A Quantitative Analysis of Valuation Disclosure in Published Business Rescue Plans

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Abstract

Purpose: Given the importance of valuations in business rescue and the vague guidance provided by the Companies Act 71 of 2008, the study analyses valuation-related disclosure in published business rescue plans (PPs) in South Africa (SA). The main objective of the paper, in addition to being exploratory of actual practices, was to highlight a need for improvements in the Companies Act legislation to support more consistent practices.

Design: A quantitative content analysis was done of 55 PPs between 2013 and 2018, using descriptive content analysis and inferential statistical techniques.

Findings: Primarily, the list of material assets were disclosed at accounting book values in PPs, and liquidation values were mostly independently determined. PPs described various risks relating to the implementation of the PP; however, the PPs mostly lacked calculations of how the risk will affect the business rescue value. On average, the business rescue value exceeded the liquidation value with 36.4 cents for concurrent creditors compared to 33.7 and 21.2 cents for preferent and secured creditors, respectively. Notably, when the PP included a sale of the business, offers received were, on average, 2.5 times the liquidation value and represented 57% of the book value of the company's assets at the time.

Practical implications: The study suggests improvements to the Companies Act to support more consistent valuation-related disclosure in PPs in SA, in particular, the disclosure of the valuation basis used, the average business rescue premium and offers relative to asset values. Such disclosure would provide evidence to investors on the sound potential of investing in a financially distressed company in SA but, at the same time, set realistic sale expectations for both creditors, BRPs and shareholders.

Originality: In view of limited empirical evidence on business rescue prices, the article presents the results of original research in this field.

Keywords: assets; business rescue; business rescue plan; business rescue premium; business rescue value; content analysis; independence; liquidation dividend; valuation

Introduction

> If you just communicate, you can get by. But if you communicate skilfully, you can work miracles … Jim Rohn

South African companies in financial distress may apply for business rescue in terms of Chapter 6 of the South African Companies Act No. 71 of 2008 and Companies Regulations of 2011 (Republic of South Africa [RSA] 2008; 2011). The business rescue process involves the appointment of a business rescue practitioner (BRP) (RSA 2008, s 129(3)), who is required to prepare and publish a business rescue plan (PP) (RSA 2008, s 140(d)). South African legislation is unique in the sense that it provides for either the turnaround of the financially distressed company to solvency (Goal 1) or, if Goal 1 is not possible, to provide a better return than immediate liquidation (BRIL) (Goal 2) (RSA 2008, s 128(b)(iii)).

PPs should be transparent and disclose all relevant information necessary for decision-making by relevant stakeholders; however, the Companies Act is vague in its obligations (Roslynn-Smith and Pretorius 2015, 18 & 24). Valuation is a cardinal aspect of a reorganisation (Altman and Hotchkiss 2006, 103). It is, therefore, understandable that the Companies Act requires a PP to indicate to creditors the benefits of adopting a PP as opposed to the benefits of immediate liquidation (RSA 2008, s 150 (b)(vi)). Conradie and Lamprecht (2021) define this benefit of adopting a PP as the *business rescue value,* which refers to the value (monetary benefit) determined as the alternative to liquidation when the PP is developed. In the case of a financially distressed company in business rescue in South Africa (SA), a short-term, undiscounted cash flow budget is prepared by the BRP to determine the business rescue value under the first goal of business rescue, namely, to return the company to solvency (Conradie and Lamprecht 2021, 1). However, when the secondary goal of business rescue is pursued, namely, to deliver a better return than immediate liquidation (BRIL), an asset approach to valuation is followed to determine the business rescue value (Conradie and Lamprecht 2021, 1). Britz (2017 15) found that assets are sold at distressed prices in business rescue. This study focuses on the problem of limited valuation guidance in the Companies Act, further exacerbated by limited empirical evidence on prices paid in business rescue compared to, for example, accounting book values and liquidation values of assets.

This study aims to contribute to the existing body of business rescue knowledge by investigating valuation-related disclosure in recent PPs and presenting empirical evidence on metrics relative to the disclosed values. Moreover, the paper highlights a need for improvements in the Companies Act legislation to support more consistent practices. Therefore, the overall research questions were: 1) How is valuation information disclosed in published business rescue plans? and 2) What are the relative

differences between the valuation amounts? In order to address the overall research questions, several sub-questions were formulated based on a study of general and business rescue valuation literature.

The rest of the article is set out as follows: First, a literature review indicates the research gap and develops the research sub-questions. Then, the research approach is discussed, followed by a discussion of the results. After that, the limitations and possible future research possibilities are provided. The article ends with a conclusion to the study.

Literature Review

This section provides a literature review on general and business rescue valuation literature. The Companies Act No. 71 of 2008 and previous literature are inspected to identify any guidance provided for the valuation of the list of material assets. This is followed by a discussion of the liquidation value and the objectivity of the valuator. One can rarely expect a return on investment without taking up some risk—for this reason, the literature review discusses the techniques available to incorporate the risk element in a valuation. Lastly, the literature review discusses the need for valuation metrics in determining market values in business rescue. Each aspect identified from the literature review has led to a specific research question (RQ), which is then statistically analysed during the content analysis of PPs in SA.

List of Material Assets

The Companies Act (RSA 2008, s 150 (a)(i)) requires that a PP should include a complete list of all the material assets of the distressed company. The Companies' Act does not prescribe that the assets should be independently valued. Nevertheless, according to Loubser (2010, 116), it would only make sense for the BRP to do *some form* of valuation to enable affected parties to make informed decisions. Useful financial information in the form of annual financial statements (Sher 2014, 27) would be available to the BRP. However, assets and liabilities in financial statements can be measured using various measurement bases. Current accounting guidance would determine the available measurement bases, ranging from historical costs to fair values (International Accounting Standards Board [IASB] 2020a).

Post-commencement finance (PCF) plays a critical role in achieving a positive business rescue outcome (Calitz and Freebody 2016; Du Preez 2013; Noomé 2014; Prior 2014: 71; Reineck 2015; Vanderstraeten 2016, 25). Therefore, the total value of the material asset list depends on the value attached to each material asset. According to Deloitte (2017, 23), a lack of security is one of the main challenges that the financiers of distressed companies experience, while Reilly (2013, 8) mentions that intellectual property may be one of the few assets a financially distressed company has left that has not yet been pledged as security. Vanderstraeten (2016, 22) argues that it is incumbent on the BRP to consider the value of the intellectual property and whether this can be sold if the company ultimately fails. However, Conradie and Lamprecht (2021, 7) found

that BRPs do not value intangible assets separately and that investors in distressed companies obtain operating companies with all intangible assets attached to them at bargain prices. Therefore, the valuation base disclosed in the PP is critical information for both the affected party and the possible PCF financier. Thus, the first research sub-question is:

RQ1.1: At what valuation base was the list of material assets disclosed in PPs?

Valuations are influenced by the biases and needs of the people performing such valuations (Correia et al. 2015, 62). Moreover, the Companies Act (RSA 2008, s 150(2)(a)(iii)) requires a minimum valuation, namely the probable dividend receivable by creditors under liquidation. This benchmark value and the objectivity of the person performing the valuation is critical for proper decision-making by the affected parties in a rescue.

Benchmark Value: Liquidation Value and the Objectivity of the Valuator

Although the Companies Act (RSA 2008, s 138(1)(e)) requires the BRP to be independent, Pretorius (2018) notes that liquidation brings no income for the BRP while business rescue does, which poses an objectivity threat. It is a fundamental expectation that controls and procedures are put in place to ensure the necessary degree of objectivity in a valuation process (International Valuations Standards Council [IVSC] 2017, 9). Conradie and Lamprecht (2021, 8) found that an independent valuator determines the liquidation value in most cases. However, where the intended outcome is the sale of the business as a functioning unit, the buyer determines the value of the distressed business. The liquidation value sets the first valuation benchmark (Britz 2017, 69) against which the business rescue value is evaluated. For this reason, it is important to determine whether the PPs disclose who determined the liquidation value, therefore:

RQ1.2: Was the liquidation value independently determined and disclosed as such?

Valuations are based on estimates of future cash flows and estimates of the cost of capital and are consequently approximations (Correia et al. 2015, 6–2). According to Correia et al. (2015, 16–3), the sensitivity to variables (for example, interest rates and inflation) will affect the riskiness of future cash flows. Techniques to incorporate risk in the valuation process are, therefore, essential.

Techniques Used to Incorporate Risk in the Valuation Process

When a company applies for business rescue in South Africa, the company will already be in distress (RSA 2008, s 128(1)(f)), and it is possible that after the business rescue, the company may fall into distress yet again (Hunt and Handa 2005, 27). Corporate failure prediction models such as the Altman Z-score may be helpful in objectively assessing a company's chances of failure or success (Correia et al. 2015). Other significant techniques available to incorporate the probability of future distress in a

valuation include scenario analysis, decision trees, simulations and real options (Damoradan 2009, 35–36; Harvey 2011, 184). Roslynn-Smith and Pretorius (2015, 18) found that cash flow projections relating to sensitivity analysis and feasibility studies were among the expected things to be included in a PP. A limitation of the study performed by Roslynn-Smith and Pretorius (2015) was that business rescue had only operated for approximately 30 months at the time of their research. Furthermore, Roslynn-Smith and Pretorius (2015) did not evaluate actual PPs but based their findings on a limited number of interviews.

As much as proper disclosures on the possible returns to the affected party are required, it is also imperative for the decision-maker to understand the risks attached to the published values. The third research sub-question is then:

RQ1.3: Which risk appraisal calculations were disclosed in the PP?

The literature discussed addresses various valuation disclosures that may, and should, be included in a PP. However, the decision-usefulness of these disclosures would be enhanced if the affected party could compare the different values against a metric.

Valuation Metrics

The SA Companies Act allows for two possible outcomes from a business rescue. Goal 1 refers to an instance where a company is restructured in order to continue as a going concern on a solvent basis, while Goal 2 entails that creditors receive a better return as compared to immediate liquidation (RSA 2008, s 128(1)(b)(iii)). A BRP may achieve a better return under Goal 2 by either selling the company's assets as a functioning unit to another party or through a controlled wind-down of assets (Harvey 2011, 182). Previous qualitative research by Conradie and Lamprecht (2021, 11) found that where the intention is to return the financially distressed company to solvency, a short term, undiscounted future cash flow budget is prepared by the BRP to determine a business rescue value. In contrast, an asset valuation approach is used to determine the business rescue value where the BRP intends to provide a BRIL to the creditors. The asset values are usually heavily discounted and differ marginally from liquidation (Britz 2017; Conradie and Lamprecht 2021, 8 & 11; Roslynn-Smith and Pretorius 2015, 15).

In distressed scenarios, stakeholders (such as shareholders and management) are often "hardwired for optimism" (Damodaran 2009, 3), meaning that they might be overvaluing distressed assets. Moreover, in terms of accounting guidance, a valuation measure for an asset such as "fair value" can be determined using different techniques. The techniques and the reliability of the answer will, amongst others, depend on the number of observable inputs used in the valuation technique (IASB 2020c).

The market approach of valuation is a popular valuation method. This approach gauges the market value of equity, or the firm's market value, by comparing the company to comparable publicly traded companies and transactions in its industry. Industry

multiples are adjusted for, among other things, company size. Where the valuation is based on future cash flows, a premium is added to the industry cost of equity when valuing smaller entities (PriceWaterhouseCoopers [PWC] 2017). Therefore, the usefulness of any valuation disclosure in a PP would be much easier to analyse when a stakeholder can refer to other similar business rescue sales in terms of company type, size, and industry.

Currently, no empirical evidence is available on business rescue premiums receivable in business rescue or on how actual offers made by buyers compare to liquidation values (benchmark) or accounting book values of assets. According to Creswell and Plano Clark (2011, 62), quantitative data can provide greater credibility and insight into qualitative research findings. The decision-usefulness of the valuation disclosures in PPs can be enhanced if the values relative to the liquidation values can be better assessed. Therefore, the following research questions were formulated:

RQ 2.1: What was the average business rescue premium?

RQ 2.2: What was the average offer relative to the accounting book value of assets?

RQ 2.3: What was the average offer relative to the liquidation value of assets?

Research Aim and Research Questions

The aim of the study, as indicated earlier, is to contribute to the existing body of business rescue knowledge by focusing on valuation-related disclosure in recent PPs. In order to address the research problem, the following main and sub-research questions have been formulated through the literature study:

Research question 1: How is valuation information disclosed in published business rescue plans?

- Sub-question 1.1: At what valuation base was the list of material assets disclosed in PPs?

- Sub-question 1.2: Was the liquidation value independently determined and disclosed as such?

- Sub-question 1.3: Which risk appraisal calculations were disclosed in PPs?

Research question 2: What are the relative differences between the valuation amounts?

- Sub-question 2.1: What was the average business rescue premium?

- Sub-question 2.2: What was the average offer relative to the accounting book value of assets?

- Sub-question 2.3: What was the average offer relative to the liquidation value of assets?

The next section explains the research approach followed to answer the research questions.

Research Approach

This study was exploratory in nature (Bryman 2012, 621). Thus, a more open-ended type of strategy was used. Therefore, stating hypotheses upfront would not be appropriate, as inductive reasoning was used where theoretical ideas emerge from data rather than being formed before data collection (Bryman 2012, 26).

PPs were obtained through face-to-face interviews conducted with senior BRPs and from the public domain. PPs from the public domain were selected using the non-probability (Bryman 2012, 187) and convenience (Bryman 2012, 201) sampling methods. The final sample comprised 55 PPs, covering listed, public, and private companies from various industries and BRPs. Some of the PPs contained alternative proposals; for example, option A of the PP would entail the sale of the business and option B of the same PP would entail a controlled wind-down. If a PP contained alternative options on which the creditors could vote, the authors documented all the alternatives in the coding schedule due to not knowing which option the creditors had adopted. This resulted in the number of observations in the coding schedule totalling 64.

Table 1 presents a profile summary of the companies included in the sample.

Table 1: Profile of companies included in the sample

Description of variable	Number of observations in sample Total n = 64 (100%)	
Company type The coding schedule grouped public and listed companies as one group and private companies as a separate group. The researchers classified a company as listed if the company was listed either as a stand-alone company or if its holding company was listed.	Public and listed Private	14 (22%) 50 (78%)
Size of company In order to determine the company size, the researchers either used the size as specified by the BRP in the PP, or used the hourly rate as specified in the PP and compared that to the rates prescribed by the government (BVR, 2019) to determine the size of the company, or recalculated the public interest score of the company (CIPC, 2019) based on financial information provided in the PP to determine the company's size.	Small and medium Large	28 (44%) 36 (56%)
Industry The industry, as indicated by the BRP in the PP.	Resources Construction Manufacturing Retail Agriculture Telecom Business services Vessel construction and repair Hotels and leisure Investment Healthcare Transport	16 (25%) 11 (17%) 10 (16%) 10 (16%) 4 (6%) 3 (4%) 2 (3%) 2 (3%) 2 (3%) 2 (3%) 1 (2%) 1 (2%)
The goal of the business rescue The proposal made in terms of the plan. This may be a combination of Goal 1: return to solvency, Goal 2: sale of business or Goal 2: controlled wind-down.	Goal 1: Restructuring Goal 2: Sale of business Goal 2: Controlled wind-down	26 (41%) 26 (41%) 12 (18%)
Publication date of PP	2018 2017 2016 Pre 2016	21 (33%) 19 (30%) 10 (16%) 14 (21%)

Source: Own compilation

Table 1 reveals that the sample included significantly more private companies (78%) than public and listed companies (22%). According to the CIPC (2018), only 3% of public companies have commenced business rescue since 2011. The sample, therefore,

contained slightly more public companies than the larger population; however, this allowed the researcher to investigate whether company size affected valuation-related disclosure. Although most of the PPs in the sample were for private companies, most of the sample (56%) comprised large entities. The four main industries in the sample, namely resources (including mining, oil and gas), construction, manufacturing and retail (including tyre and agricultural), corresponded to the industries with the highest percentage contribution to business rescue proceedings during 2017–2018 (CIPC 2018). Thus, the industries represented in the sample were a fair reflection of the population. More than 60% of the data were obtained from plans published between 2017 and 2018. The data were, therefore, fresh and represented prevailing business rescue practices.

As indicated earlier, valuation-related disclosure in PPs was analysed in this study using quantitative content analysis. This involved inspecting PPs to check for trends in the disclosure relating to valuation. Researcher A created a coding schedule and coding manual in Microsoft Excel (Excel). The coding schedule was a form into which all the data were entered, while the coding manual was a statement of instruction that included all possible categories for each dimension of the coding schedule (Bryman 2012, 298). The mode of reasoning was inductive and a-theoretical (Mouton 2008, 166).

Researcher A personally coded all the valuation-related data from the PPs. This reduced the threat of inconsistency in the coding process. Researcher A also developed a set of coding rules to facilitate the coding process and reduce the coder's subjectivity (Khalil and Sullivan 2017, 15). After the initial coding, Researcher A repeated the coding process to ensure the accuracy of the coding. Researcher B reviewed 22% of the PPs to enhance the accuracy and reliability of the coding process.

The data in the coding schedule were first measured and quantified using descriptive content analysis, such as histograms, column plots and frequency distributions (mean, mode and median). Subsequently, the coding schedule was statistically analysed by utilising the computer program Statistica (2018) to test the relationship of the valuation disclosure with company-specific characteristics (such as company size and industry). The study used two inferential statistical techniques, namely, the chi-square test and the variance estimation, precision, and comparison (VEPAC), to analyse the data (Bryman 2012, 288; Creswell and Plano Clark 2011, 205; Mouton 2008, 166). Where observations in the sample are not completely independent (e.g., where a single plan contained both a Goal 1 and a Goal 2 proposal), the Fisher exact p-value was not completely reliable while the Rao Scott, in such instances, is a better indication of independence (Statistica 2018). When reporting results, the statistics indicated the Fisher exact p-value, and where the Rao Scott was different, both were reported.

Ethical Considerations

Ethical clearance for the study was obtained from the researchers' educational institution.

Results and Discussion

This section provides the empirical results of the content analysis of the 55 PPs. A definition of each variable analysed is provided in annexure A. The section concludes with a summary of the statistical results.

List of Material Assets

This section investigates the list of material assets, as required by section 150(2)(a) of the Act. The list of assets in PPs basically showed all or most of the assets of the company, individually or in total, as per the asset register of the company. Figure 1 illustrates that 63% of the observations listed assets at net book value, while 34% of the sample listed assets at a forced-sale value and 30% at market value. The reader should note that the selected accounting policies of a business would influence the carrying value (referred to as book value) of assets. For example, the financial statements of some businesses may show fixed assets at cost price less accumulated depreciation, while the financial statements of other businesses may revalue assets to market value in their financial records (IASB 2020b). The number of observations in figure 1 exceeds 64 (the number of cases investigated) because some PPs listed assets at more than one type of value (e.g., book value and market value).
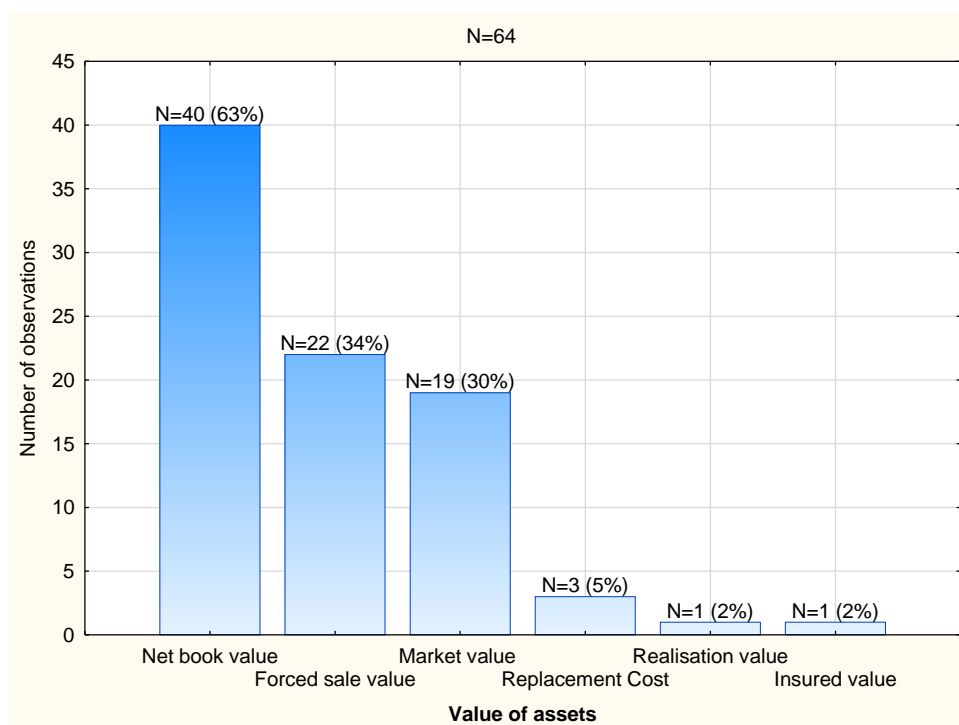

Figure 1: Column plot indicating value at which lists of material assets is given

Source: Own compilation

Since the Companies Act does not prescribe an independent, market-related valuation of assets, the results in figure 1 are not surprising. A chi-square analysis revealed that when the book value of assets is used as a measurement base, no significant statistical difference exists between the goal of business rescue, company size and business industry ($p > 0.05$). However, for the observations where a market value was used to list material assets, the chi-square analysis found a significant statistical difference ($p = 0.01$) between the four main business industries. In the retail industry, assets were not presented at market value in the PPs, whereas, in the other main industries (resources, construction and manufacturing), some PPs did list assets at market value. An explanation for this may be that retail businesses are not asset-intensive (retail space is usually rented, not owned); thus, in a retail environment, the need to revalue fixed assets to market value may not be necessary or needed. In a company's financial statements, inventory is usually valued at the lowest of historical cost or net realisable value, and debtors at amortised cost (Koppeschaar et al. 2016, 58 & 713). It appears that in the retail industry, the book value of the main assets (inventory and debtors), as per the financial records of the company, is deemed to approximate at least the value at which these assets can be sold or collected, and, therefore the need for an adjustment to market value seems unnecessary.

In the case of the observations where liquidation value was used to list material assets, the chi-square analysis found a significant statistical difference ($p = 0.01$) between the two goals of business rescue. Assets are more often listed at forced sale (liquidation) value where the intended outcome is Goal 2 (BRIL) of business rescue, and less often, where the intended outcome is Goal 1 of business rescue.

Conclusion on RQ1.1: Most PPs listed the main assets of the company at net book values. Since companies can choose different accounting measures, the usefulness of this value might be limited for the business rescue stakeholders, especially in instances where the financially distressed company chose a historical cost policy.

The next section evaluates whether the liquidation value is independently determined for companies, irrespective of company size, industry, and business rescue goal.

Liquidation Value

The liquidation value refers to the *cash* amount receivable by creditors according to the PP at the commencement date of business rescue, or, if the PP specified the liquidation value at the publication date of the plan, liquidation value at publication date. The results showed that in 59% of the observations, an independent expert determined the liquidation value while, in the remaining observations, the liquidation value had been determined based on the professional judgement of the BRP. The results are illustrated in figure 2.
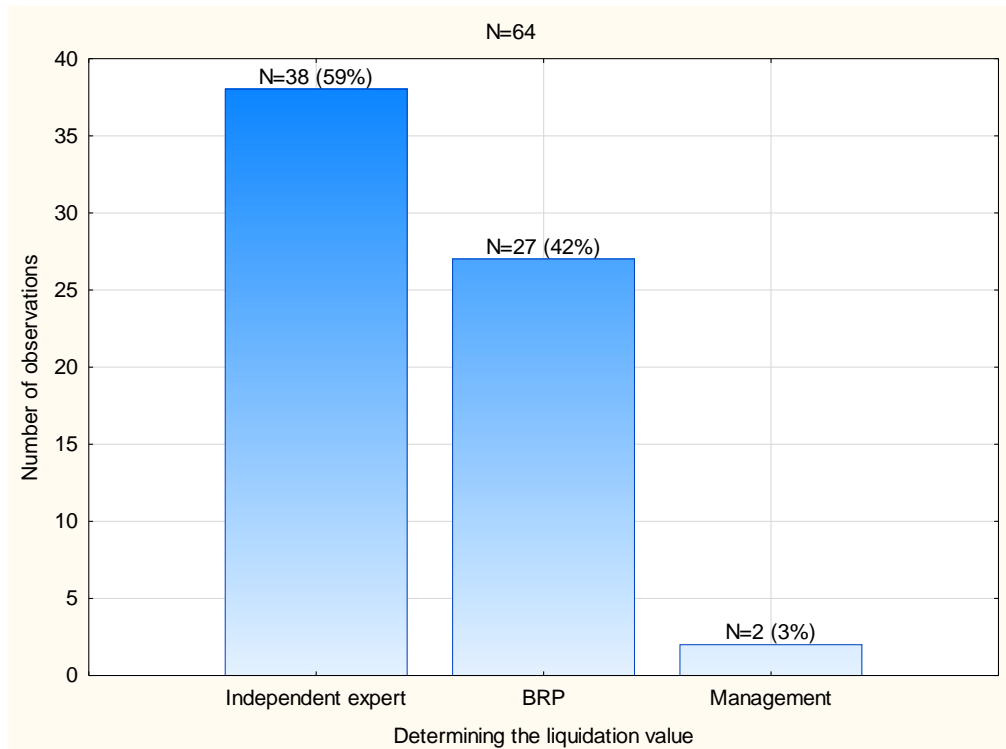
Figure 2: Indication of who determined the liquidation value

Source: Own compilation

As seen from figure 2, management is not usually involved in determining the company's liquidation value. In three cases (about 4% of the population), the BRP had used an independent expert to value some of the assets only, while determining the liquidation value of other assets and associated costs him(her)self. For completeness, these three cases were included in both the "independent expert" and "BRP" group of observations, resulting in a total of 104%.

A further chi-square analysis did not show a statistically significant relationship ($p > 0.05$) between the four main industries and whether the liquidation value was independently determined. A trend was, however, identified, indicating that in the resources, retail and manufacturing industries, independent experts had determined the liquidation value in 70% to 75% of the cases. On the other hand, the construction industry only used independent experts in 45% of the cases. A logical explanation for this may be that the main assets of construction types of businesses are construction debtors, and BRPs in the construction industry probably argue that they can best determine the probable income stream from these construction contracts in the event of a liquidation.

The test of independence between company size and the way the liquidation value is determined revealed that there were no statistical differences (p > 0.05) between the company size (large, medium, or small) and how the liquidation value was determined (BRP or independent expert). Even though a statistically insignificant difference was found, it seems that BRPs use independent experts proportionally more in large business rescues than small and medium-sized business rescues. The reasons for this might be that larger entities are often more complex than smaller entities, and the BRP may also have more money at her/his disposal in a large business rescue. In addition, the reputational damage of the BRP (e.g., to be seen as non-independent) tends to be more at risk when associated with a large business rescue (due to a larger group of affected parties and public scrutiny), and the BRP may, for this reason, prefer to use an independent expert to determine the liquidation value.

Conclusion on RQ1.2: Most PPs indicated that the liquidation value was independently determined, although, in some instances, the BRP determined the liquidation value.

The following section investigates the various techniques that BRPs use to disclose the effect that relevant business rescue risks might have on the business rescue value.

Risk Incorporation Techniques

Contrary to the expectation created by literature (Correia et al. 2015; Roslynn-Smith et al. 2015), the results of the content analysis of the PPs indicated that a mere 9% of the sample included a sensitivity analysis of future cash flows, while a meagre 3% of the sample included the Altman Z score of the company in the PP. Furthermore, only 28% of PPs presented a high-low scenario. In most of the plans, only the average or the most probable business rescue value was included in the PP. Of the sample investigated, 88% contained a descriptive section on the risks associated with the business rescue. Therefore, it seems like BRPs educate stakeholders on the risk by describing various risks relating to the implementation of the business rescue. However, the PPs mostly lacked calculations of how the risk will affect the business rescue value. The above results are tempered by the minimal number of observations that disclosed a monetary risk analysis. Consequently, no further statistical analysis was performed. Table 2 summarises the risk incorporation techniques identified in the PPs.

Table 2: Techniques used to incorporate risk

Technique	Number of observations (N) Total N = 64 (100%)	
	YES	NO
High-low scenario analysis	18 (28%)	46 (72%)
Discussion section of business rescue risks	56 (88%)	8 (13%)
Sensitivity analysis	6 (9%)	58 (91%)
Altman Z score	2 (3%)	62 (97%)

Source: Own compilation

Conclusion on RQ1.3: The results show that very few PPs disclosed a monetary evaluation of how the business rescue value would be affected by a change in key assumptions made by the BRP. BRPs educate stakeholders about the risks of a specific business rescue without illustrating the effect that a change in circumstances might have on the projected outcome. This might be due to either a lack of appropriate qualifications and experience (Naidoo, Patel, and Padia 2018, 3) in the available risk evaluation techniques, or due to time constraints (Pretorius 2016, 491).

The next section calculates the average business rescue premium in an attempt to establish historical valuation metrics used in business rescue.

Business Rescue Premium

The business rescue value used in this section is calculated by the BRP as a *cash* amount payable to creditors if the business rescue proceeds. Here the projected business rescue cash inflows and outflows and business rescue costs would, for example, be considered by the BRP and included in the PP. Because this amount is a *cash* amount payable to the creditor, it is expressed as cents per Rand, as explained in annexure A.

Business rescue should provide creditors with a better outcome than liquidation, irrespective of whether the BRP achieves this objective through Goal 1 (return to solvency) or Goal 2 (BRIL). The uncertainty is how much "more" would be enough to satisfy creditors. This section firstly presents the average business rescue values as per the PPs. The business rescue value in the plan is then compared to the liquidation value of the same plan to calculate the business rescue premium. Lastly, this section discusses the relationship between the business rescue premium and independent variables such as the goal of business rescue, company size and various business industries.

A VEPAC statistic was used to analyse the business rescue value per type of creditor. The different letters in figure 3 illustrate whether a significant statistical difference ($p < 0.01$) existed between the various types of creditors.
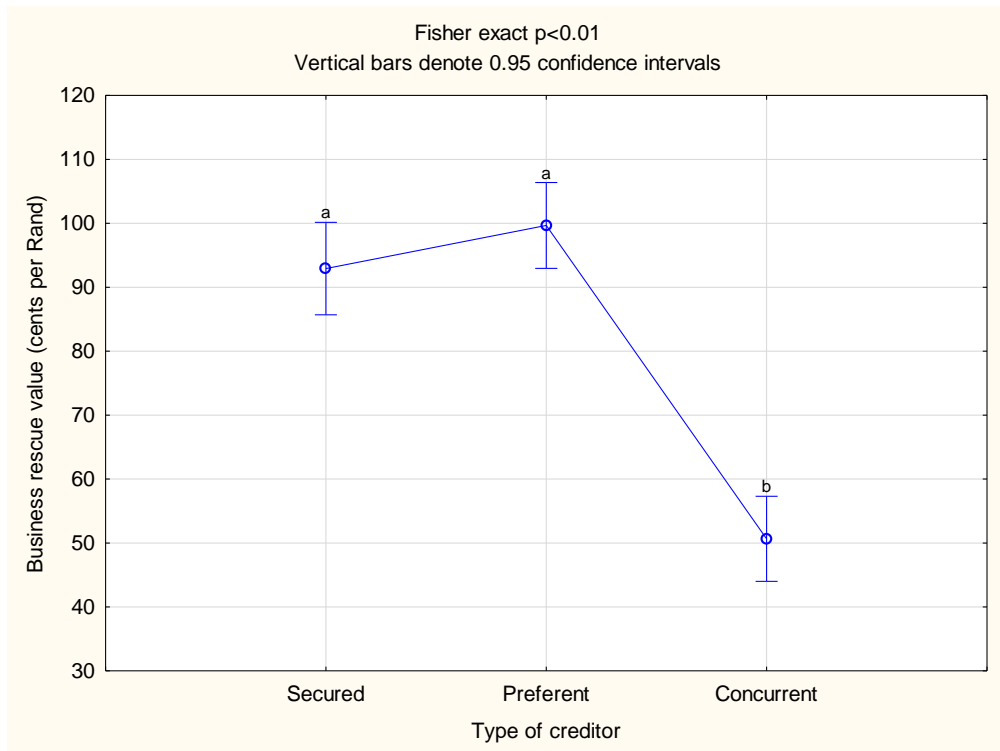
Fisher exact p<0.01
Vertical bars denote 0.95 confidence intervals

Figure 3: VEPAC on business rescue value and type of creditor

Source: Own compilation

Figure 3 illustrates that the business rescue values for secured creditors and preferent creditors were, respectively, 92.6 cents per Rand and 99 cents per Rand on average, whereas the average business rescue value for concurrent creditors was 50.5 cents per Rand. The result of the VEPAC is not surprising, as the payment waterfall in business rescue allows for secured and preferent creditors to be paid first in business rescue and concurrent creditors from the remaining funds (RSA 2008 s 135).

After establishing the average business rescue value per type of creditor, a VEPAC statistic was used to analyse the business rescue premium per type of creditor. This was done to determine the amount by which the business rescue value exceeded the liquidation value. Table 3 presents a summary of the mean (average) liquidation value, business rescue value and business rescue premium that each type of creditor class may expect to obtain (as a cash payment) due to business rescue.

Table 3: Liquidation value, business rescue value and business rescue premium means

Type of creditor	N	Liquidation value (Cents per Rand) Mean	Business rescue value (Cents per Rand) Mean	Business rescue premium (Cents per Rand) Mean
	164	49.2	80.1	30.9
Secured	49	71.4	92.6	21.2
Preferent	57	65.7	99.4	33.7
Concurrent	58	14.1	50.5	36.4

Source: Own compilation

Table 3 illustrates that the average business rescue premium for concurrent creditors was the highest (at 36.4 cents) compared to an average business rescue premium of 33.7 cents and 21.2 cents for preferent and secured creditors, respectively.

A further VEPAC analysis was performed on the business rescue premium to establish whether a relationship existed between the business rescue premium (dependent variable) and three independent variables, namely, the goal of business rescue, company size, and business industry. The relationship between the goals of business rescue and the business rescue premium appeared to be statistically insignificant ($p > 0.05$). However, the VEPAC analysis identified a trend, namely, that the business rescue premium was higher in a Goal 1: return to solvency scenario than a Goal 2: sale of business or controlled wind-down scenario, with Goal 1 delivering an average business rescue premium of 38 cents as compared to approximately 25 cents to 26 cents under Goal 2. The business rescue premium for both the sale of the business and controlled wind-down scenarios was approximately 25 cents. However, it should be remembered that the business rescue value in Goal 2: the controlled wind-down scenario was determined, primarily, using market value estimates for the company assets and not actual binding offers with third parties, as is the case in most of the Goal 2: sale of business scenarios (Conradie and Lamprecht 2021, 13).

There was no significant statistical difference between the business rescue premium for small and large companies ($p > 0.05$). However, business rescue premiums tended to be higher in small and medium-sized companies (37 cents) than larger companies (27 cents).

No significant statistical difference in the business rescue premium existed between the four main business rescue industries ($p > 0.05$), although it appeared that the business rescue premium was the highest in the construction industry (30 cents). This validated the findings by Conradie and Lamprecht (2021, 9), namely, that the liquidation environment is especially undesirable in the construction industry and that business rescue may place the creditors of a construction business in a considerably better position as compared to the liquidation scenario.

Conclusion on RQ2.1: From the above analysis, it is clear that the average business rescue premium ranged from 21.2 cents per Rand for secured creditors to 36.4 cents per Rand for concurrent creditors. This is a crucial statistical result, as it illustrates that business rescue is expected to, on average, provide as much as 36.4 cents per Rand additional value to the concurrent creditor, which they would not have received in liquidation. If disclosed, this information can be used by stakeholders in business rescue as an indicator of value creation in business rescue.

The following section compares offers received from buyers of distressed assets relative to respectively the liquidation value and book value of assets.

Offers Relative to the Book and Liquidation Value of Assets

Previous research indicates that buyers seek deep discounts when buying distressed businesses in business rescue (Britz 2017). This section focuses only on Goal 2: selling of business scenarios. The total Rand value of offers received was compared with the book and *total* liquidation value of the financially distressed company's assets. However, a few PPs in the sample did not disclose the information required to perform this analysis (e.g., the total liquidation value of the company was available only on further requests to transaction advisors). Although the liquidation value (cents per Rand) payable to each class of creditor was available (as indicated in table 3), the *total* liquidation value of the company was omitted in the PP, probably because the BRP wanted to prevent potential buyers from exploiting the business rescue system by offering a value just above *total* liquidation value (Conradie and Lamprecht, 2021). After due consideration, the researchers decided not to obtain the undisclosed information from either the transaction advisors or the BRPs, but to analyse only the PPs for which sufficient information was available in the PPs.

Of the total sample, 26 PPs pursued Goal 2: sale of business, although only 23 of these PPs contained enough information to enable the researchers to calculate the total offer made by the buyer relative to the book value of the company's assets. In addition, only 21 of the PPs contained enough information for the researcher to calculate the total offer relative to the *total* liquidation value of the company. The results of the analysis are discussed below.

Offer relative to Book Value

The offers made by buyers were compared to the total book value of the company's assets. Although the market value of assets would have been a better asset base against which to compare the offers, the market value of assets was not readily available in all the PPs (a mere 30% of the PPs disclosed assets at market value). The histogram in figure 4 illustrates the result of the analysis.
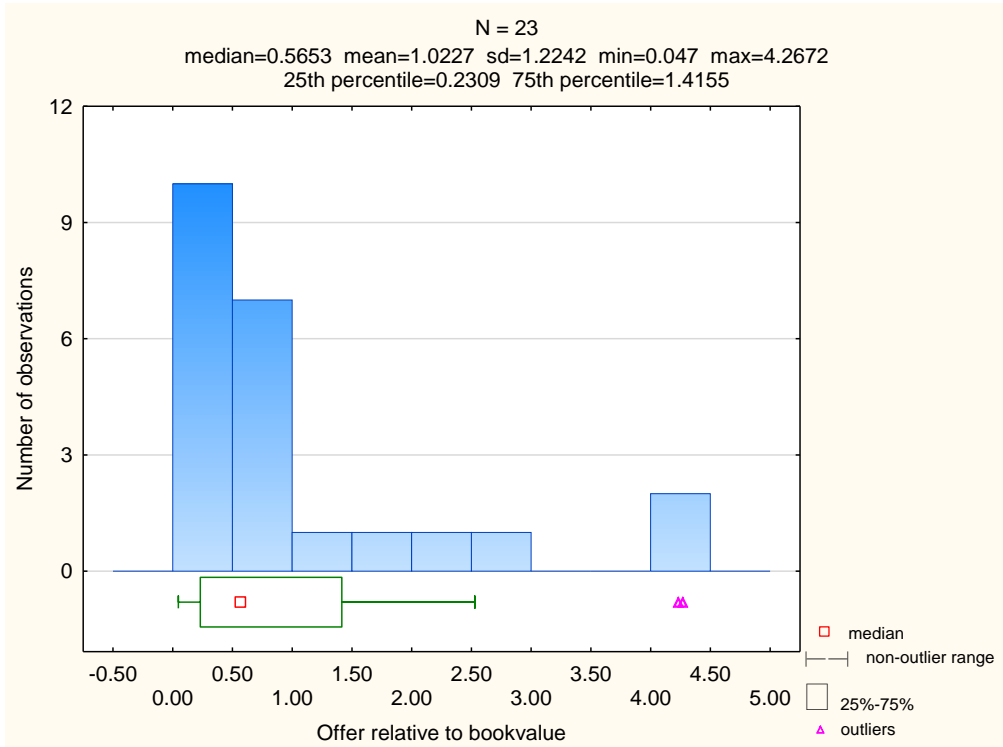
N = 23
median=0.5653 mean=1.0227 sd=1.2242 min=0.047 max=4.2672
25th percentile=0.2309 75th percentile=1.4155

Figure 4: Histogram on offer relative to book value

Source: Own compilation

Figure 4 shows that the offers received from buyers, relative to the book value of the company's assets, ranged from 0.05 to 4.27, with a mean of 1.02 and a median of 0.57. Two outliers (observations not following the characteristic distribution of the rest of the data) were present. One of these outliers represented a resources company that had been sold via a private bid-out process. The second outlier represented a retail agriculture business where intangible assets had been a major attraction. Although each intangible asset was not separately valued, it seems that the buyer was willing to pay a premium to book value in order to obtain the registered trademarks, lease agreements and unregistered intellectual property of the company. The box in the box-and-whiskers plot in figure 4 indicates that 50% of the offers were between 0.23 and 1.41 relative to the book value of assets. The median of 0.57 provides empirical evidence that in South Africa, buyers tend to focus their offers on the company's asset values and not future earnings potential and that, on average, offers represent approximately 57% of the company's book value. No statistically significant difference ($p > 0.05$) existed between the four major business rescue industries, thus indicating that the conclusions drawn from the statistics in figure 4 may be accepted within the four main industries of business rescue. Also, no statistically significant difference was found in offers in relation to the book value and the company's size ($p > 0.05$). The offer relative to the

book value medians, as calculated in figure 4, may, therefore, be accepted for large and smaller company sizes.

Conclusion on RQ2.2: Offers received from potential buyers were on average 0.57 (or 57%) of the book value of assets. This statistical result confirms the deep discount reported by Britz (2017).

Offers relative to the Total Liquidation Value of Assets

This section compares the offers received from buyers and the *total* liquidation value, e.g., the *total* amount of funds distributable to the company's creditors in the event of a liquidation. Figure 5 presents the result of this analysis.
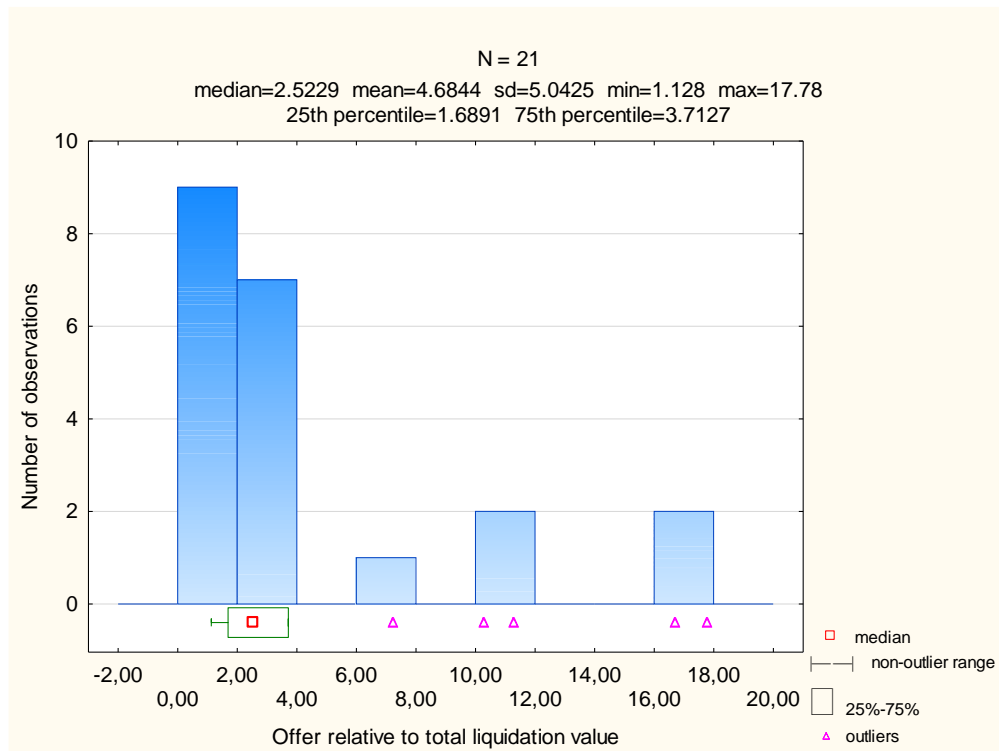

Figure 5: Histogram on offers relative to liquidation value

Source: Own compilation

Figure 5 indicates that the offers received from buyers relative to the *total* liquidation value of the company's assets ranged from 1.13 to 17.78, with a mean of 4.68 and a median of 2.52. Five outliers were present. Four of the five outliers represented offers in PPs where the value was based on the interest shown by applicable buyers, although some contingencies such as binding offers/proof of funding/board approval were still outstanding. Thus, these offers lacked deal certainty. The fifth outlier represented an

offer for an investment company, which was received in terms of an adopted PP. The investment company had no major tacit assets, while the shares (financial assets) owned by the investment company had experienced a significant decrease in value due to the company's financial distress in which the shares were held. The *total* liquidation value was negligibly small, and thus, the offer received from the shareholder relative to the *total* liquidation value was very high. Figure 5 further indicates that 50% of offers were between 1.69 and 3.71 relative to the *total* liquidation value of the assets, while the median of 2.52 shows that buyers tend to offer between two and three times the *total* liquidation value when making an offer for a financially distressed company in business rescue.

A further VEPAC analysis showed no statistically significant difference between the four major business rescue industries ($p > 0.05$), thus, indicating that the conclusions drawn from the statistics presented in figure 5 could be accepted in relation to the four main industries in business rescue. It is worth noting that the retail industry tended to deliver slightly higher offers relative to *total* liquidation value, thus confirming a finding by Conradie and Lamprecht (2021, 8), namely, that buyers in the retail industry tend to focus their offers on both the value of the stock (main asset of the retailer) and a possible premium for a lease contract (prime real estate in a specific area). Figure 6 illustrates the results of the VEPAC analysis that was performed to establish whether company size influenced the offer relative to the *total* liquidation value.
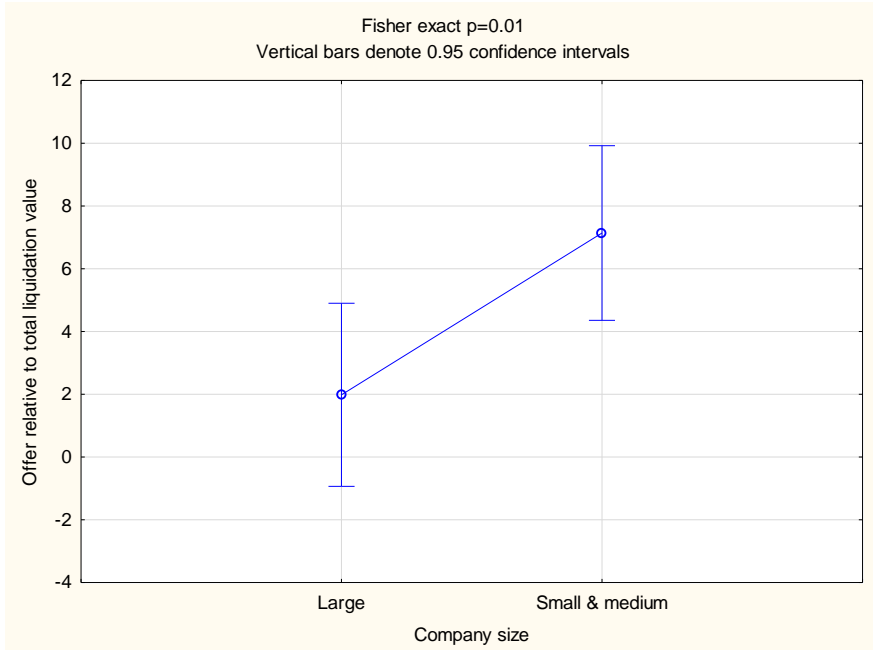

Figure 6: Offer relative to liquidation value per company size

Source: Own compilation

The VEPAC in figure 6 shows a statistically significant difference in offers relative to *total* liquidation value between large and small and medium-sized companies (p = 0.01). The offer relative to *total* liquidation value was smaller for large companies (1.98) than small and medium-sized entities (7.14). This is an interesting finding because the offers relative to accounting book values (figure 5) had shown no statistical difference between large and smaller entities. Earlier in the article, figure 2 indicated that independent experts determined the liquidation value for 67% of the observations for large companies. It may be argued that for large companies, the liquidation value in the PP is, therefore, a more accurate reflection of the true/actual liquidation value, and thus the offers are closer to the liquidation value in the PP. Another explanation could also be that the available number of buyers that can afford the large and listed type of companies are few. Because the buyers are few, the competition between them is little. As a result, offers relative to liquidation value are much lower than offers made for smaller companies. However, the range is quite large, and further statistical evaluation with a larger sample size might provide more insight.

Conclusion on RQ2.3: Offers received from potential buyers were on average 2.5 times the *total* liquidation value of assets. The relationship was smaller (1.98 times) for larger entities compared to smaller entities (7.14 times).

Conclusion on Results

Table 4 indicates the link between the research questions and the dependent and independent variables analysed. The table further indicates whether a statistically significant relationship (p > 0.05) was identified through the statistical analysis and briefly summarises the significant findings identified from the previous sections. As concluded above, a very small number of observations disclosed a monetary risk analysis. Consequently, no further statistical analysis was performed, and no statistical result is reported for research sub-question 1.3 in table 4.

1 **Table 4:** Link between research questions, variables and results

RQ	Dependent variable	Independent variable p > 0.05			Section	Results
		Company size	**Industry**	**Goal**		
RQ1.1	Value at which the list of material assets is given.	✔	✔	✔	6.1	Assets listed at book value.
RQ1.2	Independence of liquidation value	✔	✔		6.2	In 59% of observations, the liquidation value was independently determined. Even though the Act does not require it, the fact that independent advisors are used suggests that this is a control put in place by BRPs to enhance independence and objectivity in the valuation process.
RQ2.1	Business rescue premium (cents per Rand).	✔	✔	✔	6.4	Business rescue premium was, on average, 36.4 cents for concurrent creditors as compared to 33.7 and 21.2 cents for preferent and secured creditors, respectively.
RQ2.2	Offer relative to book value.	✔	✔		6.5	Offers received from buyers in a Goal 2: sale of business scenario were, on average, 57% of the book value of the company's assets, irrespective of company size or business industry.
RQ2.3	Offer relative to liquidation value.	✘	✔		6.5	Offers were, on average, 2.5 times the *total* liquidation value. For large companies, offers relative to *total* liquidation value were on average two times, but then for small and medium-sized entities they were, on average, 7.1 times the liquidation value.

2 Keys:
3 ✔ Independent variable $p > 0.05$
4 ✘ Independent variable $p < 0.05$
5 Source: own compilation

Limitations of the Study and Possible Future Research

Some of the plans in the sample were from the public domain, and it is uncertain whether the creditors adopted each of the PPs. Furthermore, although the sample was an appropriate representation of the population as a whole and included various industries, the sample size was too small to permit an investigation into *each* applicable business rescue industry in detail. For this reason, where the inferential statistics analysed industry data, the researchers focused on the four main business rescue industries (construction, manufacturing, resources, and retail). Future research can expand the sample size to allow for a more detailed investigation of other industries. Moreover, further quantitative research focusing on the business rescue premium and offers relative to total liquidation value might enhance the results of this study.

Another research possibility is to investigate business rescue value through the signalling theory of dividends—that is, whether a higher business rescue value would provide a signal to creditors that it is a viable business rescue. Researchers can also investigate the implication of court appointment of BRPs only, as opposed to being appointed by either the financially distressed company or the court, as was the case at the time of the data collection of this study. The valuation of intellectual property could also be an avenue for future research.

Conclusion

Through content analysis of PPs, the authors established the extent of valuation-related information communicated in PPs. The valuation disclosures were statistically analysed to identify possible relationships between dependent and independent company variables.

The results of the article revealed that the list of material assets was primarily disclosed at the book value of assets (as opposed to forced sale value and market value). If the legislator expands section 150(2)(a) of the Act by indicating the valuation base which should be used when disclosing the list of assets, it will clarify the regulatory requirements of section 150(2)(a) and decrease inconsistencies between PPs. It is, therefore, suggested that the legislator encourage the BRP to list significant assets at market value in instances where it would be for the benefit of the distressed business's stakeholders. This could be, for example, where revaluing assets to market value could attract additional PCF in a business rescue Goal 1 scenario, or obtain higher selling prices in a Goal 2 scenario. If the BRP decides to disclose assets at book values (as per financial statements,) the Act should require the BRP to clearly indicate to users of the PP which valuation basis was used to measure the individual assets in the financial statements [e.g., cost less accumulative depreciation or revalued to market value.] This would enable users to make better informed decisions.

The results further revealed that most PPs disclosed an *independently* determined liquidation value, although not required by the Act. The authors believe that this practice creates comfort for creditors, as it takes away the risk of the BRP being accused of bias, that is, for creating a superficially low liquidation dividend. It is proposed that the legislator requires an independent liquidator to determine the liquidation value of the business, and where this is not practical, that the BRP justify to creditors why an independent liquidator was not consulted for transparency purposes.

Contrary to the expectation created by literature (Roslynn-Smith et al. 2015), PPs mostly lacked calculations on risks, such as a sensitivity analysis and a feasibility study. The authors recognise that time is limited in business rescue, and that more detailed calculations regarding the risk attached to the business rescue value might not justify the time allocated to such an activity. We, therefore, deem a proper discussion of the risks relating to the business rescue sufficient for a stakeholder to make an informed decision on the likelihood of realising the business rescue value.

The statistical results indicated that the business rescue premium was, on average, 36.4 cents for concurrent creditors as compared to 33.7 and 21.2 cents for preferent and secured creditors, respectively. For Goal 2: sale of business plans, offers were, on average, 2.5 times the *total* liquidation value and represented 57% of the book value of the company's assets. From the latter result, it seems that intangible assets are, in fact, disregarded. These empirical results provide evidence to investors on the sound potential of investing in a financially distressed company in SA but, at the same time, set realistic sale expectations for both creditors, business rescue practitioners and shareholders.

It is hoped that the results of this study can fill the gap where the current provisions in the Companies Act with regards to valuations are vague. Also, the empirical evidence provided in the study assists BRPs in communication with potential investors. Ultimately, the results of this study may guide business rescue stakeholders in their decision-making.

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Annexure 1: Description of Terminology Used in Analysis of PPs

Terminology used	Description
Business rescue value (Cents per Rand)	The expected dividend payable to creditors from rescuing the company, as specified in the PP. Where the PP indicated a low and high scenario, the researcher calculated an average value. The business rescue value is expressed as the number of cents per Rand owed to the creditor.
Business rescue premium (Cents per Rand)	Cents per rand by which the business rescue value exceeds the liquidation value.
Cash amount offered	The cash amount payable in terms of a binding offer*; PLUS, where applicable, expected retention monies receivable from debtors who were ring-fenced for the benefit of creditors, expected cash to be generated from trading until the sale of the business and rental deposits recoverable. *Where the plan included multiple offers, the researcher used the offer as recommended by the BRP due to not knowing the outcome of the creditors meeting. Where no binding offer existed at the publication date, the researcher used the estimated selling price as anticipated by the BRP.
Concurrent, preferent and secured creditors	Creditors having concurrent, preferent or secured claims against the company as envisaged by the Companies Act and indicated as such in the PP.
Liquidation value (Cents per Rand)	Cash amount receivable by creditors according to the PP at the commencement date of business rescue, or, if the PP specified liquidation dividend at the publication date, liquidation dividend at publication date. Where the PP indicated a low and high scenario, the researcher calculated an average value. The liquidation value is expressed as the number of cents per Rand owed to the creditor.
Offer relative to book value	Cash amount offered by the buyer, divided by the total book value of assets.
Offer relative to liquidation value	Cash amount offered by the buyer, divided by the total liquidation value of assets.
Total book value of assets	Total assets according to the financial records of the company at its financial year-end, or when disclosed, at plan publication date. Where the asset values were sensitised by the BRP (e.g., BRP adjusted the debtor balance downwards to make provision for irrecoverable debt or movements in inventory), the researcher used the sensitised amounts.
Value at which list of assets was given	Value at which list of assets was given, e.g., book value, market value, etc., as indicated in the PP.

Source: Own compilation