Introduction

As the old saying goes, there are only two certainties in life: death and taxes. While we can’t offer any novel solutions about the former at the moment, we can provide some insights into potential changes to the latter.

Expectations about the likelihood of meaningful tax reform have risen in the wake of the election of Donald Trump to the U.S. presidency in the fall of 2016. Not only have the White House and Congress talked up tax reform, but the stock market has risen materially since the election. Many seasoned market observers detect tax reform optimism in these new stock market highs.

What are the consequences of tax reform to our clients, in terms of both opportunities and challenges? In this, the seventh in our ongoing series of Corporate Insights papers, we examine what corporate tax reform may mean for our clients. Rather than trying to peer into a crystal ball to predict what might come out of Washington, instead we evaluate the sensitivities of various industries to the potential categories of reform and the possible nuances of each.

In order to understand and analyze current tax reform proposals, it helps to look back at the last two significant reforms in the United States: 1986 and 2004. Before the tax reform of 1986, the American tax code was dauntingly complex, totaling over 26,000 pages. Despite significant lobbying against the bill, Congress overwhelmingly passed legislation that lowered the corporate tax rate from 46% to 34% and greatly simplified loopholes and deductions.1 This simplification and reduction in rates did not last very long, however, as Congress reversed tax cuts and continued adding to the complexity of the tax code; some estimate Congress has made nearly 15,000 changes to the law since the Tax Reform Act of 1986 was passed.2

In 2004, the tax code once again became an important legislative topic through the American Jobs Creation Act (AJCA).3 The bill used tax reform as a lever to encourage domestic growth by allowing the repatriation of overseas corporate cash at a discounted income tax rate. Although there were specific restrictions on the use of repatriated cash, a subsequent Senate report found that an estimated 60-92% of the funds was used to return capital to shareholders via buybacks and dividends.4 With the lessons learned from these major reforms on the minds of today’s legislators, we again find ourselves at the forefront of a debate about tax reform and its role in spurring economic growth.

Recently, two major tax reform proposals have emerged – one from President Trump and one from the House Republicans under the leadership of Wisconsin Rep. Paul Ryan and Texas Rep. Kevin Brady. The proposals at this stage are still light on detail, but contain several common elements, proposing5:

- To lower the U.S. corporate income tax rate
- To alter the tax treatment of non-U.S. earnings
- To address the deductibility of expenses, including interest expense
A tax primer: Understanding the current situation

The statutory corporate tax rate is an important component of fiscal policy. The rate itself is the result of a delicate balancing act, with the federal government setting a tax rate high enough to generate adequate revenue, yet low enough to encourage business investment in a global economy where companies can choose where to incorporate. If tax rates are too high in the United States, companies may seek to make investments in countries with lower corporate tax rates. As developed economies continue to recover from the financial crisis, corporate tax reform is being used as a lever to promote economic growth and attract foreign investment. While many governments have lowered their statutory tax rate in line with this trend, the United States remains a stark outlier (see Exhibit 1).

Exhibit 1: Statutory tax rates by country

The corporate tax rate in the United States has remained steady at 35.0% for more than two decades, making it one of the highest in the world. What are the implications of such a high rate? Potentially profitable projects may be spurned by U.S. companies, as after-tax cash flows may not compensate for the initial investment due to high corporate tax rates. Likewise, investment from foreign multinationals may be discouraged, as other countries’ favorable tax systems yield more profitable opportunities. Also, a high tax rate incentivizes companies to consider relocating their operations to nations with a lower corporate tax rate, or to try profit-shifting through foreign subsidiaries or inversion transactions.

Nevertheless, despite the high statutory tax rate, the majority of U.S. companies pay actual taxes at a rate much lower than the statutory rate. To get a better idea of the amount of taxes that U.S. companies actually pay, we must examine the effective tax rate.
As a consequence of the relatively higher levels of statutory tax, companies in the U.S. have traditionally turned to tax incentives or tax-efficient strategies to reduce their effective tax rate over time, creating a gap between the statutory and effective tax rate (see Exhibit 2). In fact, 72% of companies in the S&P 500 paid an effective rate below the statutory one in 2016. Common tactics to maximize tax-efficiency include utilization of accelerated depreciation, R&D incentives, and profit-shifting outside the U.S. Accelerated expensing impacts effective tax rates by lowering the company’s current taxable income base, while profit-shifting can minimize paying U.S. taxes outright. Inversion transactions were another popular initiative, though these have become less common since the IRS moved over the last two years to limit some of the benefits of these transactions.

Exhibit 2: Statutory tax vs. effective tax rates in the U.S.
How and to what extent a company can exercise influence over its effective tax rate varies based on industry-specific dynamics, geographic exposure, capital structure and the utilization of various tax incentives. In the United States, the telecommunications sector has paid the highest effective tax rate in recent years, likely due to its high concentration of earnings in the U.S. Conversely, the information technology sector, which has significant Research & Development ("R&D") expenditures and considerable ability to profit-shift through international subsidiaries, has paid the lowest effective tax rate since 2010 (See Exhibit 3).
Another challenge facing U.S. companies under the current system is **world-wide taxation**. Many countries have a territorial tax system, in which the tax liability is determined by where the transaction takes place. Under a territorial tax system, companies can more easily transfer capital across international borders, especially to their home country. In contrast, United States companies that operate internationally must pay the incremental difference between the 35% U.S. tax rate and the foreign tax rate to return the cash to the United States. According to some estimates, U.S. companies held at least $1.1 trillion in overseas cash and $2.2 trillion in earnings.\(^{19}\) Cash trapped abroad discourages domestic investment and may prevent the returning of capital to shareholders via buybacks or dividends. Potential solutions to the problem of overseas cash include a permanent lowering of the tax rate on foreign income or a temporary tax holiday similar to the approach taken by the U.S. as part of the reform efforts in 2004.

As noted already, the specifics of corporate tax reform are still up for debate, and there is a lack of clarity about when and how it may be achieved. Indeed, another element in all of this calculus is the prospect of substantive changes to U.S. healthcare law. Healthcare reform can impact these tax debates in two meaningful ways: 1) as any changes in that area could provide fiscal savings that could be used to support changes in U.S. tax policy, 2) the timing of any meaningful tax reform is likely to occur post the discussion around healthcare reform. Given all of these uncertainties, how can companies address the challenges mentioned above and best position themselves – or advocate for whatever tax reform actually comes to pass? Our approach is about awareness of the potential scale of the impacts. Knowing the possible impact and potential scale of the tax reform ideas being debated will give our clients a much clearer understanding of the debate and help them shape their own responses to such reforms. In hopes of providing such insight, we now turn to the strategic implications of four major tax-related issues – changes in the statutory tax rate, a tax holiday on foreign earnings, interest expense deductibility and border adjustments.
The four reforms and their potential impact

Tax reform could have broad implications for Corporate America. But the potential impact on profitability, growth, and market value may not be uniform across industries. Indeed, we expect the likely impact to be influenced by a wide range of company-specific factors, including geographic exposure, capital intensity, financial leverage, available tax credits, among others. To help simplify and isolate the impact, we make the assumption that any changes in the statutory rate will be accompanied by a reduction in the number of deductions, such that the effective rate paid will eventually converge to the updated statutory rate. We can then utilize a discounted cash flow methodology on an aggregate of the S&P 500, making the assumption that current price levels reflect a fairly valued market in aggregation, and projecting out cash flows and asset base growth based on consensus forecasts. On an aggregate basis, the market is currently pricing in returns on capital (CFROI)\(^{13}\) for the S&P 500 to maintain a long-term level of \(\sim 11\%\). If we flex the future effective rate to potential new statutory rates, this analytically produces an increase in after-tax cash flows relative to the base forecast. Our analysis suggests that a decrease in the effective tax rate to 15% would lead to an increase in returns on capital to \(\sim 13\%\) and a 19% increase in the aggregate market value of the S&P 500 (\(~1.6\)x multiple expansion on an enterprise value to cash flow multiple)\(^{14}\). However, taking each of these factors in turn, the magnitude of the impact as well as sensitivity of valuation will vary across companies.

Exhibit 4: S&P 500 Tax reform impact on return on capital

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>2016</td>
<td>2016</td>
</tr>
<tr>
<td>9.4%</td>
<td>9.4%</td>
</tr>
<tr>
<td>10.9%</td>
<td></td>
</tr>
<tr>
<td>T+5 returns on capital</td>
<td>T+5 returns on capital</td>
</tr>
<tr>
<td></td>
<td>13.2%</td>
</tr>
</tbody>
</table>

\(\downarrow\) Tax rate  \(\rightarrow\) Net income  \(\uparrow\) Earnings  \(\uparrow\) Returns on capital
1. Lowering of the Statutory Rate

Perhaps the most straightforward category of tax reform involves the corporate statutory tax rate. The plans currently under consideration by the U.S. government could potentially lower the current corporate tax rate from 35% to as low as 15%. A lower corporate tax rate would likely allow for increased investment opportunities for United States companies, as companies will have more free cash flow and would likely contemplate lower hurdle rates when considering investment decisions. However, in order for a change in corporate or financial strategy to occur, companies must have confidence that a lowering of the tax rate is a permanent (or at least long-term) reform. The perception of the permanence – or lack thereof – of any tax reform may depend a great deal on the legislative genesis of the reform. Meaning, the manner in which any reform legislation is passed by Congress can have a big impact on how long that reform will remain law.\(^{15}\)

At a high level, a lowering of the corporate tax rate will affect some companies and industries more than others. We analyzed the sensitivity of cash flows to the statutory tax rate at an industry level within the S&P 500 to discover which industries would benefit most from a lowering of the statutory tax rate.\(^{16}\) Holding other effects constant, an increase in overall cash flow should lead to improving returns on capital and potentially higher market valuations. We created aggregate income statements by industry and flexed the effective tax rate, assuming that a decrease in the statutory tax rate would lead to a subsequent decrease in effective tax rates at an industry level. Industries with large domestic operations will benefit relatively more than industries with relatively greater international exposure. Likewise, industries with high effective tax rates would benefit more than industries with low effective tax rates. All else equal, consumer staples would gain the most incremental cash flow from a decrease in the statutory tax rate, followed by industrials. These industries have relatively high earnings pass-through – meaning high earnings relative to cash flow. On the other hand, information technology has the lowest existing effective tax rate of the S&P 500 industries, making it far less sensitive to a lowering of the statutory rate (see Exhibit 5 for sensitivities on % cash flow improvement by industry).

### Exhibit 5: Statutory tax rate sensitivities on % cash flow improvement by industry\(^{17}\)

<table>
<thead>
<tr>
<th>Industries</th>
<th>These factors drive sensitivity to tax rate reform</th>
<th>Post-reform effective rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Earnings pass through</td>
<td>Current effective rate</td>
</tr>
<tr>
<td>Telecommunication Services</td>
<td>26.6%</td>
<td>34.4%</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>41.5%</td>
<td>31.9%</td>
</tr>
<tr>
<td>Industrials</td>
<td>43.9%</td>
<td>31.3%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>61.4%</td>
<td>29.9%</td>
</tr>
<tr>
<td>Materials</td>
<td>29.3%</td>
<td>28.1%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>44.3%</td>
<td>25.4%</td>
</tr>
<tr>
<td>Information Technology</td>
<td>50.3%</td>
<td>24.2%</td>
</tr>
</tbody>
</table>

Regardless of when and if corporate tax reform comes to fruition, there are certain steps companies can take to set themselves up for success in the event of the lowering of the statutory tax rate. Companies could consider maximizing their current deductions through various strategies. For example, companies may want to consider accelerating their embedded losses due to foreign exchange rates, derivatives, and intercompany loans in order to benefit from the existing 35% rate. Along those lines, companies can revisit their liability management strategies today via tender or exchange offers to unlock embedded losses within their debt portfolio. Additionally, companies could consider accelerating their discretionary pension contributions to realize the value of the deduction at the current rate, as the rate for deductions for pension contributions could be lowered in the future. Recognizing such unrealized losses now maximizes the tax shield provided by the current 35% rate.\(^{18}\)
2. Cash repatriation

In recent years, the amount of cash and long-term investments within the S&P 500 has consistently grown; in 2016 the S&P 500 held ~$1.9 trillion of cash on their balance sheets. Cash and long-term investments comprised about 15% of total invested capital within the S&P 500, up from ~6% in 1996 (see Exhibit 6). Why are cash balances so high?

Growing corporate cash balances can be attributed to several factors, including lack of belief in growth opportunities, increasing free cash flow, cheap and easy access to capital and the current U.S. corporate tax policy on the repatriation of overseas cash. Focusing on the last factor, U.S. companies with foreign operations are holding cash and earnings abroad, unwilling to pay the taxes due upon repatriation. A one-time tax holiday or a long-term lowering of the rate on repatriation could encourage companies to invest in their domestic operations or return capital to shareholders in the form of buybacks or dividends. How could such a holiday affect corporate behavior? We can use the lessons learned from the 2004 tax holiday to explore potential consequences.
In 2004, the American Jobs Creation Act allowed companies to repatriate cash from abroad at a rate of 5.25% instead of the usual 35% in the hopes of increasing domestic investment in jobs, capital expenditures and research and development. Of the ~10,000 companies with foreign operations, 843 took advantage of the holiday, repatriating about $312 billion that qualified for the holiday. Despite the government’s intentions, a Senate Report found that the top 15 repatriating companies did not increase employment, and research and development spending did not increase. Although restrictions were placed on the use of the repatriated cash, it was very difficult to track and enforce these restrictions. In fact, a broad-based study by the U.S. Senate estimated that between 60 – 92 cents of each dollar repatriated was used by companies to buy back shares. If history is any guide, a one-time tax holiday could result in similar corporate behavior of share buybacks and dividends. Also, the increasing trend of share repurchases as a form of capital distribution will likely continue, given additional capital influx through cash repatriation. A one-time tax holiday may not necessarily increase the organic growth opportunities of companies, but it does increase the availability of capital. This increased availability of capital could be a catalyst for M&A activity. Currently, capital is cheaply available to companies and additional capital, in the form of freeing cash trapped abroad, may spur increased inorganic growth.

As companies think about their capital deployment options, their hands may be forced as large cash holdings relative to peers can be a catalyst for activist investors who seek situations where they feel they can "unlock" value. The combination of record high corporate cash holdings, low interest rates, cheap and available debt, and now the potential of a tax repatriation holiday will no doubt further bolster the hand of activists arguing for cash to be returned to shareholders. Balance sheet activism – where activists target “excess” cash – already accounts for over 11% of activism campaigns with a ~41% success rate. Since any cash repatriation tax reform will likely increase the accessibility of such “excess” cash balances, we also expect the number of these campaigns to increase. All of these issues, while important to consider, could prove to be significant distractions for management teams, who would rather focus on finding ways to improve and grow their core operations.

3. Interest Deductibility
In the U.S., the interest expense on debt is a tax-deductible expense. The principle of interest deductibility was first introduced in 1918 to help firms recover from the economic impact of World War I and has been in place ever since. Proposals to eliminate or limit the deductibility of interest argue that it would help partially offset the loss of revenue from a lowering of the statutory tax rate. A report from Harvard University Professor Robert Pozen estimates that allowing companies to only deduct 65% of their interest expense would allow the corporate tax rate to be cut from 35% to 25% without significantly impacting the U.S. budget deficit.

Investment and capital deployment challenges aside, the relatively high U.S. tax rate can also influence incentives on capital structure and financing choices. Under the current scheme of tax deductibility of interest, companies are in some ways encouraged to take on more “discounted” debt relative to public equity funding. Similarly, the deductibility of interest expense is a component in the decision between sourcing capital with debt or equity. Critics of the deductibility of interest claim that the tax shield encourages companies to take on elevated levels of debt, increasing the risk of a credit crisis similar to that of 2008.

The ultimate consequence of eliminating interest deductibility is dependent on the growth environment: if growth continues to improve and economic conditions remain stable, debt issuance may still increase in spite of the increased cost of debt. Even without the interest tax shield, the cost of debt is still lower than the cost of equity for most companies. The change in policy may also encourage the issuance of debt in other countries that still deduct interest payments. Companies could use foreign-issued debt proceeds to fund operations in the United States or abroad.

A change in the deductibility of interest would affect some companies more than others. Highly-levered companies would be the most at risk, as their cash flows may be unable to sustain their operations given the absence of the tax deduction. We analyzed this phenomenon and found that industries with lower interest coverage ratios, such as telecommunications and materials, were most sensitive to a decrease in interest deductibility (see Exhibit 7). This table shows the change in cash flow given an amount of interest expense tax deductibility across sectors. For example, if 0% of interest expense was tax-deductible, the materials industry could see a decline of cash flows of 3.1%. Also at risk are issuers of higher-yield, “junk bonds”, where interest expense is a significant component of the company’s operating income.
An offset to the revenues generated by the elimination of interest deductibility could be the immediate expensing of capital expenditures. Under this system, capital expenditures could be deducted in full at the time of the expenditure, instead of as the asset depreciates over time. An immediate expensing of capital expenditures could spur growth as companies would be able to immediately recognize a tax benefit from their investment, since expensing those costs now lowers the taxable income. This would also align capital expenditures’ tax treatment with other forms of investment such as R&D expense, which is tax deductible as incurred.

Although the elimination of interest deductibility is not certain, there are some actions companies can take to prepare for the potential reform. One of these is **accelerating debt issuance** now; if companies are considering raising debt capital, they may want to issue now before any changes have been made to the deductibility of interest, as there is a common belief that the deductibility will be “grandfathered.” Along these lines, companies could also consider issuing debt at longer maturities; this will allow them to lock in interest deductibility even if the deduction is eliminated in the future.

### 4. Border adjustments
A fourth area of potential reform is the idea of border adjustments. Although the idea of border adjustment is complicated, for our purposes the main mechanisms involved can be simplified to (a) excluding all revenue generated abroad from U.S. taxable receipts and (b) excluding U.S. purchases abroad from tax-deductible expenses. The key objective of border adjustments is to alter the dynamic of corporate incentives for the purchase and sale of imports and exports, effectively shifting to a destination-based tax system. Heavy U.S. importers and exporters are most affected by a change to a destination-based tax system, as the after-tax cost of importing goods increases relative to domestic goods. Economic theory suggests that, regardless of a company’s status as a net importer or exporter, the impact of any border adjustments would be offset by the paired subsidy and tariff effects and a concurrent appreciation in the strength of the dollar.

However that issue continues to be debated, and it is likely our corporate clients would have to alter their corporate and financial strategy to maximize their profitability in the face of border adjustments. Currently, U.S. companies with global operations pay a lower effective tax rate than U.S. domestic-focused companies (see Exhibit 8). Border adjustments may neutralize the tax benefit for U.S. global companies in favor of benefiting U.S. based exporters.

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**Exhibit 7: Sensitivity of cash flows by level of interest deductibility**

<table>
<thead>
<tr>
<th>Industries</th>
<th>Interest tax deductibility</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.0%</td>
</tr>
<tr>
<td>Telecommunication Services</td>
<td>(4.3%)</td>
</tr>
<tr>
<td>Materials</td>
<td>(3.1%)</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>(2.6%)</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>(2.6%)</td>
</tr>
<tr>
<td>Industrials</td>
<td>(2.3%)</td>
</tr>
<tr>
<td>Health Care</td>
<td>(1.7%)</td>
</tr>
<tr>
<td>Energy</td>
<td>(1.6%)</td>
</tr>
<tr>
<td>Information Technology</td>
<td>(0.8%)</td>
</tr>
</tbody>
</table>
A potential border tax could threaten the business model of retailers, oil and gas companies, and manufacturing companies that rely on cheap imports from abroad to produce and purchase goods. As a consequence, consumers may face higher prices from domestic importers. Thus, there is considerable uncertainty as to whether border adjustments will be included in the expected tax reform plan, since so many constituents have expressed opposition to such adjustments.
Conclusion – be alert and monitor

Tax reform is a complex and evolving issue. Since the ideas were suggested during the U.S. Presidential Campaign in 2016, lots of ink has been spilled about the topic. Our intention in this paper is not to predict, but to assess the potential consequences of iterations of the potential reforms being discussed.

We have shown that there are some key elements to consider in monitoring – and evaluating your exposure to – each of the four major reforms under consideration. Being conscious of your effective tax rate, your earnings pass-through, your international exposure – and being aware that these elements vary widely by industry – is in our view a vital element in being on the front foot about tax reform.

To better understand and assess the potential implications of tax reform, it is useful to employ an analytical framework. Exhibit 9 below presents a simple approach for measuring the impact on value creation and share price due to changes in operating or financial performance.

Exhibit 9: Pricing puzzle

- **Capital allocation decisions**
  - **Investment**
    - Affected by:
      - Statutory tax rate
  - **After-tax cash flows**
    - Affected by:
      - Statutory tax rate
      - Interest deductibility
      - Border adjustments
  - **Free cash flow**
  - **Discount rate**
    - Affected by:
      - Statutory tax rate
      - Interest deductibility
      - Cash repatriation
  - **Share price**
Importantly, because every company is different, the net effect will vary depending upon geographic mix, capital structure, capital intensity, the availability of tax credits, and other factors. It’s important to take a holistic view of the impact of tax reform on financial and strategic decision-making, and a framework of this type can help. To summarize our thinking on these topics, below is a simplified guide to understanding how each tax policy change may affect your financial and valuation drivers (see Exhibit 10).

This framework can quantify the impact of each element of potential tax reform on the key drivers of value creation: return on capital, the growth rate of capital investment, and risk. In other words, we can use this approach to isolate the impact of a reduction in the statutory tax rate on a firm’s after-tax earnings and cash flow, organic and inorganic investment, and the cost of capital – to determine the net impact on share price. We can use the same framework to assess the impact of potential changes to the deductibility of interest expense, the taxation of non-U.S. earnings, and border adjustments.

The bottom line is – tax reform is complex and it is fiendishly difficult to determine the likelihood of any of the possible outcomes. But understanding the potential impacts on your business of these outcomes is the first critical step in being prepared for what may actually transpire. In short, be alert to the sensitivity of your business to these potential legislative changes ... and monitor what happens so that you are ready to respond.
In this paper, we refer to the S&P 500 exclusive of Financials, Utilities, and Real Estate GICS sectors. Tax rates shown are medians.

We define industries based on the Global Industry Classification Standard (GICS) sector classifications.

CFROI is a proprietary return on capital metric based on the HOLT framework. CFROI is calculated as an internal rate of return over the economic life time of the company’s assets. The cash flow component is estimated as after-tax EBITDA plus rent expense, research & development expense and other accounting adjustments. Invested capital includes cash, net working capital, inflation-adjusted gross plant, capitalized R&D, capitalized operating leases, operating intangibles and other assets. Invested capital does not include goodwill and other non-operating intangibles.

Analysis on conducted on basis of Enterprise Value to FY2 Earnings Before Interest, Tax, Depreciation and Amortization (EV/FY2 EBITDA).

Under U.S. legislation rules, the political party in power can use a tool called reconciliation, under which legislation can pass in the Senate with a 51-person majority instead of the usual 60-person majority. A stipulation of this procedure is that the legislation must be revisited in 10 years if it adds to the government’s deficit, which any tax cut will inevitably do unless offset by other revenue or cuts in spending. Ultimately, this means that the long-term effect on cash flows, market valuations, and corporate behavior are contingent on the manner in which any reform is passed. For the purposes of our analysis, we assume that tax reform is achieved in a permanent or long-term manner.

In this paper, we refer to the S&P 500 exclusive of Financials, Utilities, and Real Estate GICS sectors.

Under the current tax reform proposals also include changes to individual income tax rates, the tax rate on capital gains and dividends, and the estate tax, but this discussion will focus primarily on the implications of corporate tax reform.

Source: OECD (Organization for Economic Cooperation and Development, includes 35 countries). Data extracted on 5/2/2017 from OECD.Stat. This table shows statutory corporate income tax rates; where a progressive (as opposed to flat) rate structure applies, the top marginal rate is shown.


We define the effective tax rate as income tax expense divided by pre-tax income (adjusting for one-time or special items).

Source: HOLT CFROI framework and global database.

11 We define industries based on the Global Industry Classification Standard (GICS) sector classifications.


13 CFROI is a proprietary return on capital metric based on the HOLT framework. CFROI is calculated as an internal rate of return over the economic life time of the company’s assets. The cash flow component is estimated as after-tax EBITDA plus rent expense, research & development expense and other accounting adjustments. Invested capital includes cash, net working capital, inflation-adjusted gross plant, capitalized R&D, capitalized operating leases, operating intangibles and other assets. Invested capital does not include goodwill and other non-operating intangibles.

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16 In this paper, we refer to the S&P 500 exclusive of Financials, Utilities, and Real Estate GICS sectors.

17 Source: HOLT CFROI framework and global database. Universe includes S&P 500 companies that are not in the GICS sectors Financials, Utilities, or Real Estate (375 companies). Sensitivities calculated using an aggregate income statements for each sector. Cash flow defined as gross cash flow, which includes net income adjusted for special items, depreciation & amortization, interest expense, rental expense, R&D expense, minority interest expense, and other economic adjustments. Based on 2016 data. Energy is excluded due to volatility in 2016.

18 CSSU does not provide any tax advice. Any tax statement herein regarding any U.S. federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding any penalties. Any such statement herein was written to support the marketing or promotion of the transaction(s) or matter(s) to which the statement relates. Each taxpayer should seek advice based on the taxpayer’s particular circumstances from an independent tax advisor.

19 Source: HOLT CFROI framework and global database. Universe includes S&P 500 companies that are not in the GICS sectors Financials, Utilities, or Real Estate (375 companies).

20 "Repatriation Tax Holiday 2.0." Raymond James, 2017.


22 Credit Suisse Corporate Insights, The Upside of Negative Rates (Q2 2016).

23 Credit Suisse Corporate Insights, The Activism Agenda (Q3 2016).

24 Source: SharkRepellent as of June 2017. Campaigns’ success determined by SharkRepellent.


27 Source: HOLT CFROI framework and global database. Universe includes S&P 500 companies that are not in the GICS sectors Financials, Utilities, or Real Estate (375 companies). Sensitivities calculated using an aggregate income statements for each sector. Cash flow defined as gross cash flow, which includes net income adjusted for special items, depreciation & amortization, interest expense, rental expense, R&D expense, minority interest expense, and other economic adjustments. Based on 2016 data. For the purpose of this analysis, we assume all interest expense is affected for tax purposes and no debt is “grandfathered”.


29 Credit Suisse Corporate Insights, The Upside of Negative Rates (Q2 2016).


31 Ibid.

32 Source: HOLT CFROI framework and global database, FactSet. Universe includes S&P 500 companies that are not in the GICS sectors Financials, Utilities, or Real Estate (375 companies). Domestic companies are defined as companies that derive 70% or more of their revenues domestically; companies that derive less of their sales domestically are considered global.

Authors and acknowledgements

Authors from Credit Suisse Investment Banking and Capital Markets

Sal Seguna, Managing Director
Rick Faery, Managing Director
John Bordes, Director
Raj Patel, CFA, Associate
Alex Ciejka, Analyst
Andy Hao Yan, Analyst

With thanks for their time, contributions, and valuable insight:

Chris Young, JD, CFA, Managing Director, Head of Contested Situations
Todd Noffke, Managing Director, Head of Business and Consumer Services M&A
Avi Alter, Director, Head of Strategic Advisory
Ron Graziano, Director, HOLT Equities

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