

Comprehensive Valuation Report

City of Edmonton

Gold Bar Waste Water Treatment Plant

City Council Presentation

January 20, 2009

Presenters

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Background

- This presentation should be reviewed in conjunction with the Grant Thornton comprehensive valuation report titled City of Edmonton – Gold Bar Wastewater Treatment Plant dated January 7, 2009.
- This presentation is subject to all of the restrictions, qualifications and commentary included in the above mentioned report.

Mandate

- Pursuant to October 29th City Council Meeting administration was asked to provide "an independent industry appraisal including market value, replacement value and book value of the Gold Bar facility, lands and its inherent research or expertise."
- Terms of reference for Grant Thornton did not include offering an opinion on whether transaction should proceed or commenting on terms of transaction.

Key Business Valuation Concepts

- **Business Valuation** – *Businesses and investment are made to allow the investor to generate sufficient cash flow to recover their investment plus an appropriate return (or income) based on the risk assumed.*
- **Net Present Value** - *The value today of a series of cash flow received over time.*
- **Discount Rates** – *The rate used to discount future cash flows to their value today, which is based upon the risks and rewards of the stream of cash flows.*
 - Commonly based on a weighted average cost of capital for the particular business.
 - A higher discount rate produces a more conservative value based upon the perceived risk of the investment.
- **Weighted Average Cost of Capital (WACC)** – *The rate that a company is expected to pay to finance its assets. WACC is the minimum return that a company must earn on existing asset base to satisfy its creditors, owners and other providers of capital.*

Key Business Valuation Concepts (continued)

- **Net Book Value** – *The total assets less total liabilities as determined using generally accepted accounting principles.*
- **Fair Market Value** (CICBV definition) – *“....the highest price available estimated in terms of money which a willing seller may obtain for the property in an open and unrestricted market from a willing, knowledgeable purchaser acting at arm’s-length.”*
- **Replacement Cost** – *The cost that would be paid to replace or re-build an asset. Not normally used for business valuations, as investors predominantly focus on the cash flows to be realized, as opposed to replacement cost.*
- **Going Concern** – *A business that is conducting operations at a given date and has every reasonable expectation of doing so for the foreseeable future after that date.*

Valuation Approach

- Valuation of the Plant on a stand alone basis (excluding Sysco).
- Conclusions based upon the Plant's historical and forecasted earnings and rates of return required by investors given economic and business conditions existing at the Valuation Date.
- Applied a discounted cash flow technique as the primary valuation approach.
 - Similar to net present value calculation.
 - Discount rate based upon the weighted average cost of capital for similar assets within this sector.
- A market approach was also considered as a secondary valuation technique reviewing comparable companies, transactions and trading multiples.
 - Based on market research regarding valuation of publicly listed water and other utilities, as well as transaction research where applicable.

Going Concern Summary

Going concern summary:

	NBV	Going Concern \$ (in millions)		
		Fair Market Value		
		Low	Midpoint	High
Enterprise value	266.0	262.8	272.6	282.4
Less:				
Outstanding debt	(139.6)	(139.6)	(139.6)	(139.6)
Equity value	126.4	123.2	133.0	142.8

Replacement Cost - \$700M

Going Concern Summary (cont.)

- Fair Market Value of the Plant is between \$263 million and \$282 million.
- The premium to Net Book Value (after consideration of contributed assets) is consistent with analysis of publicly listed water and other utilities.
- Market comparables were analyzed and supported this conclusion.
- From a business valuation perspective, investors determine the value of an asset or business based upon its potential cash flows.
- Operational knowledge and expertise is inherent in going concern value. Any ongoing research activities indicated to reside within the Edmonton Waste Management Centre of Excellence, which is not part of anticipated transaction.

Independent Valuation - Analysis Results

Analysis Component	\$ (millions)		
	Low	Midpoint	High
Transfer Price NPV	62.6	64.7	67.0
GBWWTP Dividend NPV *	86.1	91.6	97.7
Working capital to remain with the City	6.0	6.0	6.0
Debt to be assumed	91.0	91.0	91.0
Potential consideration directly related to GBWWTP	245.7	253.3	261.7
Incremental Project Revenue Dividend NPV *	54.5	76.4	108.9
Total potential consideration	300.2	329.7	370.6
Fair Market Value - Midpoint	272.6	272.6	272.6
Premium over Fair Market Value	27.6	57.1	98.0

* *Figures assume operation into perpetuity*