

What's the valuations process?

September 2023

Baillie Gifford's Ben James, James Yuill and Rachel Callaghan describe who and what is involved in the firm's robust approach to valuing private companies.

Your capital is at risk.

Ben James (BJ): Hello, and welcome to this film on valuing private companies. It's a really important topic, James, and it's your area of expertise. Where do we start?

James Yuill (JY): Sure. I think when it comes to valuing private companies, there's three key things we're thinking about. The first of those is the resource that we put to it and the governance around it. The second is the frequency and how often do we deal with valuations and factor market volatility. And then the third is the modelling itself. What's actually driving the numbers in the end?

BJ: I think it's a really important topic. And I want to reassure the audience about how robust our process is. Let's bring those three points to life by taking a private company through the journey of valuation. Private company A, where do we start?

00:00:59

JY: Sure. I think that point of transaction, the point of investment is always going to be your starting point. We want to make sure that we're comfortable it's arm's length, who is involved, the quantum. A lot of these companies are at later stage. It's substantial rounds with numerous investors, which helps with that. And then from there, we want to build it into our valuations schedule. And that's where we start to bring in our independent external input through S&P.

BJ: What is our schedule for valuing private companies?

JY: The fundamental is always that we will value everything at least once per quarter.

BJ: Every private company?

JY: Every private company, at least once per quarter. And S&P will come into that. They will review

it all once per quarter.

BJ: Who's S&P? What do they do?

JY: They're an external firm. They're a financial firm that provide numerous services, but valuations is one of them. They look at equity valuations for numerous people, including for us. They will assess all of our holdings.

00:01:58

BJ: They send in a list of valuations for our private companies and then your team steps in and starts their work?

JY: Exactly. We'll scrutinise everything we get from them. We'll challenge the approach, but also we're double-checking all the data, everything that's actually driving that end result.

BJ: Who's on your team that does this, by the way?

JY: In the operational team, we've got a number of analysts and the manager that look through all those reports that come from financial background too that have a lot of experience in looking at these valuations.

BJ: And are the investment managers those who make the decisions part of that team?

JY: No. That's the important part around not marking our own homework. We keep that separate. We're completely independent from the investment floor. We will liaise with them to make sure we have all the news from these companies and that we understand what's going on. But other than that, the valuations are driven separately.

00:02:53

BJ: S&P Global give you a valuation for company A. You then check against your own thinking about company A. And what happens when you disagree?

JY: We'll put our challenge to S&P and whether it be data-related or approach-related, they can rebut that and challenge. Or they may take on board what we've said and change it, but only if they are comfortable. Fundamentally, this is their opinion.

BJ: How do you come up with a valuation? What things do you look at?

JY: It's all really around the fundamentals of the company. Performance, the financials, what's actually happening, but the milestones as well. Are they achieving the things we thought they would or have they missed deadlines? There are key factors, as is the broader external markets. Looking at a peer set, looking at the listed markets, what's changed in terms of market sentiment?

BJ: You have a list of similar companies or related companies in the public space that are listed companies and see how they've moved. What if private company A doesn't have a peer in the public market?

JY: And that's often the case. And that's where the challenge comes in. And that's about thinking outside the box, looking for companies that overlap in specific ways. They might not be exactly the same, but do they have the same growth trajectory? Do they have the same margins? Are they operating in the same industry? And building a set that overall captures all of those elements. And you have the market sentiment influencing from different angles.

00:04:29

BJ: You and S&P Global have now agreed in the price. Then what happens?

Rachael Callaghan (RC): Then it comes to the Private Companies Valuations Committee, which is part of the internal valuations process and governance structure at Baillie Gifford. Again, this is an entirely independent function within the valuations process. None of the valuations committee are on the investment floor. It's another arm's length independent scrutiny and challenge of both S&P's work, but also the internal valuations work that James' team does. And the Valuations Committee has to then further rubberstamp and approve all of the valuations that come past the group.

And we meet monthly to interrogate and challenge those valuations that we see and provide different insight from our roles around Baillie Gifford.

BJ: That's it then. We get to that point and that's the valuation done. Company A is worth X billion dollars?

JY: If only. There's then further levels to the governance, which is an important part of the process and something we take a lot of confidence from. The fact a lot of these companies are held by investment trusts, you've then got two further layers of governance really there. You've got your boards, independent boards that each of these trusts have. Completely external to Baillie Gifford itself. They will review all of these valuations every six months. They will see everything we see.

00:05:53

They see the full reports, any backup they want. And they'll challenge the valuations themselves. That then goes through audit. Each of those trusts, there's different auditors involved. We've got four different external firms.

BJ: Like PWC, KPMG, etc., those big...?

JY: Yes, three of the Big Four and different teams from within them as well. And I think importantly, also at different times in the year. The year ends for our trusts are many and varied. We have a lot

of investments, some of the examples you named earlier. A lot of our investments are held in numerous portfolios. They're being scrutinised by boards and different boards and have different auditors looking at them at multiple points in the year.

BJ: Company A could be held in four or five different investment trusts and vehicles which look at it in their year ends, whether that's March, April, June, August, September. And they do that twice a year because they do half-years as well. And they're having different auditors, which then also look at it. And can they challenge and change the valuation as well?

JY: Absolutely. The boards, they have to be comfortable with the valuations. If they're not, then they can change the valuations to what they see is appropriate. And that's what the auditors will then sign off on.

00:07:15

BJ: That happens as a standard, once every quarter. But what about in really volatile or the periods or if news comes in just after you value private company A, what happens then that changes that thought?

JY: That's where the frequency and the modelling is key. We think about trigger events. We're always monitoring within the team to see, has an event happened that might shift the value of a company? Financial performance outside the expectations, milestones being hit or market volatility. The comparable companies, have we seen an upward or a downward shift since we last valued? And making sure that we're reflecting that in the valuation and updating in as close to real time as we can.

RC: Have you marked your own homework at any point? And how accurate are you with your valuations process?

JY: Yes. What we've essentially had is the market marking our homework. We've had these price discovery events. And by that, we mean, effectively, transactional activity. A company raises new equity. It's acquired. It might be listing. Either way, the market has attached a value to the company.

00:08:24

BJ: If somewhere in the public, away from us, a company has raised money or it's been acquired and the price has been publicly stated, this is worth this?

JY: Exactly. Whenever that happens, we'll look at the valuations we have in place. How is it trending? Where were we before that happened? To see how we fared. And importantly, what we want to see is a mix. You're never going to get valuations perfect. They are estimates. But sometimes you want to see it go up a bit, sometimes down a bit. If you're always going up or you're always going down, that's a sign of bias in your process. You might always be too aggressive or you might always be too conservative.

And that's what we've seen. If we take the last 15 transactions or price discovery events that we've seen, we've had ten we've had to mark up a little bit and five we've had to mark down. And the average movement we've seen across all the 15 is about a 10 per cent uplift following a price discovery event. And that gives us confidence that the process has balanced, that we're not always going one way or the other. And we'll always be doing that back testing to make sure that that hasn't crept in.

BJ: Thanks. It's a really important topic. We could talk about it for a long time. If you want any more information, viewers, please go to our website to look at our policies and so on. But thanks for watching this film and look out for other films in the series on investing in private companies at Baillie Gifford.

Important information and risk factors

Investment in private companies may carry greater risk. These assets may be more difficult to sell, so changes in their prices may be greater.

Past performance is not a guide to future returns.

The views expressed should not be considered as advice or a recommendation to buy, sell or hold a particular investment. They reflect opinion and should not be taken as statements of fact nor should any reliance be placed on them when making investment decisions.

This film was produced and approved in September 2023 and has not been updated subsequently. It represents views held at the time of recording and may not reflect current thinking.

This communication contains information on investments which does not constitute independent research. Accordingly, it is not subject to the protections afforded to independent research, but is classified as advertising under Art 68 of the Financial Services Act ('FinSA') and Baillie Gifford and its staff may have dealt in the investments concerned.

All information is sourced from Baillie Gifford & Co and is current unless otherwise stated.

Baillie Gifford & Co and Baillie Gifford & Co Limited are authorised and regulated by the Financial Conduct Authority (FCA). Baillie Gifford & Co Limited is an Authorised Corporate Director of OEICs.

Baillie Gifford Overseas Limited provides investment management and advisory services to non-UK Professional/Institutional clients only. Baillie Gifford Overseas Limited is wholly owned by Baillie Gifford & Co. Baillie Gifford & Co and Baillie Gifford Overseas Limited are authorised and regulated by the FCA in the UK.

Persons resident or domiciled outside the UK should consult with their professional advisers as to whether they require any governmental or other consents in order to enable them to invest, and with their tax advisers for advice relevant to their own particular circumstances.

Financial Intermediaries

This communication is suitable for use of financial intermediaries. Financial intermediaries are solely responsible for any further distribution and Baillie Gifford takes no responsibility for the reliance on this document by any other person who did not receive this document directly from Baillie Gifford.

Europe

Baillie Gifford Investment Management (Europe) Limited provides investment management and advisory services to European (excluding UK) clients. It was incorporated in Ireland in May 2018. Baillie Gifford Investment Management (Europe) Limited is authorised by the Central Bank of Ireland as an AIFM under the AIFM Regulations and as a UCITS management company under the UCITS Regulation. Baillie Gifford Investment Management (Europe) Limited is also authorised in accordance with Regulation 7 of the AIFM Regulations, to provide management of portfolios of investments, including Individual Portfolio Management ('IPM') and Non-Core Services. Baillie Gifford Investment Management (Europe) Limited has been appointed as UCITS management company to the following UCITS umbrella company; Baillie Gifford Worldwide Funds plc. Through passporting it has established Baillie Gifford Investment Management (Europe) Limited (Frankfurt Branch) to market its investment management and advisory services and distribute Baillie Gifford Worldwide Funds plc in Germany. Similarly, it has established Baillie Gifford Investment Management (Europe) Limited (Amsterdam Branch) to market its investment management and advisory services and distribute Baillie Gifford Worldwide Funds plc in The Netherlands. Baillie Gifford Investment Management (Europe) Limited also has a representative office in Zurich, Switzerland pursuant to Art. 58 of the Federal Act on Financial Institutions ("FinIA"). The representative office is authorised by the Swiss Financial Market Supervisory Authority (FINMA). The representative office does not constitute a branch and therefore does not have authority to commit Baillie Gifford Investment Management (Europe) Limited. Baillie Gifford Investment Management (Europe) Limited is a wholly owned subsidiary of Baillie Gifford Overseas Limited, which is wholly owned by Baillie Gifford & Co. Baillie Gifford Overseas Limited and Baillie Gifford & Co are authorised and regulated in the UK by the Financial Conduct Authority.

China

Baillie Gifford Investment Management (Shanghai) Limited 柏基投资管理(上海)有限公司 ('BGIMS') is wholly owned by Baillie Gifford Overseas Limited and may provide investment research to the Baillie Gifford Group pursuant to applicable laws. BGIMS is incorporated in Shanghai in the People's Republic of China ('PRC') as a wholly foreign-owned limited liability company with a unified social credit code of 91310000MA1FL6KQ30. BGIMS is a registered Private Fund Manager with the Asset Management Association of China

(‘AMAC’) and manages private security investment fund in the PRC, with a registration code of P1071226.

Baillie Gifford Overseas Investment Fund Management (Shanghai) Limited

柏基海外投资基金管理(上海)有限公司(‘BGQS’) is a wholly owned subsidiary of BGIMS incorporated in Shanghai as a limited liability company with its unified social credit code of 91310000MA1FL7JFXQ. BGQS is a registered Private Fund Manager with AMAC with a registration code of P1071708. BGQS has been approved by Shanghai Municipal Financial Regulatory Bureau for the Qualified Domestic Limited Partners (QDLP) Pilot Program, under which it may raise funds from PRC investors for making overseas investments.

Hong Kong

Baillie Gifford Asia (Hong Kong) Limited 柏基亞洲(香港)有限公司 is wholly owned by Baillie Gifford Overseas Limited and holds a Type 1 and a Type 2 license from the Securities & Futures Commission of Hong Kong to market and distribute Baillie Gifford’s range of collective investment schemes to professional investors in Hong Kong. Baillie Gifford Asia (Hong Kong) Limited

柏基亞洲(香港)有限公司 can be contacted at Suites 2713-2715, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. Telephone +852 3756 5700.

South Korea

Baillie Gifford Overseas Limited is licensed with the Financial Services Commission in South Korea as a cross border Discretionary Investment Manager and Non-discretionary Investment Adviser.

Japan

Mitsubishi UFJ Baillie Gifford Asset Management Limited (‘MUBGAM’) is a joint venture company between Mitsubishi UFJ Trust & Banking Corporation and Baillie Gifford Overseas Limited. MUBGAM is authorised and regulated by the Financial Conduct Authority.

Australia

Baillie Gifford Overseas Limited (ARBN 118 567 178) is registered as a foreign company under the Corporations Act 2001 (Cth) and holds Foreign Australian Financial Services Licence No 528911. This material is provided to you on the basis that you are a “wholesale client” within the meaning of section 761G of the Corporations Act 2001 (Cth) (“Corporations Act”). Please advise Baillie Gifford Overseas Limited immediately if you are not a wholesale client. In no circumstances may this material be made available to a “retail client” within the meaning of section 761G of the Corporations Act.

This material contains general information only. It does not take into account any person's objectives, financial situation or needs.

South Africa

Baillie Gifford Overseas Limited is registered as a Foreign Financial Services Provider with the Financial Sector Conduct Authority in South Africa.

North America

Baillie Gifford International LLC is wholly owned by Baillie Gifford Overseas Limited; it was formed in Delaware in 2005 and is registered with the SEC. It is the legal entity through which Baillie Gifford Overseas Limited provides client service and marketing functions in North America. Baillie Gifford Overseas Limited is registered with the SEC in the United States of America.

The Manager is not resident in Canada, its head office and principal place of business is in Edinburgh, Scotland. Baillie Gifford Overseas Limited is regulated in Canada as a portfolio manager and exempt market dealer with the Ontario Securities Commission ('OSC'). Its portfolio manager licence is currently passported into Alberta, Quebec, Saskatchewan, Manitoba and Newfoundland & Labrador whereas the exempt market dealer licence is passported across all Canadian provinces and territories. Baillie Gifford International LLC is regulated by the OSC as an exempt market and its licence is passported across all Canadian provinces and territories. Baillie Gifford Investment Management (Europe) Limited ('BGE') relies on the International Investment Fund Manager Exemption in the provinces of Ontario and Quebec.

Israel

Baillie Gifford Overseas is not licensed under Israel's Regulation of Investment Advising, Investment Marketing and Portfolio Management Law, 5755-1995 (the Advice Law) and does not carry insurance pursuant to the Advice Law. This material is only intended for those categories of Israeli residents who are qualified clients listed on the First Addendum to the Advice Law.

