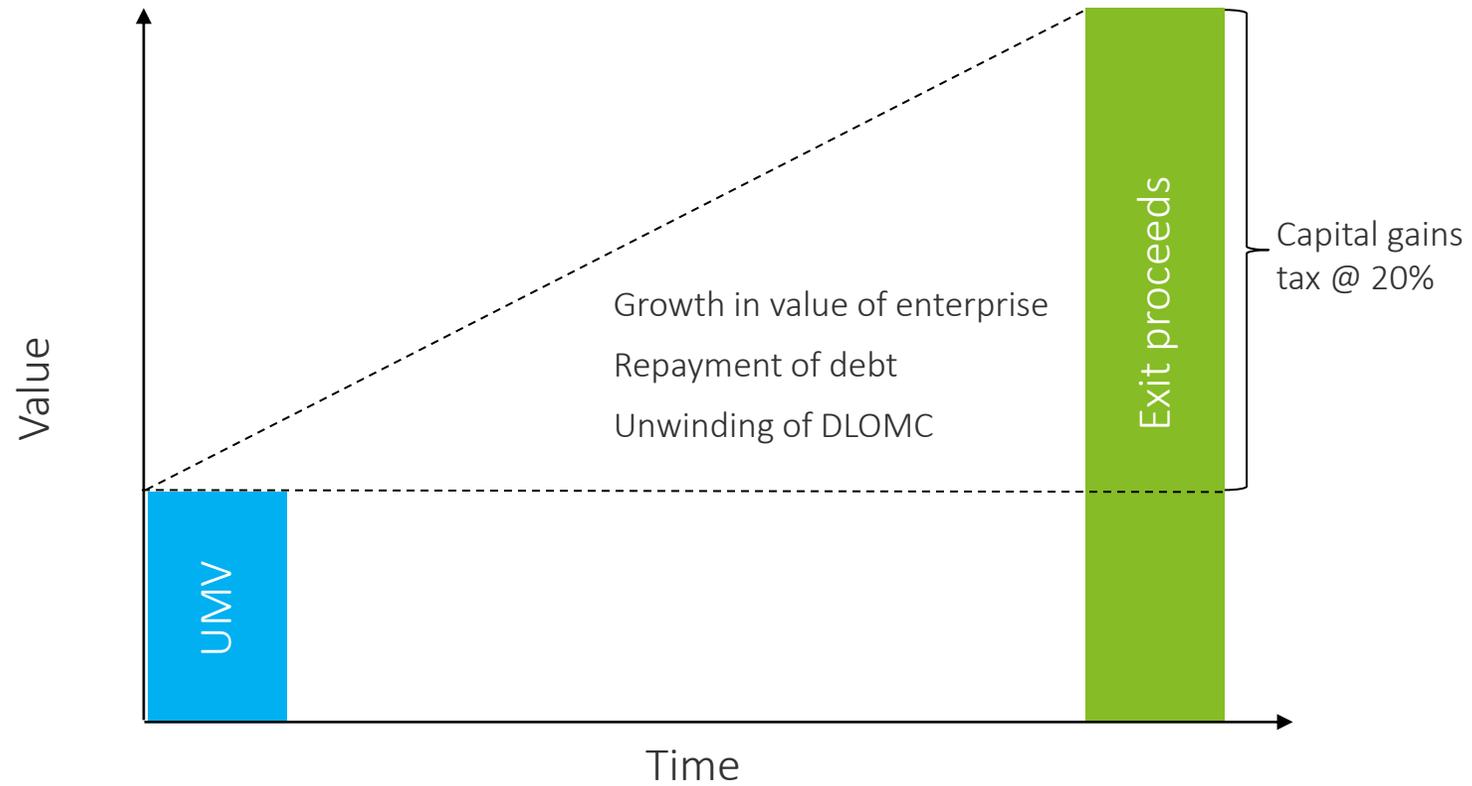




How do you create tax-efficient structures in the face of inconsistent valuation methodologies, such as valuing growth shares, backed up by practical examples?

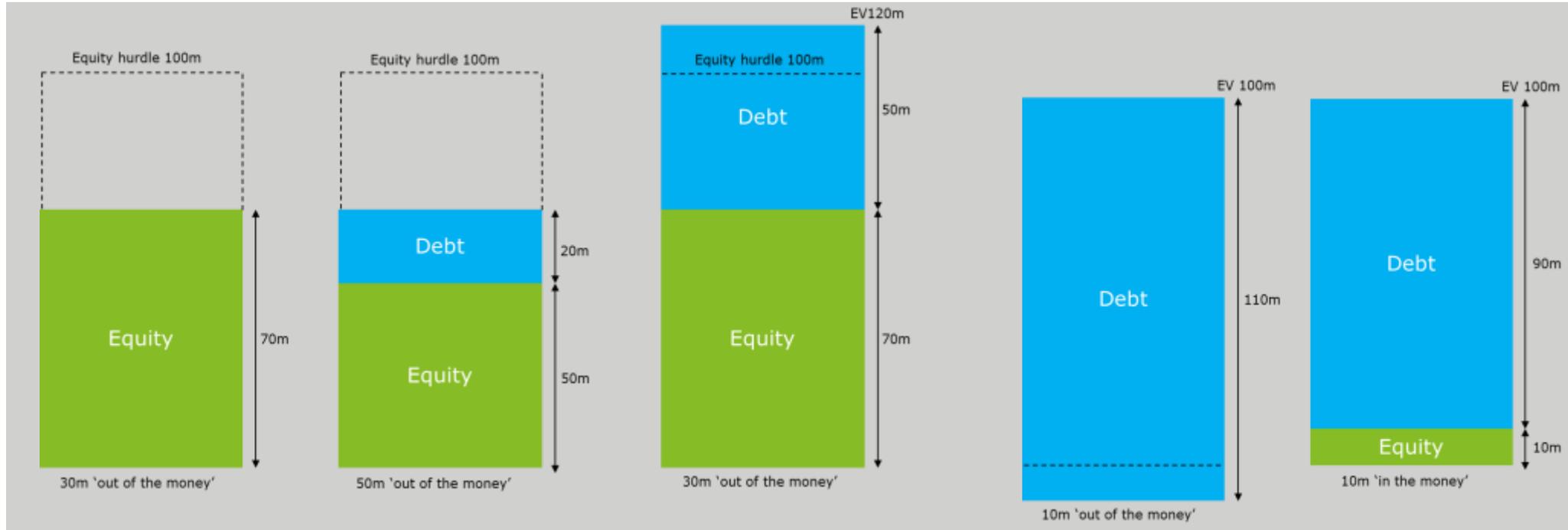
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Tax efficient management incentives



Valuation of Employment Related Securities

What is a 'growth share'?



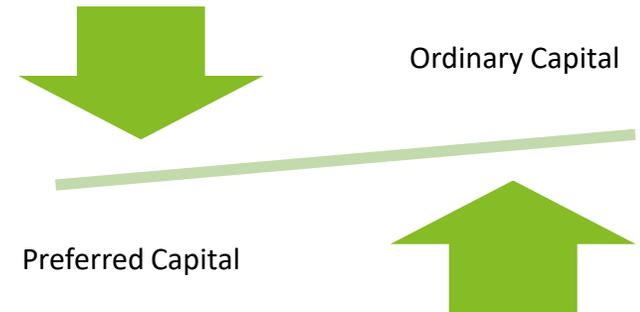
Growth shares

Geared by shareholder debt/prefs

Geared by external debt

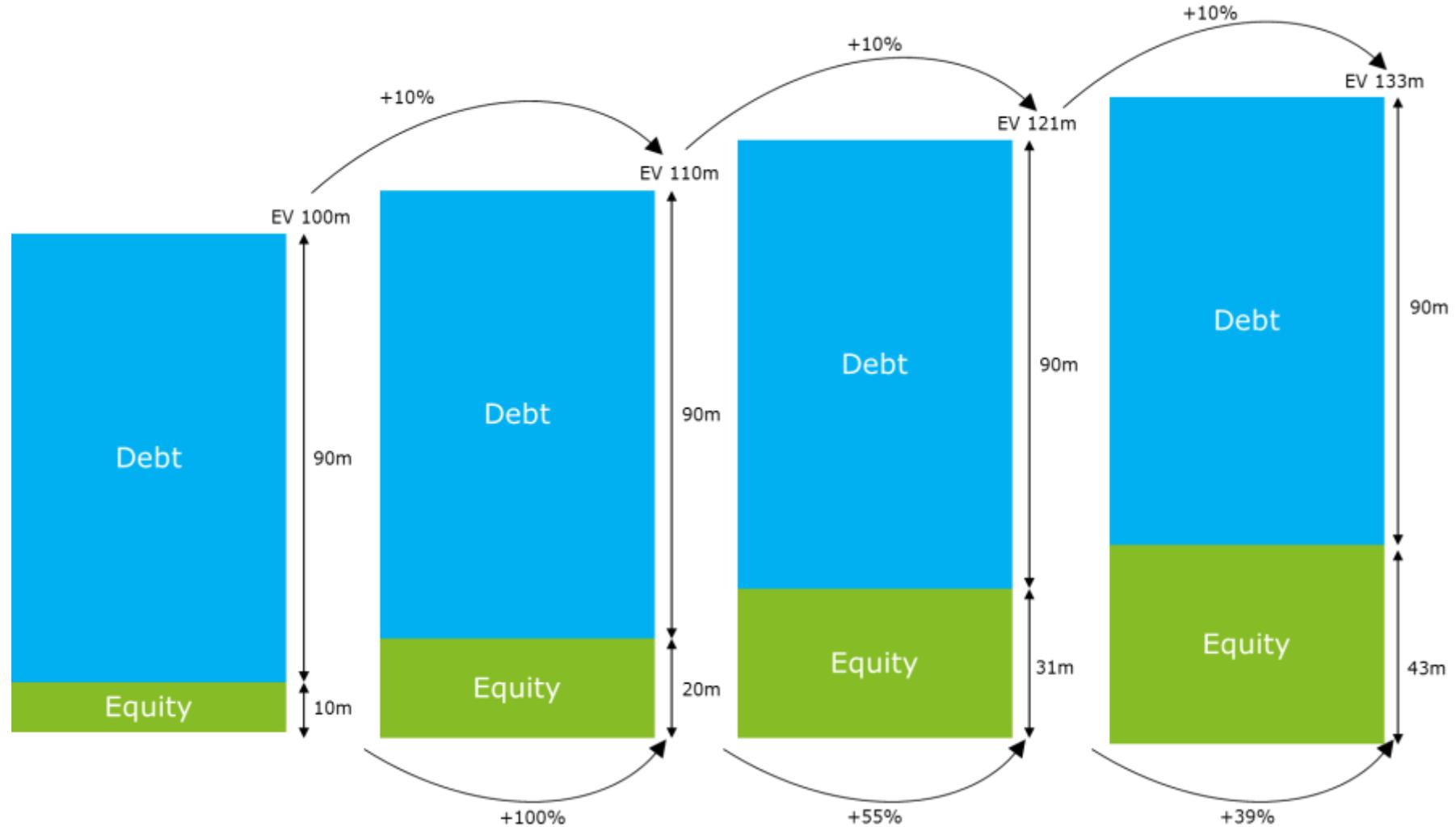
Carried interest

The impact of 'uncommercial' leverage:



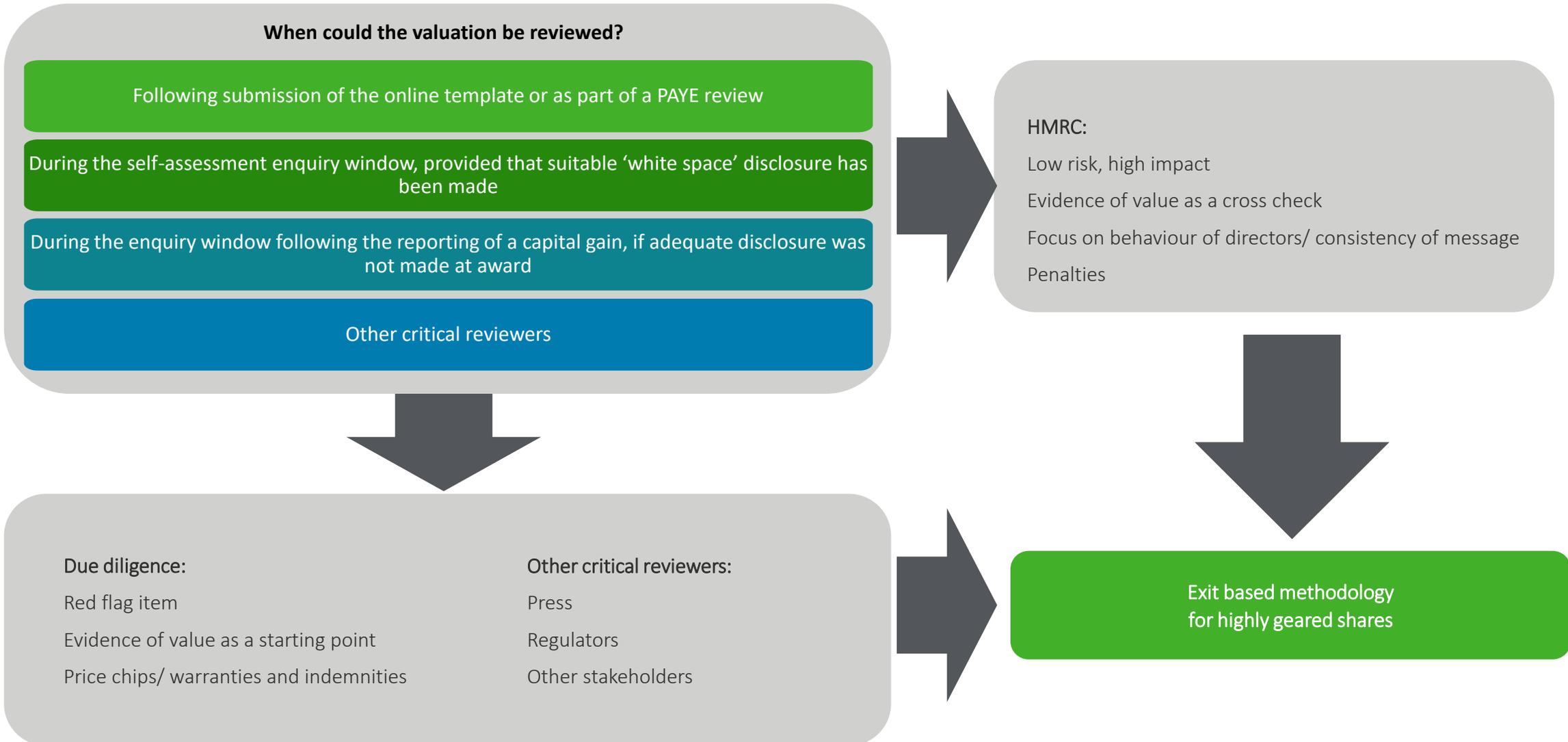
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The impact of leverage



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Review opportunities



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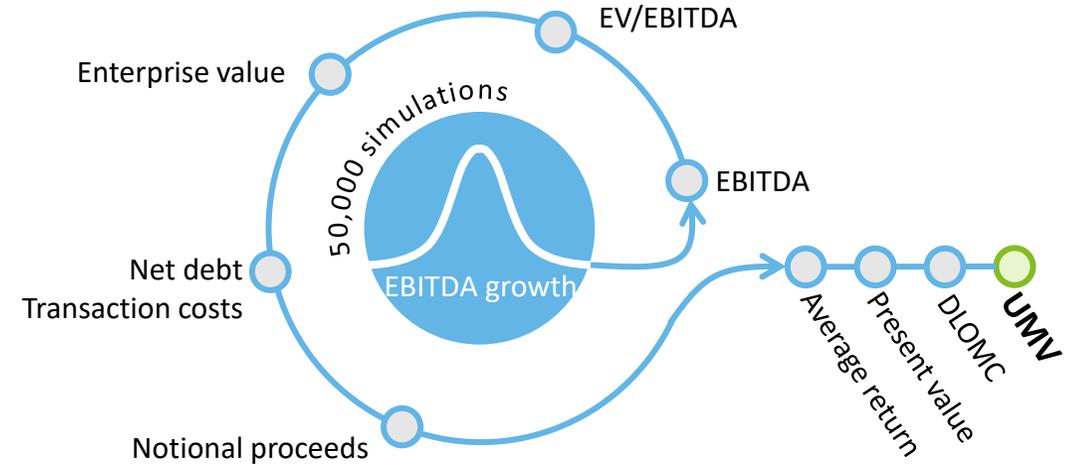
Expected returns



Single case ERM

PWERM

Simulated ERM



Conceptually intuitive	Favoured by HMRC	Favoured by investors
Works best when forecasts are reliable	May have limited outcomes	'Cliff edge' if exit close to the hurdle

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Option pricing



Black Scholes

Opaque

Favoured by certain tax authorities

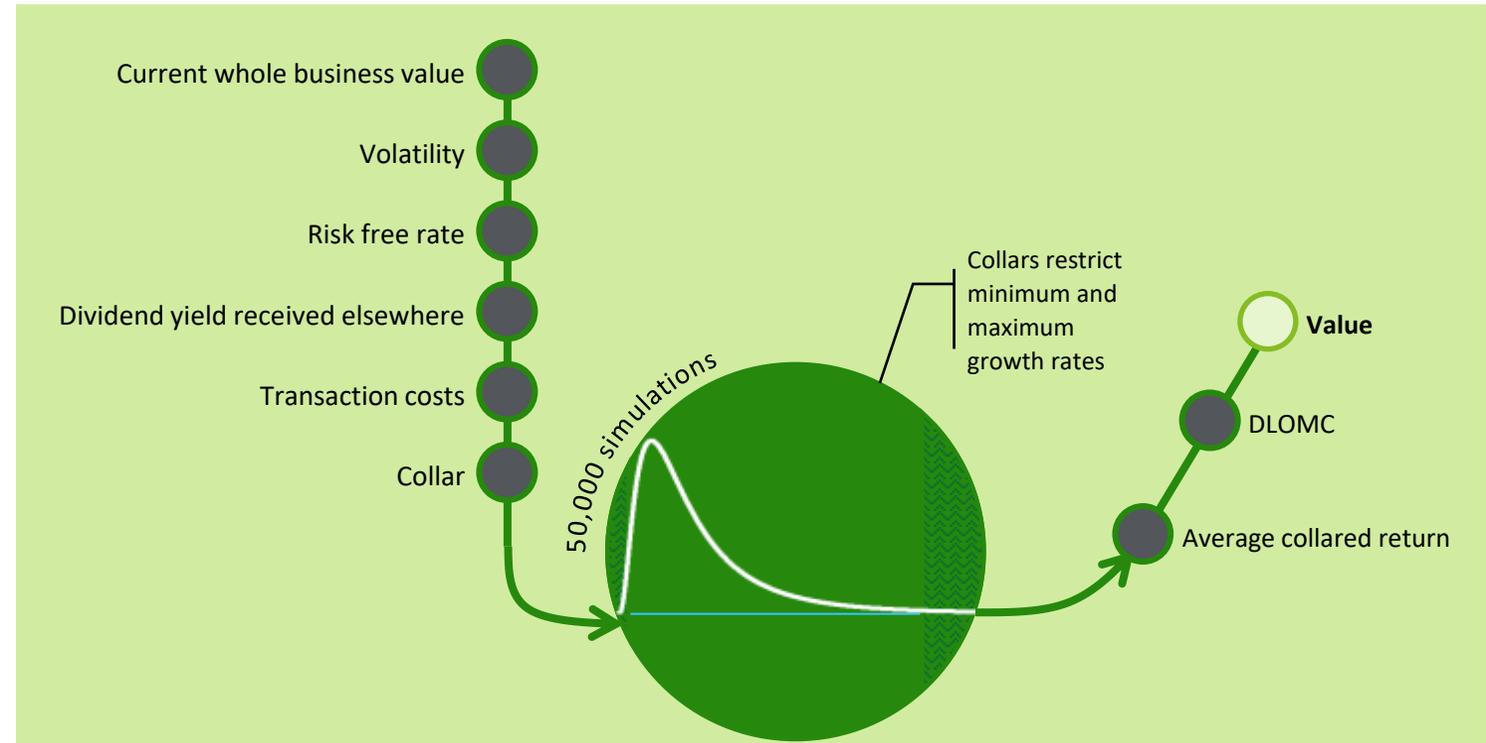
Benefits from a wide range of outcomes

Monte Carlo simulation

May overvalue over longer lifespans

Requires a current value

Does not rely on forecasts



Valuation of Employment Related Securities Information

Information Standards:
published information plus
'reasonably required'

Reasonably required?

Size and influence
Quality of published information
Magnitude of investment

Forecast financial information

Evaluate preparation

Context, context, context
Top down or bottom up?
Track record

Explore underlying assumptions

What is driving growth?
Comparator metrics
Sector expectations

Evidence of value

Before and after the date of valuation
'Sounding board or cross check'

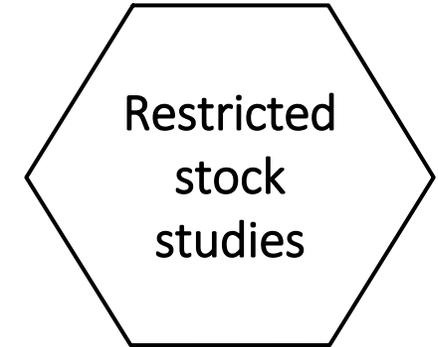
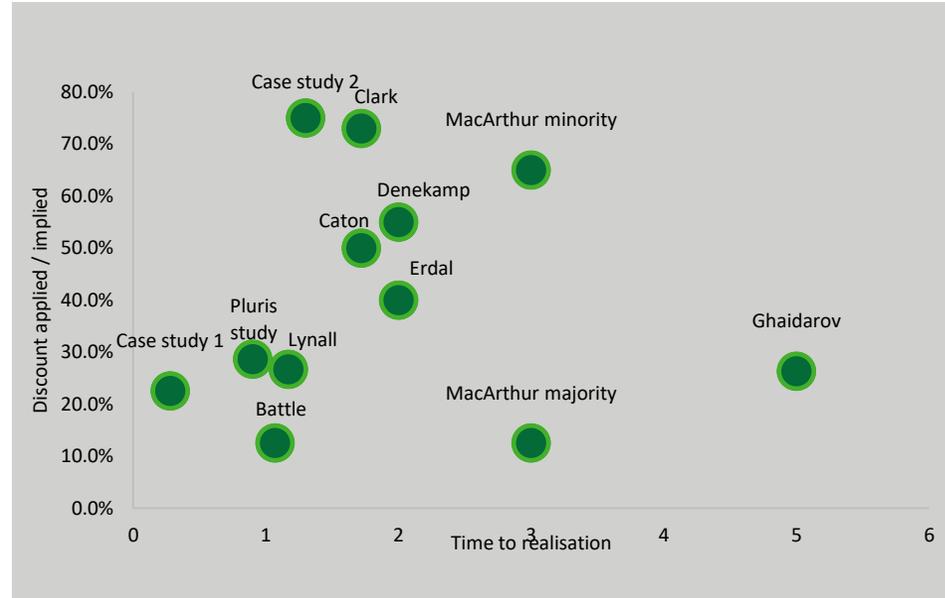
Evidence of value does not need to be deemed admissible under the Information Standards

Valuation of Employment Related Securities

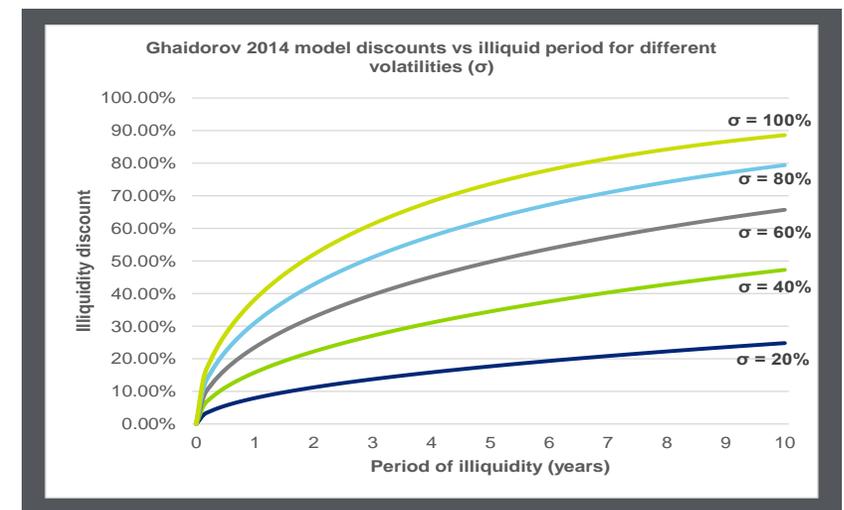
Discount

- Capital structure
- Distribution of shares
- Timeframe to exit/ realisation
- Liquidity provisions
- Fair value clauses
- Dividend policy
- Prevailing interest rates
- Wider economic state

Case law and HMRC practice



Securities based approaches



Valuation of Employment Related Securities

Other considerations

HMRC: Difficult to see no value in an incentive context

Tax advantaged agreements: without prejudice and based on a “risk assessed” process – no reliance for any other purpose

Resets: no intrinsic value doesn't mean no value at all

Funding rounds: usually preferred equity, conversion rights?

Secondary transactions

Discount on the way in?

Discount on the way out?



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