



Gravel and Forestry Valuation

2 November 2012

 **ERNST & YOUNG**
Quality In Everything We Do

Overview

- ▶ **Basis and context of valuation**
- ▶ **Working with other experts**
- ▶ **Common methodologies**
- ▶ **Forestry asset considerations**
- ▶ **Gravel pit considerations**

Basis and Context of Valuation

- ▶ Theory of damages/compensation
- ▶ Definition of value
- ▶ Time period considerations
- ▶ Market transaction data
- ▶ The value of the right vs. the value of the resource

Working with other professionals

- ▶ Intersection between business valuation, real property appraisal and mineral/timber appraisal
- ▶ Legal theory of compensation/damages
- ▶ Common methodologies
- ▶ Discounted Cash Flow (“DCF”) methodology and calculation of taxes

Simplified DCF

	Year 0	Year 1	Year 2	Year 3	Thereafter	Total
Pre tax operating cash flow	\$ 1,000	\$ 1,050	\$ 1,103	\$ 1,158	\$ 1,170	
Taxes on operating cash flow		(263)	(276)	(290)	(293)	
After tax operating cash flow		\$ 787	\$ 827	\$ 868	\$ 877	
Terminal value					\$ 4,385	
Present value factor	25%	0.894	0.716	0.572	0.572	
Present value		\$ 704	\$ 592	\$ 496	\$ 2,508	\$ 4,300

Multiple 4.3x

Simplifying assumptions include:

- no required annual capital expenditures
- no increase in working capital required to finance growth
- no existing capital assets that would provide a tax benefit

Discounted Cash Flow Considerations

- ▶ Inflation: Account for in cash flow or in discount rate
- ▶ Income taxes: Annual cash taxes and income tax shield
- ▶ Discount rate:
 - ▶ Impact of income taxes
 - ▶ Sources for making the judgment
- ▶ Multiple scenarios?

Forestry asset considerations

- ▶ Types of licences
- ▶ Allowable Annual Cut (“AAC”)
- ▶ Species and grade mix
- ▶ Harvesting costs
- ▶ Sawmill profits

Gravel pit considerations

- ▶ Highest and best use for land
- ▶ The value of an operating gravel pit versus the value of the mineral resource
- ▶ DCF or Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”) multiple
- ▶ Proximity to population centres
- ▶ Leases, royalty and other agreements with government(s)

Questions???

Thank you!!

Paul McEwen

604 678 9709

paul.d.mcewen@ca.ey.com