



How much for your company?



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Papaya Ltd: balance

Assets	Liabilities
Fixed assets: 5000	Own funds: 4000
-----	DLT: 3000
Floating assets: 20 000	DST: 18000

Papaya Ltd: P&L.

	costs	revenues
Turnover		75 000
Purchases	60 000	
Staff costs	11 000	
EBITDA		4000
Depreciations	1 000	
EBIT		3 000
Financial results	500	
Taxes	750	
Net result		1500

1/Adjusted net assets (ANA)

- Starting point: balance sheet
- ***Assets – callable debts***
(and tax impact)
- Two hypotheses:
 - Going concern
 - Liquidation
- Corrections on stocks, properties, receivables,

2/ DCF method

- Starting point: P&L
- ANC: average net CF
- CR = capitalised return
- $CR = \frac{ANC_1}{i} + \frac{ANC_2}{(1+i)^2} + \frac{ANC_3}{(1+i)^3}$
 $= ANC/i$

3/ « objective » value

- ANA + CR

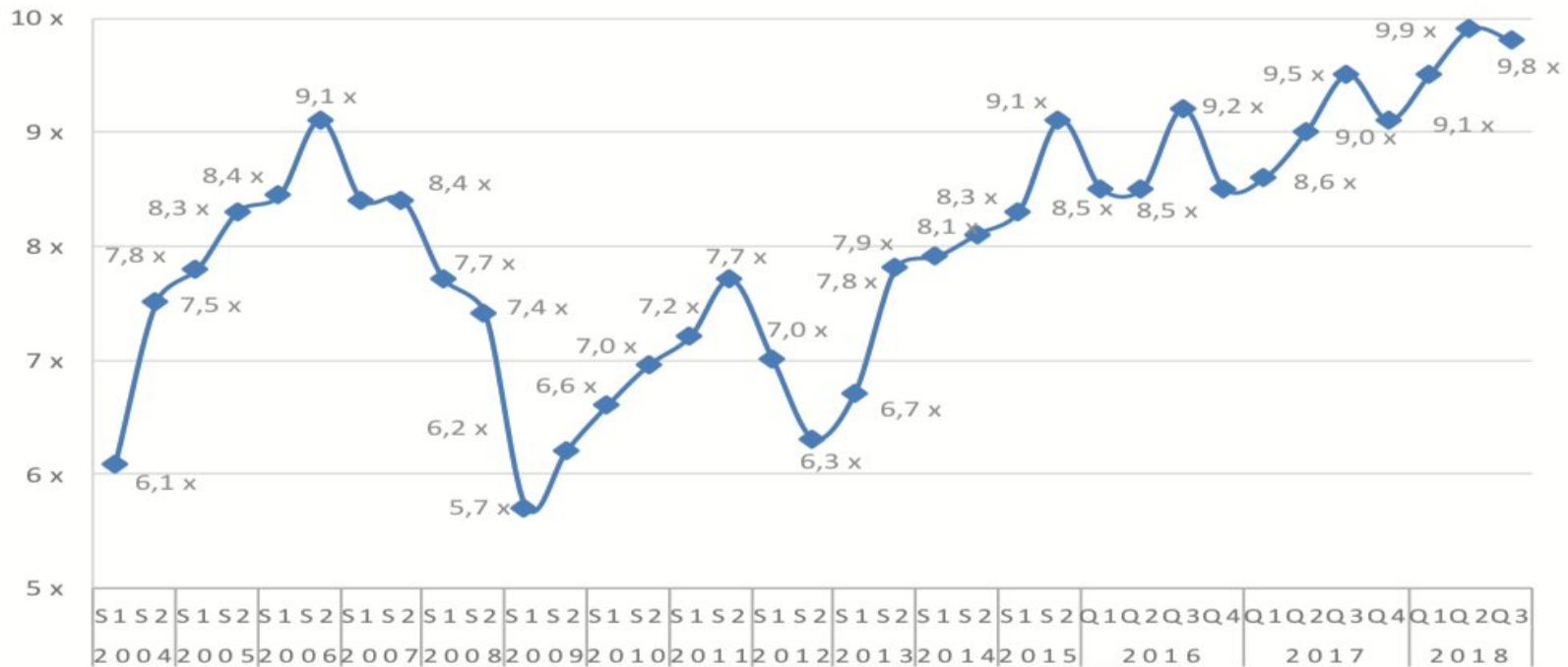
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- The value of a company is what a « fool » wants to pay for it

4. Multiples or multiplier

- Value of the company
 - multiplier
 - Times turnover or EBIT or EBITDA (*earnings before interest, taxation, depreciation & amortisation*);
- Average multiplier 6,7 (M&A Monitor, data 2018).
- Multiple = f (sector; size)
 - Sector: Retail sector (5.3), Transport and logistics (5.7), Construction (6.0x), Technology and Biotech (8.2), Pharma (9.2) and *Real estate* (9.3)
 - Size: For a + 100 million company 8,8 and average multiple for midcaps is 9,2 (Argos mid market index).

Multiples: Mid market index



Anorganic growth

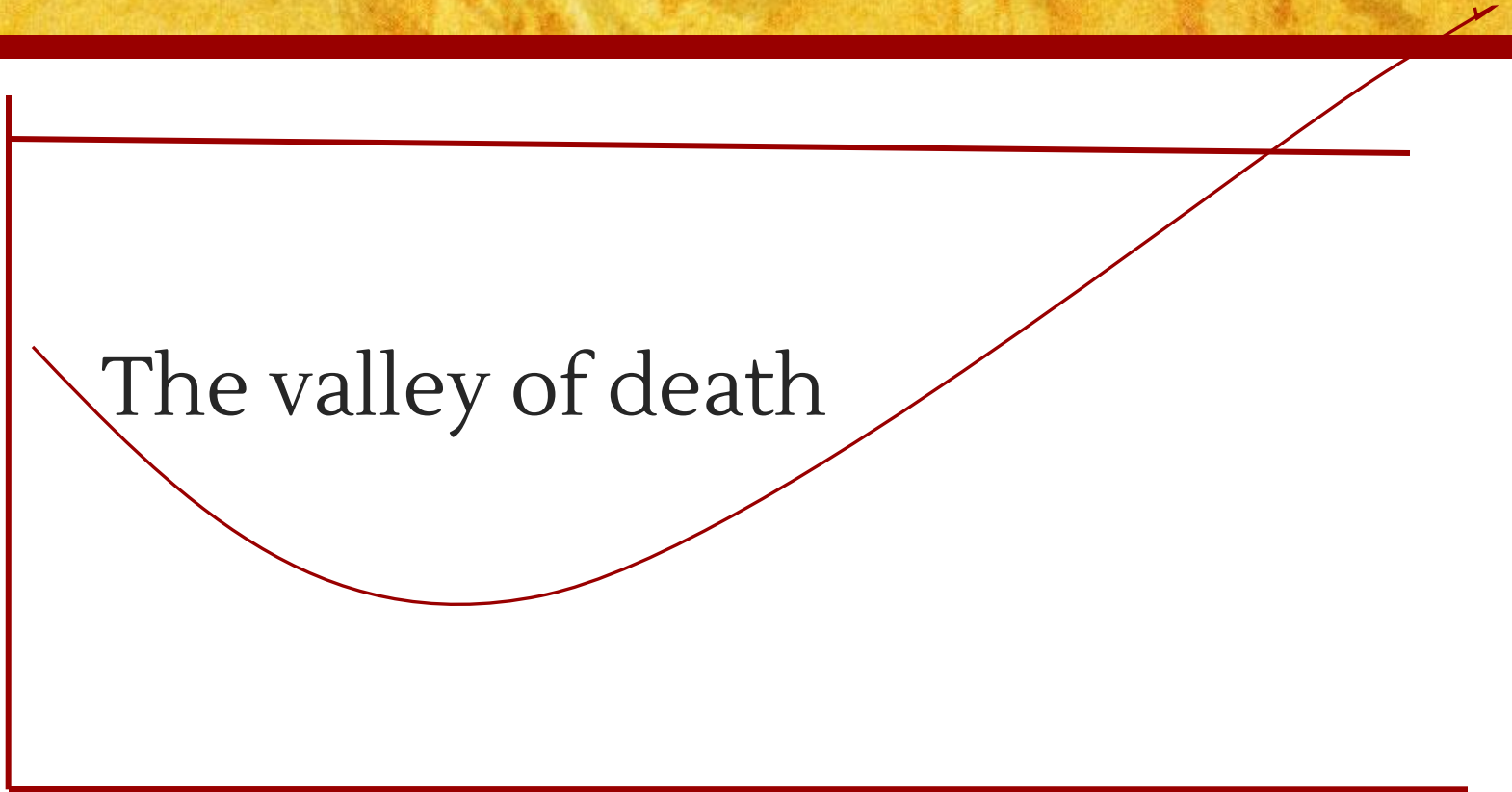
- Assets very limited
 - Mainly human resources
 - Few « tangibles »
- No CF, only cash drain
- Value based on classical methods negative

Anorganic growth

CF

The valley of death

Time



1. Comparables

Compare with:

- Quoted companies:
 - p/e ratio
 - X x EBIT
- Similar companies
- Info via solicitors, chambers of commerce,
- Standards: Y x turnover (pharmacy, pubs, bakeries)

2. Option approach

- $V = \Sigma CF/i + go$
- GO = growth-opportunities
 - USP
 - R&D
 - Example: Compaq, Microsoft, Tesla....

3. De residual value: six steps approach

1. Determine at what point the company will get profitable
2. Calculate value at that moment
3. Determine desired return of investor
4. Determine share of investor
5. Determine value of company today
6. Determine what's left for founder

Kimberley Ltd

- Toothbrush on solar energy
- BR1: 100 000, BR 2: 50 000, BR3 = 0
- CF4: 80 000

Kimberley Ltd

1. $t_4 = t_0$
2. VE 4: $80000/0,10 = 800\ 000$
3. Fin needs: 150 000
4. Desired RR: 40%

Kimberley Ltd

1. $150\ 000 \times (1,4)^3 = 150\ 000 \times 2,744 = 411\ 600$
2. $\% 411600/800000 = 51,5\%$
3. Remaining for Kimberley: 48,5%
4. VE: $150000/51,5 \times 100 = 291\ 000$

3. De residual value: without investor

- Time: from yr 5: CF 250 000
- DCF: $250\ 000/10\% = 2\ 500\ 000$
- First five yrs: burnrate
- Risk very high
- Discount rate: 25%
- Actual value: $2\ 500\ 000/(1 + 0,25)^5 = 819\ K$

3. De residual value: with investor

- Financial needs: $250 \text{ K} \times (1 + 0,25)^5$
- Investor requires: $762\,939 / 2\,500\,000 = 25,4\%$
- Residual value: $74,6\%$
- Value IPR: $74,6 / 25,4 \times 250\,000 = 734,252$
- Balance total: capital: **984 K**

3. De residual value: other investor

- Financial needs: $250 \text{ K} \times (1 + 0,25)^5$
- Investor requires 30%: $250 \text{ K} \times 3,713 = 928\text{K} / 2\,500\,000 = 37,1\%$
- Residual value: 62,9%
- Value IPR: $62,9 / 37,1 \times 250\,000 = 423 \text{ K}$
- Balance total: capital: **673 K**

Case: calculate value of The innovators Ltd

- A new air filter is discovered based on experiments in space
- High technologic new company
 - CD yr 1: 50 K
 - CD yr 2: 100K
 - CD yr 3: 70 K
 - CF from yr 4 onwards: 120 K
- Investor: 220 K and wants a desired return of 30%
- Calculate value of company/give opening balance sheet