

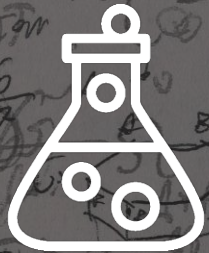
Agenda

- 1 Introduction
- 2 Case 1: Profitable business
- 3 Case 2: Loss-making business
- 4 Questions

Section 1

Introduction

Valuing companies



VS

SCIENCE



ART



The 'Science'

Methodology	Pros	Cons
Listed peers	<ul style="list-style-type: none"> ✓ Most up to date reference for valuation environment ✓ Largest amount of publicly available data 	<ul style="list-style-type: none"> ✗ Listed businesses typically far larger than private company being valued ✗ Share prices do not reflect control premium
Comparable transactions	<ul style="list-style-type: none"> ✓ Potentially larger sample of comparable companies to choose from ✓ Valuations include control / strategic price adjustment 	<ul style="list-style-type: none"> ✗ Limited publicly available data ✗ Typically only historical multiples available
Investor returns	<ul style="list-style-type: none"> ✓ Clear indication of what an investor could pay in order to deliver certain financial returns 	<ul style="list-style-type: none"> ✗ Requires detailed forecast financials ✗ Does not take strategic premiums into account for potential synergies
DCF	<ul style="list-style-type: none"> ✓ Best used for infrastructure-type assets, where long term cash flows are more visible 	<ul style="list-style-type: none"> ✗ Typically not relevant for actively trading businesses ✗ Too much emphasis placed on terminal value

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The 'Art'



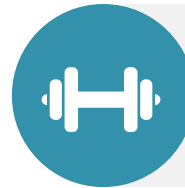
Valuation perspective – buyer vs. seller



Prevailing market conditions – bull vs. bear market



Historical financial performance



Robustness of forecast financial plan



Acquirer's risk appetite



Synergies

Section 2

Case study 1: Profitable business

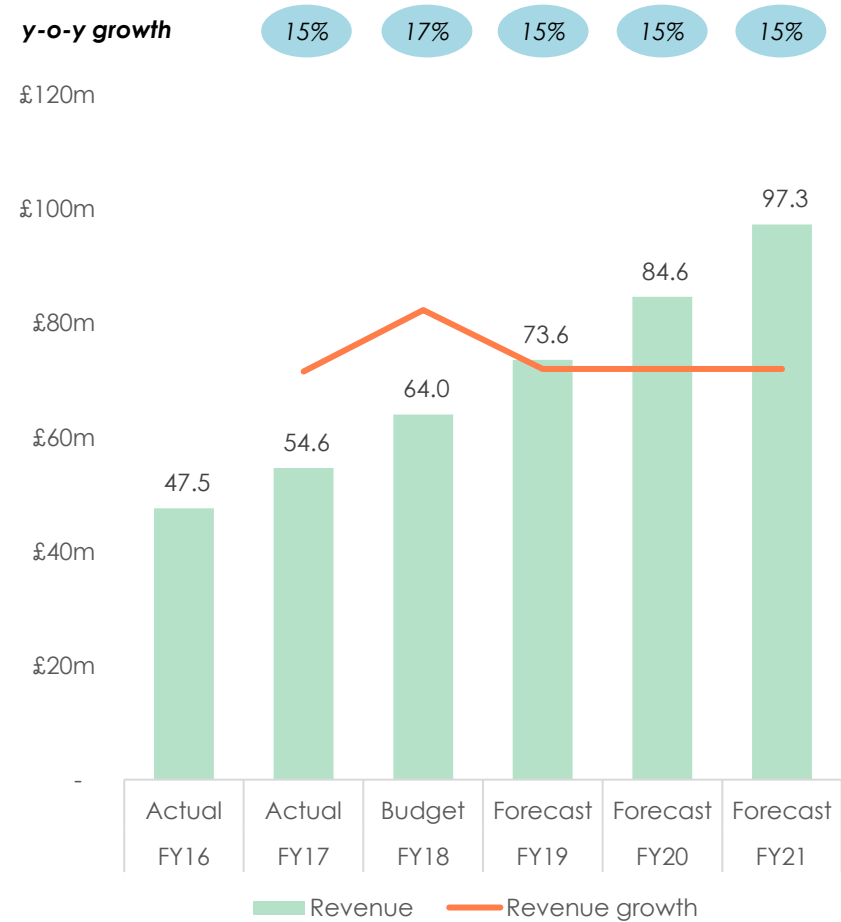
Case study 1

Synopsis

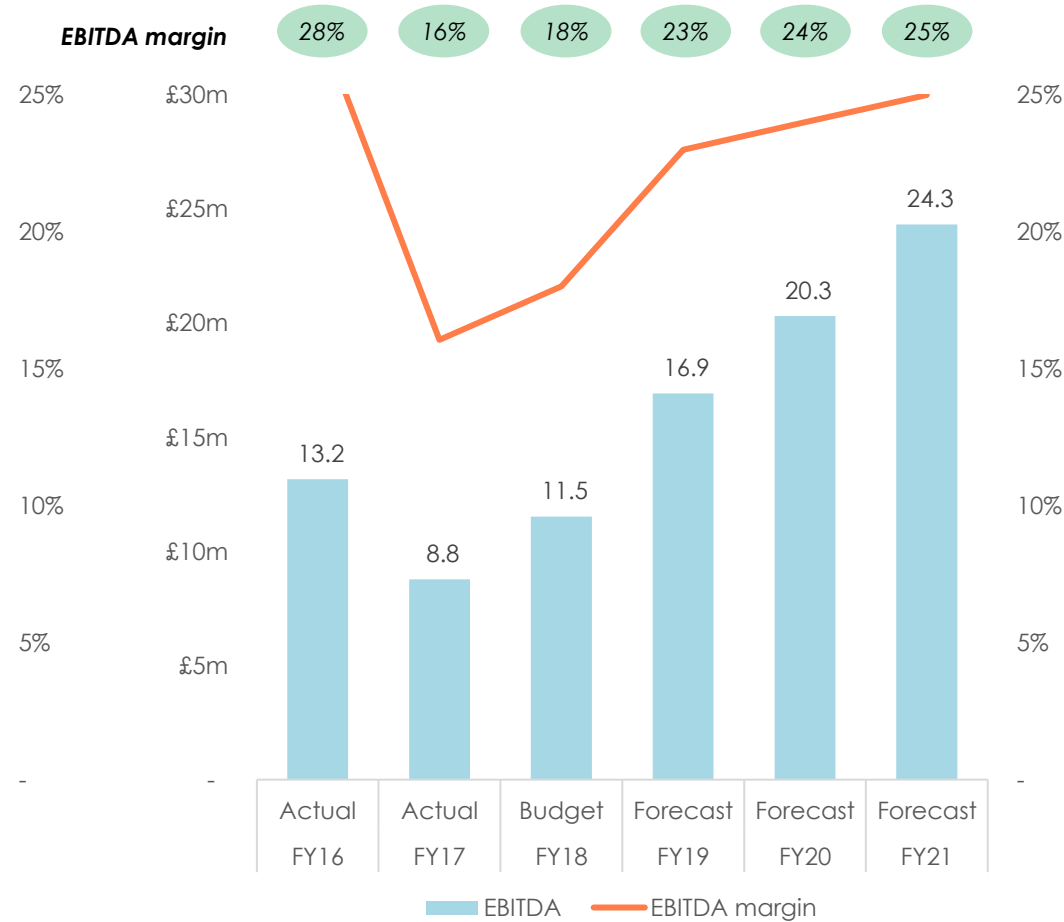
- UK-based, global software services business providing outsourced IT development expertise to corporate clients
- Revenue is generated on a project by project basis, based on a pre-determined scope of work
- Previously acquired by a private equity firm in 2015
- Business has underperformed since acquisition
- Private equity owner is contemplating a sale of the business
- You are to evaluate the valuation from the perspective of a potential private equity acquirer
- Currently in April 2018 and assumes a transaction would take place at the end of H1 2018

Summary financial information

Historical and forecast revenue



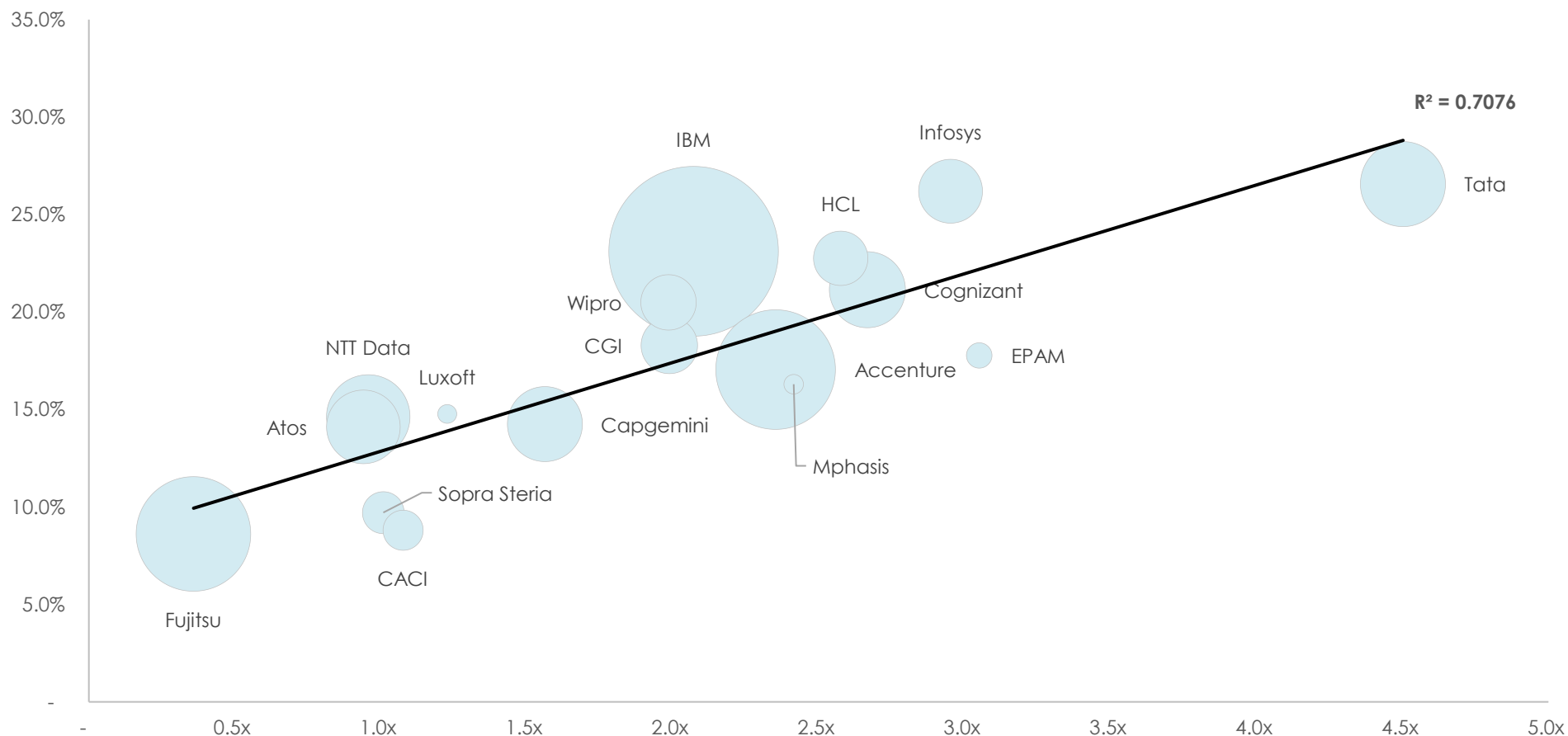
Historical and forecast EBITDA



Listed peers analysis

Dec-18 Revenue multiple vs. Dec-18 EBITDA margin

There is a strong correlation between EBITDA margin and revenue multiple

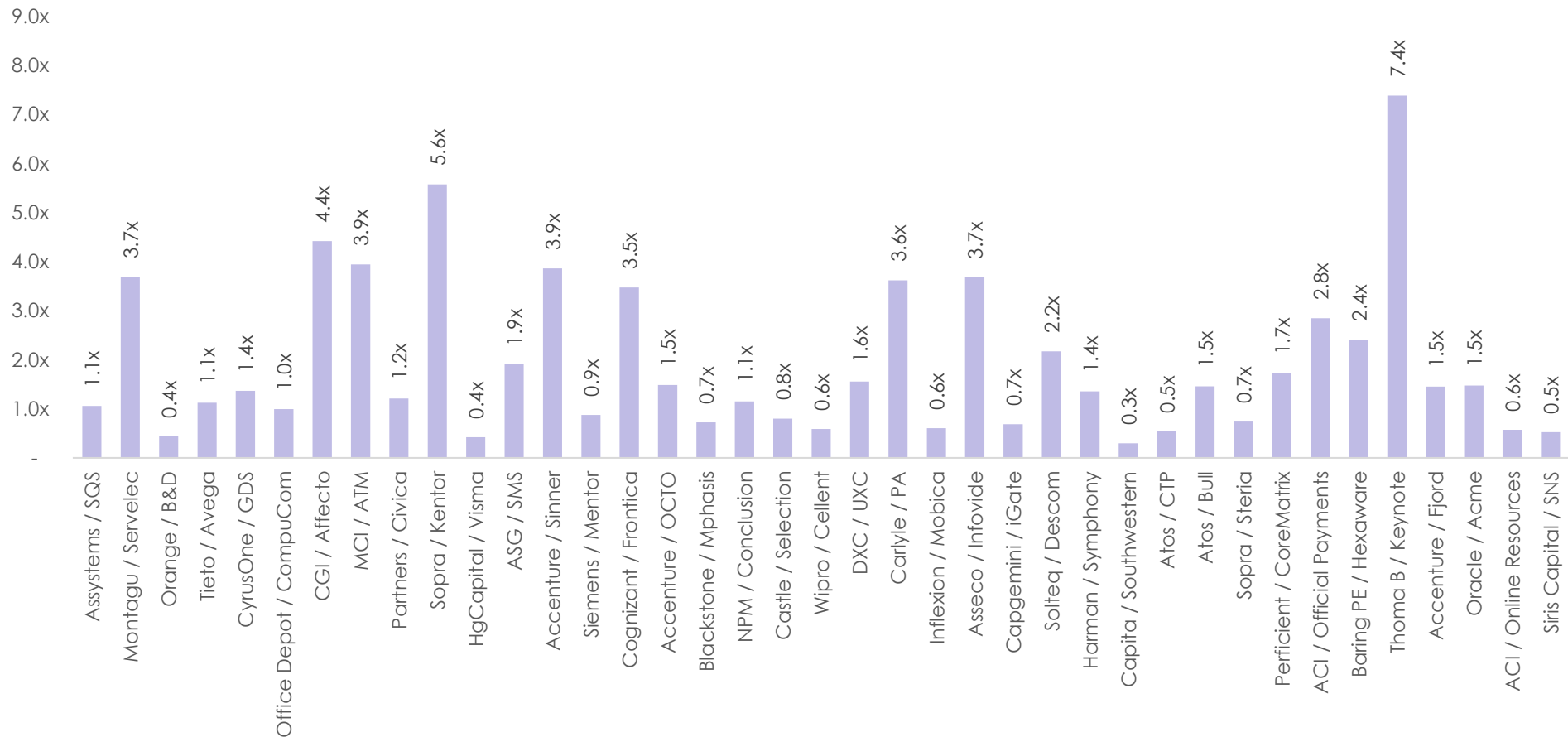


NOTE THAT TRANSACTION MULTIPLES ARE BASED ON HISTORICAL FINANCIAL METRICS, NOT FORECAST

Comparable transactions

LTM Revenue multiple

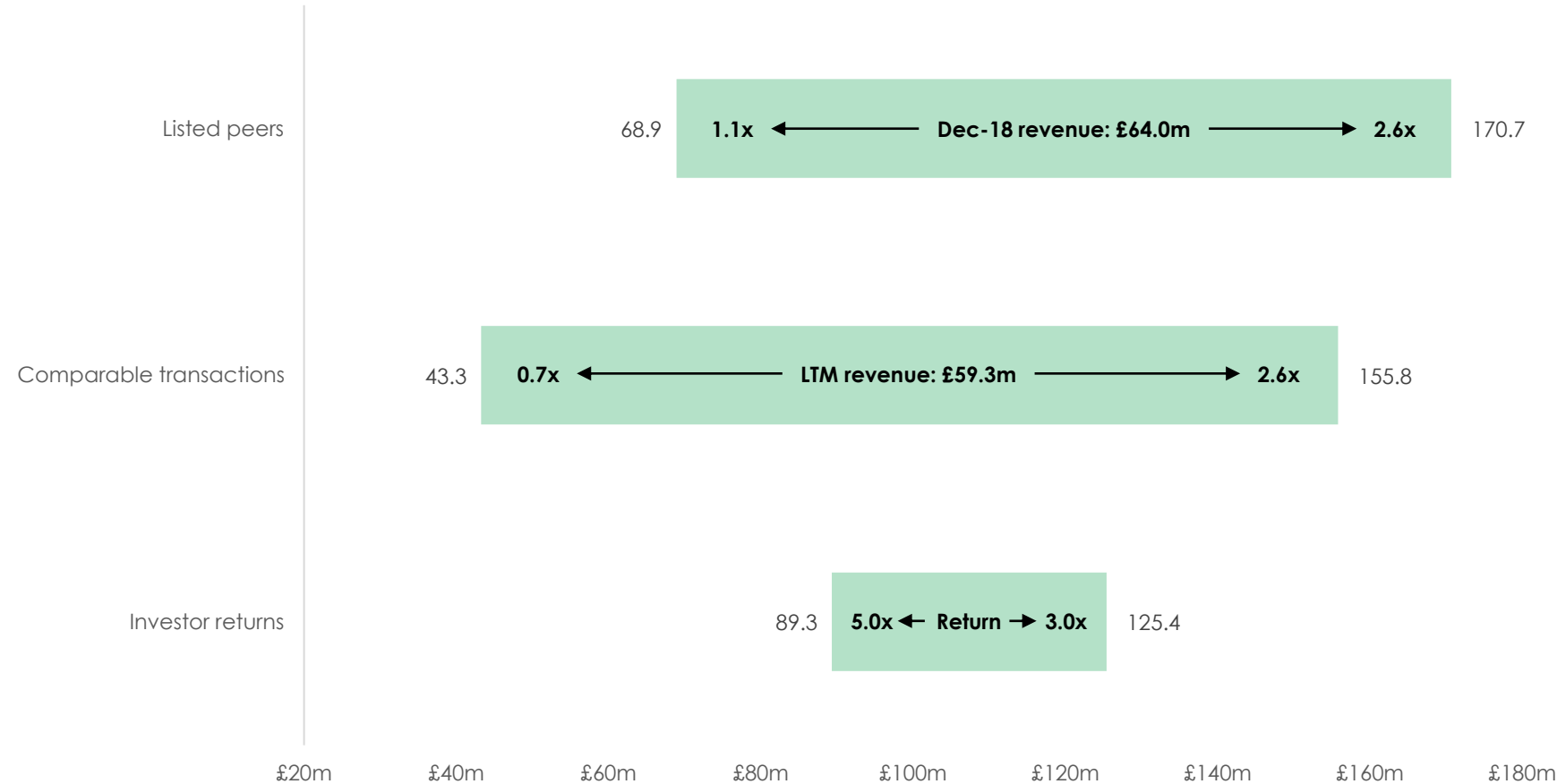
All relevant deals with disclosed metrics: 2012 - 2017



Summary indicative valuation

Valuation range (£'m)

Assuming a transaction takes place in June 2018



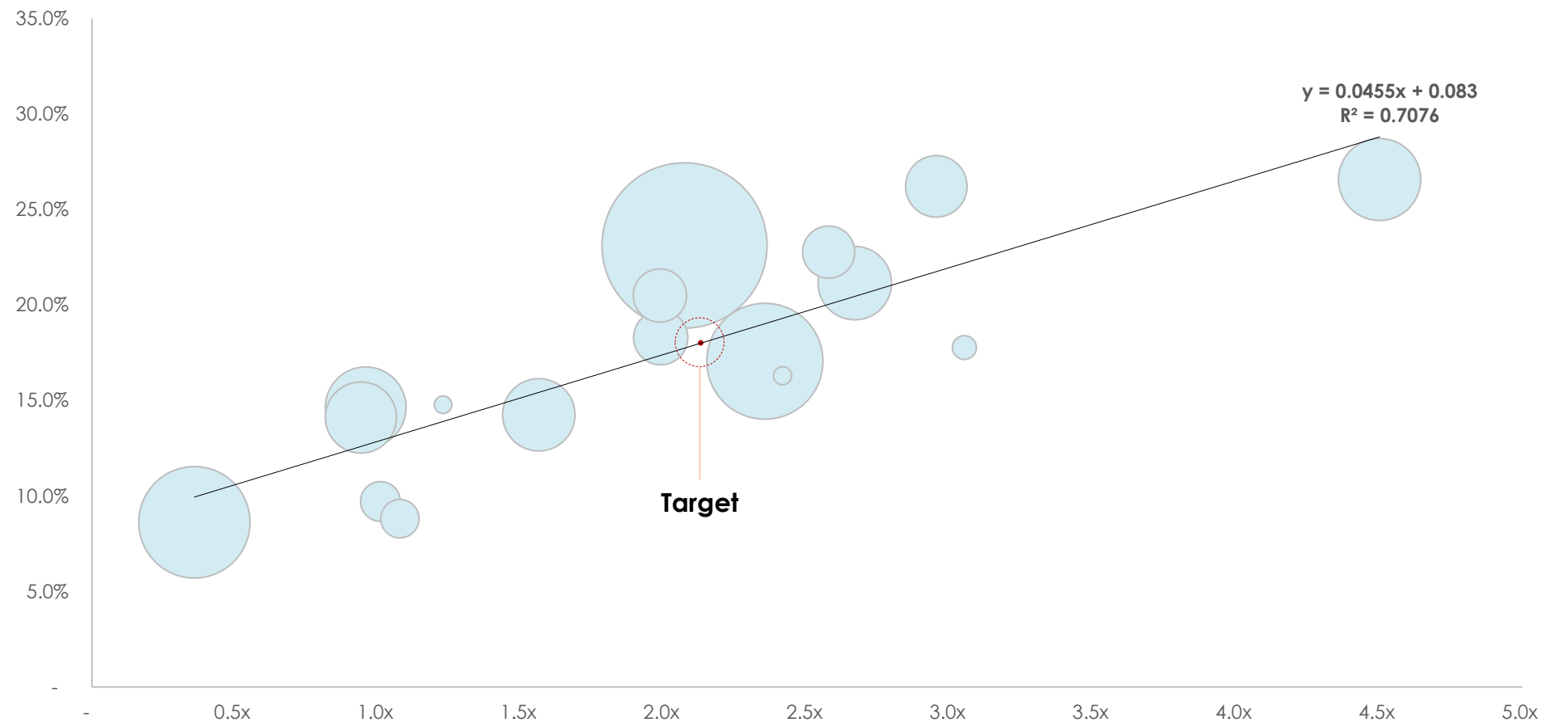
Case study 1

Workings

USE REGRESSION FORMULA TO DETERMINE WHERE TARGET COMPANY WOULD PLOT ON THE LINE OF BEST FIT

Listed peers analysis

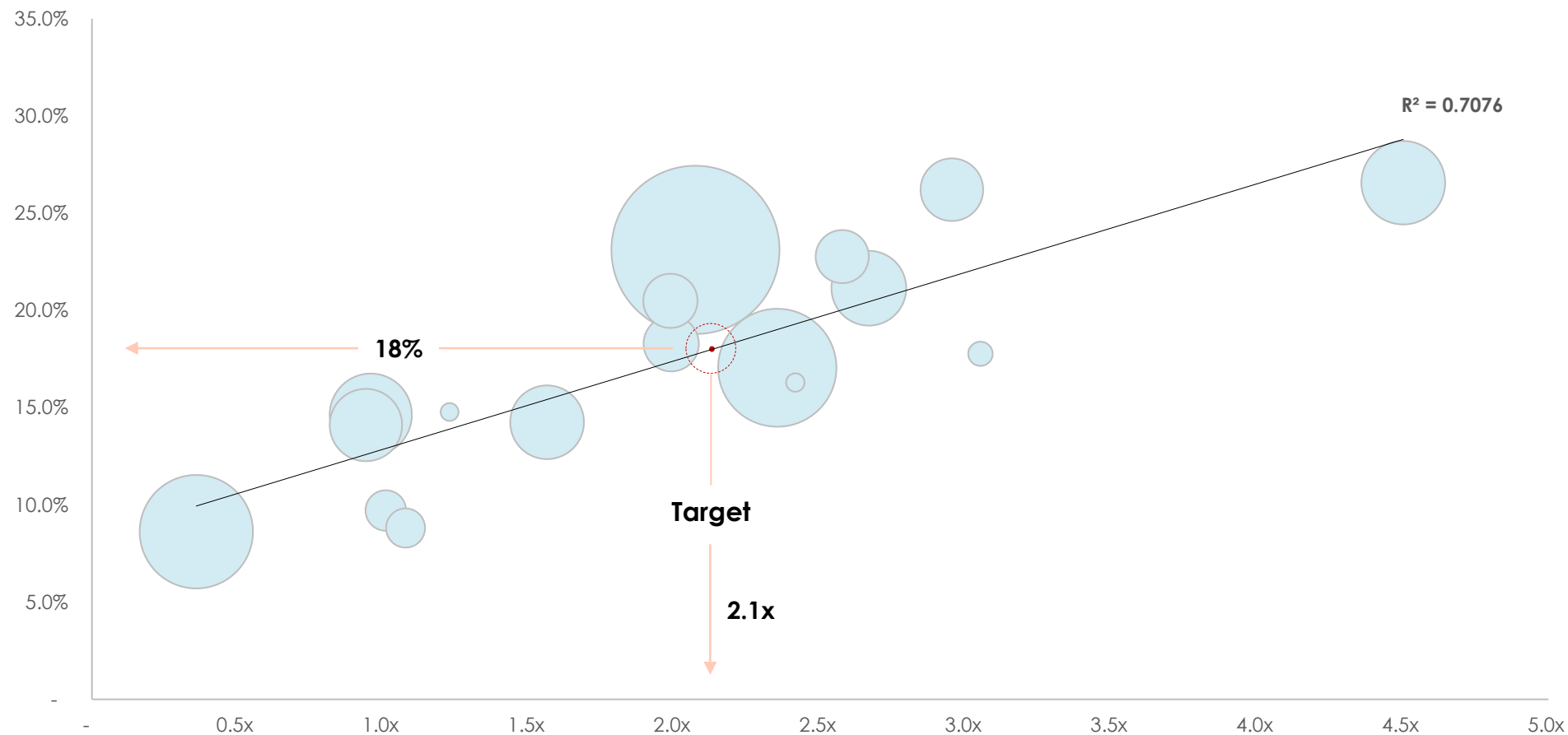
Dec-18 Revenue multiple vs. Dec-18 EBITDA margin



THE TARGET'S EBITDA MARGIN OF 18% WOULD IMPLY A VALUATION OF 2.1X DEC-18 REVENUE

Listed peers analysis

Dec-18 Revenue multiple vs. Dec-18 EBITDA margin

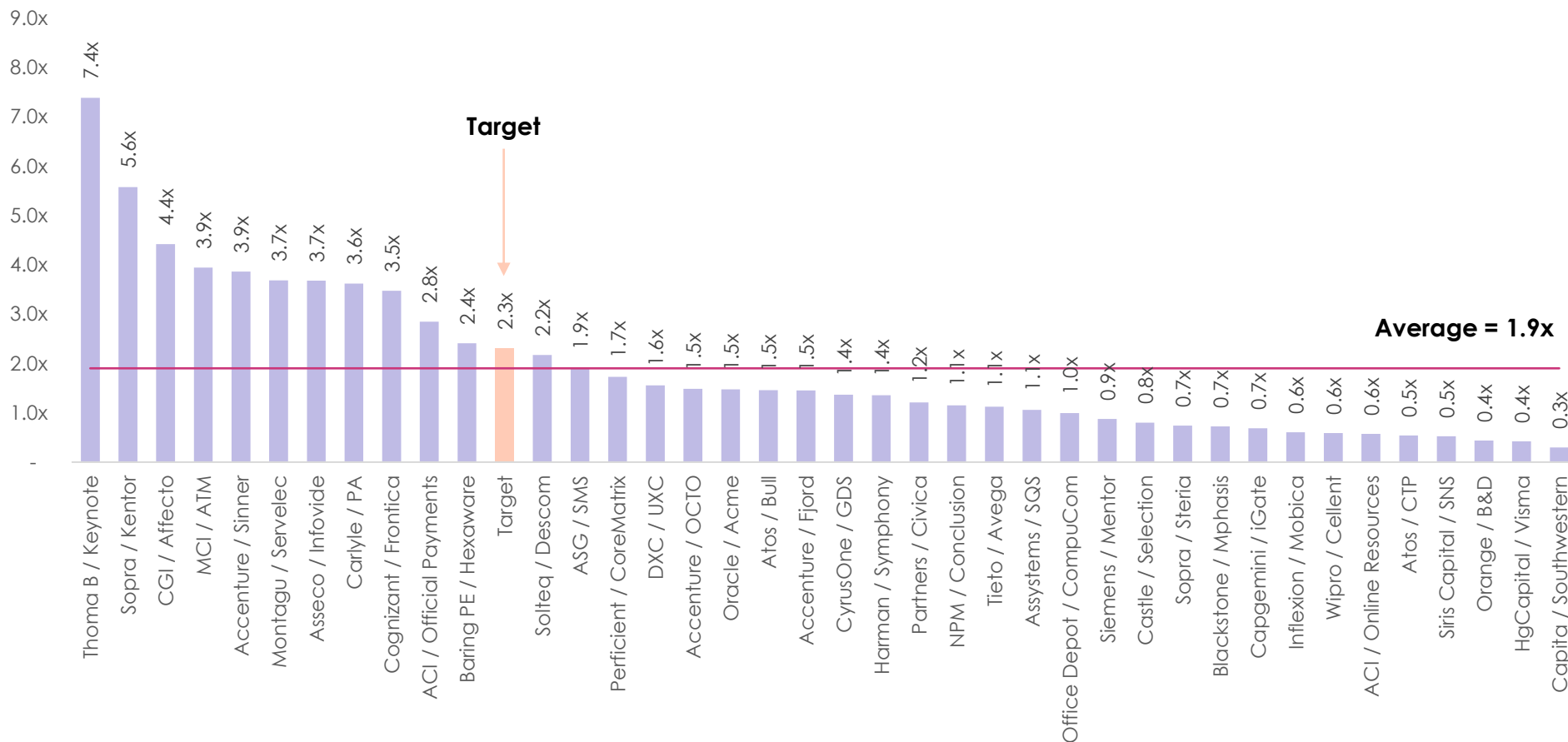


THIS WOULD EQUATE TO AN LTM REVENUE MULTIPLE OF 2.3X - ABOVE THE AVERAGE SINCE 2012

Comparable transactions

LTM Revenue multiple

All relevant deals with disclosed metrics: 2012 - 2017

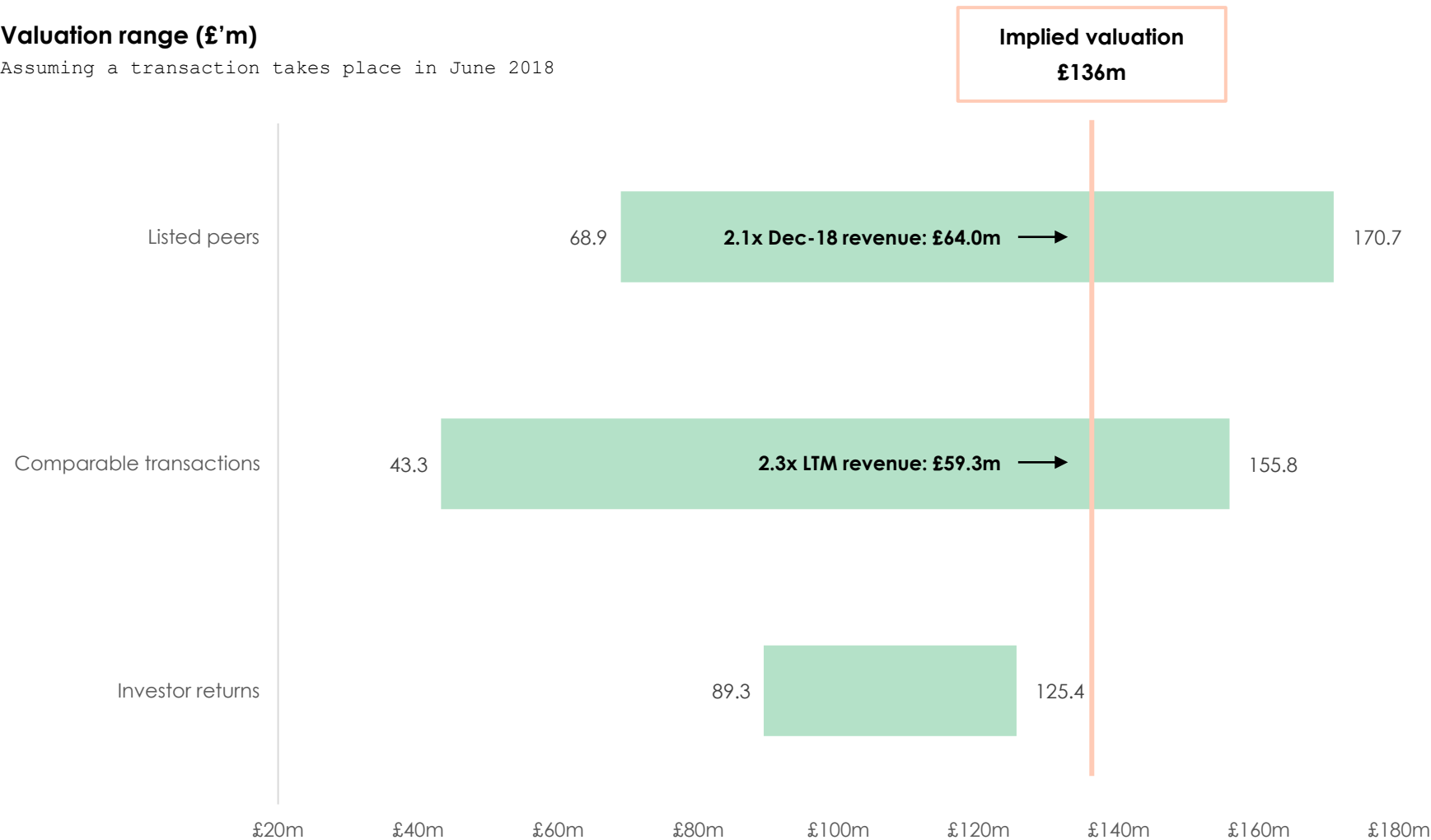


THE 'SCIENCE' WOULD IMPLY A VALUATION OF £136M

Summary indicative valuation

Valuation range (£'m)

Assuming a transaction takes place in June 2018

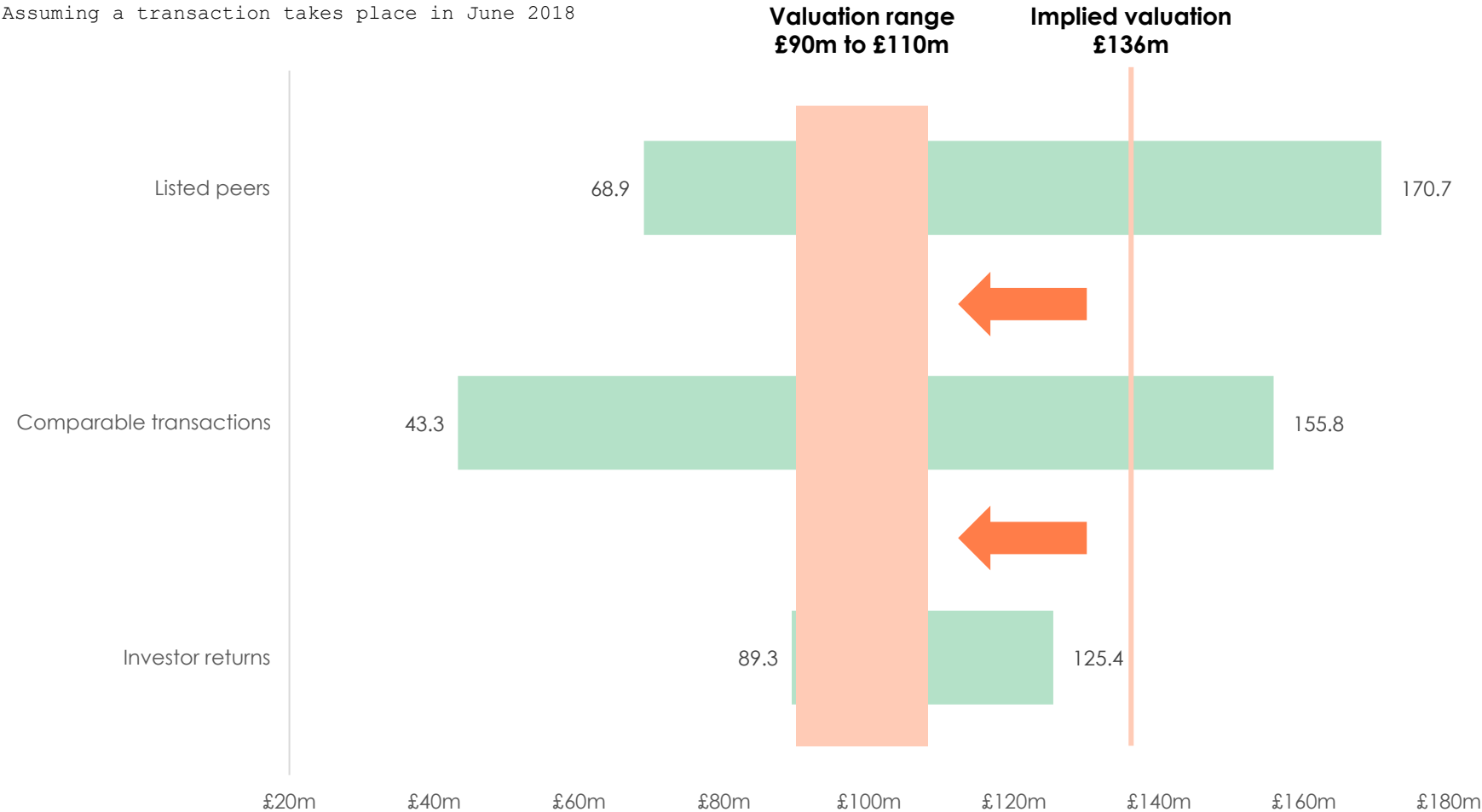


HOWEVER, OTHER CONSIDERATIONS MUST BE TAKEN INTO ACCOUNT WHEN DETERMINING A VALUATION RANGE

Summary indicative valuation

Valuation range (£'m)

Assuming a transaction takes place in June 2018

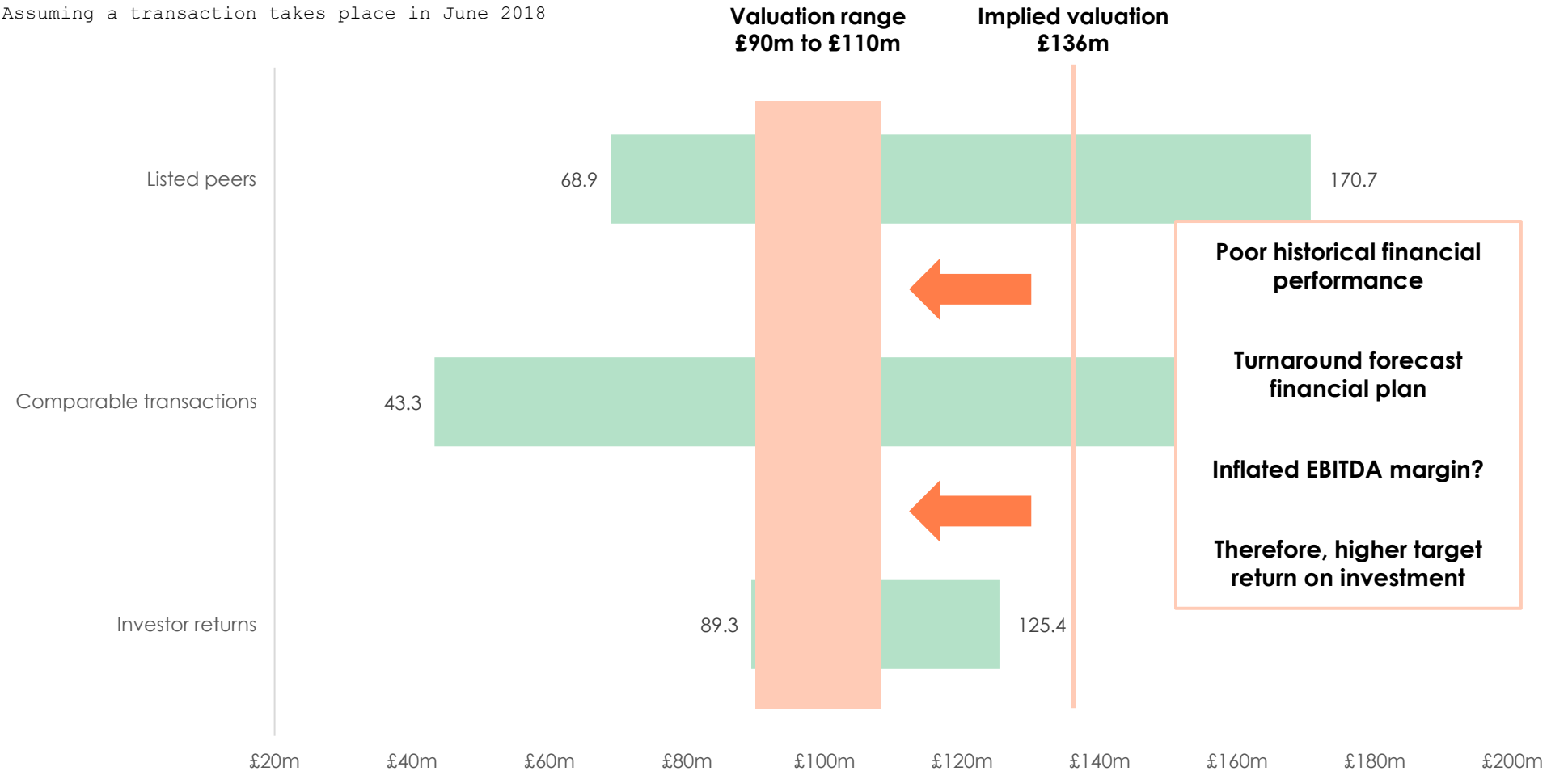


BASED ON ALL OF THE CONSIDERATIONS, WE WOULD CONSIDER A VALUATION RANGE OF £90M TO £110M TO BE REASONABLE

Summary indicative valuation

Valuation range (£'m)

Assuming a transaction takes place in June 2018



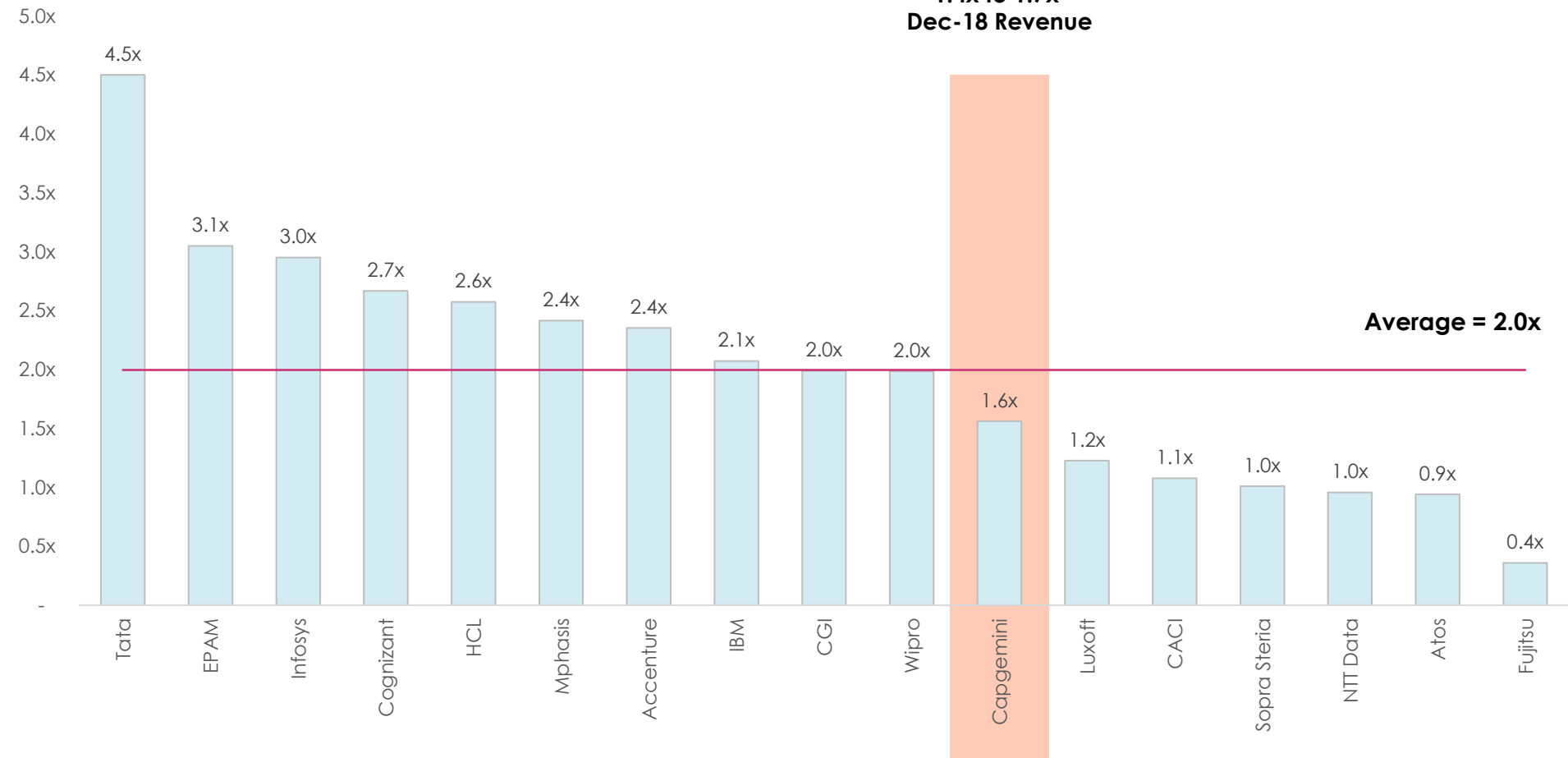
THIS WOULD PLACE THE TARGET BELOW THE AVERAGE OF THE LISTED PEER RANGE

Sense check: listed peers

Dec-18 Revenue multiple

Valuation range
£90m to £110m

1.4x to 1.7x
Dec-18 Revenue

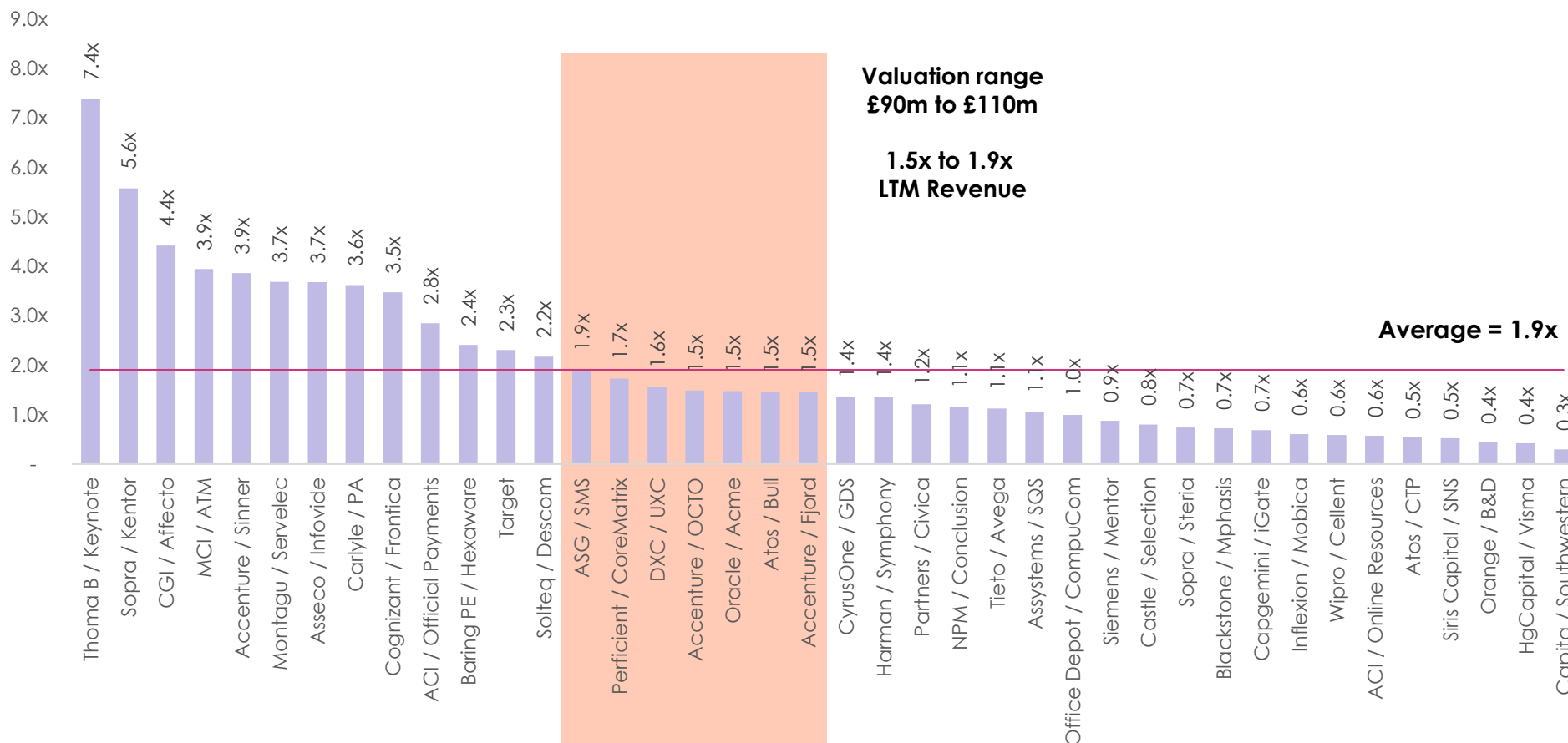


...AND BROADLY IN LINE WITH THE AVERAGE MULTIPLE PAID FOR SIMILAR BUSINESSES SINCE 2012

Sense check: comparable transactions

LTM Revenue multiple

All relevant deals with disclosed metrics: 2012 - 2017



Section 3

Case study 2: Loss-making business

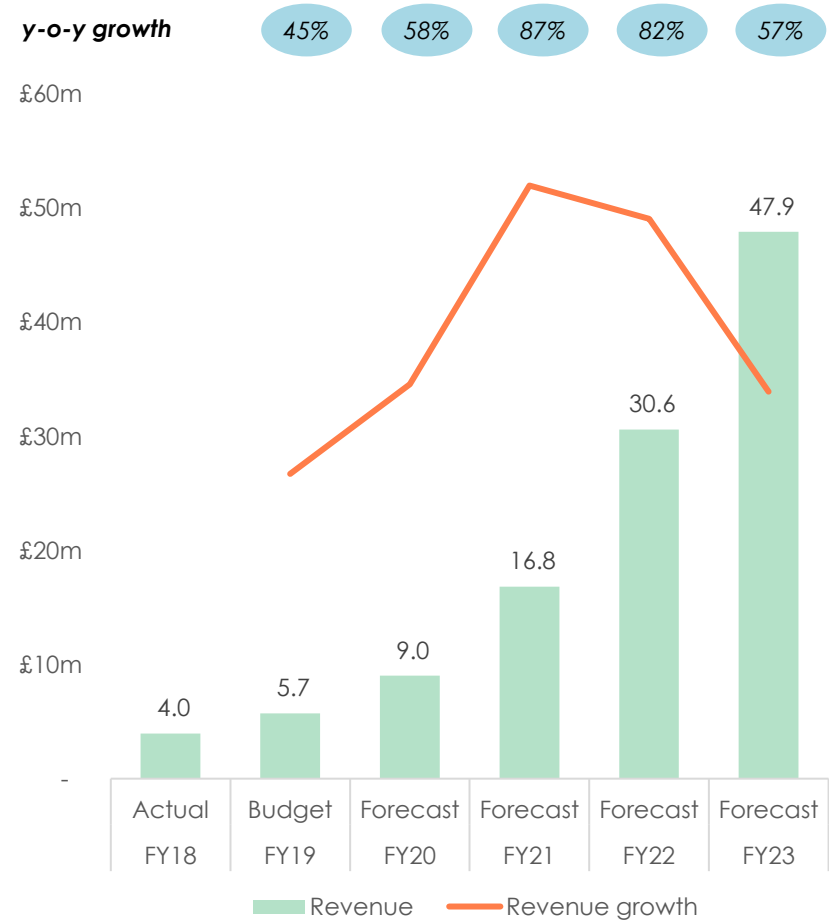
Case study 2

Synopsis

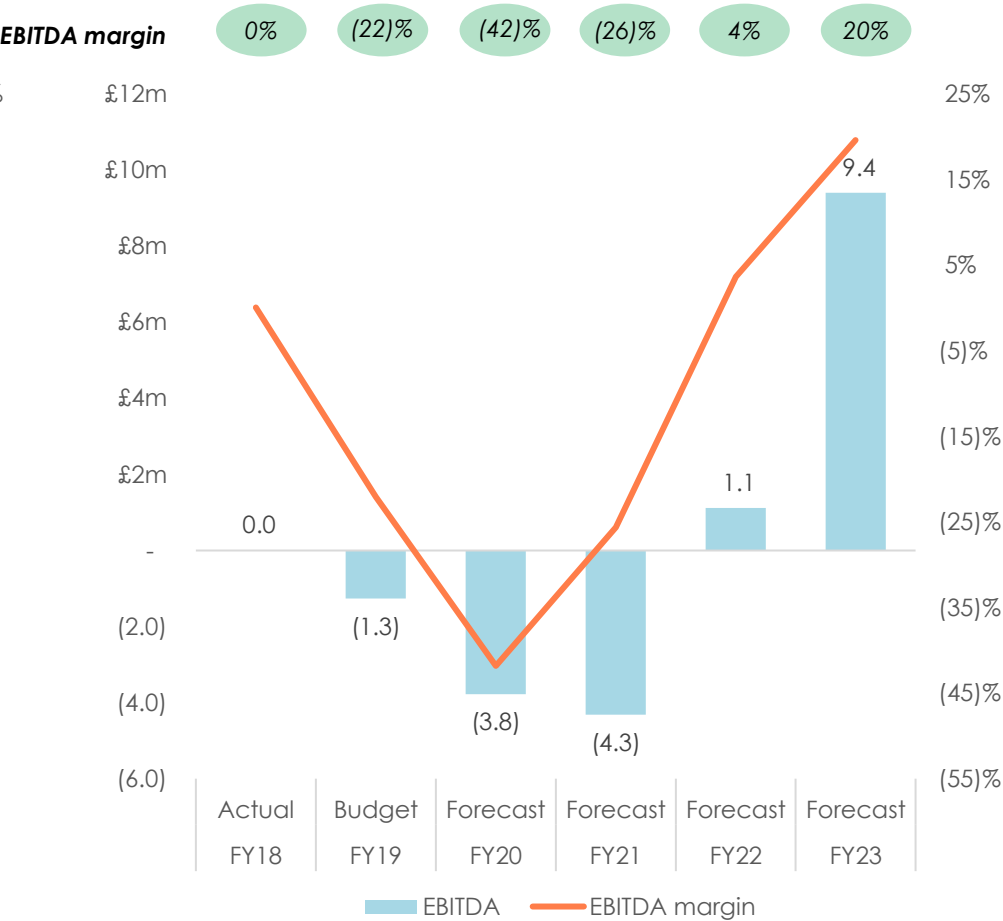
- UK-based, SaaS business focused on the Communication sector
- Revenue is generated through a combination of software licenses and transactional revenue based on the number of interactions carried out on the platform
- Majority owned by a group of non-management shareholders (c.66%)
- Management shareholders are seeking to replace these shareholders with a specialist financial investor to help accelerate growth in the future
- You have been invited to pitch for the sell-side mandate and asked to opine on potential valuation
- It is currently August 2019, and it is assumed that a transaction will take place in June 2020

Summary financial information

Historical and forecast revenue



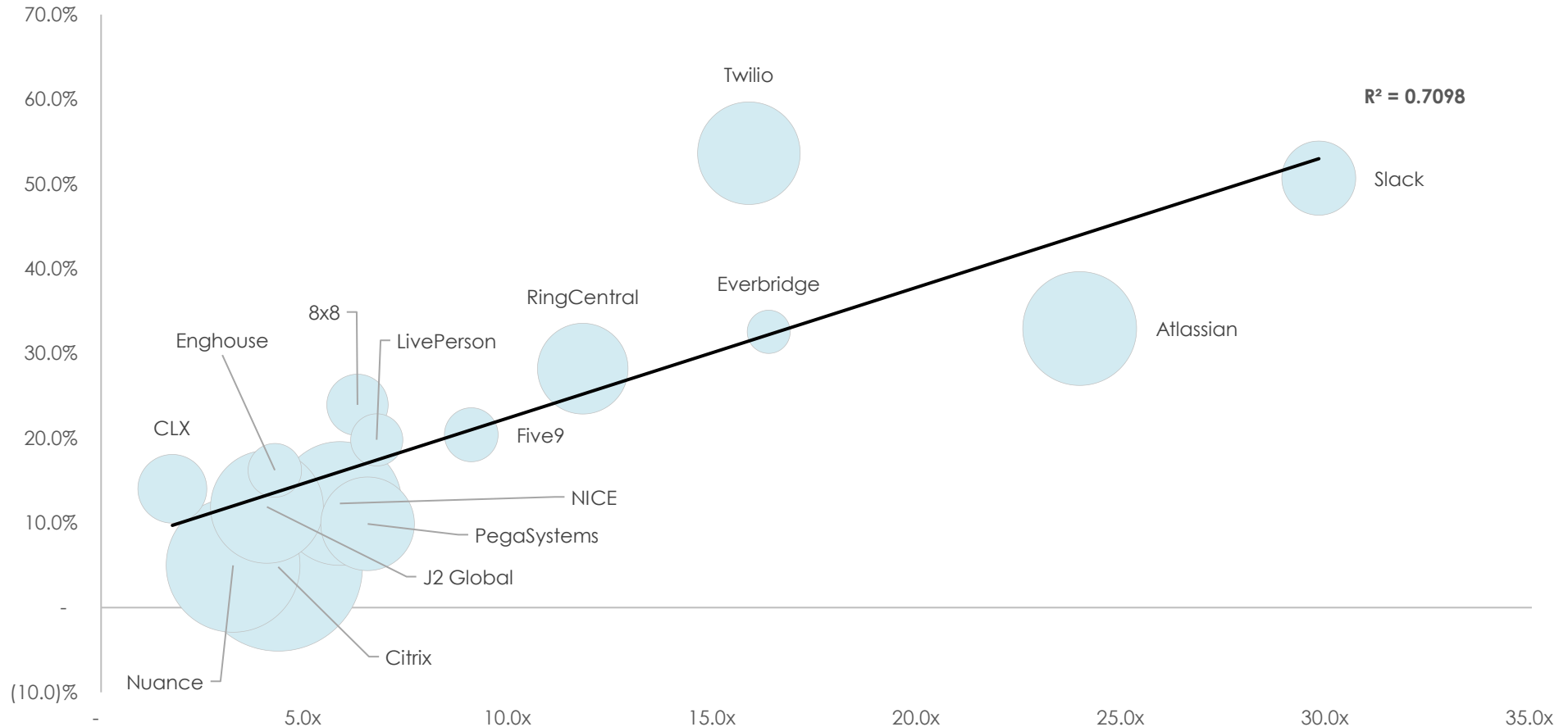
Historical and forecast EBITDA



Listed peers analysis

Dec-19 Revenue multiple vs. Dec-18-20 Revenue CAGR

There is a strong correlation between revenue growth and revenue multiple

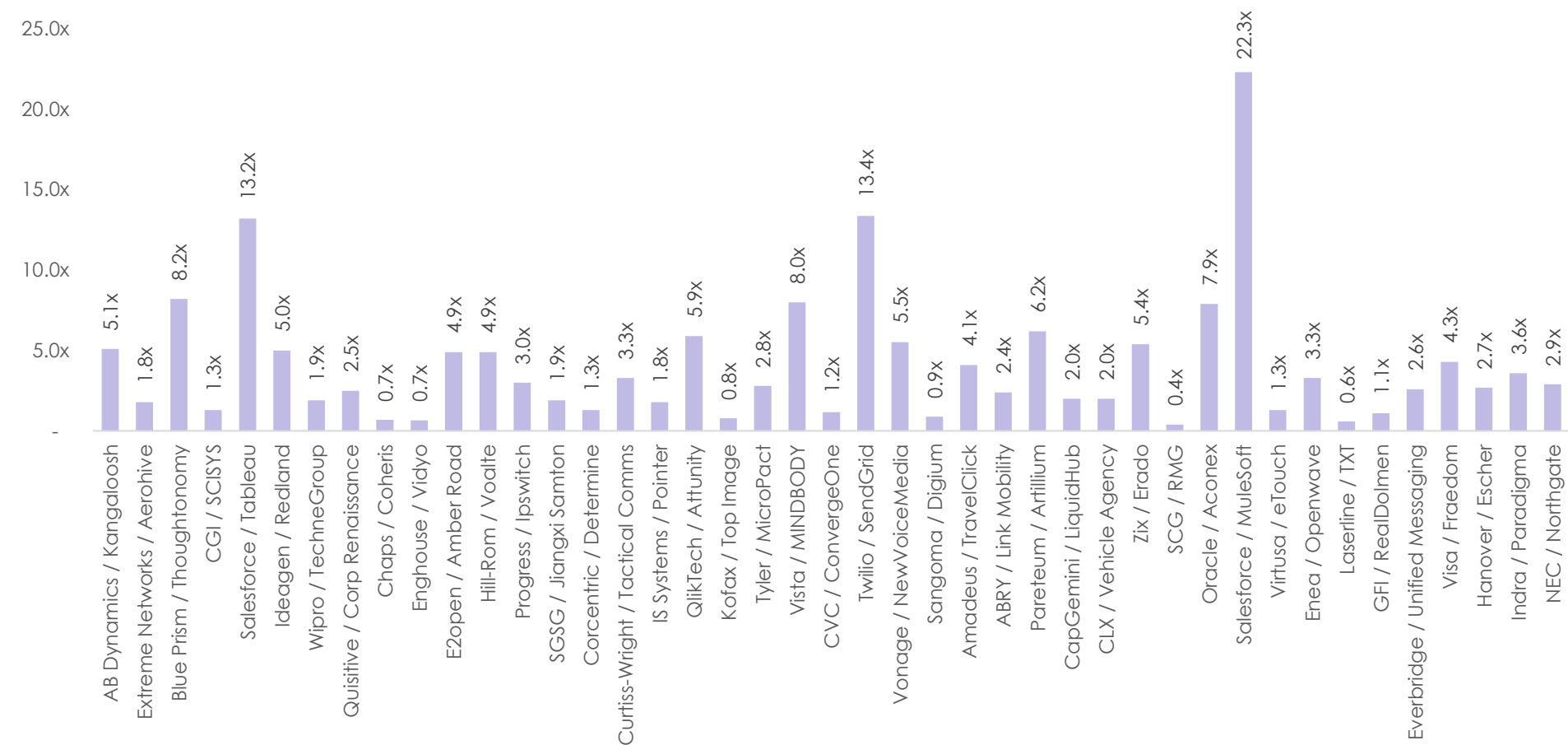


NOTE THAT TRANSACTION MULTIPLES ARE BASED ON HISTORICAL FINANCIAL METRICS, NOT FORECAST

Comparable transactions

LTM Revenue multiple

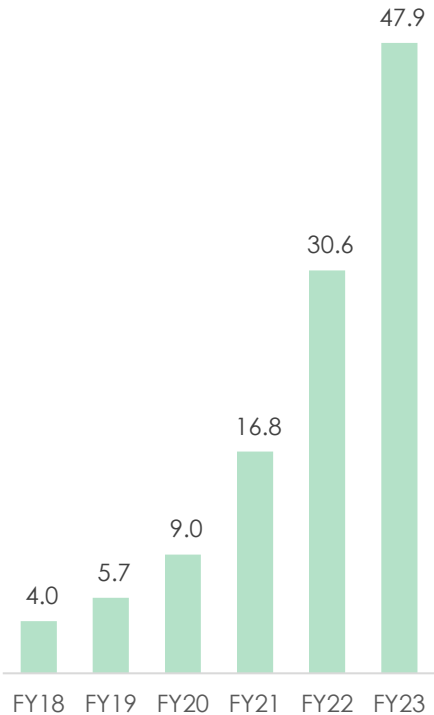
All relevant deals with disclosed metrics since January 2018



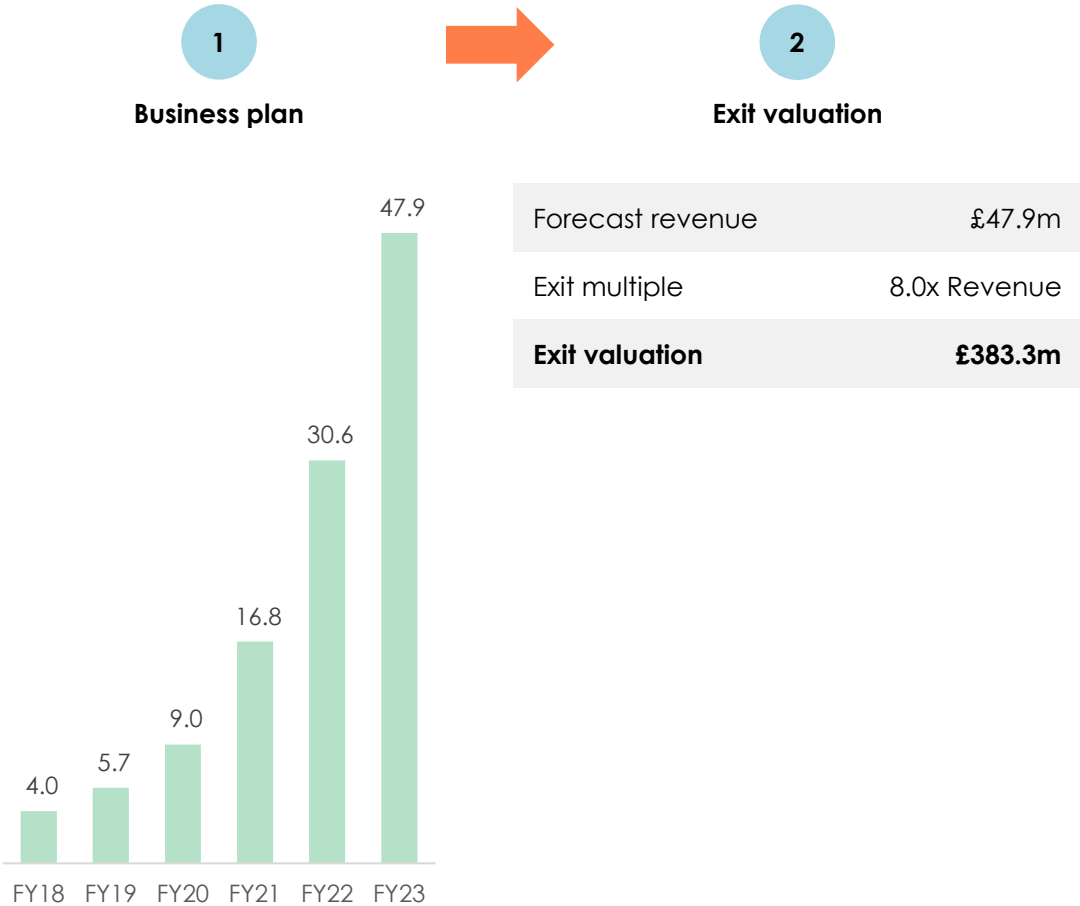
Investor returns analysis

1

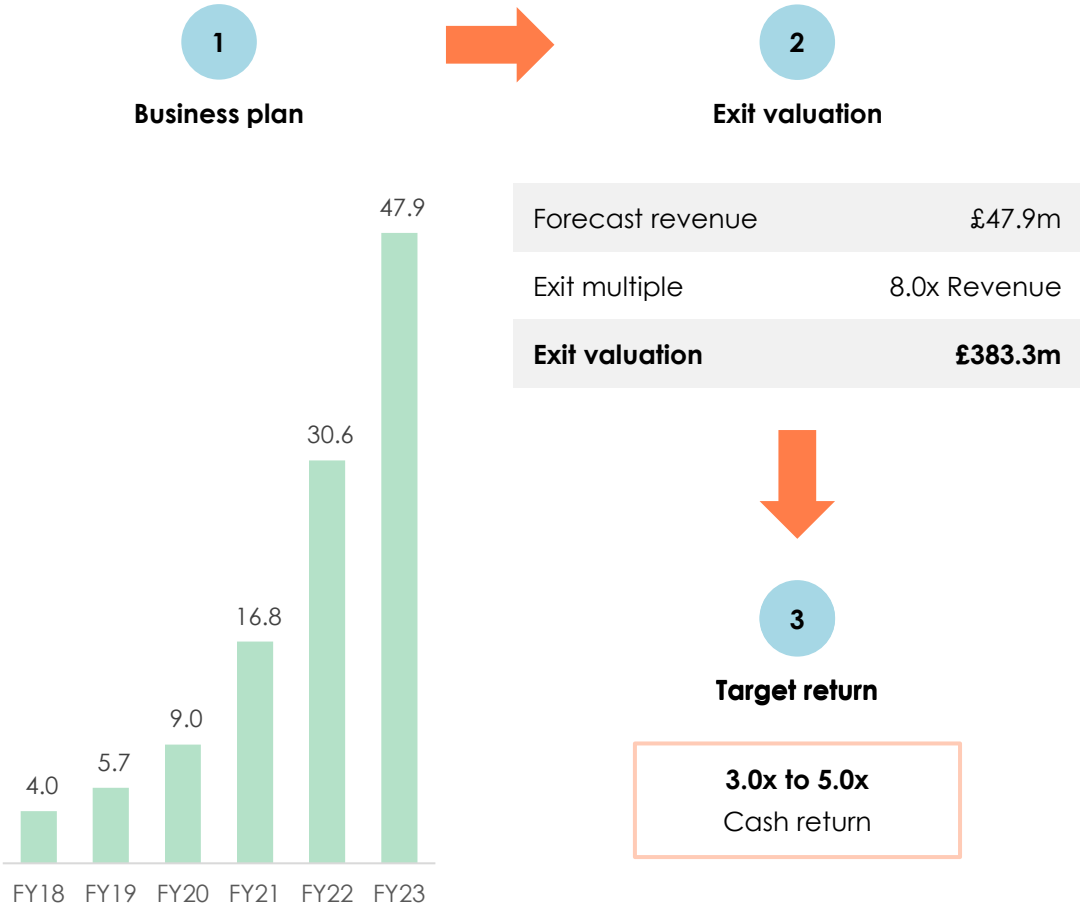
Business plan



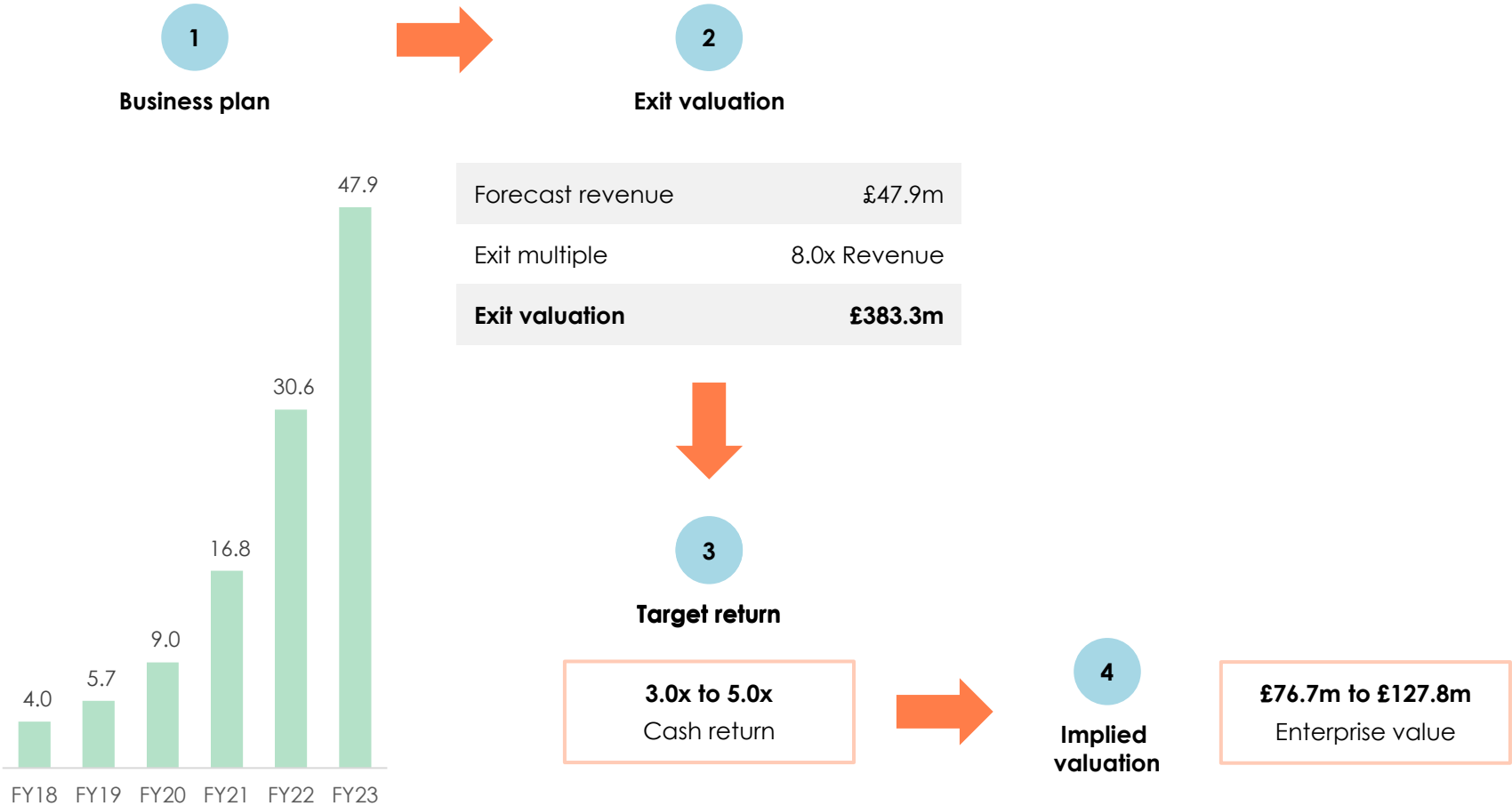
Investor returns analysis



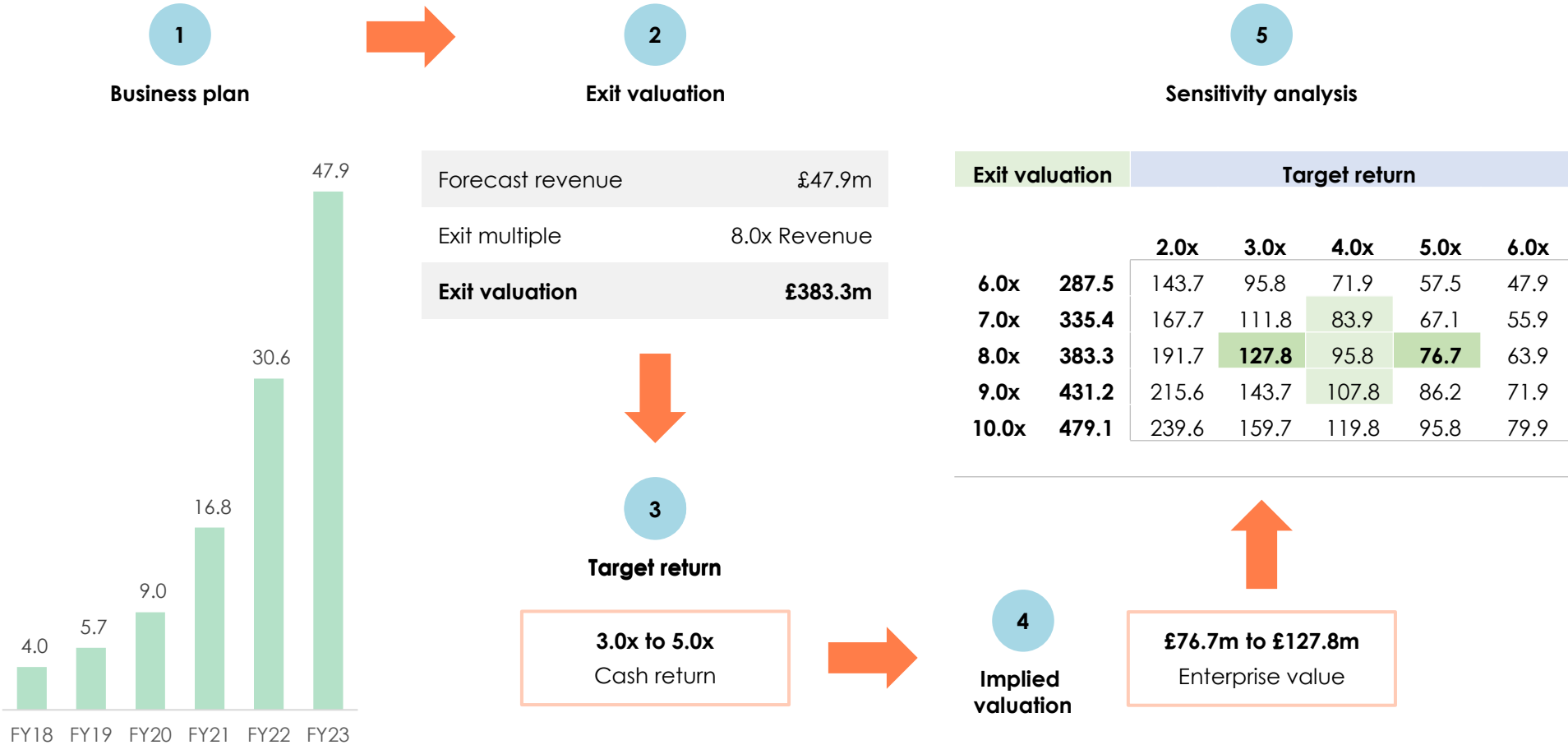
Investor returns analysis



Investor returns analysis



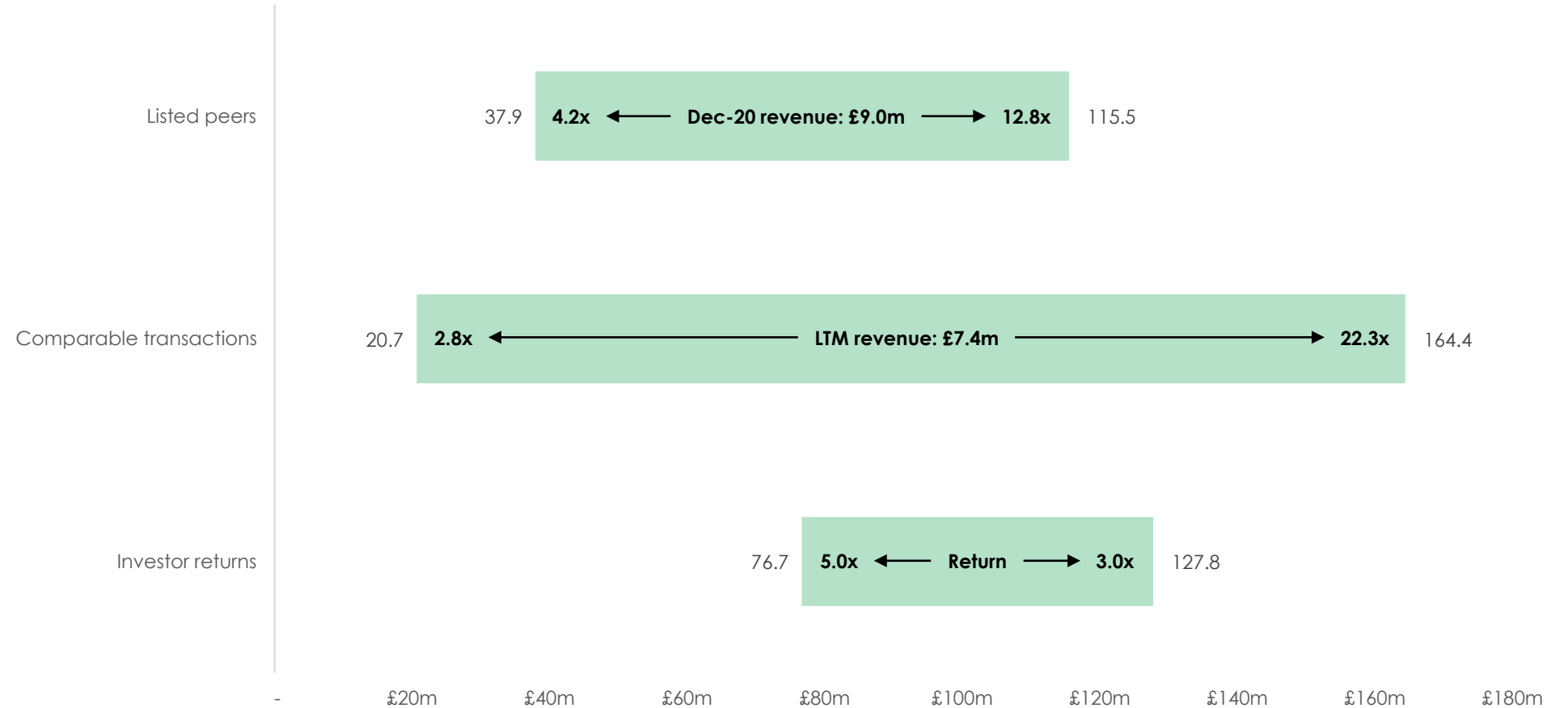
Investor returns analysis



Summary indicative valuation

Valuation range (£'m)

Assuming a transaction takes place in June 2020



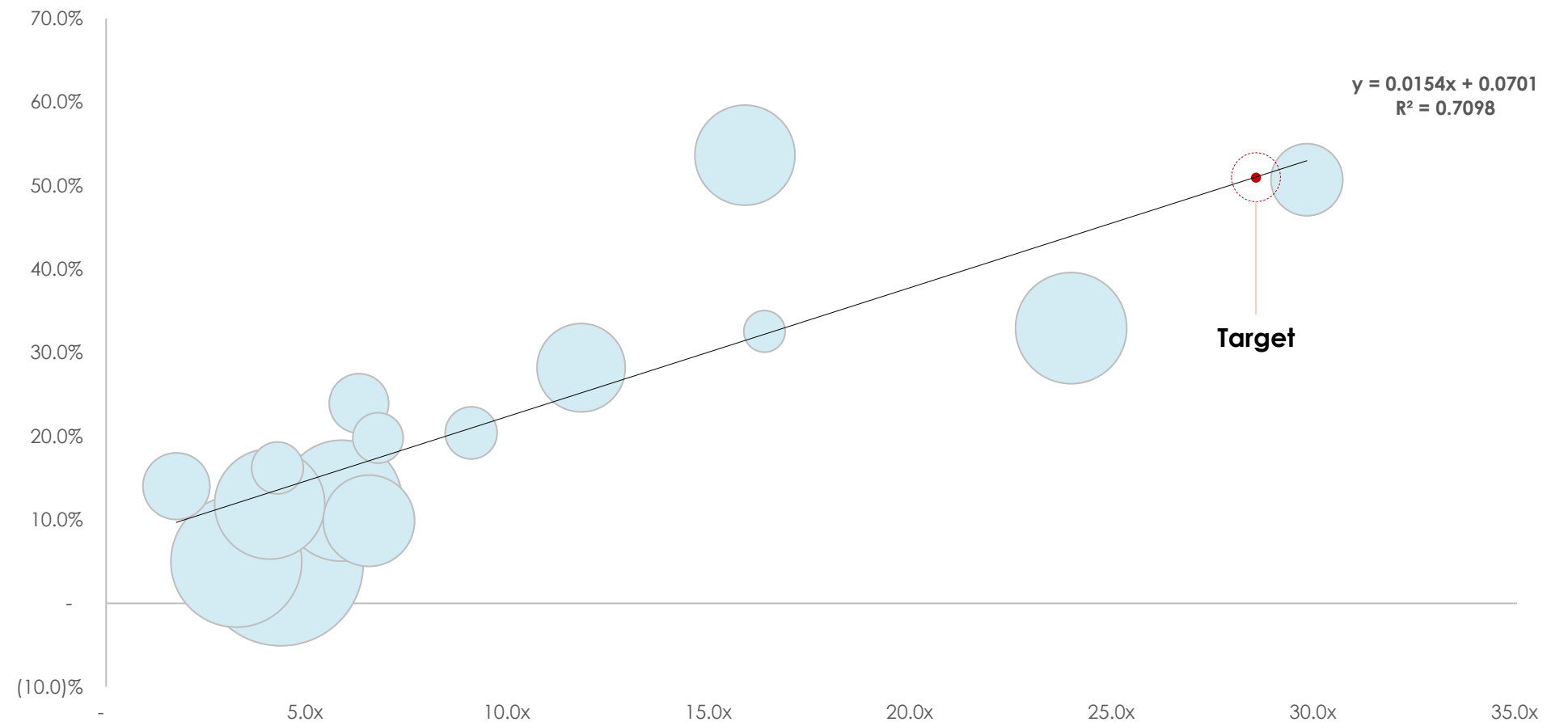
Case study 2

Workings

USE REGRESSION FORMULA TO DETERMINE WHERE TARGET COMPANY WOULD PLOT ON THE LINE OF BEST FIT

Listed peers analysis

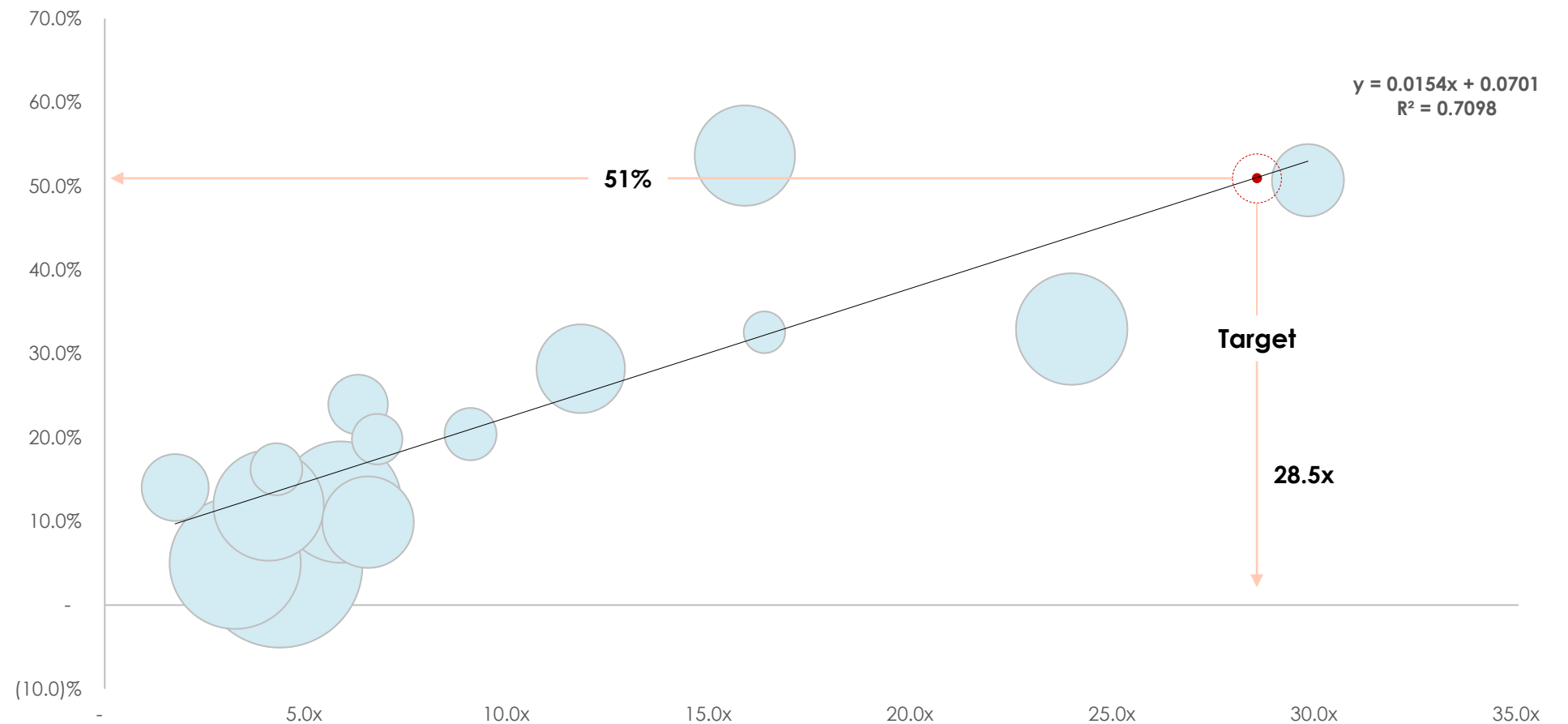
Dec-19 Revenue multiple vs. Dec-18-20 Revenue CAGR



THE TARGET'S REVENUE GROWTH OF 51% WOULD IMPLY A VALUATION OF 28.5X DEC-19 REVENUE

Listed peers analysis

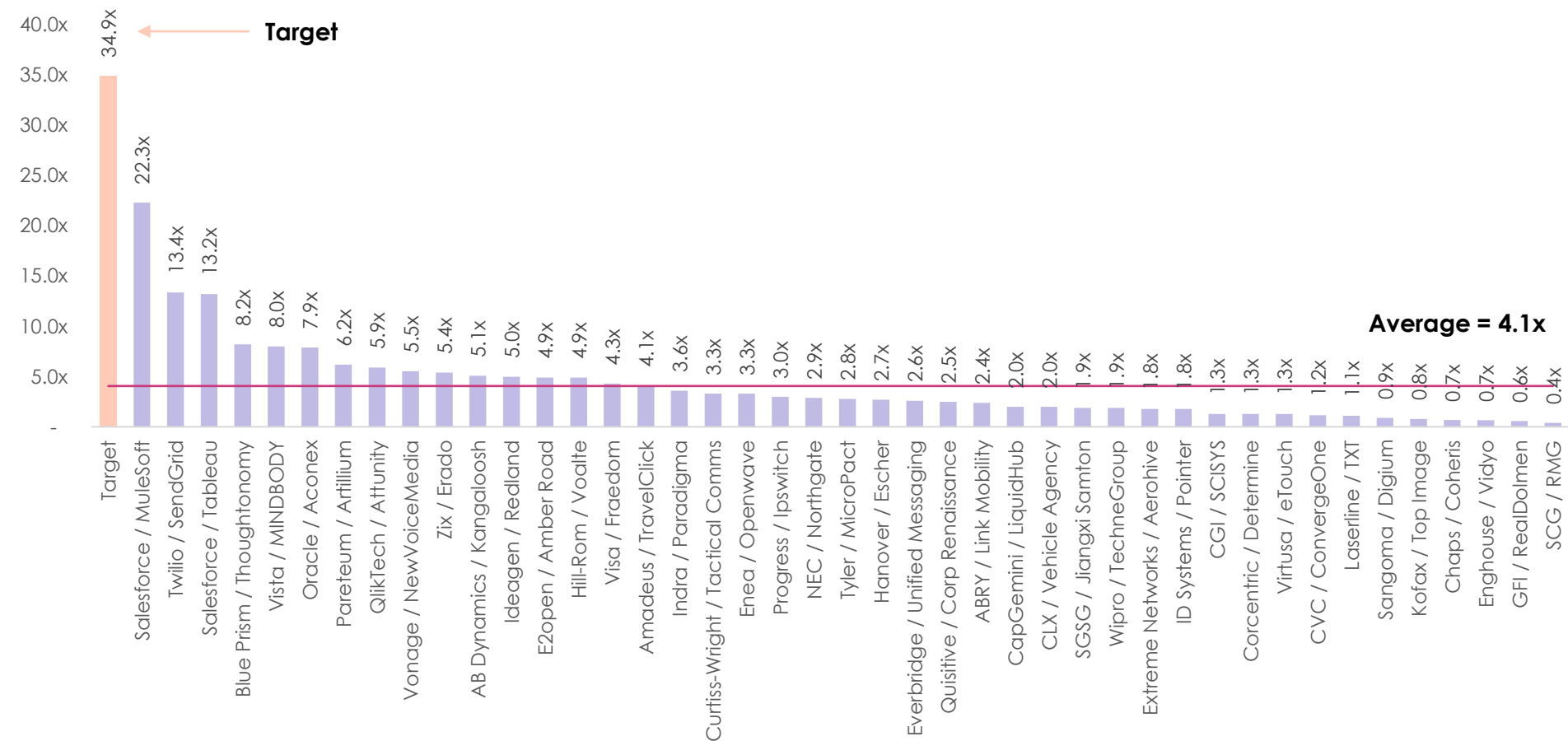
Dec-19 Revenue multiple vs. Dec-18-20 Revenue CAGR



THIS WOULD IMPLY AN LTM REVENUE MULTIPLE OF 34.9X, WHICH COULD BE CONSIDERED HIGH

Comparable transactions

LTM Revenue multiple



THE 'SCIENCE' WOULD IMPLY A VALUATION OF £258M, HOWEVER THAT IS UNLIKELY TO BE CONSIDERED REASONABLE

Summary indicative valuation

Valuation range (£'m)

Assuming a transaction takes place in June 2020

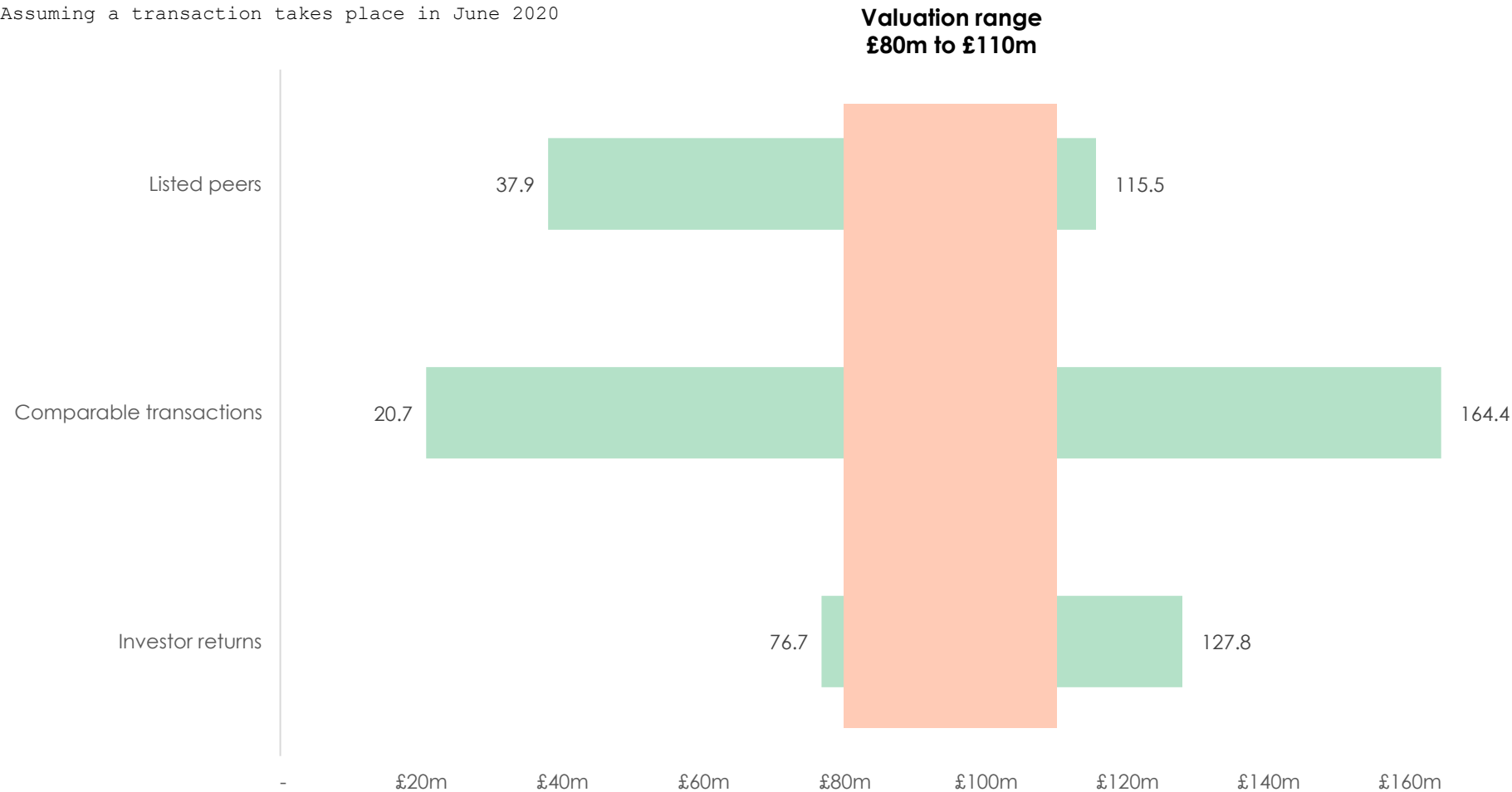


CONSIDER OTHER MARKET AND COMPANY SPECIFIC FACTORS TO ARRIVE AT A VALUATION RANGE

Summary indicative valuation

Valuation range (£'m)

Assuming a transaction takes place in June 2020

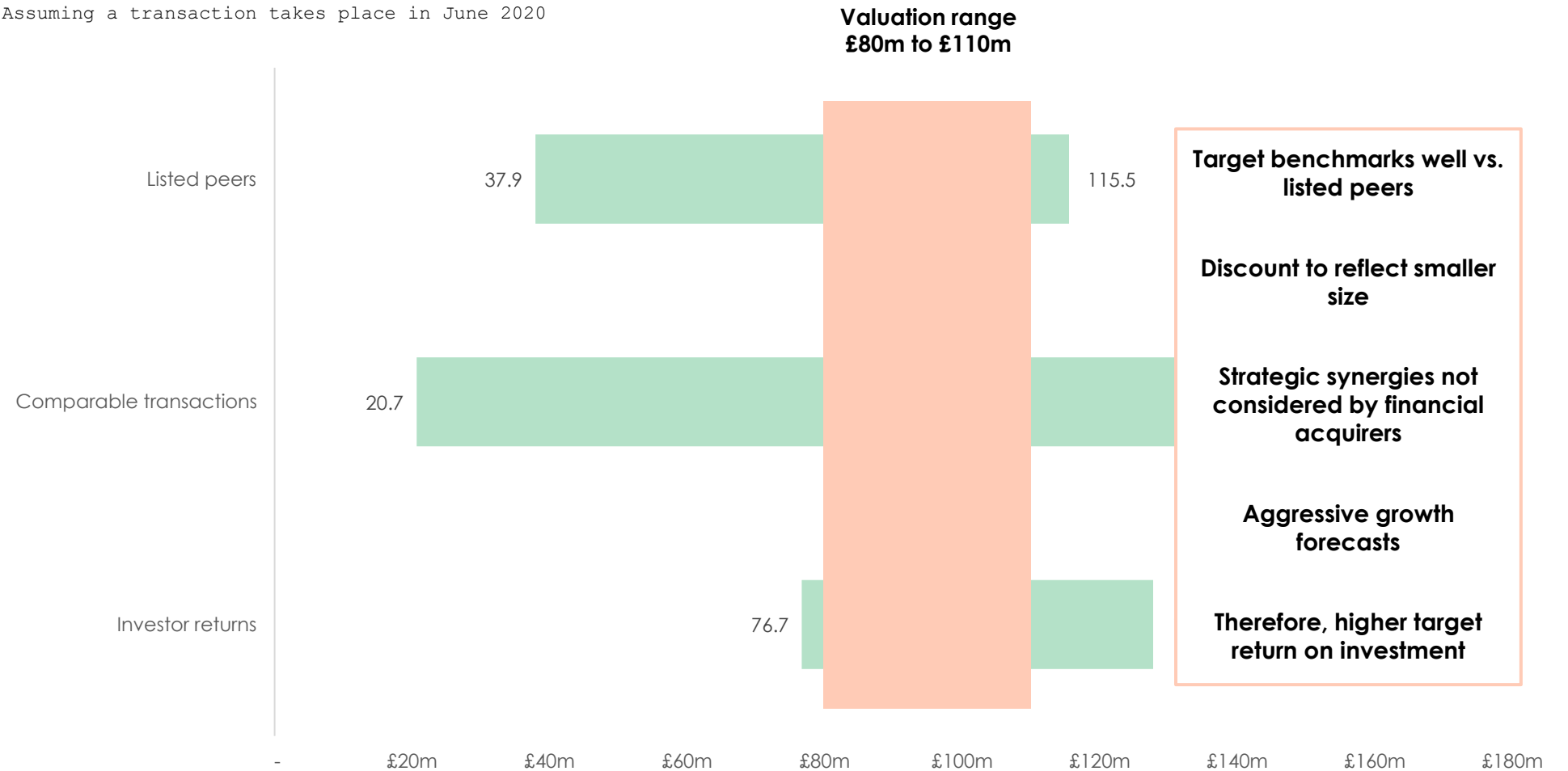


CONSIDER OTHER MARKET AND COMPANY SPECIFIC FACTORS TO ARRIVE AT A VALUATION RANGE

Summary indicative valuation

Valuation range (£'m)

Assuming a transaction takes place in June 2020



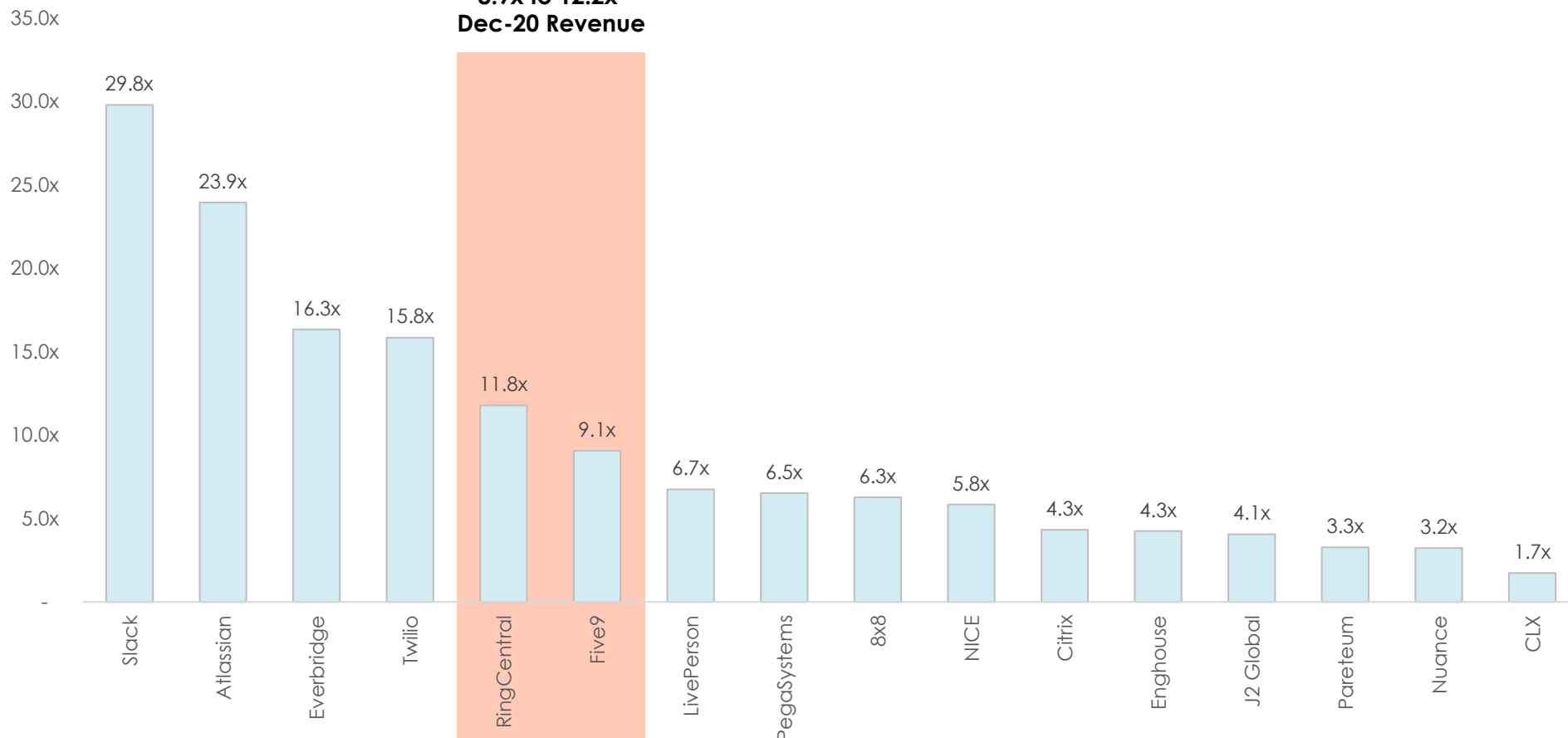
THIS WOULD PLACE THE TARGET TOWARDS THE UPPER END OF THE PEER RANGE...

Sense check: listed peers

Dec-20 Revenue multiple

Valuation range
£80m to £110m

8.9x to 12.2x
Dec-20 Revenue

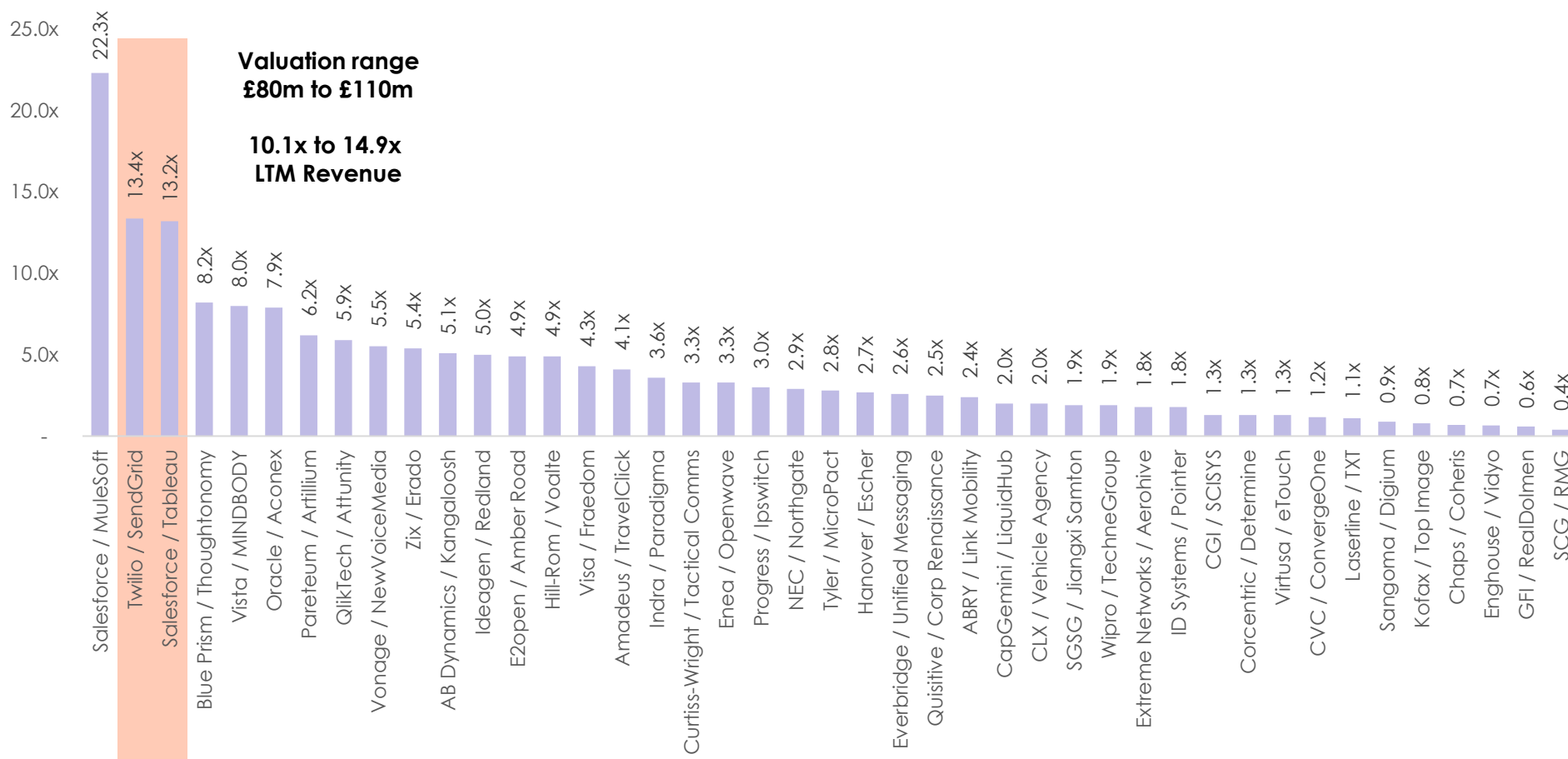


...AND AMONGST THE HIGHEST VALUATION PAID FOR SIMILAR BUSINESSES SINCE THE BEGINNING OF 2018

Sense check: comparable transactions

LTM Revenue multiple

All relevant deals with disclosed metrics since January 2018



Conclusion

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Key takeaways

- Valuing companies involves a **combination** of data analytics and subjective opinion

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- Data analytics must form the foundation of any valuation exercise
 - Financial analysis of the target
 - Comparable metrics (listed peers and comparable transactions)
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Conclusion

Key takeaways

- Valuing companies involves a **combination** of data analytics and subjective opinion
- Data analytics must form the foundation of any valuation exercise
 - Financial analysis of the target
 - Comparable metrics (listed peers and comparable transactions)
 - Returns analysis
- Subjective opinions help justify the chosen valuation range
 - Perspective / motivation
 - Financial performance
 - Market conditions
 - Risk appetite

Conclusion

Key takeaways

- Valuing companies involves a **combination** of data analytics and subjective opinion
- Data analytics must form the foundation of any valuation exercise
 - Financial analysis of the target
 - Comparable metrics (listed peers and comparable transactions)
 - Returns analysis
- Subjective opinions help justify the chosen valuation range
 - Perspective / motivation - Financial performance
 - Market conditions - Risk appetite
- Ultimately, there is no right and wrong answer - the true market value for a private company is only ever determined at the time of a transaction

Questions?

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