

# Valuecruncher.com Valuation Report

**Company X Limited**

**01 January 2009**

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## High-Level Valuation (\$)

### Company X Limited Valuation Summary

<b>DCF Range</b>	<b>\$540,344</b>	to	<b>\$887,090</b>	Based on Scenario Analysis + Base Case
<b>DCF Base Case Valuation</b>	<b>\$799,412</b>			Based on client projections
<b>DCF Weighted Average Valuation</b>	<b>\$700,471</b>			Based on probability weightings

For a full explanation of the valuation outputs see the attached "Valuation Notes"

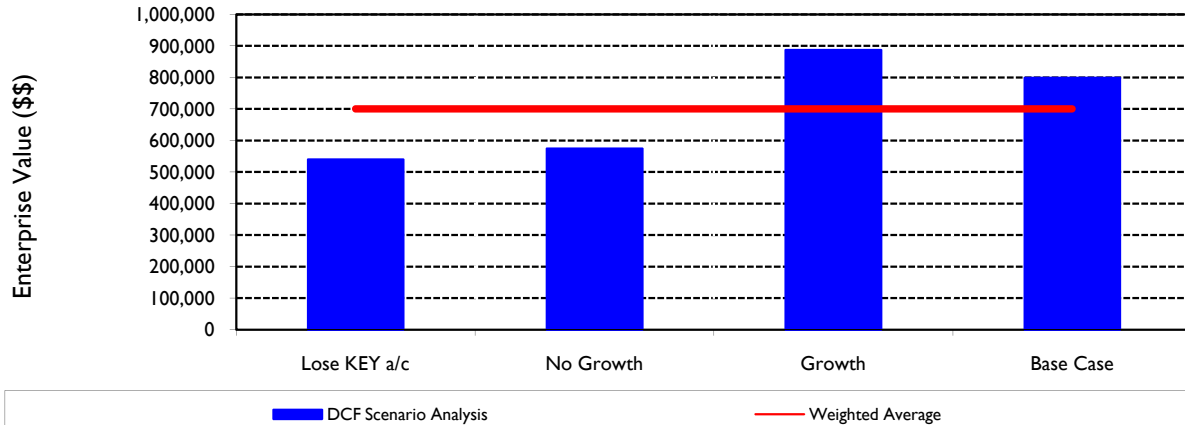
Valuecruncher has completed a valuation of Company X dated 1 January 2009. Valuecruncher used financial information provided by the directors of the business in preparing the valuation.

Valuecruncher have completed a base case valuation and three separate scenarios for Company X. The base case valuation assumes the business grows just over 20% per annum into the future from the current (2008) financial performance. The three scenarios are outlined in detail below. The first scenario (Lose KEY a/c) assumes the substantial loss of revenues from Company X's main client. The second (No Growth) assumes 2009 forecasts are achieved but no further growth. The third (Growth) assumes that 2009 forecasts are achieved and then growth is higher than projected in the base case.

This base case and three scenarios give an enterprise value range of \$540,000 to NZ\$887,000 (3.6 to 5.9x 2008 EBIT). Valuecruncher gave a 25% weighting to each scenario which gives a \$700,000 weighted valuation (4.7x 2008 EBIT). This \$700,000 is our mid-point valuation of Company X.

An enterprise value is the value of the whole business - debt and equity. To calculate the value of the equity in Company X we need to deduct net debt (long-term borrowings less cash). At 31 March 2008 Company X had a net debt figure of \$50,000 which gives a value of the equity in Company X of \$650,000. With 10,000 shares on issue this gives a value per share of \$65.00.

### Company X Valuation Range - Scenario Analysis



### DCF Scenario Analysis

Scenario	Lose KEY a/c	No Growth	Growth	Base Case
<b>Enterprise Value (\$\$)</b>	540,344	575,037	887,090	799,412
<b>Probability</b>	25%	25%	25%	25%

**Lose KEY a/c:** This scenario assumes Company X loses the contract with KEY account when it expires in 2009. The impact of this is a loss of \$500,000 in revenues. It is assumed that EBIT margins remain at current levels.

**No Growth:** This scenario assumes 2009 forecasts are achieved but then growth stops. All other assumptions remain at 2009 levels.

**Growth:** This scenario assumes that 2009 forecasts are achieved and then 2010 and 2011 revenue growth is at 25% (base case is 20.5%). EBIT margins remain at 15% and all other assumptions are constant.

## Input Sheet

Company X is a company.

## Valuation Parameters

Country Where Business is Predominantly Located (HQ Location  
if Global)  
Next Balance Date

31-Mar-09

WACC

25.0%

Weighted average cost of capital

Long-Term Growth

3.0%

Tax

30.00%

Terminal Capex adjustment

\$15,000.0

Long-term capital expenditure - long-term depreciation charge

Key inputs into the DCF valuation include the wacc, long-term growth rate and the effective tax rate. Valuecruncher estimates the appropriate values of these parameters based on extensive valuation experience and the large volume of industry specific info

## Profit and Loss (\$\$)

Year Ending 31-Mar	2008A	2009F	2010F	2011F
Revenues	1,000,000	1,250,000	1,500,000	1,750,000
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	200,000	242,500	285,000	327,500
Depreciation + Amortisation Expense	50,000	55,000	60,000	65,000
Earnings Before Interest and Tax (EBIT)	150,000	187,500	225,000	262,500
Capital Expenditure	65,000	70,000	75,000	80,000
Pre-Tax Free Cash Flow	135,000	172,500	210,000	247,500

Projected Revenue Growth

20.5%

Compound Annual Growth Rate (CAGR)

Projected EBIT Growth

20.5%

Compound Annual Growth Rate (CAGR)

EBIT Margin (EBIT/Revenue)	15.0%	15.0%	15.0%	15.0%
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The EBIT margin reflects the profitability of the business and varies greatly between industry sectors. Valuecruncher's Sensitivity Analysis examines the value impact of relatively small movements in the business' EBIT margin. Small movements in the EBIT

## Balance Sheet (\$\$)

Cash	50,000	Cash balances (negative if in overdraft).
Investments	0	Investments in other companies carried on the balance sheet that are
Tangible Assets	400,000	not included in the financial results.
Intangible Assets	100,000	Assets without a physical nature - i.e. brands, intellectual property, etc.
Total Assets	500,000	Tangible Assets + Intangible Assets
Long-Term Debt	100,000	Long-term borrowings made by the business - bank loans, bonds, etc.
Liabilities	300,000	
Shareholders Funds	200,000	
Total Liabilities & Shareholders Funds	500,000	

## Scenario Analysis Summary

### Lose KEY a/c - Enterprise Value: 540,344 (\$\$)

Year Ending 31-Mar	2008	2009	2010	2011
Revenues	1,000,000	750,000	1,000,000	1,250,000
Earnings Before Interest, Tax,				
Depreciation and Amortisation	200,000	167,500	210,000	252,500
Depreciation + Amortisation Expense	50,000	55,000	60,000	65,000
Earnings Before Interest and Tax (EBIT)	150,000	112,500	150,000	187,500
Capital Expenditure	65,000	70,000	75,000	80,000
Pre-Tax Free Cash Flow	135,000	97,500	135,000	172,500
EBIT Margin	15.0%	15.0%	15.0%	15.0%
Projected Revenue Growth	7.7%	Compound Annual Growth Rate (CAGR)		
Projected EBIT Growth	7.7%	Compound Annual Growth Rate (CAGR)		
Wacc	25%	Long-term Growth	3%	

### No Growth - Enterprise Value: 575,037 (\$\$)

Year Ending 31-Mar	2008	2009	2010	2011
Revenues	1,000,000	1,250,000	1,250,000	1,250,000
Earnings Before Interest, Tax,				
Depreciation and Amortisation	200,000	242,500	242,500	242,500
Depreciation + Amortisation Expense	50,000	55,000	55,000	55,000
Earnings Before Interest and Tax (EBIT)	150,000	187,500	187,500	187,500
Capital Expenditure	65,000	70,000	70,000	70,000
Pre-Tax Free Cash Flow	135,000	172,500	172,500	172,500
EBIT Margin	15.0%	15.0%	15.0%	15.0%
Projected Revenue Growth	7.7%	Compound Annual Growth Rate (CAGR)		
Projected EBIT Growth	7.7%	Compound Annual Growth Rate (CAGR)		
Wacc	25%	Long-term Growth	3%	

### Growth - Enterprise Value: 887,090 (\$\$)

Year Ending 31-Mar	2008	2009	2010	2011
Revenues	1,000,000	1,250,000	1,562,500	1,953,125
Earnings Before Interest, Tax,				
Depreciation and Amortisation	200,000	242,500	294,375	357,969
Depreciation + Amortisation Expense	50,000	55,000	60,000	65,000
Earnings Before Interest and Tax (EBIT)	150,000	187,500	234,375	292,969
Capital Expenditure	65,000	70,000	75,000	80,000
Pre-Tax Free Cash Flow	135,000	172,500	219,375	277,969
EBIT Margin	15.0%	15.0%	15.0%	15.0%
Projected Revenue Growth	25.0%	Compound Annual Growth Rate (CAGR)		
Projected EBIT Growth	25.0%	Compound Annual Growth Rate (CAGR)		
Wacc	25%	Long-term Growth	3%	

**Valuation Notes**

A valuation is an appraisal of what something is worth. This is different to price – what someone will actually pay for something in a commercial transaction. The Valuecruncher framework is a valuation. In place of a commercial transaction (actually buying or selling something) we provide an estimate of valuation of businesses.

Valuation professionals predominately utilise three valuation methodologies in valuing a business:

1. Discounted Cash Flow Analysis (DCF)
2. Comparison Company or Comparison Acquisition Analysis
3. Asset Analysis (usually Net Tangible Assets)

There are other sophisticated methodologies that are utilised in other contexts such as Real Option valuations. The majority of the time however, these three methodologies form the basis of professional valuations.

***Discounted Cash Flow (DCF) Analysis***

Within corporate finance value is a DCF. A DCF requires only two inputs:

1. Forecasts of cash flows into the future, and
2. A discount rate reflecting the variability around the cash flows (the higher the discount rate the more risky the cash flows)

Taking the forecast cash flows and discounting them back to a single present value using the discount rate gives an Enterprise Value. The Enterprise Value is the value of the whole business (debt and equity). To calculate the value of the equity in a business the Net Debt is removed from the Enterprise Value. Net Debt is long-term borrowings less cash. Enterprise Value less Net Debt is value of equity that can then be divided by the number of shares outstanding to produce a share price.

At the early/start-up stage of a business there is considerable uncertainty surrounding the future expected revenues. The high short-term growth rates and the uncertainty associated with early stage ventures seriously limits the validity of a point estimate of value.

Although the uncertainty of future cash flows is incorporated into the discount rate there is a limit to the ability of the discount rate to reflect high levels of uncertainty and produce a meaningful estimate of value. In situations of high uncertainty scenario analysis provides a robust evaluation of value across a variety of assumptions.

***Comparison Company or Comparison Acquisition Analysis***

Comparison company and comparison acquisition analysis is widely used in conjunction with DCF methods when providing estimates of value. The lack of relevant market information and the unique nature of early stage ventures make comparison analysis unsuitable for early stage valuation.

***Asset Analysis (usually Net Tangible Assets)***

As a base valuation professionals will look at the balance sheet Net Tangible Assets figure. Net Tangible Assets is the total assets on the balance sheet less any intangible items (goodwill etc) less total liabilities. This amount is then divided by the number of shares outstanding to produce a Net Tangible Asset valuation on a per share basis. This is a valuation of the physical assets controlled by the business less any liabilities – what the assets are worth from an accounting perspective.

Net Tangible Asset valuations will be impacted by accounting treatments of assets (i.e. depreciation policies).

## Input Sheet

Company X is a company.

### Country Where Business is Predominantly Located (HQ Location if Global)

<b>A</b> 31-Mar-09

### Next Balance Date

### Financial Years

Latest year of actual results and three years of forecasts.

	Actual	Forecast	Forecast	Forecast
<b>B</b>	2008	2009	2010	2011
	i.e. 2006	i.e. 2007	i.e. 2008	i.e. 2009

### Profit and Loss (\$\$)

### Revenues

Top line sales.

<b>C</b>	\$1,000,000.0	\$1,250,000.0	\$1,500,000.0	\$1,750,000.0
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NB: If incomplete Actuals and Forecasts submitted and no CAGR

supplied - will take previous growth rate and scale back to long-term

growth rate.

OR

### Compound Annual Growth Rate (CAGR)

Amount of growth anticipated each year after Actuals.

20.5%

NB: If Actual and Forecasts are

submitted these will be used over

the CAGR.

### Earnings Before Interest and Tax

taxes but including depreciation.

<b>D</b>	\$150,000.0	\$187,500.0	\$225,000.0	\$262,500.0
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OR

### Compound Annual Growth Rate (CAGR)

Amount of growth anticipated each year after Actuals.

20.5%

NB: If Actual and Forecasts are

submitted these will be used over

the CAGR.

### Expense Break-Out

### Depreciation + Amortisation

Total depreciation + amortisation expenses for the periods - From the forecast numbers. This should have been INCLUDED as

<b>E</b>	\$50,000.0	\$55,000.0	\$60,000.0	\$65,000.0
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### Capital Expenditure

Capital expenditure (or capitalised research and development) costs for the periods.

<b>F</b>	\$65,000.0	\$70,000.0	\$75,000.0	\$80,000.0
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### Terminal Capital Expenditure

The amount of annual capital expenditure that the company would anticipate going into the future.

<b>G</b>	\$80,000.0
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### Balance Sheet (\$\$)

NB: Only the most recent balance sheet numbers are required - i.e. no forecasts.

### Total Assets

<b>H</b>	\$500,000.0
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Total Assets per the Balance Sheet.

### Intangible Assets

Assets without a physical nature - i.e. brands, intellectual property, etc.

<b>I</b>	\$100,000.0
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400,000.0

Tangible Assets.

### Liabilities

Total Liabilities per the Balance Sheet.

<b>J</b>	\$300,000.0
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200,000.0

Should equal Shareholders Funds

in Balance Sheet.

### Specific Balance Sheet Items

<b>Cash</b>	<b>K</b>	\$50,000.0
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Cash balances (negative if in overdraft).

<b>Investments</b>	<b>L</b>	\$0.0
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Investments in other companies carried on the balance sheet that are not included in the financial results.

<b>Long-Term Debt</b>	<b>M</b>	\$100,000.0
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Long-term borrowings made by the business - bank loans, bonds, etc. Not working capital items (i.e. accounts payable etc).