COMPANY VALUATION

Regarding:

SAMPLE OÜ

7.05.2018

CREDITINFO

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Contents

1. Introduction

The main purpose of the current analyze is an objective valuation of SAMPLE OÜ.

Company valuation enables to efficiently gather the historical data as well to prognosticate the future cash flows and value of the firm on the presently available information. The research helps to determine the basic price from where to go on with negotiations. The document presents accurate values and estimations, accompanied by detailed explanations to each component affecting the value.

There are several different methods for company valuation. Aside from the criteria assessed in the models, there may also be emotional value for the present owner. Any price is usually too high for the buyer and too low for the owner. The final price is a result of negotiations and compromises.

This document contains the following parts:

- Principles of evaluation in relation to the exploited model.
- Estimated values, sensitivity analyses in case of different scenario, key figures.
- Future cash flow prognoses for calculating the value, detailed explanations.
- Descriptions and estimations of key figures, comparison to the sector average.
- Annual accounts and financial ratios of past five years.

2. Conclusions

Subject company: SAMPLE OÜ
Reg. code: 10000000
Address: Akadeemia tee 1, 12618 Tallinn, Estonia
Tel: (+372)6000000

Main line of business (EMTAK 2008): - Computer programming activities

Key figures:

EBIT (weighted average)	€ 358 414
Invested Capital	€ 1 496 047
Equity	€ 1 034 127
Creditinfo Rating	AAA
Return on Equity	51,5%
WACC	10,5%
EBIT Growth	10,2%
Value of Equity	€ 6 456 928

COMPANY VALUE: € 6 085 683

Valuation Model: Discounted Free Cash Flow (DFCF)

SAMPLE OÜ: economic situation of the company is very good, operational risk is low. Main line of business is wholesale and retail of foreign language literature and periodicals, also stationary. Net sales grew in 2016 and amounted € 4 109,5 thousand.

The historical weighted average operating margin was 12,7% and weighted average profit formed € 358 414. The prognosticated average future growth in sales is 6,6% and average EBIT growth 10,2% a year. These forecasts consider the current economic situation, future outlook of Estonian economy as well the historical figures and the business area of the company.

The above figures of equity and invested capital derive from the latest balance sheet.

The value of equity i.e. the amount of money the present owners are entitled to differs from the value of the company by € 371 245 and amounts to € 6 456 928.

The level of equity (69,1%) is much higher if compared to the sector´s average (55,0%). Therefore, the overcapitalised share (€ 211 301) is added to the value. Loan liabilities (€ 100 000) are subtracted from the value.

The calculated value of the company or the present value of future free cash flows is € 6 085 683.

3. Valuation Model

To evaluate the company we use the **discounted free cash flow method** (DFCF), which can be defined as the present value of expected future cash flows. It is also seen as a fair value for the investor, taking into account the size, timing and risk of future cash flows. The DFCF method can be used in assessing all types of businesses and it is the most accurate method for private firm valuation.

By using this method, you must first forecast the company's future operating cash flows. Predicting future cash flows is relatively complicated and time-consuming process and can never be entirely accurate. Therefore, the value´s sensitivity range in different scenarios is calculated.

Future cash flows are predicted based on the five latest annual reports, taking into account changes in sales over the years, the structure of reports, business area and the economic cycle. In calculating the cash flows, one has to consider that these should cover both: financing costs of investments and depreciation of assets.

To find the **present value**, the future cash flows are discounted by the weighted average cost of capital (WACC). WACC takes into account the average cost of external financing and the required rate of return on owners´ equity, depending on the company's and the business area´s specific risk rates.

The cash flows of the forecast period (5 years in our report) are summed up. Assuming that the company will continue its activity also after the forecast period, the following cash flows must be considered as well. Using the common long-term growth rate of 2%, the residual value and its present value are calculated. The present values of all above-mentioned cash flows are summarized and the result equals to the **company´s value**.

To find the **value of equity** the company´s value is deducted by the market value of debt and accelerated by the value of non-operating assets or over/undercapitalized share if compared to sector´s average. The value of equity enables to estimate company's dividend paying ability and market value of owners' equity.

4. Company valuation

4.1. Sensitivity Analysis

Since forecasting can never be completely accurate, as the original conditions may change, it is important to find the range of values in different scenarios.

Table 1 shows the sensitivity of company's value, depending on the weighted average cost of capital (WACC) and the size of operating profit. The table indicates that the **maximum value** of the company is € 7 900 037, in case operating profit would grow by an average of 13,5% and the cost of capital would be 9,4%. The **minimum value** of the company is € 4 785 499 with operating profit´s average growth rate of 6,9% and the cost of capital: 11,5%.

Table 1 Sensitivity Analyses (€)

Average Operating Profit Growth	WACC		
	11,5%	**10,5%**	**9,4%**
6,9%	4 785 499	5 316 861	5 998 868
10,2%	5 454 728	**6 085 683**	6 896 538
13,5%	6 201 058	6 944 110	7 900 037

Terms of reference:

Invested assets	€ 1 496 047
Equity	€ 1 034 127
EBIT (weighted average)	€ 358 414
Average EBIT Growth (Prognosis)	10,2%
Return on Equity	51,5%
WACC	10,5%

4.2. Calculations

Table 2 Formation of Company Value (€)

Prognoses	EBIT	EBIT (1-t)	(+) Depreciation	(-) Change in Working Capital	(-) Investments	FCF	PVIF	NPV
1st year	577 226	507 959	23 330	-7 536	23 330	515 495	0,9053	466 680
2nd year	624 270	549 358	25 232	5 063	25 232	544 295	0,8196	446 091
3rd year	664 960	585 165	26 876	4 379	26 876	580 786	0,7420	430 922
4th year	696 482	612 904	28 150	3 392	28 150	609 511	0,6717	409 411
5th year	714 200	628 496	28 866	1 907	28 866	626 589	0,6081	381 026
				Sum of 5-year Cash Flow				**2 134 130**
				Future Cash Flow		6 553 856	0,5505	3 607 972
				Company Value				**6 085 683**
				Value of Equity				6 456 928

EBIT – Earnings before Interest and Taxes

t – Effective Tax Rate

FCF – Free Cash Flow

PVIF – Present Value Interest Factor

NPV – Net Present Value

4.3. Explanations

Hereby the more detailed explanations of the parameters in Table 2.

Forecast Period

The company's future cash flows are prognosticated on the basis of reports over the past five years, taking into account the perspectives of economic development, forecasts and assumptions for the next five years. More detailed forecasts are made for five years and it is expected the company continues operating onwards.

Net Sales

Sales projections are of significant importance as the majority of costs and working capital balances are related to the sale proceeds. To find the average growth index we use the growth index for industry (Creditinfo industry analysis), the geographical growth index (projected by rating agencies), the GDP forecasts (the IMF and the Bank of Estonia´s forecasts) and company's historical growth rates. For further sales forecast from year 6, assuming the company's business continuity, we use the reasonable long-term growth index of 2% a year.

EBIT Growth

The figure is calculated on the basis of projected growth, cost estimates and the past 5-year weighted average level of operating profit.

EBIT

The value of earnings has been calculated by multiplying last year´s earnings by the earnings growth rate for the current year.

Free Cash Flow

Free cash flow is equal to the summarized amounts of future operating cash flows, deducted by the value-adding investments in current and fixed assets.

Discounted Free Cash Flow (DFCF)

DFCF reflects the potential value of the company and is calculated by discounting the FCF with the weighted average cost of capital (WACC) figure.

Weighted Average Cost of Capital (WACC)

The WACC is calculated as the weighted average of the costs´ components of a firm´s capital structure, i.e. the weighted average cost of equity and debt. The figure is used as a discount rate in calculations.

Company Value

Company value equals to the amount of discounted free future cash flows, using the WACC as discount rate.

Value of Equity

To find the value of equity the company´s value is deducted by the market value of debt and accelerated by the value of non-operating assets or over/undercapitalisation if compared to sector´s average.

5. Key Ratios

Positioning the company in relation to other companies in the same sector is an important component in a valuation context.

The following analysis illustrates the company's position in the sector with regard to profitability, liquidity and capitalisation. The average ratios of the sector have been included. It is also important to monitor trends in key indicators over the past years.

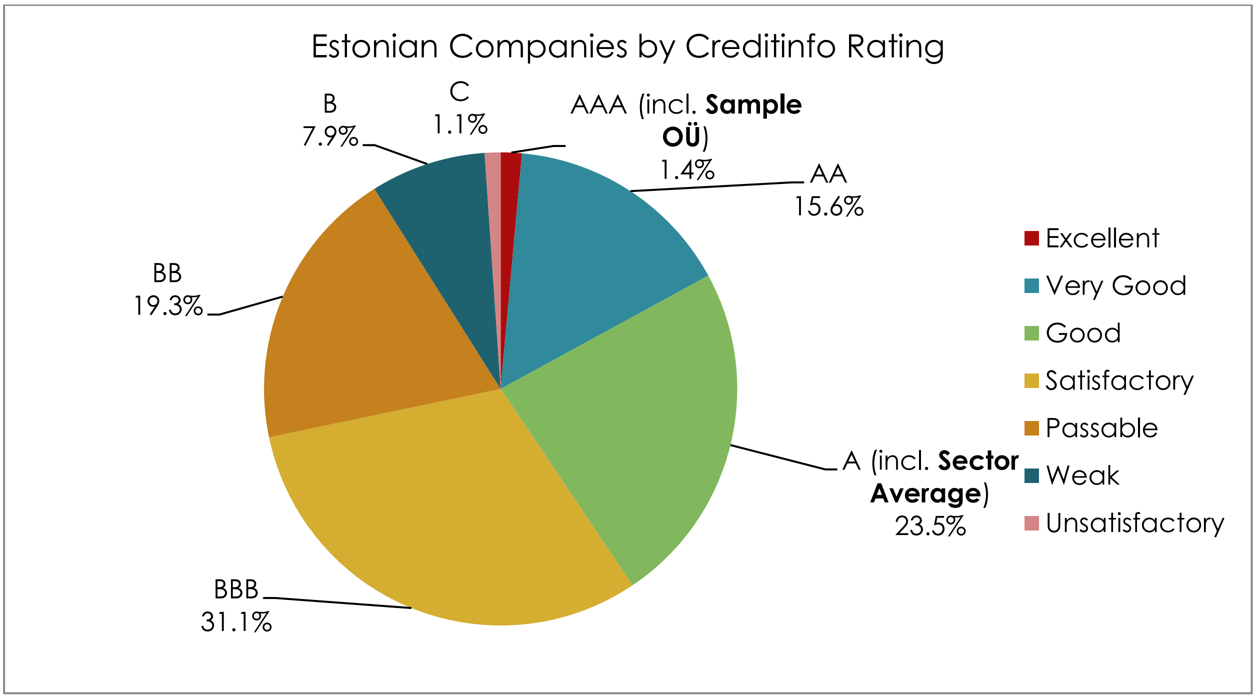
Company's balance sheets, income statements and key ratios for the past five years are given further, in tables.

5.1. Creditinfo Rating

Company´s Rating: **AAA** (Very Good)

Sector´s average: A (Good)

Creditinfo Rating is determined as a result of economic, financial and payment habits´ analysis and is granted to each individual operating Estonian company. The Rating is composed automatically as a result of complex calculations and set of criteria; it is comparable with other businesses of the same sector.



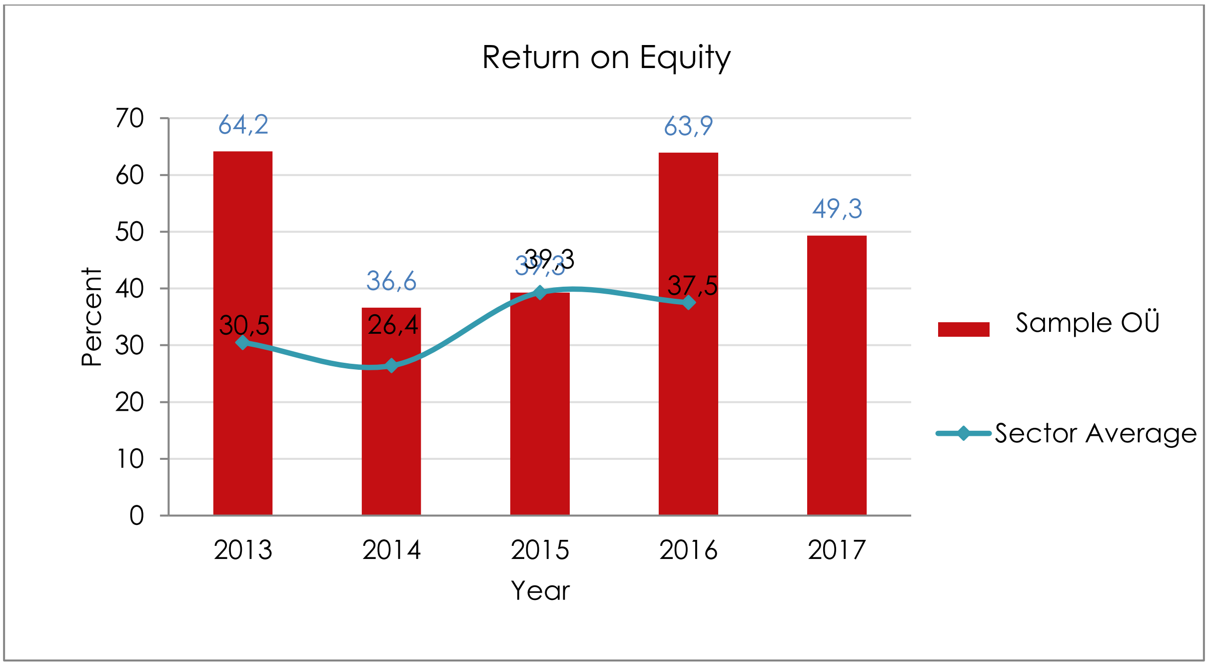
5.2. Return on Equity

Return on Equity (ROE): **49,3%**

Sector´s average: 37,5%

The indicator is calculated on the basis of net profit. Return on equity should generally be higher than the weighted average cost of capital (WACC), which in this case is 10,5%. The company is highly overcapitalized.

Return on equity of the company has increased during the last years and is higher than sector's average.



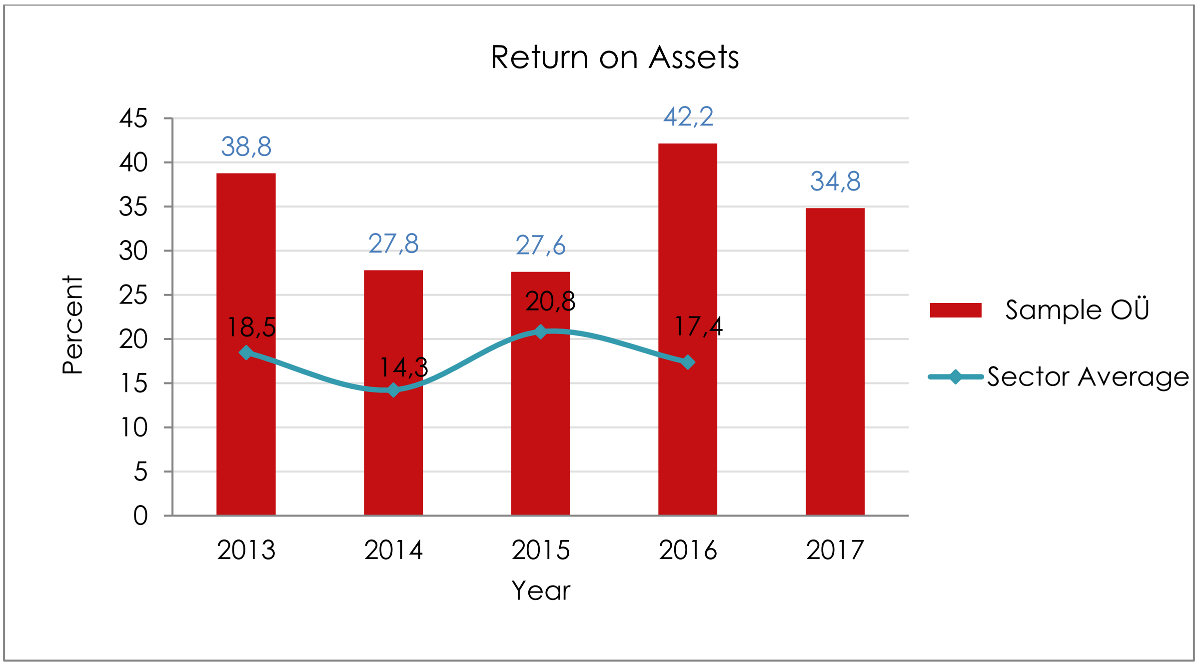
5.3. Return on Assets

Return on assets: 34,8%

Sector´s average: 17,4%

Return on assets takes into account earnings before interest and taxes (EBIT). The rule of thumb is that the indicator should exceed the risk-free interest rate and the average debt rate. The interest rate of government bonds, usually 2.5-3.5%, can be considered as the risk-free interest rate. The average debt rate is 0,2%. If the return on assets does not exceed the risk-free interest rate, it would make more sense to purchase the bonds. If it does not exceed the average debt rate, the return on equity decreases and the company "eats" equity.

Return on assets of the company has increased during the last years and is higher than sector's average.



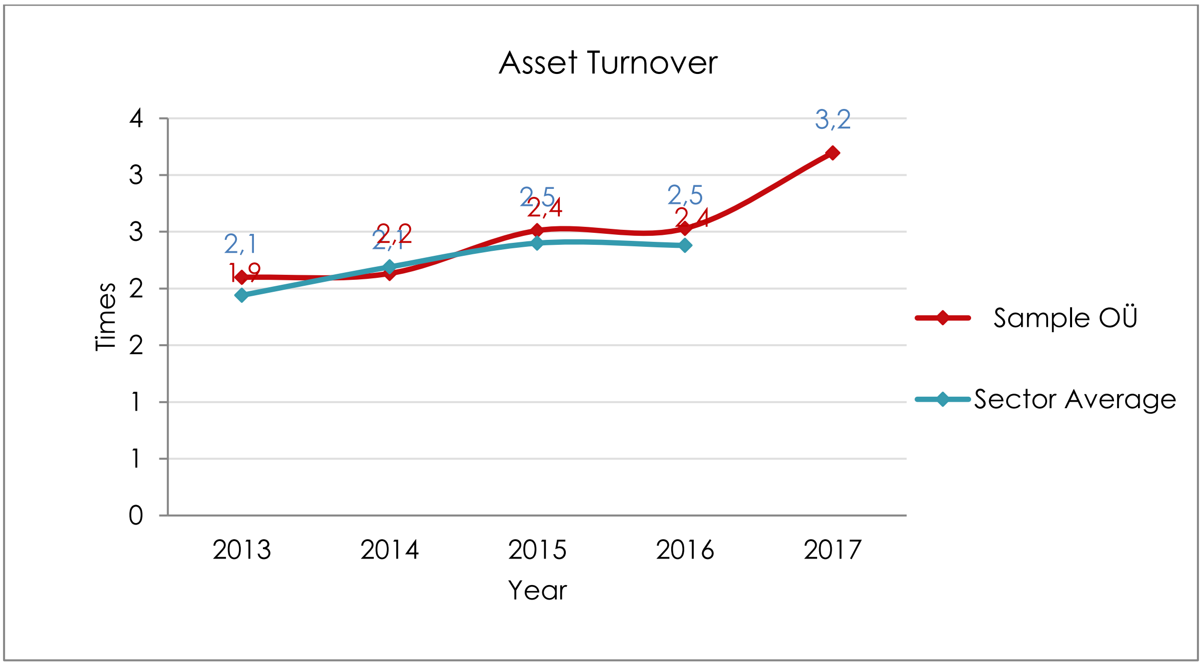
5.4. Asset Turnover

Asset Turnover: **3,2**

Sector´s average: 2,4

Asset turnover indicates how efficiently are the assets involved in the income arising. If the asset turnover is 1, the sales revenue is equal to the assets. The ratio depends largely on the sector, but the higher it is, the more efficient use of assets.

Asset turnover of the company has been higher than sector's average.



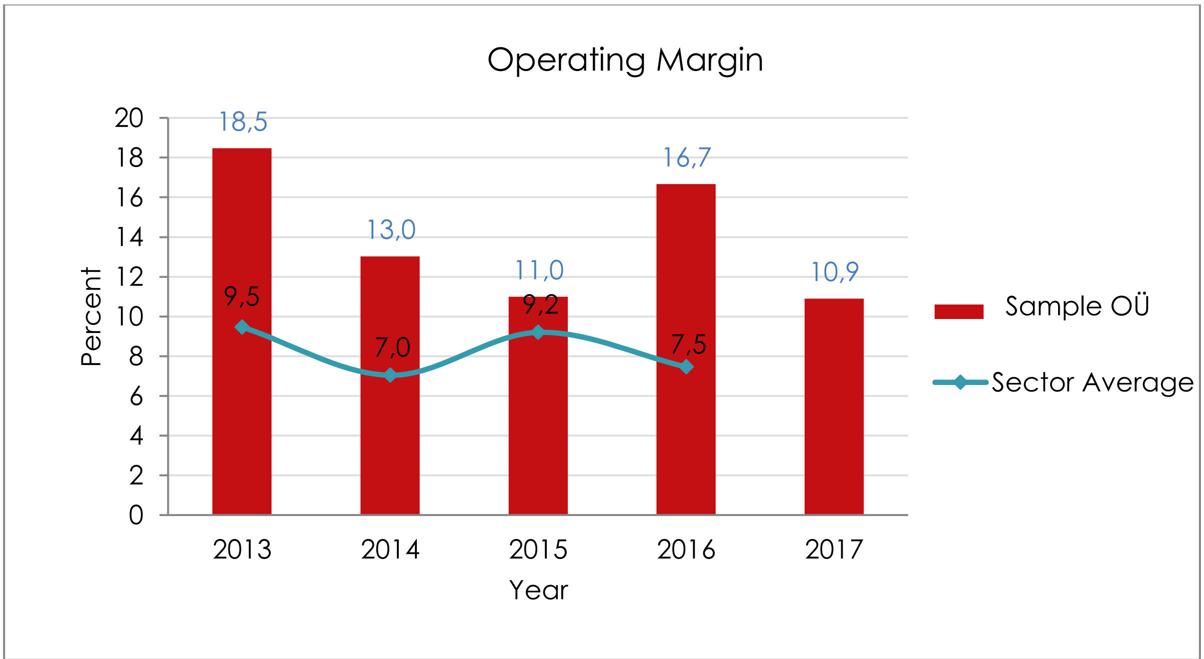
5.5. Operating Margin

Operating Margin: **10,9%**

Sector´s average: 7,5%

Profitability or operating margin shows how profitable the main line of business is (EBIT to sales). If an operation is not cost effective, there is no sense to invest.

Operating margin of the company has increased during the last years and is higher than sector's average. Operating margin of the company has been strongly positive during the last five years.



5.6. Debt Ratio

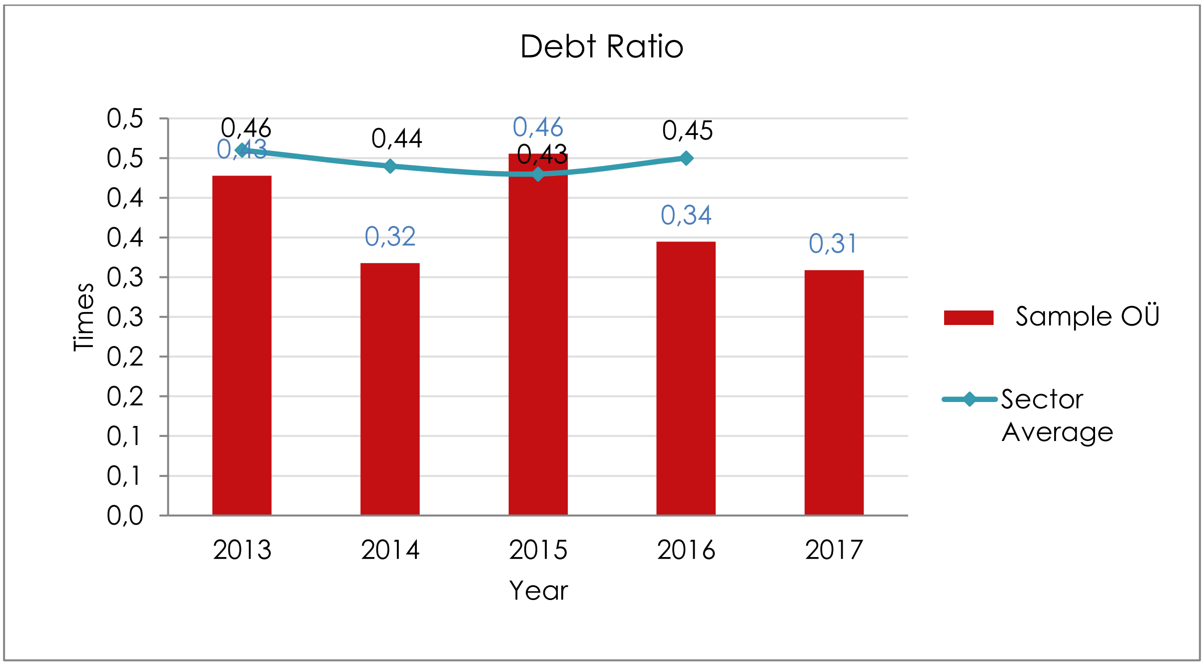
Debt Ratio: **0,31**

Sector´s average: 0,45

Debt ratio of the company is lower than sector's average. The average use of debt capital in the sector is 45%. The company´s level of debt formed 31% in 2017. The level of debt ratio in the company is very low, which shows overcapitalization.

Debt ratio of the company declined (improved) in 2017 being on a good level (creditor's viewpoint).

The level of debt capital must be optimal to ensure the lowest WACC.



6. Key Figures

6.1. Net Sales

Net sales decreased in 2015 but grew in 2016. Average historical growth of sales accounted for 35,0% a year. Due to the current economic situation, the projected average growth for the next five years is 6,6% a year.

	2017	2016	2015	2014	2013
Net Sales, € th.	4 109,5	2 414,3	1 774,0	1 298,2	1 338,3
Trend, %	70,2	36,1	36,6	-3,0	-

In calculating the sales growth rate we take into account the IMF and the Bank of Estonia's GDP forecasts, estimated sector growth index and geographical growth index (based on the rating agencies´ estimates and Creditinfo analysis).

	1st year	2nd year	3rd year	4th year	5th year
Net Sales, € th.	4 559,2	4 930,8	5 252,2	5 501,1	5 641,1
Trend, %	10,9	8,2	6,5	4,7	2,5

6.2. Operating Profit (EBIT)

EBIT: € 358 414

Operating profit is calculated as a weighted average of the results over the past five years. The weighting is achieved by giving the later years greater weight than the earlier years.

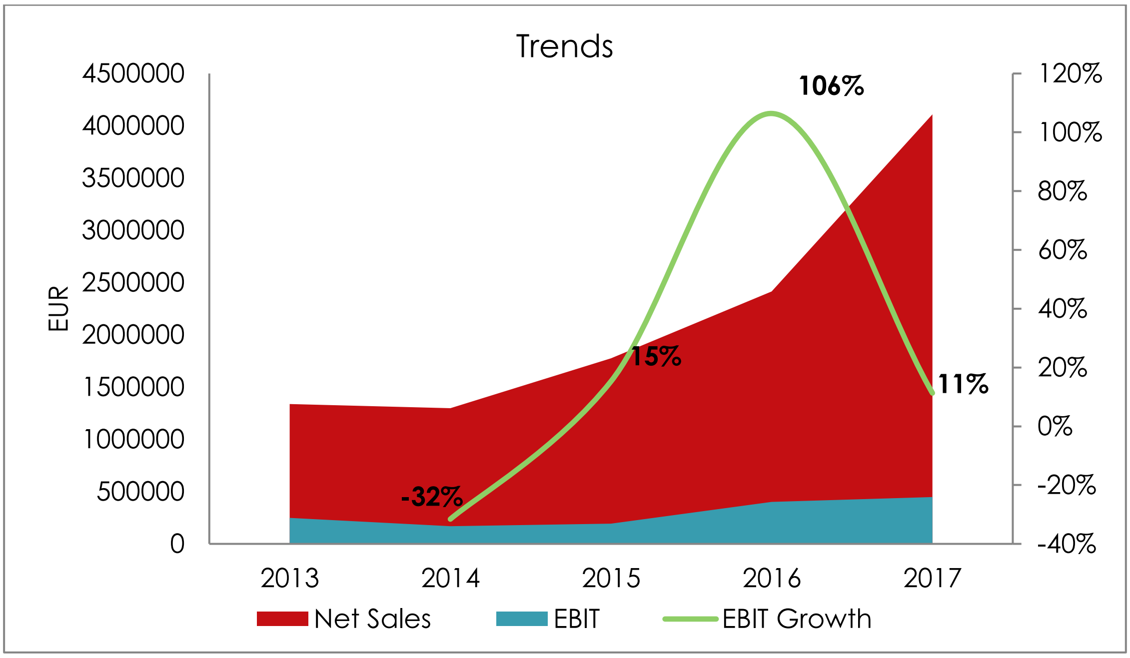
	2017	2016	2015	2014	2013
Ärikasum (-kahjum), tuh. eurot	447,9	402,4	195,0	169,1	247,2
Ärikasumi trend, %	11,3	106,4	15,3	-31,6	-

6.3. Operating Profit Growth

Average predicted growth: 10,2%
Historical average: 12,7%

	1st year	2nd year	3rd year	4th year	5th year
Operating Profit (Loss), € th.	577,2	624,3	665,0	696,5	714,2
Trend, %	28,9	8,2	6,5	4,7	2,5

Future growth rate for the forecast period is found on the basis of net sales growth rate, taking into account the average historical level of costs depending on the cost type. Further growth index from year 6th is 2% a year, in accordance with common practice.



6.4. Invested Assets

Invested Assets: **€ 1 496 047**

Average historical growth: 25,7%

Invested assets reflect the balance sheet total figure from the latest statement. The book value of assets may greatly differ from their real value. For example, some depreciated machinery or equipment may still be in use and have some real value or some damaged goods, doubtful receivables have not been written off, etc. Fair valuation of assets is long and complex process. Therefore, adjustments are made in accounted equity figure: overcapitalised share is added and undercapitalised share deducted.

Additionally, not all the company's assets necessarily participate in the main activity or in generating the profit. Such assets should be added in their fair value while calculating the value of equity.

6.5. Equity

Equity: **€ 1 034 127**

Portion of equity: 69,1%

Sector average: 55,0%

The figure derives from the latest annual statement and it reflects the book value. The portion of equity shows the value of equity in comparison with debt. In valuing the company this figure has major importance. To find out if the company is over- or undercapitalized, the figure should be compared with the sector´s average. If it is higher than sector´s average, the company is overcapitalised and it increases the value of owners´ equity. In case of undercapitalization the value of owners´ equity reduces.

6.6. WACC

WACC: **10,5%**

The WACC is calculated as the weighted average of the costs components of a firm´s capital structure, i.e. the weighted average cost of equity and debt.

The cost of debt is calculated as average price of interest-bearing debt.

Cost of equity consists of:

- risk-free interest rate (for ex. the interest rate of government bonds); at the moment 3.5% rate is used;
- risk premium: historically it has been settled around 7% (for calculating it, systematic risk factor of the sector is multiplied with the market risk premium, the latter being adjusted with specific company risks).

6.7. Value of Equity

Value of Equity: **€ 6 456 928**

To find out the value of owners´ equity we must:

- Calculate the residual value after the forecast period. Assuming the company will operate after the forecast period, the future cash flows have value as well. To calculate these cash flows a long-term growth rate of 2% is used.
- Make the following adjustments originated from the balance: subtract the market value of debt, to correct over- or undercapitalization and add market value of non-operating assets.

If it is assumed that the company will not be active indefinitely, we calculate the cash flows of the forecast period adding the company's liquidation value (assets minus liabilities).

Concerning the present case it is assumed that the company continues its activities far into the future.

7. Market Multiples

P/E: 15,1

Shows the relation between the price of equity (P) and earnings (E). Enables to estimate the relative value of a company. The higher the P/E, the more expensive a company. In case of fast growing companies the higher P/E value may be justified.

The ratio is usually calculated for public limited companies using the market price of a share. Here the ratio is calculated for comparative reasons using the value of equity and net profit. P/E ratio is usually compared to that of similar companies and sector´s average.

P/BV: 6,2

The price of equity (P) divided to the book value of equity (BV). The lower the P/BV ratio, the relatively cheaper a company.

The ratio should be over 1, which indicates the market price of equity being higher than book value.

EV/EBITDA: 11,2

Company value (EV) divided to EBITDA (earnings before interest and taxes, depreciation and amortisation). The quotient shows the number of years´ earnings are needed to equalise the purchase price.

The higher the figure, the longer the payback period.

EV/S: 1,5

The price of a company compared to net turnover. Shows how many years´ revenues are needed to cover the price of a company. The higher the ratio, the more expensive the company.

This ratio may vary greatly depending on the sector. That is why it should be compared to similar companies.

8. Financial Statements

8.1. Balance Sheets, 2017-2013 (€)

	31.12.2017	31.12.2016	31.12.2015	31.12.2014	31.12.2013
Cash at bank	602 776	320 325	588 842	419 860	233 115
Shares and other securities					
Receivables and Prepayments	631 578	400 326	230 246	134 566	368 132
Inventories					
Current assets	1 234 354	720 651	819 088	554 426	601 247
Non Current Financial Investments		300 000			
Receivables and Prepayments					
Investment Property					
Property Plant and Equipment	51 988	55 300	14 145	25 257	36 500
Intangible Assets	209 705				
Non Current Assets	261 693	355 300	14 145	25 257	36 500
Assets, Total	1 496 047	1 075 951	833 233	579 683	637 747
Loan Liabilities	100 000				
Payables And Prepayments	361 920	270 759	379 632	184 170	272 757
Government Grants					
Provisions					
Current Liabilities	461 920	270 759	379 632	184 170	272 757
Long Term Loan Liabilities					
Payables And Prepayments		100 000			
Non Current Provisions					
Non Current Government Grants					
Non Current Liabilities		100 000			
Liabilities	461 920	370 759	379 632	184 170	272 757
Minority Interests					
Issued Capital	3 043	3 043	2 556	2 556	2 556
Share Premium					
Treasury Shares					
Reserves	256	256	256	256	256
Other Equity					
Retained Earnings (Loss)	601 893	331 589	283 956	253 378	127 975
Annual Period Profit (Loss)	428 935	370 304	166 833	139 323	234 203
Equity	1 034 127	705 192	453 601	395 513	364 990
Liabilities and Equity, Total	1 496 047	1 075 951	833 233	579 683	637 747

8.2. Income Statements, 2017-2013 (€)

	2017	2016	2015	2014	2013
Income Statement Scheme 1					
Net sales	4 109 460	2 414 329	1 773 971	1 298 189	1 338 342
Other operating income	11 197	1 327	1 768	0	11 588
Changes in inventories of goods					
Capitalized expenditure					
Goods, raw materials and services	1 533 069	922 147			
Other external charges	315 212	185 089	915 501	606 902	674 322
Staff costs	1 719 112	878 760	642 192	496 290	402 318
Depreciation	97 252	27 216	22 162	25 890	26 094
Other operating expenses	8 106		900		
Income Statement Scheme 2					
Net sales					
Cost of goods, products and services					
Gross profit (loss)					
Profit (loss) from biological assets					
Marketing expenses					
Administrative and general expenses					
Other operating income					
Other operating expenses					
joint part					
Operating profit (loss)	447 906	402 444	194 984	169 107	247 196
Financial income and expenses	6 029	-2 340	-965	-862	-478
Profit (loss) before income tax	453 935	400 104	194 019	168 245	246 718
Income tax expense	25 000	29 800	27 186	28 922	12 515
Net profit (loss) for financial year	428 935	370 304	166 833	139 323	234 203
Average number of employees	58	0	18	16	13

8.3. Ratios, 2017-2013

	2017	2016	2015	2014	2013	Sector Average
Trends (+/-)						
Net sales growth, %	70,2	36,1	36,6	-3,0		20,0
Total Assets growth, %	39,0	29,1	43,7	-9,1		19,0
Equity growth, %	46,6	55,5	14,7	8,4		21,0
EBIT growth, %	11,3	106,4	15,3	-31,6		-25,0
Net profit growth, %	15,8	122,0	19,7	-40,5		-26,0
Liquidity and Default Risk						
Cash and bank to sales, %	14,7	13,3	33,2	32,3	17,4	10,3
Current ratio, *	2,7	2,7	2,2	3,0	2,2	1,7
Quick ratio, *	2,7	2,7	2,2	3,0	2,2	1,7
Liquidity buffer, days	#DIV/0!	2374,0	467,7	376,0	725,8	242,0
Capital Circulation						
Average collection period, days	17,6	14,8	32,8	66,5	95,5	44,0
Days in payables	3,0	27,3	0,0	0,0	0,0	39,0
Days in inventory	0,0	0,0	0,0	0,0	0,0	0,0
Short-term cash cycle, days	14,6	-12,4	32,8	66,5	95,5	7,0
Asset turnover, *	3,2	2,5	2,5	2,1	2,1	2,4
Returns and Margins						
Return on assets, %	34,8	42,2	27,6	27,8	38,8	17,4
ROE, %	49,3	63,9	39,3	36,6	64,2	37,5
Return on equity, %	51,5	69,5	45,9	44,5	67,7	40,4
Operating margin, %	10,9	16,7	11,0	13,0	18,5	7,5
Net margin, %	10,4	15,3	9,4	10,7	17,5	6,1
Quality of earnings, %	0,0	17,0	162,0	200,5	66,8	1,7
Dividend rate, %	23,3	32,2	65,2	78,1	20,1	38,8
Capital Structure and Leverage						
Debt ratio, *	0,3	0,3	0,5	0,3	0,4	0,5
Consolidation ratio,*	0,7	0,7	0,5	0,7	0,6	0,6
Debt to equity, *	0,4	0,5	0,8	0,5	0,7	0,8
Interest cover, *	543,5	182,1	126,5	226,2	522,5	301,8
Cost of debt, %	1,0	0,0	0,0	0,0	0,0	5,6
Degree of self-financing, %	0,0	36,4	263,8	274,7	180,5	106,1
Average debt rate, %	0,2	0,6	0,6	0,4	0,2	20,6

9. Responsibility of Creditinfo Eesti AS

Information given in the report has been collected from the public sources. Creditinfo Eesti AS can neither guarantee the reliability of the sources nor the sufficiency and accuracy of the information. Creditinfo Eesti AS is not responsible for any direct or indirect damage caused by the use of the report.

10. About Creditinfo

Creditinfo Eesti AS is the largest company of Estonian credit information sector. Creditinfo collect information about companies and private individuals in Estonia and add more value to such information.

The following well-known trademarks among corporate and private customers are represented under the name Creditinfo: E-Krediidiinfo.ee (business information for companies), E-Seif.ee (payment discipline information for private persons), BalticTarget.eu (B2B direct marketing database) and Successful Estonian Company (certificate of good credit capacity). Creditinfo administrate the Estonian Credit Register.

Creditinfo regularly conducts studies on payment discipline, credit policy and bankruptcy, based on which new trends are forecast. The company owns the highest quality database of business information and invests annually significantly in obtaining the most up-to-date data. By creating added value for the data we help Estonian companies to quickly make correct credit-related decisions, decrease financial loss and develop solutions for increasing the turnover and the market share.

Since the January of 2016 Creditinfo Eesti AS has been a subsidiary company of a leading service provider for credit information and risk management solutions worldwide Creditinfo Group. Through its subsidiaries and partners the group is doing business in more than 30 countries and offers many innovative products and services for making credit risk management easier. Creditinfo is a partner of World Bank, IFC, Millennium Challenge Corporation and other international organizations. T Creditinfo core business is to operate a “one-stop shop” consumer and business credit information databases and related services. The headquarter of Creditinfo is located in Reykjavik, Iceland.

www.creditinfo.ee