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What is the potential impact of COVID-19 on your portfolio valuations?

PORTFOLIO COMPANY CONSIDERATIONS

- Is the business providing updated financial data?
- Does the decline trigger potential goodwill impairment for the portfolio company?
- How does the investment manager's outlook for the business compare with company management's assessment of the situation?

Many businesses have experienced significant declines in market capitalization as a result of the unprecedented impact of and market reaction to COVID-19. Some of these impacts may be tied to temporary factors and extreme volatility in the markets, while others reflect longer lasting or even permanent shifts in the business or industries in which these companies operate. This will affect financial reporting for both March 31 quarter-end and beyond. The impact of COVID-19 also raises a number of valuation considerations to be aware of when valuing a fund's investment holdings.

Private equity

The overall market decline resulting from COVID-19 signals that many privately-held equity investments will likely need repricing. In evaluating the nature and extent of the impact on a business, its income forecasts, and valuation assumptions, funds should consider a variety of issues including, but not limited to:

- Store or facility closures.
- Loss of customers or customer traffic.
- The impact on distributors.
- Supply chain interruptions.
- Production delays or limitations.
- The impact on human capital.
- Regulatory changes.
- The risk of loss on significant contracts.

Debt/Credit

The slow down in the economy from COVID-19 will likely lead to many performing instruments becoming distressed. This can be anticipated through the monitoring of several key factors, including:

- Declines in enterprise value/coverage ratios.
- Breaches of financial covenants.
- Key customer or supplier impacts that will lead to diminished cash flow in the future.

Valuing distressed debt may be more complex than a straightforward yield analysis, with special attention needed to determine:

- Likelihood of default.
- Ability to make cash payments in both near and longer term.
- Waterfall coverage for different tranches under a distressed/liquidation value.
- The impact of the crisis on the value of collateral.
- Ability to restructure the instrument.

Real estate

Real estate investments are generally less susceptible to market volatility than stocks or certain other financial instruments, but are subject to similar business issues, as tenants face the pressures described above.

- The COVID-19 pandemic will compound the issues already facing the retail sector. In addition, trends created from the pandemic and a period of prolonged physical distancing may lead tenants to revisit their office space needs long-term.
- In addition, real estate investments in the hospitality, gaming/transportation industries, such as hotels, casinos, parking garages, etc., will see significant short-term and potentially long-term effects on their underlying real estate forecasts and valuations.
- Other real estate asset types such as data centers, cell tower/ telecommunication/data, and warehouse/logistics may see increased long-term demand as businesses adjust their operations to a post-COVID-19 world.

Market Data Discrepancies

- As comparable company metrics are on a lagging basis, market multiples will be depressed relative to historic multiples, as the numerator (BEV or Equity) has declined significantly while the metrics do not accurately reflect the impact of COVID-19 on the underlying business financials.
- Revised analyst estimates for the public companies may also not be formalized, which will have a similar impact on the use of forward-looking multiples. It is important to consider this when selecting the appropriate multiple to apply to a portfolio company's metrics, particularly if those metrics have already been adjusted downward.
- Care should be given to ensuring the public companies and the portfolio company are being compared on an apples-to-apples basis.
- Discount rates built up using historical data may not reflect the current environment or outlook for the business going forward.

Other considerations

Reforecasting and modeling:

Given the immense uncertainty in the near and medium term, consider alternative scenarios in your forecasting process and performing enhanced modeling.

Cash management:

Evaluate whether the portfolio companies have cash to cover operations and obligations under alternative scenarios and stay connected with your lenders.

Normalization of market data:

Given the disconnect in market data ("unaffected" metrics vs. "affected" market prices), it is important to document the nature of the selected multiples (actual vs. normalized) and how they align against the portfolio company's financial metrics. While there is no preferred method, care should be made to ensure that the comparison is apples-to-apples between the public comps and the portfolio company.

Industry impact

84%

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83%

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Deloitte serves 83% (or 19 companies) of the 23 FG500 LSHC companies

71%

Energy & Resources

Deloitte serves 71% (or 80 companies) of the 113 FG500 E&R companies

91%

Technology, Media, & Telecommunications

Deloitte serves 91% (or 48 companies) of the 53 FG500 TMT companies

89%

Financial Services

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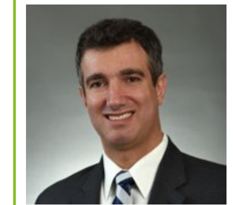
Who we are:



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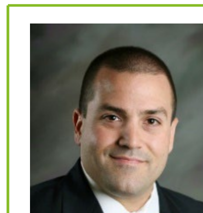

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