

De-risking companies facing financial uncertainty

How to manage financial risk with tangible asset valuations

Tangible assets can contribute significantly to an organisation's value, performance and strategic direction.

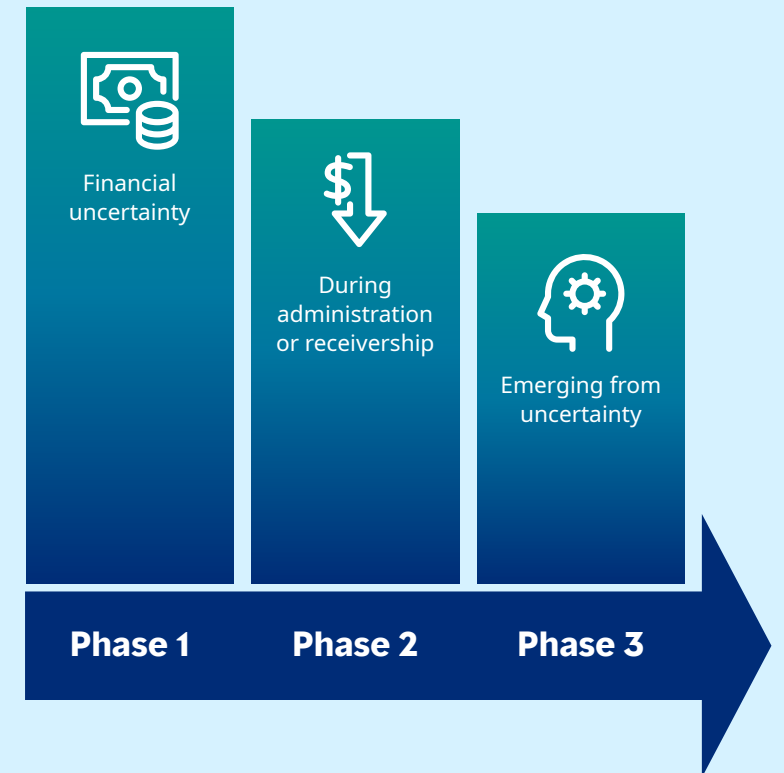
As businesses emerge from the Covid-19 pandemic and attempt to shore up their cash and liquidity, many are faced with new risks ranging from events such as the recent historic floods in NSW & QLD, labour challenges, the spike in energy prices and supply chain disruptions exacerbated by the war in Ukraine. What's more, these risk factors are now compounded by surging inflation having accurate and reliable asset values, along with the proper disclosure of these, is now more crucial than ever for businesses.

Tangible asset valuations are often utilised to assist organisations with their asset management and strategic, fiscal and legislative requirements, including in times of significant change. Partnering with an experienced and independent valuation provider to help you navigate through change can ensure you and your business are prepared with the tools to manage these changes.

The economic volatility associated with inflation will likely place many companies in financial distress. Each stage of the restructuring and turnaround lifecycle presents unique risks and issues. Valuation can play a key role in every step, including when a company comes out the other side on the road to recovery.

Figure 1

Restructuring and turnaround lifecycle



Phase 1: Financial uncertainty

When a company faces financial uncertainty, it is imperative that the values of tangible assets are correctly identified. Significant change within the business can lead to the requirement for valuations for numerous purposes including legal, accounting, regulatory, financial or transactional requirements.

The following are some examples where valuation plays a critical role in helping companies meet disclosure and reporting requirements, as well as helping management understand the true value of their business at all times, whether they are in financial distress or operating under uncertainty.

Impairment testing

Many businesses may restructure their business model or pivot their products and services to alleviate financial uncertainty and stay afloat. Economic volatility can cause a fixed asset's value to diminish.

An asset that loses its value and needs to be written down is referred to as an "impaired asset." An asset can become impaired for a number of reasons including becoming obsolete, failing to meet regulatory standards, being damaged, and changing market conditions. (E.g. A piece of specialised machinery that makes a specific model of infant carseats fails to meet new safety standards.)



Increasing focus and scrutiny on the long term resilience and performance of companies mean that many are reviewing and reassessing their impairment testing processes and assumptions. International Accounting Standard 36 Impairment of Asset requires extensive disclosures on the impairment tests performed and impairments recognised.

These tests are typically done in the form of a tangible assets valuation, as companies are required to provide an explanation of events and transactions that may affect the financial position or performance since the last annual reporting date.

Marsh can assist with fixed asset impairment testing, including consultations and valuations performed for impairment possibility, with results suitable to be disclosed in an organisation's financial statements.

Financial reporting

There are potential implications for financial reporting arising from the current economic climate including a company's ability to forecast cash flow, financial changes, impairment, currency fluctuations and any going concern issues as part of their obligations to disclose the financial position and asset values to shareholders and/or stakeholders.

Public entities, as well as some private entities, must conduct periodic valuations (e.g. every 3 to 5 years, or when material changes are anticipated) to determine the fair value of their assets in order to meet accounting standards and requirements.

With ongoing economic challenges, increased scrutiny from stakeholders over values and disclosures means an increased burden on directors, who are ultimately responsible for the accuracy of financial reporting.

MATERIALITY

Given ongoing publicised changes around Covid-19 and inflation, auditors are increasingly requiring businesses to perform Materiality Reviews between valuation cycles, even when there is no anticipated change to asset values. Whilst an organisation may have previously undertaken a valuation for financial reporting purposes, it is a requirement to disclose material changes to these values as and when they occur. Marsh can assist clients with Materiality Reviews to help businesses meet disclosure requirements.

Mergers, acquisitions and disposals

PURCHASE PRICE ALLOCATION

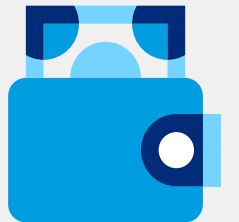
Upon acquisition or merger, there will often be a requirement for the buyer to recognise the tangible asset values as part of the sale in their financial accounts in accordance with accounting standards (e.g. AASB 3 – Business Combinations).

Accounting organisations will often undertake and charge for these services as part of their engagement. The cost of having tangible assets services undertaken by large accounting firms is often substantially higher than engaging with a tangible asset professional.

EXCHANGE RATE IMPACTS

A significant proportion of plant and machinery assets in Australia are procured from overseas. As such, the exchange rate can potentially increase/decrease the gross current replacement cost or secondary market value, which may impact the fair value of the assets.

This aspect of valuation should not be considered in isolation. For many businesses, economic obsolescence caused by reduced product demand due to the pandemic could mean that the enterprise value of the business has fallen, thereby limiting the proportion of the business value that can be apportioned to plant and machinery, resulting in an impairment issue.



TAX CONSOLIDATION

Where a company owns or acquires multiple businesses, there may be taxation benefits in consolidating these into a single entity, such as reducing compliance costs, removing impediments and maximising depreciation. Undertaking a fixed asset valuation during asset consolidation will allow the carrying value to be reset and potentially provide significant tax benefits to the consolidated entity.

The Marsh valuation team remains up to date with the latest Australian Taxation Office (ATO) guidelines regarding valuations for Tax Consolidation. We follow the process of:

Figure 2

Tax consolidation valuation process



Whilst a Fixed Asset Register (FAR) provides a good guide, in our experience, there are often gaps and inaccuracies that can impact the results of the valuations. Marsh's comprehensive valuation process involves physical inspection and verification of the assets leading to increased accuracy in the results.

Strategic decision-making

While the purchase or sale of a business typically focuses on the financial performance, the tangible assets and their values play a key role in a buyer's due diligence and decision-making process.

Does an organisation's current asset values reflect their true fair value? If an asset is held at book value, fully written down, or has not been recently reviewed and accounted for by its Fair Value, the asset could be over-depreciated and its value understated, potentially inflating the attractiveness of your company and impacting sale negotiations.

Undertaking a valuation of your tangible assets prior to a sale by the vendor/seller acts as a useful marketing and data tool to provide a level of comfort to potential buyers and facilitate strategic decision-making. By doing this, the seller can effectively show the valuation of its tangible assets to potential buyers while reducing the buyer's obligation to carry out a valuation for purchase price allocation.

PRE-VALUATION ASSESSMENT: DO YOU NEED A COMPREHENSIVE VALUATION?

Before an organisation commits to a full valuation exercise for tax consolidation, our comprehensive modelling can help determine the likelihood of significant changes from the current book value to the Fair Value of your assets. This is a quick and cost effective way for organisations to determine whether there is potential financial benefits in undertaking a comprehensive valuation.

For example, in a merger or acquisition situation, pre-valuation assessment modelling can provide an indication of the potential additional depreciation a business could achieve from undertaking a valuation for tax purposes. A prediction of significant cost benefits (which is common) will justify the business undertaking a full valuation, or conversely, the modelling can also inform that the cost benefit would be minimal, potentially saving the business from the cost of undertaking a full valuation.

Phase 2: During administration or receivership

During this phase, a company should not trade while insolvent, and directors must actively monitor the financial position of the company and regularly assess solvency. A properly executed asset valuation is a critical element during the administration, receivership or insolvency process, helping to drive best outcomes in the restructuring process.

Marsh's dedicated valuation specialists can support the insolvency practitioner in a variety of situations including voluntary administrations, creditor's voluntary liquidations, court liquidations and receiverships. We can assist in all facets of the valuations process, whether it be determining liquidation values for distressed assets or providing market values in continued use for going concerns.

Under these scenarios, independence is key. In some instances, the valuation is conducted by the company that will undertake the auction of the assets, which can be problematic as the valuer may also have a vested interest in the assets being valued. i.e.

the auction company valuing assets for a liquidator is likely also desiring to be engaged to dispose the assets through their auctions. This can create a conflict of interest and can often result in artificially inflated valuations in an attempt to entice the company to sell their assets through the same auction house.

On the contrary, Marsh has no interest in selling the assets and thereby can conduct a truly independent valuation. Equipped with a more accurate assessment and idea of a company's worth, administrators and liquidators can be better informed in their decision-making process around the future of the company and its assets.

Phase 3: Emerging from uncertainty

During this phase, companies will be realigning and making different business decisions appropriate to their new situation. As a business recovers from financial uncertainty and maps out their strategic direction for the future, Marsh can help provide strategic tangible asset valuation advice on how best to categorise assets and values in order to capture tax benefits or better structure a company's investment portfolio.

Asset register reconciliations and review

A Fixed Asset Register review ensures all assets are captured, disposed assets are removed and written-off assets are actually no longer in use. This allows a business to make strategic decisions around their assets and the values accounted for. It also assists with asset management and transferring into new accounting software.

Valuations for insurance purposes

Ensuring that accurate values are declared under a company's Property Damage or Industrial Special Risks (ISR) insurance policy is crucial in determining an adequate total sum insured. Inaccurate or under-valued declarations can lead to underinsurance, whereby insurers could rely on co-insurance clauses within the policies to potentially reduce or deny cover in the event of a loss/claim.

Additionally, in an increasingly hardening insurance market and the cost of construction being increasingly volatile, up-to-date insurance valuations are highly regarded by insurers and will assist your broker in negotiating the best coverage and terms on your behalf.

Tax depreciation schedule

Having a tax depreciation schedule prepared by an independent expert often uncovers hidden depreciation resulting in substantial tax savings, both immediate and ongoing (up to 40 years) for investment properties. Available depreciation is typically greater than anticipated and is often overlooked.

Conducting an insurance valuation at the same time as collecting data for a tax depreciation schedule will create synergies and save organisations time and cost.

Why Marsh

Our differentiators



Competitive fees: Our consulting fees are often very competitive in comparison to having tangible assets valuations undertaken by large accounting firms.



Deep experience and Pacific-wide presence: Valuing over 10,000 assets across the Pacific region worth over \$100 billion annually, our Regional team of valuation experts undertake valuations in all locations and industries across the Asia Pacific region. Deep local expertise enables us to deliver valuation solutions to organisations, whilst drawing on Marsh's unrivalled experience and support of valuation specialists and over 35,000 insurance professionals globally.



Independence: Specialising solely in valuations and not auctions, accounting or tax services ensures Marsh Valuations has no vested interest in the value of the asset and thereby eliminating any potential conflict of interest.



Mobility and agility: We understand time is of the essence as stakeholders need to know very quickly the total value of assets in order to assess the position of a company. We also understand that liquidators typically only have a short window to be on site, as the landlord is usually owed rent and therefore the company may need to vacate the premises. Our dedicated team are highly mobile and agile. We swiftly respond to requests and conduct valuations in locations across all regions of Australia and New Zealand, often at very short notice.



Comprehensive and consultative: We look into the issues that can materially affect value rather than relying solely on client provided information such as Fixed Asset Registers. Whilst many valuations are executed as a transactional service, Marsh operates in a consultative and committed approach to ensure businesses not only receive accurate and comprehensive valuation results, but also understand the drivers behind their values.

Figure 3

Our presence



Our experience

Assets

Our specialists undertake valuations of the following asset types:

- Property – land and buildings
- Infrastructure and long life assets
- Plant and Equipment
- Contents
- Mobile Plant / Yellow goods

Industries

Our valuations team work across a myriad of industries, including:

- Mining and earthmoving
- Energy, oil and gas
- Manufacturing
- Agriculture
- Hospitality
- Infrastructure
- Construction
- Education
- Healthcare and hospitals
- Printing
- Chemical
- Grain storage and processing
- Transport and logistics
- Retail
- Government

CONTACT US

For further information, please contact your local Marsh office or visit our website at marsh.com/au

Simon O'Brien

Head of Valuations – Marsh Advisory



+61 417 079 204

simon.obrien@marsh.com



About Marsh

[Marsh](#) is the world's leading insurance broker and risk advisor. With around 45,000 colleagues operating in more than 130 countries, Marsh serves commercial and individual clients with data-driven risk solutions and advisory services. Marsh is a business of [Marsh McLennan](#) (NYSE: MMC), the world's leading professional services firm in the areas of risk, strategy and people. With annual revenue nearly \$20 billion, Marsh McLennan helps clients navigate an increasingly dynamic and complex environment through four market-leading businesses: [Marsh](#), [Guy Carpenter](#), [Mercer](#) and [Oliver Wyman](#). For more information, visit [mmc.com](https://www.mmc.com), follow us on [LinkedIn](#) and [Twitter](#) or subscribe to [BRINK](#).

Disclaimer: Marsh Pty Ltd (ABN 86 004 651 512 AFS Licence No. 238983) arrange this insurance and are not the insurer. The information contained in this publication provides only a general overview of subjects covered, is not intended to be taken as advice regarding any individual situation and should not be relied upon as such. Insureds should consult their insurance and legal advisors regarding specific coverage issues. All insurance coverage is subject to the terms, conditions, and exclusions of the applicable individual policies. Marsh cannot provide any assurance that insurance can be obtained for any particular client or for any particular risk.

If this communication contains personal information we expect you to treat that information in accordance with the Australian Privacy Act 1988 (Cth) or equivalent. You must advise us if you cannot comply.

© Copyright 2022 Marsh Pty Ltd. All rights reserved. LCPA 22/289. S22-0672