

2020


XXX Group Valuation Report



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1. General points

1.1. Income approach to business valuation

Various approaches and methods have been developed to assess the value of enterprises.

There are four different approaches to valuing enterprises (businesses):

- market (comparative) approach;
- cost approach;
- income approach;
- empirical approach.

The income approach best reflects the main assumption of the valuation report, which states that the value of the enterprise (business) is equal to the present value of future income from its possession. According to the income approach concept, the appraiser estimates future income (net income or cash flow) of the company and discounts/capitalizes it at the time of valuation.

The value of XXX Group's business involves primarily prospective generating of high, sustainable future returns provided the necessary investments have been made. Therefore, we've used a profitable approach. We've assessed XXX Group's business by using two methods — direct capitalization and discounting of expected revenue flows.

1.2. Direct capitalization method

The direct capitalization method considers the business to be a perpetual asset generating a certain income for the owner. This income is made up of two components:

$BV \text{ by DCM} = NPV + NPV_p / (*+R)^{**p}$, where:

$BV \text{ by DCM}$ — business valuation by direct capitalization method;

NPV — net present income for the period of business establishment and growth:

$NPV = \sum NCF_i / (*+R)^{**i}$, where:

NCF_i — net cash flow for the given year, which includes revenues from sales, current and investment costs, growth in working capital requirements and tax payments excluding equity and loan proceeds;

NPV_p — NPV of the project beyond the planning period (prolonged NPV);

$NPV_p = NOPLAT / R$;

$NOPLAT$ — post-tax operating profit for the year in the period of business stabilization, net of loan interest;

R — discount rate;

p — period of business establishment and growth.

The above indicators for each of the four business areas of XXX Group were calculated during development of the Group's Executive Summary. Calculation was made for the period of business formation and growth. We will consider net cash flow to be constant outside of this period in order to use the Gordon growth formula ($NPV_p = NOPLAT / R$).

1.3. Discounted cash flow method

This income approach is used to assess companies in a phase of intensive business development, for which there is no reason to assume an unlimited life expectancy. In this case, the evaluation formula is as follows:

BV by DCF = NPV + DVA, where:

BV by DCF – business valuation by discounted cash flow method;

DVA – discounted value of business assets at the end of the planning period.

NPV for each of the four business areas of XXX Group were calculated during development of the Group's Executive Summary. DVA can be calculated based on assets from the balance sheet of each business area and their sales value.

1.4. Risks consideration in the income approach to business valuation

Business risks can be viewed as a measure of instability of the revenues expected from this business. All business risks are divided into two groups: systematic and non-systematic.

When determining the value of a business using the income approach, the risk of investing in the business is taken into account by selecting a capitalization rate or discount that is adequate to the risks and is used to determine the present value of the cash flows expected from the business.

The discount rate is determined by means of the cumulative construction method. The essence of this method is that indicators characterizing the risks inherent in the industry and each of the business areas under assessment are added to the standard risk-free rate.

In accordance with the cumulative construction model, the discount rate is calculated by the following formula:

$R = R_f + R^* + R^* + R^* + R^* + R^* + R^* + R^*$, where:

R_f – risk-free income rate;

R^* – key managing figure, quality of management;

R^* – business size;

R^* – financial structure;

R^* – operational and territorial diversification;

R^* – customer diversification;

R^* – revenues: profitability and predictability;

R^* – other specific risks.

Thus, the basis for this calculation is the income rate of the risk-free income security in question plus the risk premium for investing in the security in question. The amount received is adjusted taking into account factors that are specific to the enterprise in question.

Risk-free rate

The long-term yield on government bonds may be used as a risk-free rate.

Business areas "...", "...", "..." proposed by XXX Group are located in Therefore, they use the yield of *.*% of the country's bonds.

"..." business area is located in Therefore, it uses the yield on bonds of this country, which is *.*%.

Risk premium for investing in the company in question

The evaluation theory has identified a list of the main factors that should be analyzed in the calculation of the risk premium for investing in this company. They are:

- *. The size of the company.
- *. Financial structure.
- *. Operational, product and territorial diversification.
- *. Customer diversification.
- *. Revenues: profitability and predictability.
- *. Key managing figure, quality of management.
- *. Other specific risks.

The size of risk premiums for investing in an individual company ranges from zero to *.*%.

Company size premium

The most obvious advantage that a large company has is its relatively easier access to financial markets when additional resources are required, as well as greater business stability compared to small competitors.

Thus, a large company will have less risk and therefore less size premium.

Financial structure premium

The financial structure of any company consists of equity and borrowed funds in a certain proportion. The less the company depends on borrowed funds the better the financial structure of this company, the lower the risk (e.g. bankruptcy risk) and therefore the lower the premium (mark-up) for the financial structure.

The ratio of total debt to equity (TD/EQ) has been chosen as an indicator of the borrowed funds dependency. The indicator is calculated using the following formula:

$$\text{TD/EQ} = \frac{\text{Long-term liabilities} + \text{Current liabilities}}{\text{Equity capital}}$$

Recommended value: *.* - *.*.

Operational, product and territorial diversification premium

The greater the company's operational, product and territorial diversification, the lower the risks this company is exposed to (e.g. bankruptcy risk) and thus the lower the level of risk premium for operational and territorial diversification.

Customer diversification premium

The risk of a negative scenario increases if the company has a limited number of customers or if any customers have a very large share in the company's turnover.

Profitability and revenue predictability premium

The profitability risk premium for insufficient profitability is calculated based on the investor's interests, based on the principle of expectations. The investor will not invest in the project if the rate of return in another project is higher, provided all other conditions are equal. In this case, since the investor's interest is reflected in the return which accounts for the capital (equity) he or she has invested (ROE), the ROE should be compared to market indicators of ROE. This may be a market average or an industry average return on equity (ROE).

Management quality premium

Quality of management is the factor that can either lead a company to a complete standstill or lead to blossom. The quality of management is reflected in all aspects of the company's existence. In a certain sense, the company is what management has done to it, in other words the current state of the business and its development prospects are largely predetermined by the quality of management.

2. Business area “...”**2.1. Discount rate calculation****Company size premium**

The company represented for valuation is small in size (by the size of the balance sheet currency), so the size premium was determined at a high level of *%.

Financial structure premium

At the time of valuation, the long-term liabilities of the business area equal to ** thousand euros and short-term liabilities equal to *** thousand euros. At the same time, equity capital amounts to *** thousand euros. As a result

$$TD/EQ = *.**,$$

which is an evidence of the financial stability of the enterprise in question.

Thus, the financial structure premium was determined at the lowest level — *%.

Operational, product and territorial diversification premium

Based on the conducted business area analysis, in particular the analysis of the list of products and services as well of territorial affiliation of customers, it was concluded that the company has not been highly diversified, which gives rise to a *% diversification premium.

Customer diversification premium

As the analysis has shown, the risk of diversification of the clients for this business area is at a low level, as the company is just beginning its work in the market. That is why a premium for the customer diversification risk is determined at a high level of *%.

Profitability and revenue predictability premium

Based on the financial analysis carried out while the development of the Executive Summary, the net profit margin of the business area is at a good level of **%. The Executive has determined the average profitability premium at the lowest level — *%.

Management quality premium

The analysis showed that the quality of business management is at an average level. On the one hand:

- The main business processes are not documented.
- The management information system is not used in the management.

On the other hand, there is a financial plan and action plan, and the management has been set up based on these plans.

The management quality premium is *%.

Other specific risks premium

Based on the financial analysis, current state of the company and available information, no additional risks have been identified and therefore this estimate equals to *%.

Table 1. Discount rate calculation

Risks	%
Risk-free rate	*, * %
Size	*, *%
Financial structure	*, *%
Operational and territorial diversification	*, *%
Customer diversification	*, * %
Revenues: profitability and predictability	*, *%
Quality of management	*, *%
Other specific risks	*, *%
Total discount rate, %	** , **%

Thus, the total risk factor determined by the analysis of the financial and economic activity of the business area is **. *%.

2.2. Business valuation by direct capitalization method

Table 2. Calculation of valuation using the direct capitalization method

Item	****	****	****	****	****
NCF	_**	***	***	***	***

Discount rate	** , %				
$NCF_i / (*+R)^{**i}$, thousand euros	-**	***	***	***	***
NPV from Executive Summary, thousand euros	***				
NOPLAT, thousand euros					***
NPV prolonged, thousand euros					* ***
$NPV \text{ prolonged} / (*+R)^{**p}$, thousand euros					***
Total BV by DCM, thousand euros	* ***				

The cost of the “...” business unit, calculated using the direct capitalization method, is * *** thousand euros.

2.3. Business valuation by discounted cash flow method

NPV from the Executive Summary amounts to *** thousand euros. By the end of ****, there are no debts in this business area.

Table 3. Calculation of asset reversal value

Item	Value
Capital assets at the moment of valuation, thousand euros	***
Amortization period of capital assets, years	**
Capital assets by the end of ****, thousand euros	***
Discount on quick sale of capital assets, %	**%
Capital assets by the end of **** including discount, thousand euros	***
Investments in securities, thousand euros	***
Discount on quick sale of securities, %	**%
Investments in securities including discount, thousand euros	***
Total asset reversal value, thousand euros	***

The total value of the “...” business unit determined by discounted cash flow method equals to

*** thousand euros + *** thousand euros = * *** thousand euros.

2.4. Consolidated assessment

Since there is no reason to assign a higher weight to one method than to another, all rates for the weighting have been selected equal, as shown in Table 4.

Table 4. Calculation of the weighted average cost of the company

Method	Amount, thousand euros	Rate	Contribution to valuation
Direct capitalization method	* ***	*	* ***
Discounted income method	* ***	*	* ***

Total value of the business unit, thousand euros	* **
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Conclusion: The cost of the “...” business unit is * ** thousand euros.

2.5. Business development action points

In order to increase the value of the ... business, the following activities need to be funded in addition to the main plan outlined in the Executive Summary:

***. Expansion of the list of products and services**

The company is going:

-

***. Expansion of the production facility**

To launch mass production it is necessary to purchase following additional equipment:

.....

***. Expansion of the customer base**

The company intends:

-

***. Intensification of advertising and promotion**

The company intends:

.....

***. Improvement of logistics (warehouses and transport)**

The company is planning

***. Improvement of procurement performance**

The company is planning

***. Increase and development of the personnel**

.....

***. Application of new technologies**

The company needs to

***. Use of information technology tools**

.....

****. Improvement of the management system**

.....

**** Risks reduction**

.....

2.6. Estimated required investments

Total amount of investments to implement action items listed in section *.* equals to *,* million euros.

2.7. Business valuation by income approach in case of additional investments**Table 5. Calculation of valuation using the direct capitalization method**

Item	****	****	****	****	****
NCF	_* **	* **	* **	* **	* **
Discount rate	** , %				
NCFi/(**+R)**i, thousand euros	_* **	* **	* **	* **	* **
NPV, thousand euros	** **				
NOPLAT, thousand euros					* **
NPV prolonged, thousand euros					** **
NPV prolonged/(**+R)**p, thousand euros					** **
Total BV by DCM, thousand euros	** **				

The cost of the “...” business area calculated using the direct capitalization method is ** ** thousand euros.

Table 6. Calculation of asset reversal value

Item	Value
Capital assets at the moment of valuation, thousand euros	***
Amortization period of capital assets, years	**
Capital assets by the end of ****, thousand euros	* **
Discount on quick sale of capital assets, %	**%
Capital assets by the end of **** including discount, thousand euros	* **
Investments in securities, thousand euros	***
Discount on quick sale of securities, %	**%
Investments in securities including discount, thousand euros	***
Total asset reversal value, thousand euros	* **

The total value of the “...” business determined by discounted cash flow method equals to

** ** thousand euros + * ** thousand euros = ** ** thousand euros.

The significant difference between results, obtained by using two different methods, can be explained by the following reason. If additional investments are made, a

significant part of the direct capitalization valuation is the profit that the business unit will generate after the end of the planning period stated in the Executive Summary (* years). Since the discounted cash flow method does not take into account this profit but instead takes into account the sales value of the assets by the end of the *th year, the valuation using this method is lower. Therefore, different rates have been used to calculate the consolidated value of the business area by these two methods, as stated in Table 7.

Table 7. Calculation of the weighted average cost of the company

Method	Amount, thousand euros	Rate	Contribution to valuation
Direct capitalization method	** ***	*, *	** ***
Discounted income method	** ***	*	** ***
Total value of the business unit, thousand euros	** ***		

Conclusion: The cost of the “...” business unit in case of additional investments is ** * thousand euros.**

3. Business area “.....”

3.1. Discount rate calculation

Company size premium

The company represented for valuation is small in size (by the size of the balance sheet currency), so the size premium was determined at a high level of *%.

Financial structure premium

At the time of valuation, the long-term liabilities of the business area equal to * thousand euros and short-term liabilities equal to ** thousand euros. At the same time, equity capital amounts to *** thousand euros. As a result

$$TD/EQ = *.**,$$

which is an evidence of the financial stability of the enterprise in question.

Thus, the financial structure premium was determined at the lowest level — *%.

Operational, product and territorial diversification premium

Based on the conducted business area analysis, in particular the analysis of the list of products and services, as well of territorial affiliation of customers, it was concluded that the company has good diversification, which gives rise to a *% diversification premium.

Customer diversification premium

As the analysis has shown, the risk of diversification of the clients for this business area is at a low level, as the company is just beginning its work in the market. That is why a premium for the customer diversification risk is determined at a high level of *%.

Profitability and revenue predictability premium

Based on the financial analysis carried out while the development of the Executive Summary, the net profit margin of the business area is at a low level of *%. The Executive has determined the average profitability premium at the highest level — *%.

Management quality premium

The analysis showed that the quality of business management is at an average level. On the one hand:

- The main business processes are not documented.
- The management information system is not used in the management.

On the other hand, there is a financial plan and action plan, and the management has been set up based on these plans.

The management quality premium is *%.

Other specific risks premium

Based on the financial analysis, the current state of the company and the available information, no additional risks have been identified and therefore this estimate equals to *%.

Table 8. Discount rate calculation

Risks	%
Risk-free rate	*, * %
Size	*, *%
Financial structure	*, *%
Operational and territorial diversification	*, *%
Customer diversification	*, * %
Revenues: profitability and predictability	*, *%
Quality of management	*, *%
Other specific risks	*, *%
Total discount rate, %	** , **%

Thus, the total risk factor determined by the analysis of the financial and economic activity of the business area is **. *%.

3.2. Business valuation by direct capitalization method

Table 9. Calculation of valuation using the direct capitalization method

Item	****	****	****	****	****
NCF	*	***	***	***	***

Discount rate	** , %				
$NCF_i / (*+R)^{**i}$, thousand euros	*	**	**	**	**
NPV from Executive Summary, thousand euros	***				
NOPLAT, thousand euros					***
NPV продлённая, thousand euros					***
$NPV \text{ продлённая} / (*+R)^{**p}$, thousand euros					***
Total BV by DCM, thousand euros	***				

The cost of the “...” business unit, calculated using the direct capitalization method, is *** thousand euros.

3.3. Business valuation by discounted cash flow method

NPV from the Executive Summary amounts to *** thousand euros. By the end of ****, there are no debts in this business area.

Table 10. Calculation of asset reversal value

Item	Value
Capital assets at the moment of valuation, thousand euros	***
Amortization period of capital assets, years	**
Capital assets by the end of ****, thousand euros	**
Discount on quick sale of capital assets, %	**%
Capital assets by the end of **** including discount, thousand euros	**
Investments in securities, thousand euros	***
Discount on quick sale of securities, %	**%
Investments in securities including discount, thousand euros	***
Total asset reversal value, thousand euros	***

The total value of the “...” business unit determined by discounted cash flow method equals to

*** thousand euros + *** thousand euros = *** thousand euros.

3.4. Consolidated assessment

Since there is no reason to assign a higher weight to one method than to another, all rates for the weighting have been selected equal, as shown in Table 11.

Table 11. Calculation of the weighted average cost of the company

Method	Amount, thousand euros	Rate	Contribution to valuation
Direct capitalization method	***	*	***
Discounted income method	***	*	***
Total value of the business unit, thousand euros	***		

Conclusion: The cost of the “...” business unit is * thousand euros.**

3.5. Business development action points

In order to increase the value of the “...” business unit, the following activities need to be funded in addition to the main plan outlined in the Executive Summary:

***. Expansion of the list of products and services**

.....

***. Expansion of the production facility**

.....

***. Expansion of the customer base**

.....

***. Intensification of promotion and advertising**

.....

***. Improvement of logistics**

.....

***. Improvement of procurement performance**

.....

***. Increase and development of the personnel**

.....

***. Application of new technologies**

.....

3.6. Estimated required investments

Total amount of investments to implement action items listed in section *. * equals to * million euros.

3.7. Business valuation by income approach in case of additional investments

Table 12. Calculation of valuation using the direct capitalization method

Item	****	****	****	****	****
NCF	**	***	****	****	****
Discount rate	**,%				
$NCF_i / (*+R)^{**i}$, thousand euros	**	***	***	***	***
NPV, thousand euros	* ***				
NOPLAT, thousand euros					***
NPV prolonged, thousand euros					* ***
$NPV \text{ prolonged} / (*+R)^{**p}$, thousand euros					* ***
Total BV by DCM, thousand euros	* ***				

The cost of the “...” business unit calculated using the direct capitalization method is * *** thousand euros.

Table 13. Calculation of asset reversal value

Item	Value
Capital assets at the moment of valuation, thousand euros	***
Amortization period of capital assets, years	**
Capital assets by the end of ****, thousand euros	* ***
Discount on quick sale of capital assets, %	**%
Capital assets by the end of **** including discount, thousand euros	* ***
Investments in securities, thousand euros	***
Discount on quick sale of securities, %	**%
Investments in securities including discount, thousand euros	***
Total asset reversal value, thousand euros	* ***

The total value of the “...” business unit determined by discounted cash flow method equals to

* *** thousand euros + * *** thousand euros = * *** thousand euros.

Table 14. Calculation of the weighted average cost of the company

Method	Amount, thousand euros	Rate	Contribution to valuation
Direct capitalization method	* ***	*	* ***
Discounted income method	* ***	*	* ***
Total value of the business unit, thousand euros	* ***		

Conclusion: The cost of the “...” business unit in case of additional investments is * * thousand euros.**

4. Business area “...”

4.1. Discount rate calculation

Company size premium

The company represented for valuation is small in size (by the size of the balance sheet currency), so the size premium was determined at a high level of *%.

Financial structure premium

At the time of valuation, the long-term liabilities of the business area equal to *** thousand euros and short-term liabilities equal to *** thousand euros. At the same time, equity capital amounts to * *** thousand euros. As a result

$$TD/EQ = *.**,$$

which is an evidence of the financial stability of the enterprise in question.

Thus, the financial structure premium was determined at the lowest level - *%.

Operational, product and territorial diversification premium

Based on the conducted business area analysis, in particular the analysis of the list of products and services, as well of territorial affiliation of customers, it was concluded that the company has an average diversification, which gives rise to a diversification premium of *%.

Customer diversification premium

As the analysis has shown, the risk of diversification of the clients for this business area is at a low level, as the company is just beginning its work in the market. That is why a premium for the customer diversification risk is determined at a high level of *%.

Operational, product and territorial diversification premium

Based on the financial analysis carried out while the development of the Executive Summary, the net profit margin of the business area is very high — **%. The Executive has determined the profitability premium at the lowest level — *%.

Management quality premium

The analysis showed that the quality of business management is at an average level. On the one hand:

- The main business processes are not documented.
- The management information system is not used in the management.

On the other hand, there is a financial plan, an action plan, and the management has been set up based on these plans.

The management quality premium is *%.

Other specific risks premium

Based on the financial analysis, the current state of the company and the available information, no additional risks have been identified and therefore this estimate equals to *%.

Table 15. Discount rate calculation

Risks	%
Risk-free rate	*, * %
Size	*, * %
Financial structure	*, * %
Operational and territorial diversification	*, * %
Customer diversification	*, * %
Revenues: profitability and predictability	*, * %
Quality of management	*, * %
Other specific risks	*, * %
Total discount rate, %	** , * %

Thus, the total risk factor determined by the analysis of the financial and economic activity of the business area is **.*%.

4.2. Business valuation by direct capitalization method

Table 16. Calculation of valuation using the direct capitalization method

Item	****	****	****	****	****
NCF	***	***	****	****	****
Discount rate	** , * %				
$NCF_i / (* + R)^{**i}$, thousand euros	***	***	***	***	***
NPV from Executive Summary, thousand euros	* ****				
NOPLAT, thousand euros					* ***
NPV prolonged, thousand euros					* ***
$NPV_{\text{prolonged}} / (* + R)^{**p}$, thousand euros					* ***
Total BV by DCM, thousand euros	* ****				

The cost of the “...” business area, calculated using the direct capitalization method, is * *** thousand euros.

4.3. Business valuation by discounted cash flow method

NPV from the Executive Summary amounts to * **** thousand euros. By the end of ****, there are no debts in this business area.

Table 17. Calculation of asset reversal value

Item	Value
Capital assets at the moment of valuation, thousand euros	* **
Amortization period of capital assets, years	**
Capital assets by the end of ****, thousand euros	***
Discount on quick sale of capital assets, %	**%
Capital assets by the end of **** including discount, thousand euros	***
Investments in securities, thousand euros	* **
Discount on quick sale of securities, %	**%
Investments in securities including discount, thousand euros	* **
Total asset reversal value, thousand euros	* **

The total value of the “...” business unit determined by discounted cash flow method equals to

*** ** thousand euros + * ** thousand euros = * ** thousand euros.**

4.4. Consolidated assessment

Since there is no reason to assign a higher weight to one method than to another, all rates for the weighting of the evaluations have been selected equal, as shown in Table 18.

Table 18. Calculation of the weighted average cost of the company

Method	Amount, thousand euros	Rate	Contribution to valuation
Direct capitalization method	* **	*	* **
Discounted income method	* **	*	* **
Total value of the business unit, thousand euros	* **		

Conclusion: The cost of the “...” business unit is * ** thousand euros.

4.5. Business development action points

In order to increase the value of the “...” business unit, the following activities need to be funded in addition to the main plan outlined in the Executive Summary:

***. Expansion of the list of products and services**

.....

***. Expansion of the production facility**

.....

***. Expansion of the customer base**

.....

***. Intensification of advertising and promotion**

.....

***. Increase and development of the personnel**

.....

***. Risks reduction**

.....

4.6. Estimated required investments

Total amount of investments to implement action items listed in section *. * equals to **, ** million euros.

4.7. Business valuation by income approach in case of additional investments

Table 19. Calculation of valuation using the direct capitalization method

Параметр	****	****	****	****	****
NCF	* ***	***	* ***	* ***	* ***
Discount rate	** , %				
$NCF_i / (* + R)^{**i}$, thousand euros	* ***	***	***	***	***
NPV, thousand euros	** ***				
NOPLAT, thousand euros					** ***
NPV prolonged, thousand euros					*** ***
$NPV \text{ prolonged} / (* + R)^{**p}$, thousand euros					** ***
Total BV by DCM, thousand euros	*** ***				

The cost of the “...” business area calculated using the direct capitalization method is ***, *** thousand euros.

Table 20. Calculation of asset reversal value

Item	Value
Capital assets at the moment of valuation, thousand euros	* ***
Amortization period of capital assets, years	**
Capital assets by the end of ****, thousand euros	* ***
Discount on quick sale of capital assets, %	**%
Capital assets by the end of **** including discount, thousand euros	* ***
Investments in securities, thousand euros	* ***
Discount on quick sale of securities, %	**%
Investments in securities including discount, thousand euros	* ***
Total asset reversal value, thousand euros	* ***

The total value of the “...” business unit determined by discounted cash flow method equals to

** *** thousand euros + * *** thousand euros = ** *** thousand euros.

The significant difference between results, obtained by using two different methods, can be explained by the following reason. If additional investments are made, a significant part of the direct capitalization valuation is the profit that the business unit will generate after the end of the planning period stated in the Executive Summary (* years). Since the discounted cash flow method does not take into account this profit but instead takes into account the sales value of the assets by the end of the *th year, the valuation using this method is lower. Therefore, different rates have been used to calculate the consolidated value of the business area by these two methods, as stated in Table 7.

Table 21. Calculation of the weighted average cost of the company

Method	Amount, thousand euros	Rate	Contribution to valuation
Direct capitalization method	*** ***	* , *	*** ***
Discounted income method	** ***	*	** ***
Total value of the business unit, thousand euros	** ***		

Conclusion: The cost of the “...” business unit in case of additional investments is ** * thousand euros.**

5. Business area “...”

5.1. Discount rate calculation

Company size premium

The company represented for valuation is small in size (by the size of the balance sheet currency), so the size premium was determined at a high level of *%.

Financial structure premium

At the time of valuation, the long-term liabilities of the business area equal to ** thousand euros and short-term liabilities equal to *** thousand euros. At the same time, equity capital amounts to *** thousand euros. As a result

$TD/EQ = *.**$,

which is an evidence of the financial stability of the enterprise in question.

Thus, the financial structure premium was determined at the lowest level — *%.

Operational, product and territorial diversification premium

Based on the conducted business area analysis, in particular the analysis of the list of products and services as well of territorial affiliation of customers, it was concluded that the company has low diversification, which gives rise to a *% diversification premium.

Customer diversification premium

As the analysis has shown, the risk of diversification of the clients for this business area is at a low level, as the company is just beginning its work in the market. That is why a premium for the customer diversification risk is determined at a high level of *%.

Profitability and revenue predictability premium

Based on the financial analysis carried out while the development of the Executive Summary, the net profit margin of the business area is at an average level of **%. The Executive has determined the average profitability premium at the level of *,*%.

Management quality premium

The analysis showed that the quality of business management is at an average level. On the one hand:

- The main business processes are not documented.
- The management information system is not used in the management.

On the other hand, there is a financial plan, an action plan, and the management has been set up based on these plans.

The management quality premium is *%.

Other specific risks premium

Based on the financial analysis, current state of the company and available information, no additional risks have been identified and therefore this estimate equals to *%.

Table 22. Discount rate calculation

Risks	%
Risk-free rate	*, *%
Size	*, *%
Financial structure	*, *%
Operational and territorial diversification	*, *%
Customer diversification	*, * %
Revenues: profitability and predictability	*, *%
Quality of management	*, *%
Other specific risks	*, *%
Total discount rate, %	** , *%

Thus, the total risk factor determined by the analysis of the financial and economic activity of the business area is **, *%.

5.2. Business valuation by direct capitalization method

Table 23. Calculation of valuation using the direct capitalization method

Item	****	****	****	****	****
NCF	**	***	***	***	***
Discount rate	** , %				
$NCF_i / (*+R)^{**i}$, thousand euros	**	***	***	***	***
NPV from Executive Summary, thousand euros	***				
NOPLAT, thousand euros					***
NPV prolonged, thousand euros					* ***
$NPV \text{ prolonged} / (*+R)^{**p}$, thousand euros					***
Total BV by DCM, thousand euros	* ***				

The cost of the “...” business unit, calculated using the direct capitalisation method, is * *** thousand euros.

5.3. Business valuation by discounted cash flow method

NPV from the Executive Summary amounts to *** thousand euros. By the end of ****, there are no debts in this business area.

Table 24. Calculation of asset reversal value

Item	Value
Capital assets at the moment of valuation, thousand euros	***
Amortization period of capital assets, years	**
Capital assets by the end of ****, thousand euros	***
Discount on quick sale of capital assets, %	**%
Capital assets by the end of **** including discount, thousand euros	***
Investments in securities, thousand euros	***
Discount on quick sale of securities, %	**%
Investments in securities including discount, thousand euros	***
Total asset reversal value, thousand euros	***

The total value of the “...” business unit determined by discounted cash flow method equals to

*** thousand euros + *** thousand euros = * *** thousand euros.

5.4. Consolidated assessment

Since there is no reason to assign a higher weight to one method than to another, all rates for the weighting of the evaluations have been selected equal, as shown in Table 25.

Table 25. Calculation of the weighted average cost of the Company

Method	Amount, thousand euros	Rate	Contribution to valuation
Direct capitalization method	* **	*	* **
Discounted income method	* **	*	* **
Total value of the business unit, thousand euros	* **		

Conclusion: The cost of the “...” business unit is * ** thousand euros.

5.5. Business development action points

In order to increase the value of the “...” business unit, the following activities need to be funded in addition to the main plan outlined in the Executive Summary:

*. Expansion of the production facility

.....

*. Risks reduction

.....

5.6. Estimated required investments

Total amount of investments to implement action items listed in section *. * equals to *,* million euros.

5.7. Business valuation by income approach in case of additional investments

Table 26. Calculation of valuation using the direct capitalization method

Item	****	****	****	****	****
NCF	***	***	***	***	***
Discount rate	** , %				
$NCF_i / (* + R)^{**i}$, thousand euros	***	***	***	***	***
NPV from Executive Summary, thousand euros	* **				
NOPLAT, thousand euros					***
NPV prolonged, thousand euros					* **
$NPV \text{ prolonged} / (* + R)^{**p}$, thousand euros					* **
Total BV by DCM, thousand euros	* **				

The cost of the “...” business area calculated using the direct capitalization method is *** thousand euros.

Table 27. Calculation of asset reversal value

Item	Value
Capital assets at the moment of valuation, thousand euros	***
Amortization period of capital assets, years	**
Capital assets by the end of ****, thousand euros	* ***
Discount on quick sale of capital assets, %	**%
Capital assets by the end of **** including discount, thousand euros	* ***
Investments in securities, thousand euros	***
Discount on quick sale of securities, %	**%
Investments in securities including discount, thousand euros	***
Total asset reversal value, thousand euros	* ***

The total value of the “...” business unit determined by discounted cash flow method equals to

* *** thousand euros + * *** thousand euros = * *** thousand euros.

Table 28. Calculation of the weighted average cost of the company

Method	Amount, thousand euros	Rate	Contribution to valuation
Direct capitalization method	* ***	*	* ***
Discounted income method	* ***	*	* ***
Total value of the business unit, thousand euros	* ***		

Conclusion: The cost of the “...” business unit in case of additional investments is * * thousand euros.**

6. Consolidated assessment of the Group

Table 29. Consolidated assessment of the Group by income approach

	“...”	“...”	“...”	“...”	Group of companies
Estimated value, thousand euros	* ***	***	* ***	* ***	* ***

7. Assessment of the Group in case of investments

Table 30. Consolidated assessment of the Group by income approach in case of investments

	“...”	“...”	“...”	“...”	Group of companies
Estimated value, thousand euros	** ***	* ***	** ***	* ****	**** ***