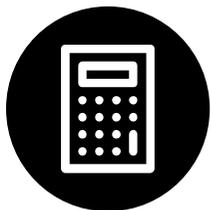


**What are the unwritten conventions of how HMRC is approaching the valuation of growth shares?**

How accepting is it of low (or zero) valuations?

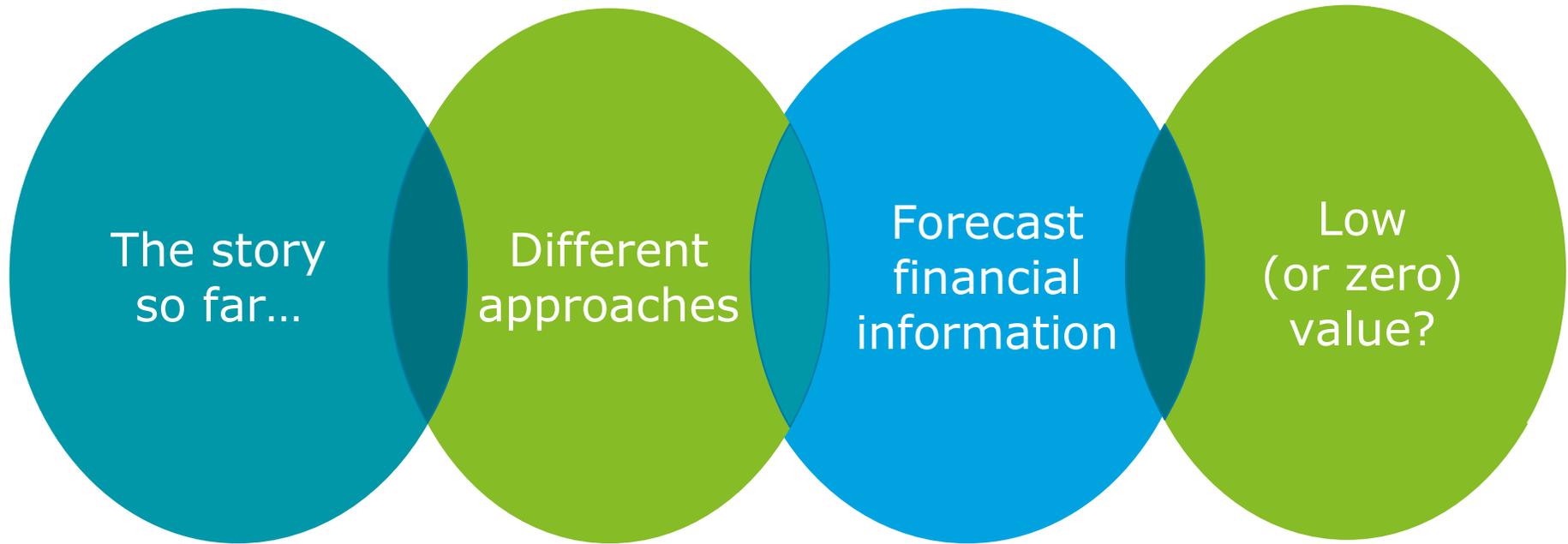


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# Growth shares valuation

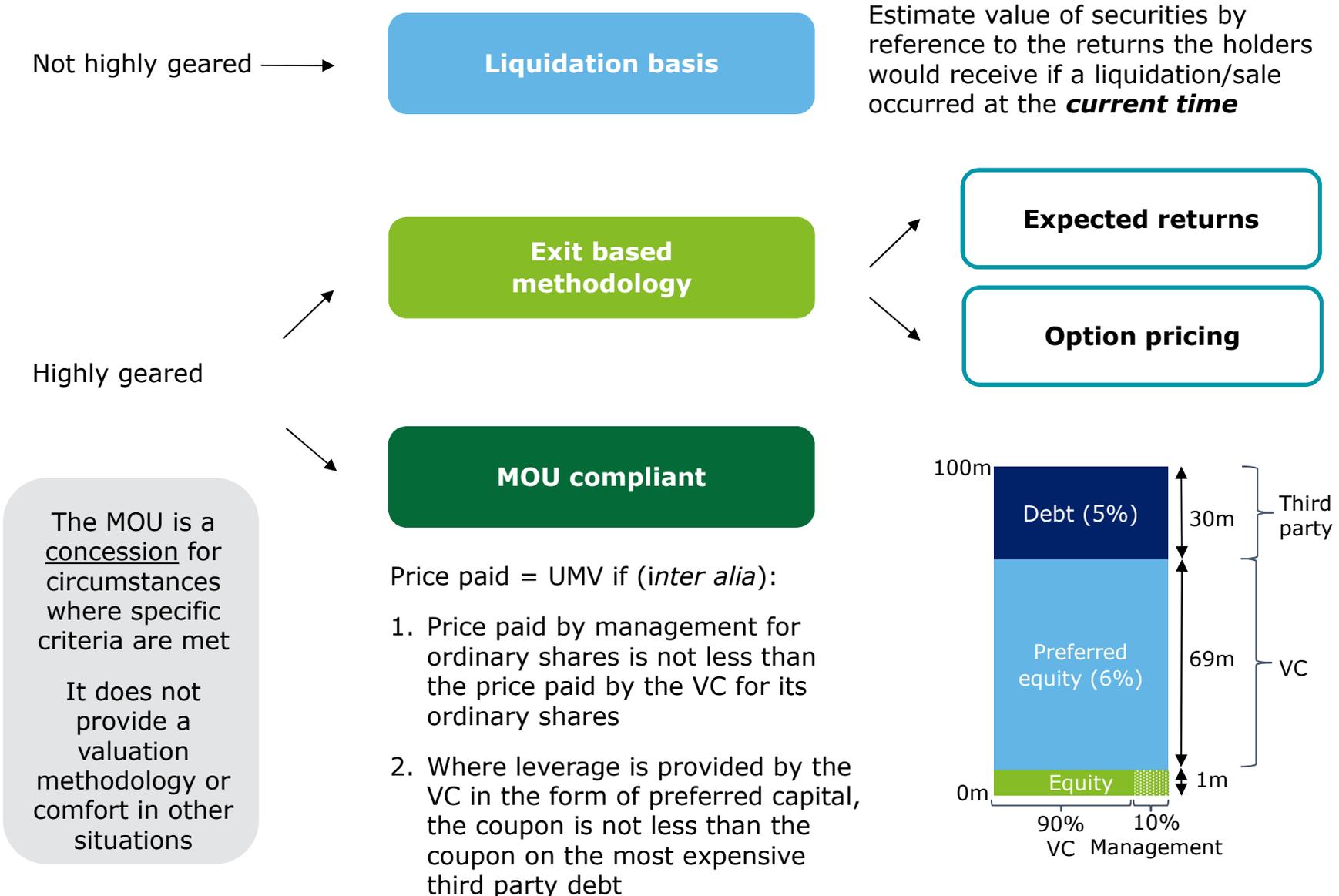


Where now...?

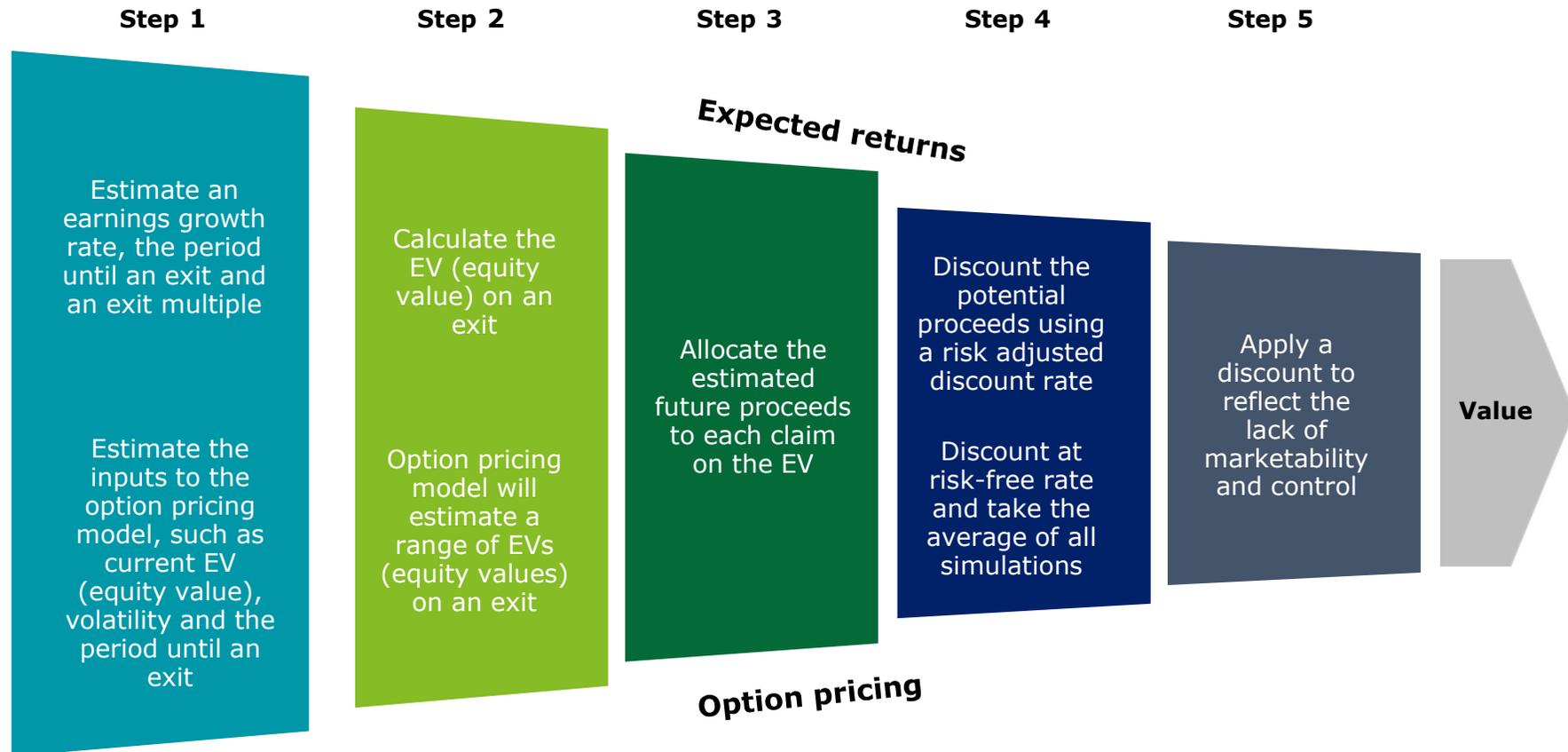


# Highly geared securities

## Overview of different approaches



# Highly geared securities Exit based methodologies



## **AICPA (Probability-Weighted Expected Returns Method):**

“Sophisticated applications of the method may apply a probability distribution to the expected enterprise value, which is measured in terms of future net cashflows.”

# Highly geared securities

## Forecast financial information



**Case law**

Re Lynall  
Yorkshire Switchgear

**Evaluate preparation**

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

**Explore underlying assumptions**

What is driving growth?  
Comparator metrics  
Sector expectations

Highly geared securities  
Low/ zero valuations



Difficult to see **no value** in an incentives context



### How low can you go?

Discounts:

- Time value of money (risk adjusted)
- DLOM

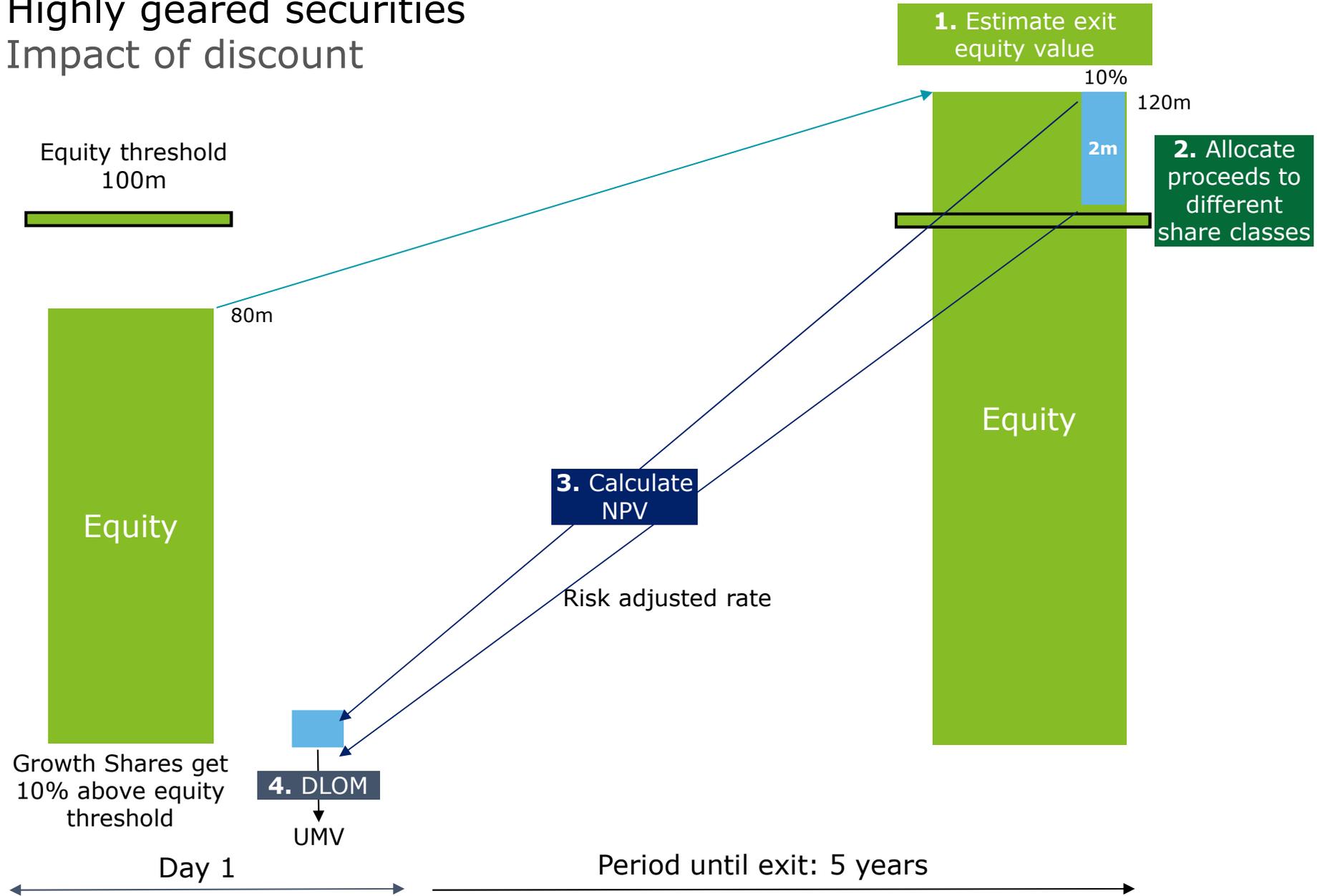


### What are you hoping to deliver?

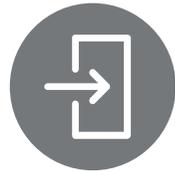
Expectation is that HMRC will seek to reconcile acquisition price with eventual return

# Highly geared securities

## Impact of discount



Where now...?



**Exit based** is the norm

**PAYE:** best estimate

- What does '**best**' mean?
- Information standards

***Shift*** in instruction  
re penalty behaviour

Eventual return vs Day 1 value



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