# Webinar - Amount B

## Svalner Atlas Group

# SVALNER ATLAS GROUP

Svalner, Atlas, and Alder have united to form a new premier independent advisory group in the Nordics and Benelux – the Svalner Atlas Group.

With offices spanning Stockholm, Amsterdam, Helsinki, Gothenburg and Turku, our team of over 270 skilled professionals will provide clients with top-tier advice in tax, transaction services and related services.

# Speakers

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# Amount B Tool – Coming soon!

- Amountb.com
- Amountb.tax
- Amountb.ai

# Agenda

| | |
|---|---|
| 1 | WHAT – What is Amount B in a nutshell? |
| 2 | WHY – Why was Amount B developed and why are we discussing it today? |
| 3 | WHEN & WHERE – When will the application of Amount B start and in which countries? |
| 4 | HOW – How is the approach applied? |

# What?

# WHAT?
Amount B in a nutshell

**Background**

- Simplifying the transfer pricing rules for so-called baseline marketing and distribution activities
- Eliminating the need for benchmarking studies for in-scope transactions

**Scope**

- Wholesale distribution (buy-sell distribution, sales agency and commissionaire activities)
- Qualitative and quantitative scoping criteria to be met
- No turnover threshold

**Documentation requirements**

- Clear delineation of the in-scope transaction
- Written contract or agreements concluded governing the qualifying transaction
- Calculations related to the in-scope transaction including allocation schedules
- Consent to apply the approach for a minimum of 3 years (at first use)

**Application**

- Arm's length RoS determined based on a pricing matrix
- Outcome determined under Amount B by a jurisdiction is **non-binding** on the country of the counterparty

**Future of APAs and MAPs**

- Not to be used by CAs in MAP if one of the jurisdictions did not implement Amount B
- No precedence over APA or MAP terms and conditions obtained prior to implementation of the simplified and streamlined approach

# WHAT?
## Amount B implementation: three options

1

No implementation

2

Safe harbour
→ Permits taxpayers within the jurisdiction to **elect** to apply Amount B

3

Mandatory
→ Requires the use of Amount B in a **prescriptive** manner.

"The outcome determined under Amount B by a jurisdiction is **non-binding** on the counter-party's jurisdiction"

# Why?

# WHY?
## Background & development of Amount B

**2015**

Action 1: Addressing the tax challenges of the digital economy

**2017**

Call for input, comments, and public consultation

**2021**

Outcome public consultation

Consensus G7

Consensus G20/OECD

**2022**

OECD released a consultation document on Amount B of Pillar One

**2023**

OECD released an updated public consultation document on Amount B of Pillar One

**2024**

OECD published a report on Amount B of Pillar One

OECD published additional guidance

# WHY?
## Background & development of Amount B

BEPS initiative aimed at addressing tax avoidance strategies:

- **Amount A** - ensuring a fair allocation of profits from large multinational enterprises, particularly those in the digital economy
- **Amount B -** pricing of baseline marketing and distribution activities
- **Tax Certainty** - enhancing dispute resolution mechanisms, providing clearer rules and frameworks

Pillar One

| **Amount A** | **Amount B** | **Tax certainty** |
|---|---|---|
| Scope; Nexus | Scope | Dispute prevention and resolution for Amount A |
| Revenue sourcing; Tax base | Quantum | Dispute prevention and resolution beyond Amount A |
| Profit allocation; Elimination of double taxation | | |

Implementation & administration

# When?

# **WHEN?**
# Timeline of implementation

- The application of the simplified and streamlined approach may start on or after 1st January 2025.

- The Amount B guidance has been incorporated into the OECD Transfer Pricing Guidelines.

- Will the European countries implement the approach and, if so, when?

# Where?

# **WHERE?**
# Covered Jurisdictions

**The list includes all the countries that have expressed interest in implementing the Amount B. <u>List is updated every 5 years:</u>**

- Albania
- Angola
- **<u>Argentina</u>**
- Armenia
- Azerbaijan
- Belarus
- Belize
- Benin
- Bosnia and Herzegovina
- Botswana
- **<u>Brazil</u>**
- Burkina Faso
- Cabo Verde
- Cameroon
- Congo
- **<u>Costa Rica</u>**
- Côte d'Ivoire
- Democratic Republic of the Congo
- Djibouti
- Dominica
- Dominican Republic
- Egypt
- Eswatini
- Fiji
- Gabon
- Georgia
- Grenada
- Haiti
- Honduras
- Jamaica
- Jordan
- Kazakhstan
- Kenya
- Liberia
- Malaysia
- Maldives
- Mauritania
- Mauritius
- **<u>Mexico</u>**
- Moldova
- Mongolia
- Montenegro
- Morocco
- Namibia
- Nigeria
- North Macedonia
- Pakistan
- Papua New Guinea
- Paraguay
- Peru
- Philippines Saint Lucia
- Saint Vincent and the Grenadines
- Samoa
- Senegal
- Serbia
- Sierra Leone
- **<u>South Africa</u>**
- Sri Lanka
- Thailand
- Togo
- Tunisia
- Ukraine
- Uzbekistan
- Viet Nam
- Zambia

# How?

# Application of the simplified and streamlined approach

1. **In-scope transactions**
2. Pricing Matrix
3. Operating expense cross-check
4. Data availability mechanism
5. Output return

# 1 | In-scope transactions

**1. Qualifying transactions**

i. Marketing and distribution activities of tangible goods, procuring internally for wholesale distribution* to third parties; and
ii. Sales agents and commissionaires contributing to wholesale distribution to third parties.

** "tolerance" threshold 20% retail.*

YES →

**2. Scoping criteria**

i. TNMM pricing;
ii. Quantitative:
- Annual operating expenses / sales between 3% and 20% or 30%;

iii. Qualitative:
- No intangible goods, services or commodities; and
- No non-distribution activities (or...)

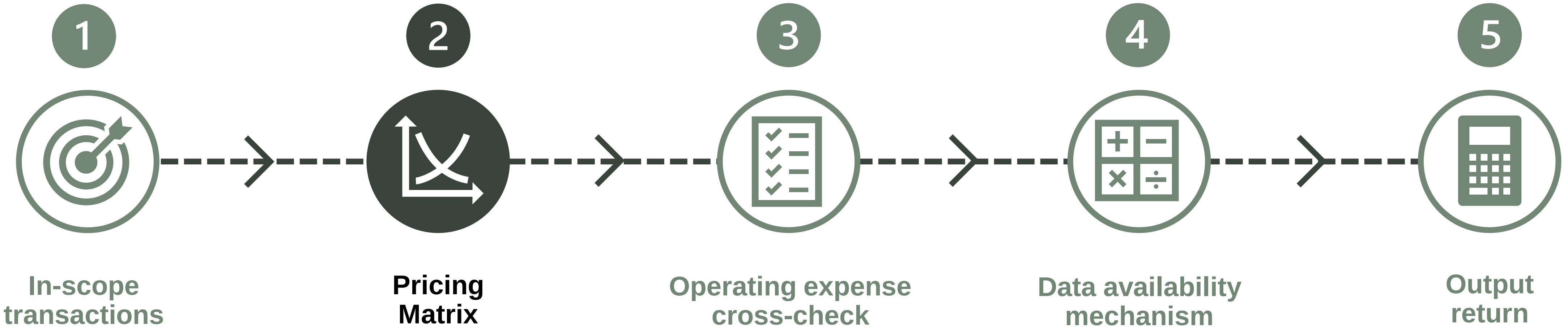
YES →

**In scope**

NO OR NO →

**Out of scope**

# Application



# 2 | Pricing matrix

| Industry Grouping | | | Industry Group 1 | Industry Group 2 | Industry Group 3 |
|---|---|---|---|---|---|
| Factor Intensity | | | | | |
| A | OAS > 45% | Any OES | 3.50% | 5.00% | 5.50% |
| B | OAS = 30% - 44.99% | Any OES | 3.00% | 3.75% | 4.50% |
| C | OAS = 15% - 29.99% | Any OES | 2.50% | 3.00% | 4.50% |
| D | OAS < 15% | OES > 10% | 1.75% | 2.00% | 3.00% |
| E | OAS < 15% | OES > 10% | 1.50% | 1.75% | 2.25% |

1 Relevant industry group → 2 Factor intensity → 3 Primary return

# 2 | Industry grouping

1 Relevant industry group | 2 Factor intensity | 3 Primary return

## Final report (2024)

**Group 1:**
Perishable foods, grocery, household consumables, construction materials and supplies, plumbing supplies and metal.
**Group 2:**
IT hardware and components, electrical components and consumables, animal feeds, agricultural supplies, alcohol and tobacco, pet foods, clothing footwear and other apparel, plastics and chemicals, lubricants, dyes, pharmaceuticals, cosmetics, health and wellbeing products, home appliances, consumer electronics, furniture, home and office supplies, printed matter, paper and packaging, jewellery, textiles hides and furs, new and used domestic vehicles, vehicle parts and supplies, mixed products and products and components not listed in group 1 or 3.
**Group 3:**
Medical machinery, industrial machinery including industrial and agricultural vehicles, industrial tools, industrial components miscellaneous supplies.

## Public consultation (2023)

**Group 1:**
Perishable foods, animal feeds, agricultural supplies, grocery, household consumables, alcohol and tobacco, pet foods, construction materials and supplies, plumbing supplies, metal, paper and packaging.
**Group 2:**
Domestic vehicles, IT hardware, software and components, electrical components and consumables, clothing and apparel, textiles, hides, furs, jewellery, plastics and chemicals, lubricants, dyes, home appliances, consumer electronics, furniture, home and office consumables, printed matter, mixed goods, multiple products lines, assorted supplies, any other goods and components not listed under Group 1 or Group 3.
**Group 3:**
Medical machinery, pharmaceuticals, medical, health and wellbeing miscellaneous supplies, industrial machinery, industrial tools, industrial components and miscellaneous supplies, industrial, agricultural and used domestic vehicles, motorcycles, vehicle parts and supplies.

# 2 | Pricing matrix - Factor intensity

1 Relevant industry group → 2 Factor intensity → 3 Primary return

## Factor intensity classification

**Factor intensity**
- Net operating asset intensity (OAS) = net operating assets / net revenue
  - Accounts payable guardrail: (creditors / COGS) x 365 days < 90 days
- Operating expense intensity (OES) = operating expenses / net revenue

**Definitions:**
- Net operating assets = tangible + intangible fixed assets + working capital
- Working capital = stock + debtors – creditors

| Industry Grouping | | | Industry Group 1 | Industry Group 2 | Industry Group 3 |
|---|---|---|---|---|---|
| Factor Intensity | | | | | |
| A | OAS > 45% | Any OES | 3.50% | 5.00% | 5.50% |
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| D | OAS < 15% | OES > 10% | 1.75% | 2.00% | 3.00% |
| E | OAS < 15% | OES > 10% | 1.50% | 1.75% | 2.25% |

# 2 | Pricing matrix – Primary return

1 Relevant industry group → 2 Factor intensity → 3 Primary return

| Industry Grouping / Factor Intensity | | | Industry Group 1 | Industry Group 2 | Industry Group 3 |
|---|---|---|---|---|---|
| A | OAS > 45% | Any OES | 3.50% | 5.00% | 5.50% |
| B | OAS = 30% - 44.99% | Any OES | 3.00% | 3.75% | 4.50% |
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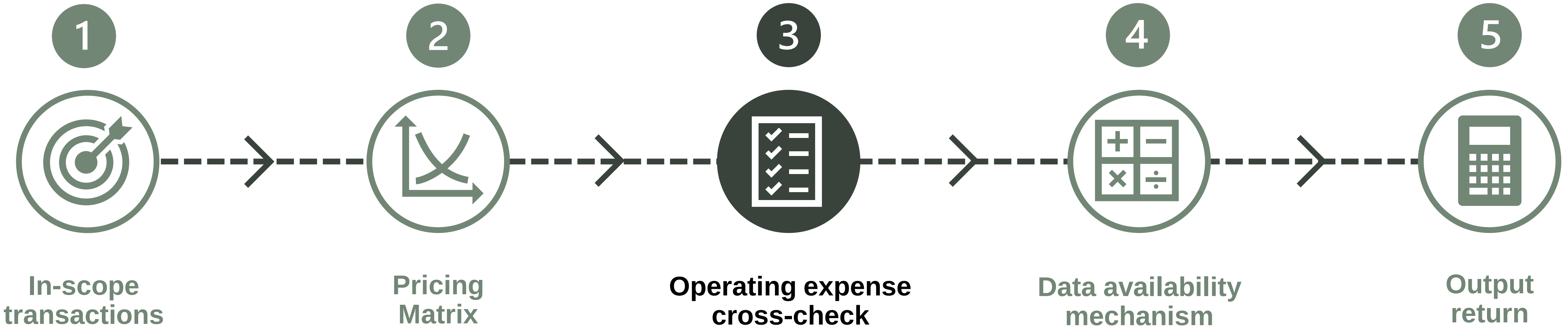
| D | OAS < 15% | OES > 10% | 1.75% | 2.00% | 3.00% |
| E | OAS < 15% | OES > 10% | 1.50% | 1.75% | 2.25% |

**Primary return determination**

- Based on industry grouping & factor intensity
- RoS derived from pricing matrix +/- 0.5%

# Application



# 3 | Operating expense cross-check

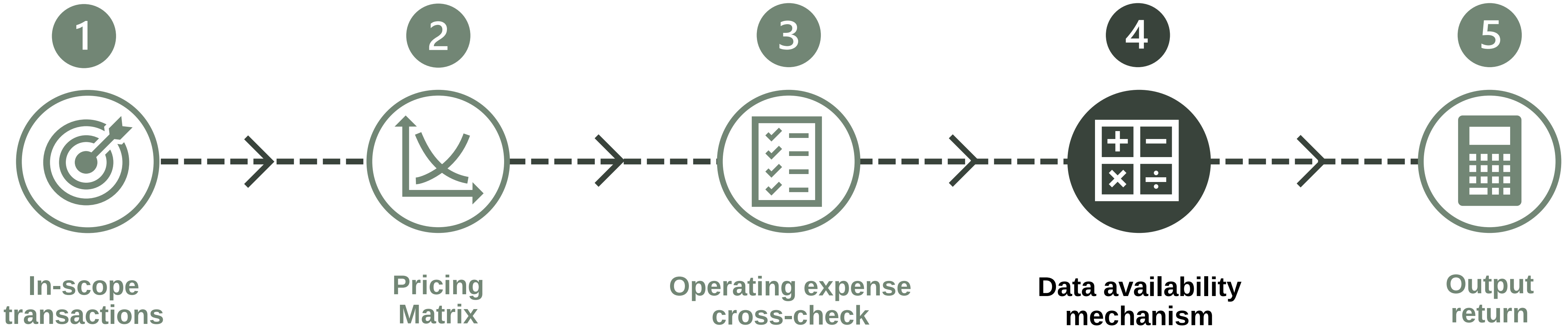
**Operating expense cross-check**

- RoS tested against cap-and collar range
- Collar rate = 10%
- Cap rate:
    - Qualifying jurisdiction?
    - Operating asset intensity (OAS)?

- Return on Operating Expenses = EBIT / operating expenses

| Operating expense cap-and-collar range | | | |
|---|---|---|---|
| Factor intensity | Default cap rates | Alternative cap rates for Qualifying Jurisdiction | Collar rate |
| High OAS (A) | 70% | 80% | |
| Medium OAS (B + C) | 60% | 70% | 10% |
| Low OAS (D + E) | 40% | 45% | |

# Application



# 4 | Data availability mechanism for Qualifying Jurisdictions

- Insufficient data for Qualifying jurisdictions.
- RoS supplemented with extra remuneration.

**Adjusted return on sales = RoS + (NRA X OAS)**

- NRA = Net risk adjustment based on sovereign credit rating
- OAS = max. 85%

- Max adjustment: 8.6% * 85% = 7.3%.
- NB: More than double the max percentage in pricing matrix (i.e., 5.5%)

| *Sovereign Credit Rating Category* | | *Net risk adjustment* |
|---|---|---|
| Investment grade | BBB+ | 0.0% |
| | BBB | 0.0% |
| | BBB- | 0.3% |
| Non-investment grade | BB+ | 0.7% |
| | BB | 1.2% |
| | BB- | 1.8% |
| | B+ | 2.8% |
| | B | 3.8% |
| | B- | 4.9% |
| | CCC+ | 5.9% |
| | CCC | 7.5% |
| | CCC- (or lower) | 8.6% |

# List of countries for Qualifying Jurisdictions

**On both lists:**

Afghanistan
Albania
Algeria
Angola
Argentina
Armenia
Azerbaijan
Bangladesh
Belarus
Belize
Benin
Bhutan
Bolivia
Botswana
Brazil
Burkina Faso
Burundi
Cabo Verde
Cambodia
Cameroon
Central African Republic
Chad
Comoros
Congo
Cook Islands
Costa Rica
Côte d'Ivoire
Cuba
Curaçao
Democratic Republic of the Congo
Djibouti
Dominica
Dominican Republic
Ecuador
Egypt
El Salvador
Equatorial Guinea
Eritrea
Eswatini
Ethiopia
Fiji
Gabon
Gambia
Georgia
Ghana
Grenada
Guatemala
Guinea
Guinea-Bissau
Haiti
Honduras
Indonesia
Iraq
Jamaica
Jordan
Kazakhstan
Kenya
Kiribati
Kosovo
Kyrgyzstan
Lao People's Democratic Republic
Lebanon
Lesotho
Liberia
Libya
Madagascar
Malawi
Malaysia
Maldives
Mali
Marshall Islands
Mauritania
Mauritius
Mexico
Micronesia
Moldova
Mongolia
Montenegro
Morocco
Mozambique
Myanmar
Namibia
Nepal
Nicaragua
Niger
Nigeria
North Macedonia
Pakistan
Palau
Papua New Guinea
Paraguay
Peru
Philippines
Rwanda
Saint Lucia
Saint Vincent and the Grenadines
Samoa
Sao Tome and Principe
Senegal
Sierra Leone
Solomon Islands
Somalia
South Africa
South Sudan
Sri Lanka
Sudan
Suriname
Syrian Arab Republic
Tajikistan
Tanzania
Timor-Leste
Togo
Tonga
Tunisia
Turkmenistan
Tuvalu
Uganda
Uzbekistan
Vanuatu
Venezuela
West Bank and Gaza Strip
Yemen
Zambia
Zimbabwe

**Only on OpEx cross-check list:**

Andorra
Bahrain
Barbados
Montserrat
Oman
Panama
San Marino
Seychelles
Trinidad and Tbago
Turks and Caicos Islands
Uruguay

**Only on DAM list:**

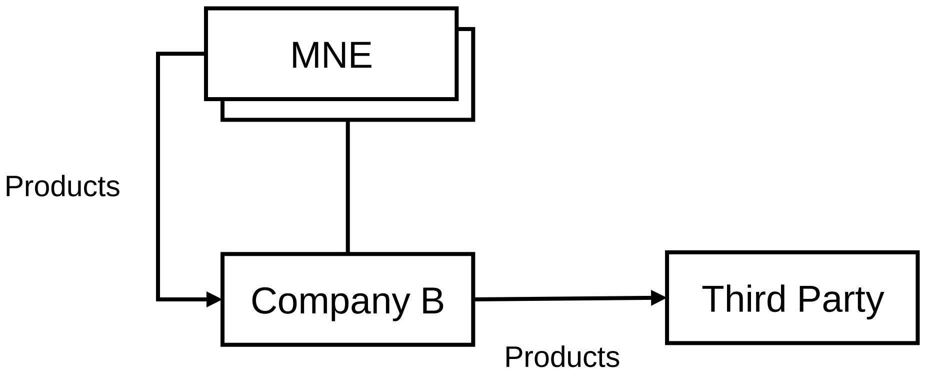
Bosnia and Herzegovina
Bulgaria
India
Serbia
Thailand
Türkiye
Ukraine
Viet Nam

# Case study

# Case study

**Base case:**

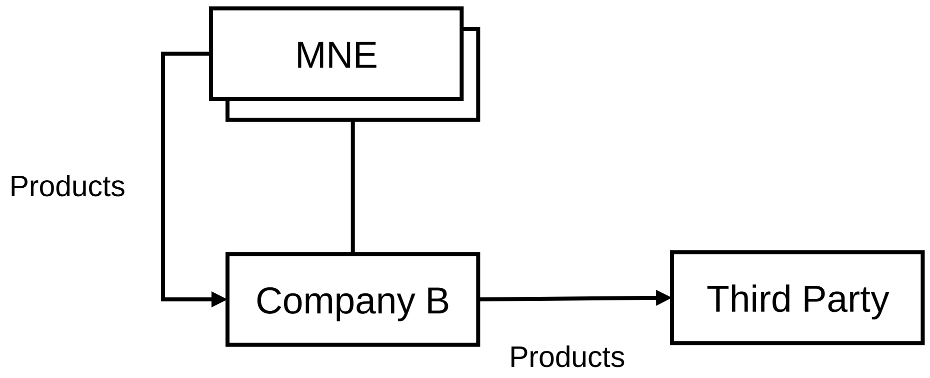
- MNE manufactures and distributes household consumables, and is based in Country A.
- Company B undertakes wholesale distribution activities in Country B.
- MNE sells products to Company B. Company B then sells to third-party retailers.
- Country B is not a Qualifying Jurisdiction (2x).



# Case study

**Base case:**

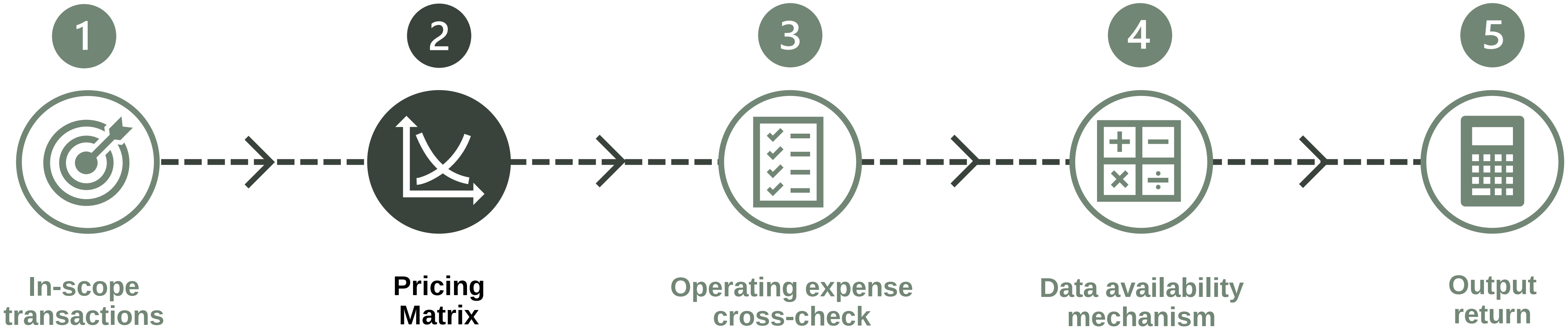
- MNE manufactures and distributes household consumables, and is based in Country A.
- Company B undertakes wholesale distribution activities in Country B.
- MNE sells products to Company B. Company B then sells to third-party retailers.
- Country B is not a Qualifying Jurisdiction (2x).
- NB: balance sheet items are indicated on an average basis for the relevant year.




| Profit & loss Company B | | Year X-3 | Year X-2 | Year X-1 | Year X |
|---|---|---|---|---|---|
| (a) | Sales | 199 | 195 | 205 | 200 |
| (b) | Cost of goods sold (COGS) | (145) | (142) | (154) | (144) |
| (c) = (a) + (b) | Gross profit | 54 | 53 | 51 | 56 |
| (d) | Operating expenses | (50) | (47) | (46) | (49) |
| (e) = (c) + (d) | (EBIT) | 4 | 6 | 5 | 7 |
| (h) = (d) / (a) | Operating Expenses / Sales | 25.1% | 24.1% | 22.4% | 24.5% |

| Balance sheet Company B | Year X-3 | Year X-2 | Year X-1 | Year X |
|---|---|---|---|---|
| Assets: | | | | |
| Fixes assests | 50 | 42 | 40 | N/A |
| Debtors | 30 | 22 | 26 | N/A |
| Stock | 25 | 18 | 25 | N/A |
| Liabilties: | | | | |
| Creditors | 33 | 34 | 36 | N/A |

# Application



# Pricing matrix – Step 1

1 Relevant industry group | 2 Factor intensity | 3 Primary return

**Industry Group**

- » Company B is Tested Party

# Pricing matrix – Step 1

1 **Relevant industry group** | 2 **Factor intensity** | 3 **Primary return**

**Industry Group**

- » Company B is Tested Party
- » Performs wholesale distribution of “household consumables”

# Pricing matrix – Step 1

1 Relevant industry group | 2 Factor intensity | 3 Primary return

**Industry Group**

- Company B is Tested Party
- Performs wholesale distribution of "household consumables"
- **Industry Group 1**

| Industry group | |
|---|---|
| Industry group 1 | Perishable foods, grocery, **household consumables**, construction materials and supplies, plumbing supplies and metal. |
| Industry group 2 | IT hardware and components, electrical components and consumables, animal feeds, agricultural supplies, alcohol and tobacco, pet foods, clothing footwear and other apparel, plastics and chemicals, lubricants, dyes, pharmaceuticals, cosmetics, health and wellbeing products, home appliances, consumer electronics, furniture, home and office supplies, printed matter, paper and packaging, jewelry, textiles hides and furs, new and used domestic vehicles, vehicle parts and supplies, mixed products and products and components not listed in group 1 or 3. |
| Industry group 3 | Medical machinery, industrial machinery including industrial and agricultural vehicles, industrial tools, industrial components miscellaneous supplies. |

# Pricing matrix – Step 1

1 Relevant industry group | 2 Factor intensity | 3 Primary return

**Industry Group**

- Company B is Tested Party
- Performs wholesale distribution of “household consumables”
- **Industry Group 1**

| Pricing matrix (+/- 0.5%) | | | Industry Group 1 | Industry Group 2 | Industry Group 3 |
|---|---|---|---|---|---|
| A | OAS > 45% | Any OES | **3.50%** | **5.00%** | **5.50%** |
| B | OAS = 30% - 44.99% | Any OES | **3.00%** | **3.75%** | **4.50%** |
| C | OAS = 15% - 29.99% | Any OES | **2.50%** | **3.00%** | **4.50%** |
| D | OAS < 15% | OES > 10% | **1.75%** | **2.00%** | **3.00%** |
| E | OAS < 15% | OES < 10% | **1.50%** | **1.75%** | **2.25%** |

# Pricing matrix - Step 2 (A + B + C)

1 Relevant industry group | **2 Factor intensity** | 3 Primary return

**Factor intensity classifications**

| *Factor intensity* |
|---|
| A. Net operating asset intensity (‘***OAS***’) |
| B. Account payable guardrail. |
| C. Operating expense intensity (‘***OES***’) |

**Definitions;**

Net revenue = total sales revenue excluding any sales returns, allowances and discounts.

Operating expenses = total costs excluding COGS, pass-through costs appropriately excluded under the accurate delineation of the transaction and costs related to financing, investment activities or income taxes.

Net operating assets = tangible + intangible fixed assets + working capital.

Working capital = stock + debitors -/- creditors

**Formulas;**

- OAS = net operating assets / net revenue * 100%
- Accounts payable days = (creditors / COGS) x 365 days
  - Accounts payable days < 90 days
- OES = operating expenses / net revenue * 100%

# Pricing matrix - Step 2A

1 Relevant industry group | **2 Factor intensity** | 3 Primary return

**Determine net operating asset intensity**

Steps to calculate the OAS:

» Working capital

| | *Working capital* | Year X-3 | Year X-2 | Year X-1 |
|---|---|---|---|---|
| (a) | Stock | 25 | 18 | 25 |
| (b) | Debtors | 30 | 22 | 26 |
| (c) | Creditors | 33 | 34 | 36 |
| (d) = (a) + (b) - (c) | Working capital | 22 | 6 | 15 |

# Pricing matrix - Step 2A

1 Relevant industry group | 2 Factor intensity | 3 Primary return

**Determine OAS**

Steps to calculate the OAS:

- » Working capital
- » Net operating assets

| | *Working capital* | Year X-3 | Year X-2 | Year X-1 |
|---|---|---|---|---|
| (a) | Stock | 25 | 18 | 25 |
| (b) | Debtors | 30 | 22 | 26 |
| (c) | Creditors | 33 | 34 | 36 |
| (d) = (a) + (b) - (c) | Working capital | 22 | 6 | 15 |

| | *Net operating assets* | Year X-3 | Year X-2 | Year X-1 |
|---|---|---|---|---|
| (a) | Fixed assets | 50 | 42 | 40 |
| (b) | Working capital | 22 | 6 | 15 |
| (c) = (a) + (b | Net operating assets | 72 | 48 | 55 |

# Pricing matrix - Step 2A

1 Relevant industry group → **2 Factor intensity** → 3 Primary return

**Determine OAS**

Steps to calculate the OAS:

- Working capital
- Net operating assets

OAS = **29.22%**

| | *Working capital* | Year X-3 | Year X-2 | Year X-1 |
|---|---|---|---|---|
| (a) | Stock | 25 | 18 | 25 |
| (b) | Debtors | 30 | 22 | 26 |
| (c) | Creditors | 33 | 34 | 36 |
| (d) = (a) + (b) - (c) | Working capital | 22 | 6 | 15 |

| | *Net operating assets* | Year X-3 | Year X-2 | Year X-1 |
|---|---|---|---|---|
| (a) | Fixed assets | 50 | 42 | 40 |
| (b) | Working capital | 22 | 6 | 15 |
| (c) = (a) + (b | Net operating assets | 72 | 48 | 55 |

| | *OAS* | Year X-3 | Year X-2 | Year X-1 | Sum / 3-year w.avg. |
|---|---|---|---|---|---|
| (a) | Sales | 199 | 195 | 205 | 599 |
| (b) | Net operating assets | 72 | 48 | 55 | 175 |
| (c) = (b) / (a) | *OAS%* | | | | *29.22%* |

# Pricing matrix - Step 2A

1 Relevant industry group → **2 Factor intensity** → 3 Primary return

**Sub-conclusion:**

- OAS is 29.22%
- Factor intensity is Category C

| Pricing matrix (+/- 0.5%) | | | Industry Group 1 | Industry Group 2 | Industry Group 3 |
|---|---|---|---|---|---|
| A | OAS > 45% | Any OES | **3.50%** | **5.00%** | **5.50%** |
| B | OAS = 30% - 44.99% | Any OES | **3.00%** | **3.75%** | **4.50%** |
| C | **OAS = 15% - 29.99%** | Any OES | **2.50%** | **3.00%** | **4.50%** |
| D | OAS < 15% | OES > 10% | **1.75%** | **2.00%** | **3.00%** |
| E | OAS < 15% | OES < 10% | **1.50%** | **1.75%** | **2.25%** |

# Pricing matrix - Step 2B

1 Relevant industry group | 2 Factor intensity | 3 Primary return

**Determine accounts payable guardrail**

# Pricing matrix - Step 2B

1 Relevant industry group | 2 Factor intensity | 3 Primary return

**Determine accounts payable guardrail**

- » Accounts payable days

| Accounts payable | | Year X-3 | Year X-2 | Year X-1 |
|---|---|---|---|---|
| (a) | Creditors | 33 | 34 | 36 |
| (b) | COGS | 145 | 142 | 154 |
| (c) = (a) / (b) | Ratio of Creditors to COGS | 0.23 | 0.24 | 0.23 |
| **(d) = (c) x 365** | **Accounts payable days** | **83.07** | **87.39** | **85.32** |

# Pricing matrix - Step 2B

1 Relevant industry group | 2 Factor intensity | 3 Primary return

**Determine accounts payable guardrail**

» Accounts payable days
» Accounts payable days < 90 days?

| Accounts payable | | Year X-3 | Year X-2 | Year X-1 |
|---|---|---|---|---|
| (a) | Creditors | 33 | 34 | 36 |
| (b) | COGS | 145 | 142 | 154 |
| (c) = (a) / (b) | Ratio of Creditors to COGS | 0.23 | 0.24 | 0.23 |
| **(d) = (c) x 365** | **Accounts payable days** | **83.07** | **87.39** | **85.32** |
| **(e)** | **Meet 90 days threshold** | **Yes** | **Yes** | **Yes** |

# Pricing matrix - Step 2B

1 Relevant industry group | 2 Factor intensity | 3 Primary return

**Sub-conclusion:**

The accounts payable guardrail is ***not triggered***.

No adjustments to OAS is required.

Company B still falls in Factor Intensity Category C.

| Pricing matrix (+/- 0.5%) | | | Industry Group 1 | Industry Group 2 | Industry Group 3 |
|---|---|---|---|---|---|
| A | OAS > 45% | Any OES | **3.50%** | **5.00%** | **5.50%** |
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| E | OAS < 15% | OES < 10% | **1.50%** | **1.75%** | **2.25%** |

# Pricing matrix - Step 2C

1 Relevant industry group | 2 Factor intensity | 3 Primary return

**Determine Operating Expense intensity (OES)**

# Pricing matrix - Step 2C

1 Relevant industry group | 2 Factor intensity | 3 Primary return

**Determine Operating Expense intensity (OES)**

» Net revenue
» Operating expenses

| OES | | Year X-3 | Year X-2 | Year X-1 | 3-year w.avg. |
|---|---|---|---|---|---|
| (a) | Sales | 199 | 195 | 205 | 599 |
| (b) | Operating expenses | 50 | 47 | 46 | 143 |

# Pricing matrix - Step 2C

1 Relevant industry group → 2 Factor intensity → 3 Primary return

**Determine Operating Expense intensity (OES)**

» Net revenue
» Operating expenses
» OES

OES = **23.87%**

| OES | | Year X-3 | Year X-2 | Year X-1 | 3-year w.avg. |
|---|---|---|---|---|---|
| (a) | Sales | 199 | 195 | 205 | 599 |
| (b) | Operating expenses | 50 | 47 | 46 | 143 |
| (c) = (b) / (a) | **OES%** | | | | **23.87%** |

# Pricing matrix - Step 3

1 Relevant industry group → 2 Factor intensity → 3 Primary return

**Identify primary return RoS.**

# Pricing matrix - Step 3

1 Relevant industry group → 2 Factor intensity → 3 Primary return

**Identify primary return RoS.**

Pricing matrix segments:

- » *Industry Grouping is Group 1*

# Pricing matrix - Step 3

1 Relevant industry group | 2 Factor intensity | 3 Primary return

**Identify primary return RoS.**

Pricing matrix segments:

- » *Industry Grouping is Group 1*
- » *OAS is 29.22%*

# Pricing matrix - Step 3

1 Relevant industry group | 2 Factor intensity | 3 **Primary return**

**Identify primary return RoS.**

Pricing matrix segments:

- *Industry Grouping is Group 1*
- *OAS is 29.22%*
- *OES is 23.87%*

# Pricing matrix - Step 3

1 Relevant industry group | 2 Factor intensity | 3 Primary return

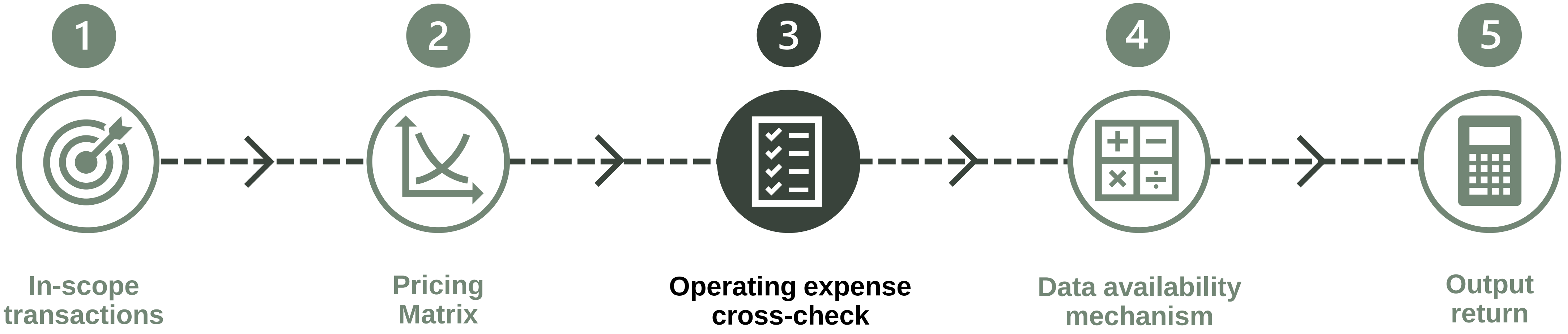
**Identify primary return RoS.**

Pricing matrix segments:
- *Industry Grouping = Group 1*
- *OAS = 29.22%*
- *OES = 23.87%*

Primary return is ***2.50%*** (+/- 0.5%).

| Pricing matrix (+/- 0.5%) | | | Industry Group 1 | Industry Group 2 | Industry Group 3 |
|---|---|---|---|---|---|
| A | OAS > 45% | Any OES | **3.50%** | **5.00%** | **5.50%** |
| B | OAS = 30% - 44.99% | Any OES | **3.00%** | **3.75%** | **4.50%** |
| C | **OAS = 15% - 29.99%** | **Any OES** | **2.50%** | **3.00%** | **4.50%** |
| D | OAS < 15% | OES > 10% | **1.75%** | **2.00%** | **3.00%** |
| E | OAS < 15% | OES < 10% | **1.50%** | **1.75%** | **2.25%** |

# Application



# Operating expense cross-check

**Cap and Collar category**

**Cap-and-collar range**

| Operating expense cap-and-collar range | | | |
|---|---|---|---|
| Factor intensity | Default cap rates | Alternative cap rates for qualifying jurisdiction | Collar rate |
| High OAS (A) | 70% | 80% | 10% |
| Medium OAS (B + C) | 60% | 70% | |
| Low OAS (D + E) | 40% | 45% | |

» Return on OpEx = (sales x RoS %) / operating expenses

# Operating expense cross-check

**Cap and Collar category**

Pricing matrix segments:

- » *OAS = 29.22%*
- » ***Medium OAS (Category C)***

| Pricing matrix (+/- 0.5%) | | | Industry Group 1 | Industry Group 2 | Industry Group 3 |
|---|---|---|---|---|---|
| A | OAS > 45% | Any OES | **3.50%** | **5.00%** | **5.50%** |
| B | OAS = 30% - 44.99% | Any OES | **3.00%** | **3.75%** | **4.50%** |
| C | OAS = 15% - 29.99% | Any OES | **2.50%** | **3.00%** | **4.50%** |
| D | OAS < 15% | OES > 10% | **1.75%** | **2.00%** | **3.00%** |
| E | OAS < 15% | OES < 10% | **1.50%** | **1.75%** | **2.25%** |

**Cap-and-collar range**

| Operating expense cap-and-collar range | | | |
|---|---|---|---|
| Factor intensity | Default cap rates | Alternative cap rates for qualifying jurisdiction | Collar rate |
| High OAS (A) | 70% | 80% | 10% |
| **Medium OAS (B + C)** | **60%** | **70%** | |
| Low OAS (D + E) | 40% | 45% | |

- » Return on OpEx = (sales x RoS %) / operating expenses

# Operating expense cross-check

**Cap and Collar category**

Pricing matrix segments:

- *OAS = 29.22%*
- *Medium OAS (Category C)*
- ***Not a Qualifying Jurisdiction***

| Pricing matrix (+/- 0.5%) | | | Industry Group 1 | Industry Group 2 | Industry Group 3 |
|---|---|---|---|---|---|
| A | OAS > 45% | Any OES | **3.50%** | **5.00%** | **5.50%** |
| B | OAS = 30% - 44.99% | Any OES | **3.00%** | **3.75%** | **4.50%** |
| C | OAS = 15% - 29.99% | Any OES | **2.50%** | **3.00%** | **4.50%** |
| D | OAS < 15% | OES > 10% | **1.75%** | **2.00%** | **3.00%** |
| E | OAS < 15% | OES < 10% | **1.50%** | **1.75%** | **2.25%** |

**Cap-and-collar range**

| Operating expense cap-and-collar range | | | |
|---|---|---|---|
| Factor intensity | **Default cap rates** | Alternative cap rates for qualifying jurisdiction | Collar rate |
| High OAS (A) | 70% | 80% | 10% |
| **Medium OAS (B + C)** | **60%** | 70% | |
| Low OAS (D + E) | 40% | 45% | |

- Return on OpEx = (sales x RoS %) / operating expenses

# Operating expense cross-check

**Cap and Collar category**

Collar rate is (always) **10%**

**Cap-and-collar range**

| Operating expense cap-and-collar range | | | |
|---|---|---|---|
| Factor intensity | **Default cap rates** | Alternative cap rates for qualifying jurisdiction | **Collar rate** |
| High OAS (A) | 70% | 80% | **10%** |
| **Medium OAS (B + C)** | **60%** | 70% | |
| Low OAS (D + E) | 40% | 45% | |

» Return on OpEx = (sales x RoS %) / operating expenses

# Operating expense cross-check

**Cap and Collar category**

Collar rate is (always) **10%**

Cap rate is **60%** (Country B is no Qualifying Jurisdiction)

**Cap-and-collar range**

| Operating expense cap-and-collar range | | | |
|---|---|---|---|
| Factor intensity | **Default cap rates** | Alternative cap rates for qualifying jurisdiction | **Collar rate** |
| High OAS (A) | 70% | 80% | |
| **Medium OAS (B + C)** | **60%** | 70% | **10%** |
| Low OAS (D + E) | 40% | 45% | |

» Return on OpEx = (sales x RoS %) / operating expenses

# Operating expense cross-check

**Determine operating expense cross-check**

# Operating expense cross-check

**Determine operating expense cross-check**

- Return on Operating Expenses (based on primary return)
- Return on Operating Expenses is **10.20%**

| Year X | | | |
|---|---|---|---|
| | | **P&L (before Amount B)** | **P&L (after Amount B)** |
| (a) | Sales | 200 | 200 |
| (b) | COGS | (144) | (146) |
| (c) = (a) + (b) | Gross profit | 56 | 54 |
| (d) | Operating expenses | (49) | (49) |
| (e) = (c) + (d) | (EBIT) | 7 | 5 |
| **(f) = (e) / (a)** | **Return on Sales (%)** | **3.5%** | |
| **(g) = (e) / (d)** | **Return on OPEX** | **14.29%** | |
| **(h)** | **RoS% under pricing matrix** | | **2.5%** |
| **(i) = (a) x (h)** | **EBIT under pricing matrix** | | **5** |
| **(j) = (i) / (d)** | **Equivalent return on OPEX** | | 10.20% |

# Operating expense cross-check

**Determine operating expense cross-check**

- Return on Operating Expenses (based on primary return)
- Return on Operating Expenses is 10.20%
- **10.20%** lies within 10% - 60% cap-and-collar range

| Year X | | | |
|---|---|---|---|
| | | **P&L (before Amount B)** | **P&L (after Amount B)** |
| (a) | Sales | 200 | 200 |
| (b) | COGS | (144) | (146) |
| (c) = (a) + (b) | Gross profit | 56 | 54 |
| (d) | Operating expenses | (49) | (49) |
| (e) = (c) + (d) | (EBIT) | 7 | 5 |
| **(f) = (e) / (a)** | **Return on Sales (%)** | **3.5%** | |
| **(g) = (e) / (d)** | **Return on OPEX** | **14.29%** | |
| **(h)** | **RoS% under pricing matrix** | | **2.5%** |
| **(i) = (a) x (h)** | **EBIT under pricing matrix** | | **5** |
| **(j) = (i) / (d)** | **Equivalent return on OPEX** | | 10.20% |

# Operating expense cross-check

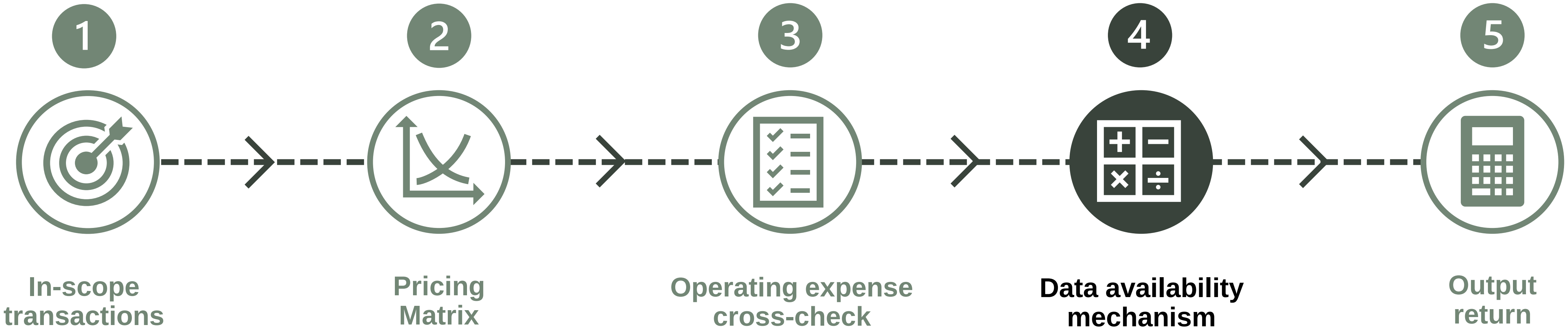
**Determine operating expense cross-check**

- Return on OpEx (based on primary return)
- Return on OpEx is 10.20%
- 10.20% is within 10-60% cap-and-collar range

Operating expense cross-check is **not** triggered

| Year X | | | |
|---|---|---|---|
| | | **P&L (before Amount B)** | **P&L (after Amount B)** |
| (a) | Sales | 200 | 200 |
| (b) | COGS | (144) | (146) |
| (c) = (a) + (b) | Gross profit | 56 | 54 |
| (d) | Operating expenses | (49) | (49) |
| (e) = (c) + (d) | (EBIT) | 7 | 5 |
| **(f) = (e) / (a)** | **Return on Sales (%)** | **3.5%** | |
| **(g) = (e) / (d)** | **Return on OPEX** | **14.29%** | |
| **(h)** | **RoS% under pricing matrix** | | **2.5%** |
| **(i) = (a) x (h)** | **EBIT under pricing matrix** | | **5** |
| **(j) = (i) / (d)** | **Equivalent return on OPEX** | | 10.20% |

# Application



# Data availability mechanism

**Data availability mechanism**

# Data availability mechanism

**Data availability mechanism**

- » Qualifying Jurisdiction?

# Data availability mechanism

**Data availability mechanism**

- » Qualifying Jurisdiction?
- » Sovereign credit rating?
- » Adjusted RoS = RoS + (NRA x OAS)

| *Sovereign Credit Rating Category* | | *Net risk adjustment* |
|---|---|---|
| Investment grade | BBB+ | 0.0% |
| | BBB | 0.0% |
| | BBB- | 0.3% |
| Non-investment grade | BB+ | 0.7% |
| | BB | 1.2% |
| | BB- | 1.8% |
| | B+ | 2.8% |
| | B | 3.8% |
| | B- | 4.9% |
| | CCC+ | 5.9% |
| | CCC | 7.5% |
| | CCC- (or lower) | 8.6% |

# Data availability mechanism

**Data availability mechanism**

- Qualifying Jurisdiction?
- Sovereign credit rating of Qualifying Jurisdiction?
- Adjusted RoS = RoS + (NRA x OAS)

Country B is **not a Qualifying Jurisdiction.**

Data availability mechanism **not triggered.**

| *Sovereign Credit Rating Category* | | *Net risk adjustment* |
|---|---|---|
| Investment grade | BBB+ | 0.0% |
| | BBB | 0.0% |
| | BBB- | 0.3% |
| Non-investment grade | BB+ | 0.7% |
| | BB | 1.2% |
| | BB- | 1.8% |
| | B+ | 2.8% |
| | B | 3.8% |
| | B- | 4.9% |
| | CCC+ | 5.9% |
| | CCC | 7.5% |
| | CCC- (or lower) | 8.6% |

# Conclusion

1. Pricing matrix
   - Industry grouping: Group 1
   - Factor intensity classification: Category C

2. Operating expense cross-check: not triggered.

3. Data-availability mechanism: not triggered.

**S&S Approach RoS is 2.5%**

| *Pricing matrix (+/- 0.5%)* | | | Industry Group 1 | Industry Group 2 | Industry Group 3 |
|---|---|---|---|---|---|
| A | OAS > 45% | Any OES | **3.50%** | **5.00%** | **5.50%** |
| B | OAS = 30% - 44.99% | Any OES | **3.00%** | **3.75%** | **4.50%** |
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| D | OAS < 15% | OES > 10% | **1.75%** | **2.00%** | **3.00%** |
| E | OAS < 15% | OES < 10% | **1.50%** | **1.75%** | **2.25%** |

# What now?

# What now?

Implementation S&S Approach

- Tax return; or
- Financial statements

# Q&A

SVALNER ATLAS GROUP

[ SVALNER alder Atlas ]