MAIN VALUATION METHODOLOGIES FOR A CEMENT RELATED TRANSACTION

METHODOLOGY	WHAT IT REPRESENTS	CONSIDERATIONS/ISSUES
Discounted Cash Flow (DCF)	> Target specific > Reflects the value of future cash flows of the business > Invariably based on information / business plans provided by incumbent management	> Economically sound method > Values the future rather than the past or present > Requires significant assessment of inputs > Sensitive to the definition and calculation of the WACC (Weighted Average Cost of Capital) and the Terminal (Residual) value > Most corporates and investment banks rely heavily on this methodology
Transaction Multiples	> Based on EV/EBITDA (or other financial metrics) multiples actually paid for related acquisitions > Could use other metrics such as EV per tonne of capacity > Provides an indication of what the market is actually prepared to pay for an asset/business	> Timing of transactions is of upmost importance (depending on where it is on the cycle) > Actual targets may not be of similar structure as the examined target (different product mix, different locations, existence of synergies etc.) > Invariably transaction multiples reflect a “control” premium (particularly in quoted companies)
Publicly Traded Comparables	> Based on EV/EBITDA and other financial metrics > Reflects the market’s perspective on a company > Reflects the market’s perspective on the sector	> Must select publicly quoted companies that are similar to the target (not always possible) > Issues with location, product mix as above > Market’s view on the sector critical
Replacement Costs	> Reflects the cost of building the assets of the target from scratch > Taking into account current costs for equipment, construction services, infrastructure requirements etc. > Requires location specific approach	> The cost to build a cement asset can only be a rough estimate during a transaction process (lack of detail of new asset) > It reflects more the business environment within the equipment manufacturers industry than the cement sector > The cost to build an asset today may not reflect the capacity of the asset to produce adequate cashflow under current market conditions > Invariably, this methodology yields different results from the others, but it is useful to consider for future asset replacement considerations

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