

# Introduction into Valuation and Exit Consideration of VC-backed and Mittelstands Companies

*Cologne, 19 January 2016*

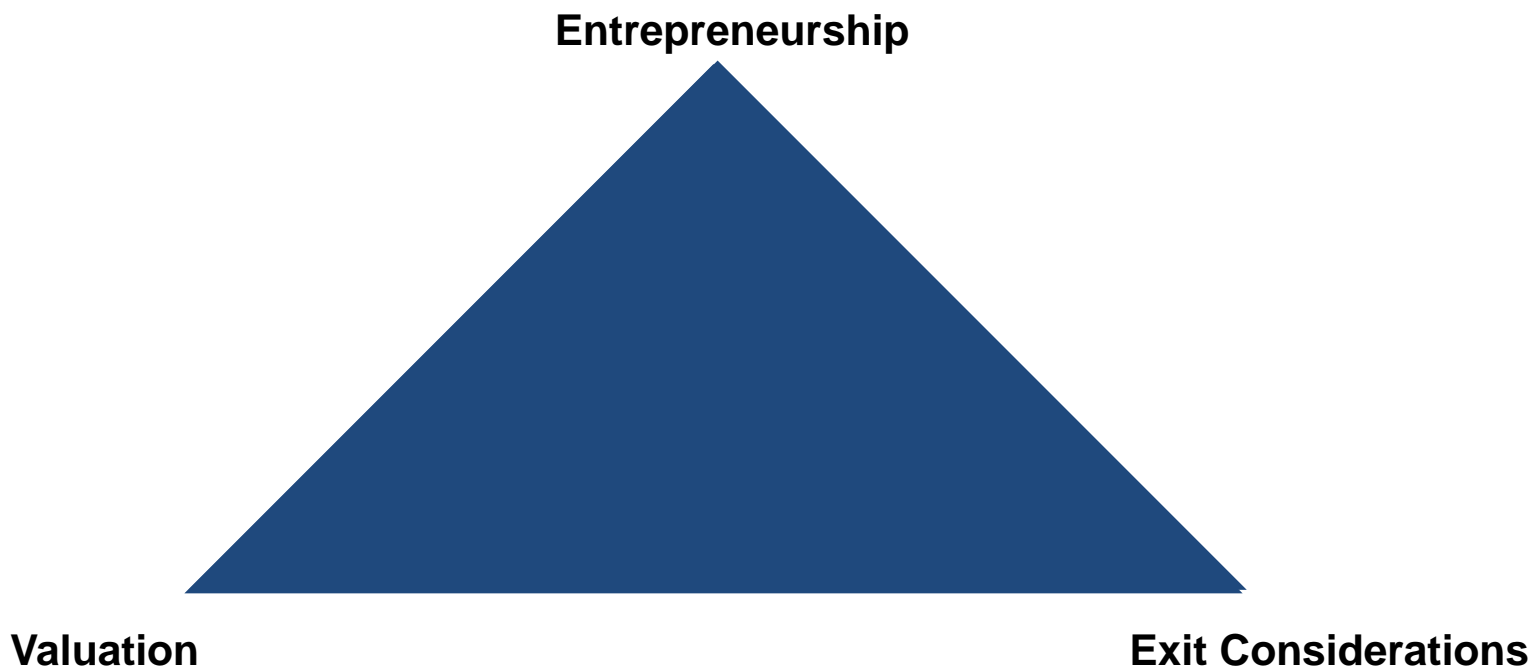


# ENTREPRENEURSHIP

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# The Framework: Entrepreneurship, Exit Considerations and Valuation

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# Taxonomy on Entrepreneurship

## What is Entrepreneurship?

- Entrepreneurship is the process of designing a new business, i.e. a start-up company, offering a product, process or service. Every company has the goal to create value.
- Simplified, there are two routes of entrepreneurship: VC backed companies and the German “Mittelstand”

### VC backed companies

#### Characteristics:

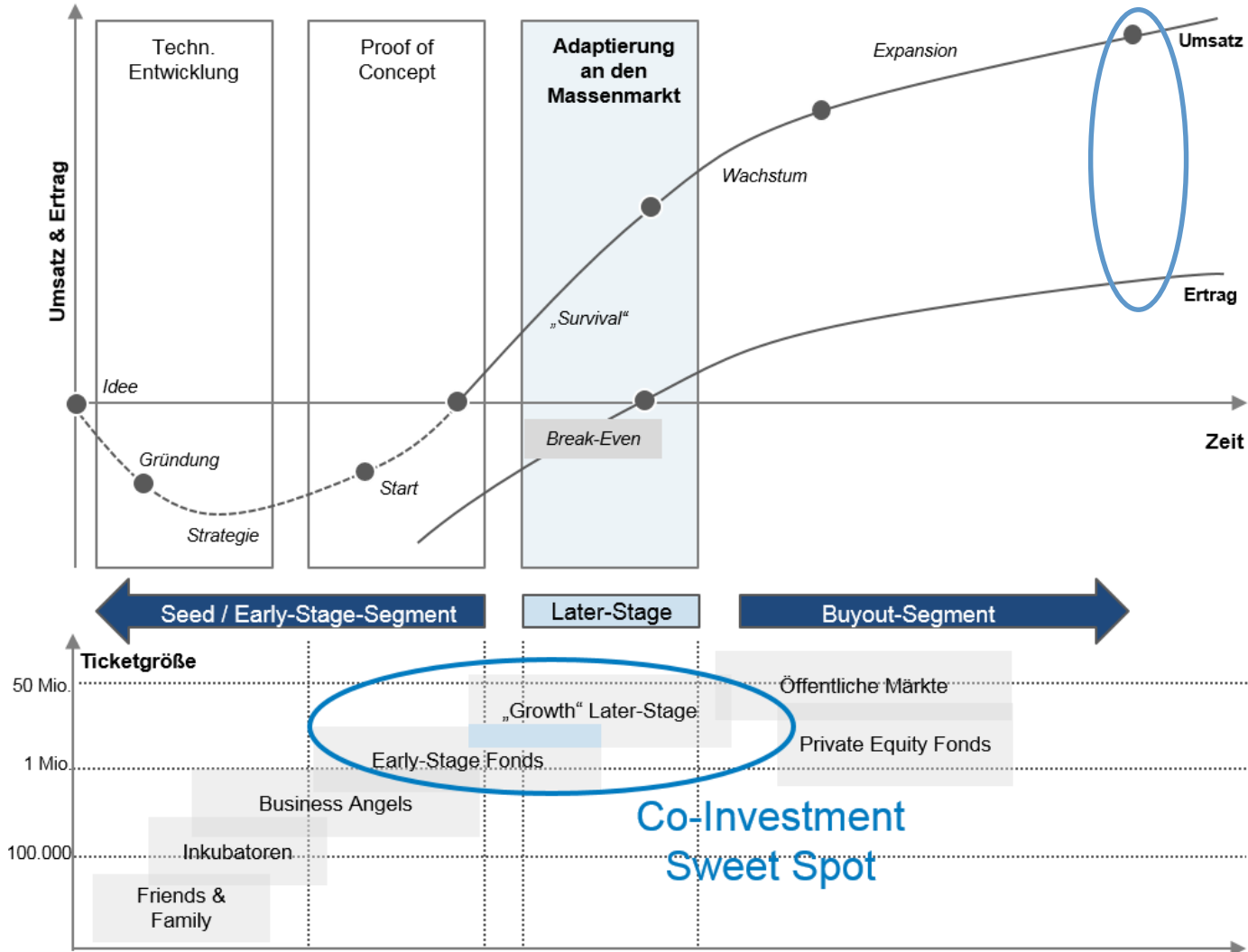
- Disruptive business model
- Fast growing business with regards to sales
- Often, it is a technology-driven business
- Goal is to create value, but not to generate a positive operating margin
- The companies' shares must be sold within the next 7 to 10 years -> **exit driven approach**

### Mittelstand Companies

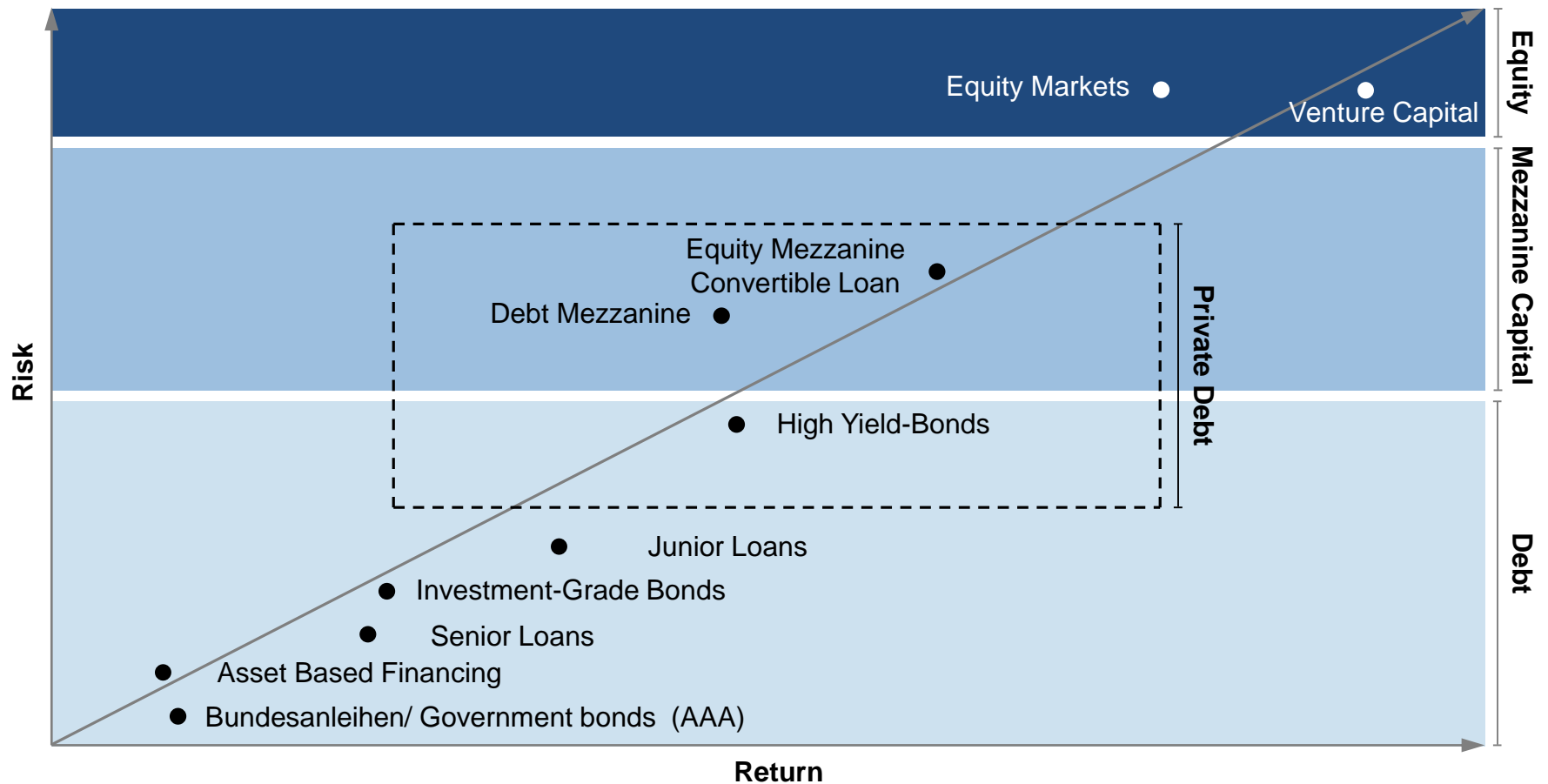
#### Characteristics:

- Proven product and business
- Adequate growth with regards to gearing and cash flow of the company
- Focus **on lasting relationship** to customers and stakeholders
- Goal is grow in sales and generate a profit
- The company is set up to last over generations and might either be passed to the next generation or be sold after centuries

# Company Lifecycle: VC-backed Comps. vs. Mittelstand/ Buyout Comps



# Simplified Overview on Corporate Finance Facilities



# Comparison between VC-backed and Mittelstands Comps

VC-backed Comps

	2016	2017	2018
<b>Funding Size</b>	<ul style="list-style-type: none"> <li>▪ EUR 3-5m</li> </ul>	<ul style="list-style-type: none"> <li>▪ EUR 5m</li> </ul>	<ul style="list-style-type: none"> <li>▪ EUR 10 - 15m</li> </ul>
<b>Situation</b>	<ul style="list-style-type: none"> <li>▪ Seed Phase</li> </ul>	<ul style="list-style-type: none"> <li>▪ Series B</li> </ul>	<ul style="list-style-type: none"> <li>▪ Series B</li> </ul>
<b>Investor Type</b>	<ul style="list-style-type: none"> <li>▪ Business Angels</li> <li>▪ HNWI</li> </ul>	<ul style="list-style-type: none"> <li>▪ Venture Capital – Series A</li> <li>▪ HNWI</li> <li>▪ Internal Round</li> </ul>	<ul style="list-style-type: none"> <li>▪ Venture Capital - Series B</li> <li>▪ Strategic Investors</li> <li>▪ Internal Round</li> </ul>
<b>Investment Type</b>	<ul style="list-style-type: none"> <li>▪ Equity</li> </ul>	<ul style="list-style-type: none"> <li>▪ Convertible Loan/ Bridge → Equity</li> </ul>	<ul style="list-style-type: none"> <li>▪ Convertible Loan/ Bridge → Equity</li> </ul>

MITTELSTAND

<b>Funding Size</b>	<ul style="list-style-type: none"> <li>▪ EUR 50k – 300k</li> </ul>		<ul style="list-style-type: none"> <li>▪ EUR 5 - 10m</li> </ul>
<b>Situation</b>	<ul style="list-style-type: none"> <li>▪ Seed Phase</li> </ul>		<ul style="list-style-type: none"> <li>▪ Growth Refinancing</li> </ul>
<b>Investor Type</b>	<ul style="list-style-type: none"> <li>▪ Family and Friends</li> <li>▪ HNWI</li> </ul>		<ul style="list-style-type: none"> <li>▪ Bank</li> </ul>
<b>Investment Type</b>	<ul style="list-style-type: none"> <li>▪ Equity</li> </ul>		<ul style="list-style-type: none"> <li>▪ Bank Loan/ Mezzanine Finance</li> </ul>

# Source of Funding for Entrepreneurs

## Forms of Funds

- **Equity:** Family & friends, business angels, venture capital investors, KfW
- **Debt:** Banks, KfW, venture capital investors

### VC backed companies

#### Sources of funds:

- At Start: family & friends
- Seed phase: business angels
- Series A/ growth: venture capital
- Series B/ expansion: venture capital etc.
- Stable business: debt financing/  
mezzanine finance

### Mittelstand Companies

#### Source of funds:

- At start: Own savings, family & friends
- Growth phase: bank loan, overdraft facility  
(pledge will necessary)
- Stable business: amortization of first loan  
and start of a second credit facility



# EXIT PROCESS

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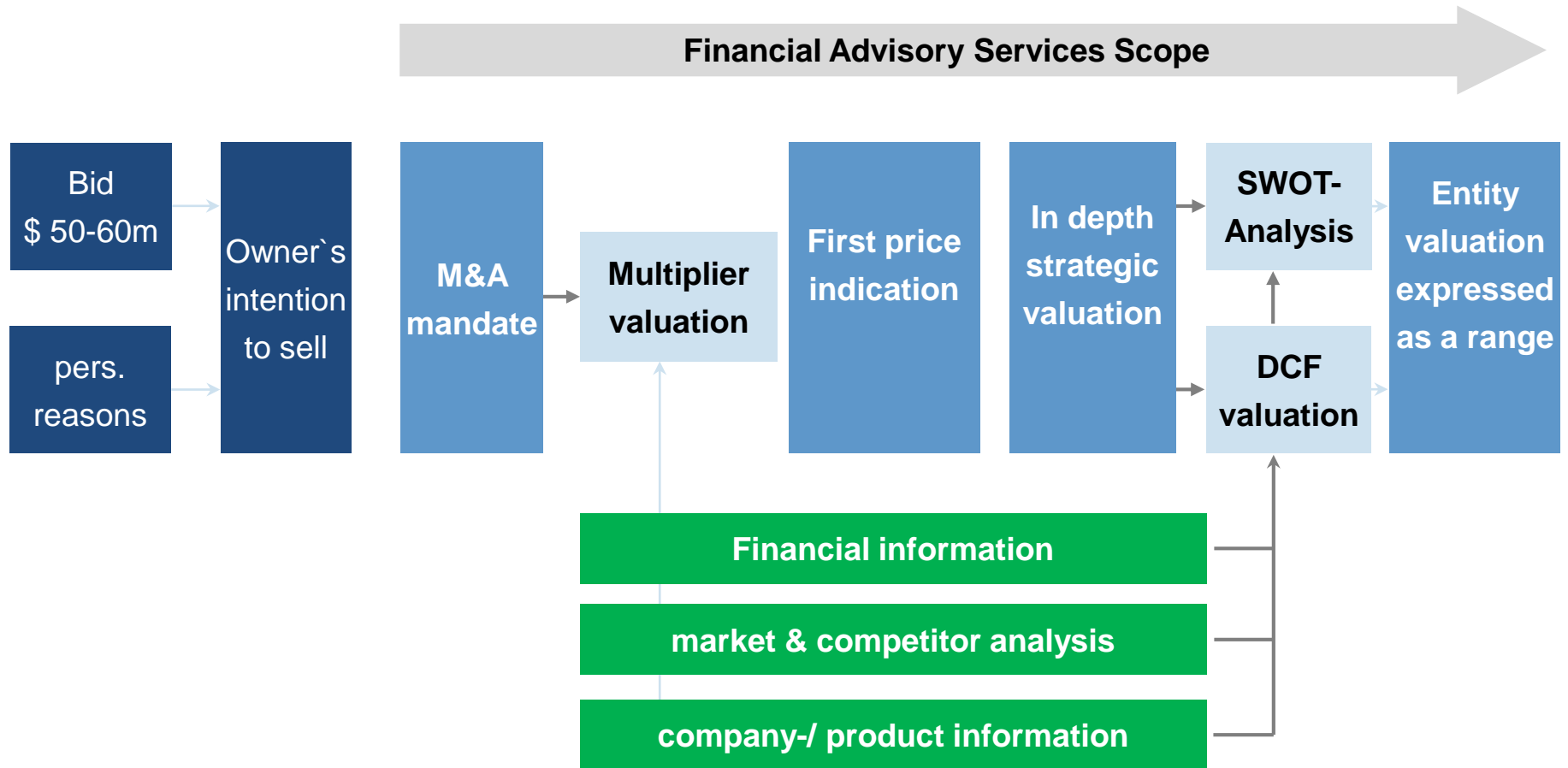
# Exit Situations

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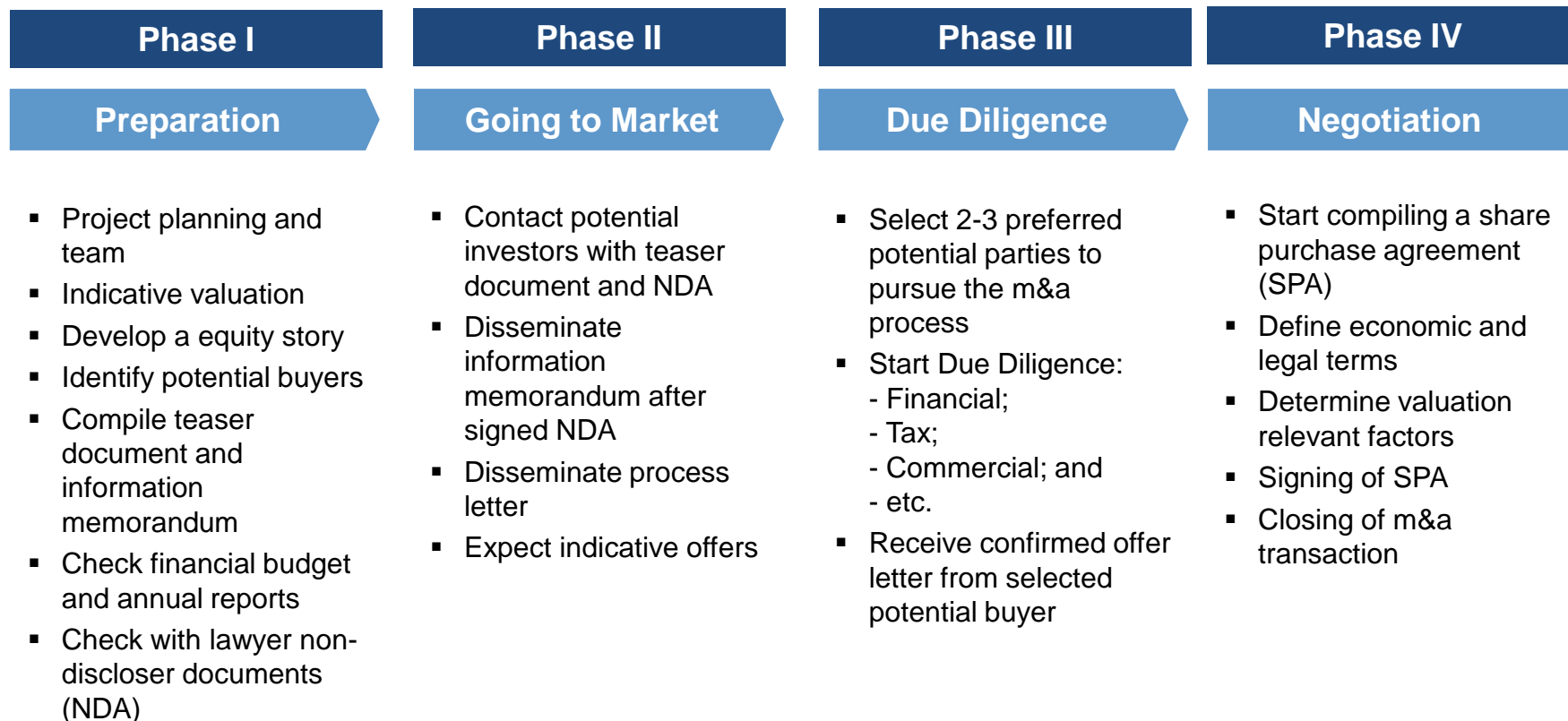
## What are exit situations?

- Restructuring
- Leverage Buy Out or Spin Off from a group company
- Shareholders are institutional investors and are obliged to sell the company
- Company cannot passed to the next generation within one family

# Valuation in the Context of an Acquisition Process



# M&A Sales Process



# Components of a Indicative Offer

## Indicative non-binding offer

### Deal Structure & Price

- A brief description of the planned transaction;
- Valuation of the Company on a debt free and cash free basis (“Enterprise Value”) denominated in Euro. Please state any adjustments you would make to the Enterprise Value to express the net cash value for 100% of the equity; explanation of the valuation methodology and assumptions.
- An explanation of how you arrived at the value indicated, including key assumptions, e.g. financial, tax, legal or structural assumptions, conditions, and value drivers or other factors as appropriate. Please also indicate the effective date your valuation is based on;

### Acquisition Rationale

- The background for your interest in the Transaction as well as a description of your strategic plans for the Company. Based on the information memorandum.

### Due Diligence

- A description of further due diligence action you wish to carry out in order to reconfirm your indicative Offer including a request list setting out further information you request to review as part of your due diligence; and

### Financing Structure

- A description of the expected sources of financing for the Transaction and that you have the approvals required to secure such financing.

# Valuation Methods

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# Valuation Challenges

## When is a valuation needed?

- When a company is planning to raise money, such as equity, a valuation is needed
- When the shareholders plan to sell their stakes in a company

### VC backed companies

#### Characteristics:

- No positive cash flow
- Difficult to project cash flows
- VC industry is quite transparent concerning financial figures and economic success
- There are many comparable business that VC-backed
- Valuation on multiples -> **the best way**

### Mittelstand Companies

#### Characteristics:

- Steady cash flow
- Mature industries and company
- Difficult to find comparable companies with required financial information
- Mittelstand Companies are often Niche/ Hidden Champions with special products and service
- Projection for a discounted cash flow valuation requires a ten year financial projection -> **DCF is the best way!**

# Funding Round Analysis in Western Europe for VC-backed Comps

## Valuation of Series A – C Funding Rounds

2014

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9.5

USDm Pre-Money  
Valuation (Median)  
of “**Series A**“  
investments

2014

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47.9

USDm Pre-Money  
Valuation (Median)  
of “**Series B**“  
investments

2014

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82.1

USDm Pre-Money  
Valuation (Median)  
of “**Series C**“  
investments

2014

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14.6

USDm Post-Money  
Valuation (Median) of  
“**Series A**“  
investments

2014

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70.1

USDm Post-Money  
Valuation (Median) of  
“**Series B**“  
investments

2014

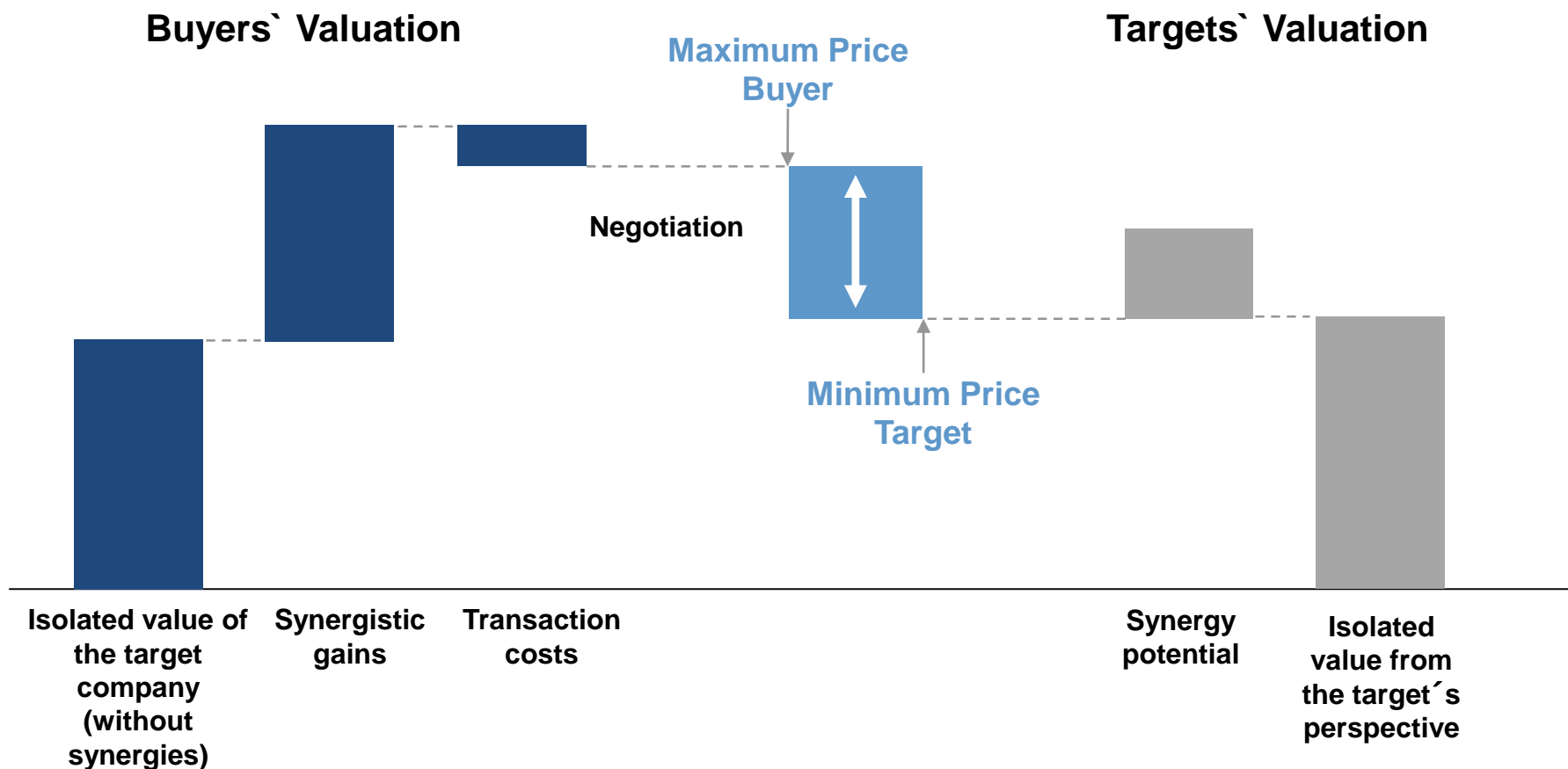
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101.4

USDm Post-Money  
Valuation (Median) of  
“**Series C**“  
investments

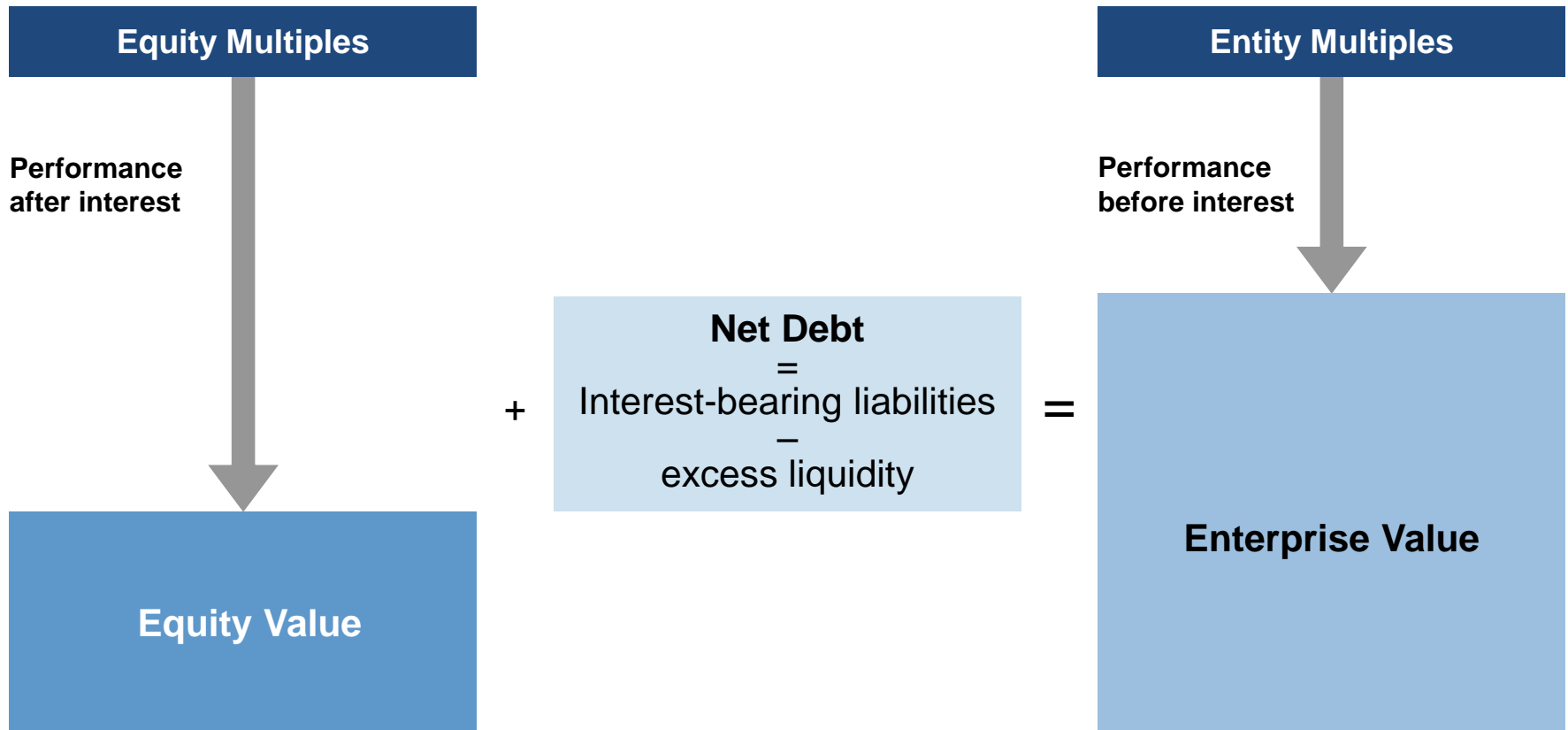


# Integrated Value Determination in the Acquisition Process



„Price is what you pay ... value is what you get“

# Deriving a Company's Value



# Methods of Valuation

## Trading Multiples

$$\text{Value} = \text{performance figure} \times \text{multiple}$$

### Basic concept

- Provides a first indication of the company's value. The multiple method is typically used in the first stage of a transaction process.
- A multiple represents the ratio of the market price to certain performance indicators of peers (**i.e. EV/ Sales**)

### Method

- Equity and **entity multiples** (Sales, EBITDA)
- Applicable to comparable companies or transactions

## Discounted-Cash-Flow Method

$$\text{Value} = \frac{\text{free cash flows}}{\text{risk-adjusted discount rate}}$$

### Basic concept

- **The DCF approach** is typically used in buy-side transactions.
- Attempts to determine the value of the company by computing the present value of future cash flows over the life of the company.

### Method

- **Entity approach:** free cash flows available to share and debtholders (FCFF) discounted by the weighted average cost of capital (WACC)
- **Equity approach:** free cash flows available to shareholders (FCFE) discounted by the cost of capital



# Multiple Method - Introduction

## Characteristics

- The multiple approach features following characteristics:
  - Determination of benchmarks in order to value a company relative to its peers.
  - Insights in key performance indicators and strategic premiums in particular industries.

## Situations

- Usually used for market-oriented valuations and/ or for verification purposes of company values determined by applying other valuation methods, i.e. the DCF method.
- Examples of situations, in which the multiple approach is typically used.
  - Early stages of m&a or private equity transactions
  - Supporting the verification of fundamentally determined company values.

## Categories

- Trading multiples and transaction multiples
- Entity multiples and equity multiples
- Historic, current and/ or prospective multiples



# Multiple Method – How Does it Work?

## Valuation = Comparison

**Valuation** = The process of determining the current value of an asset or company.

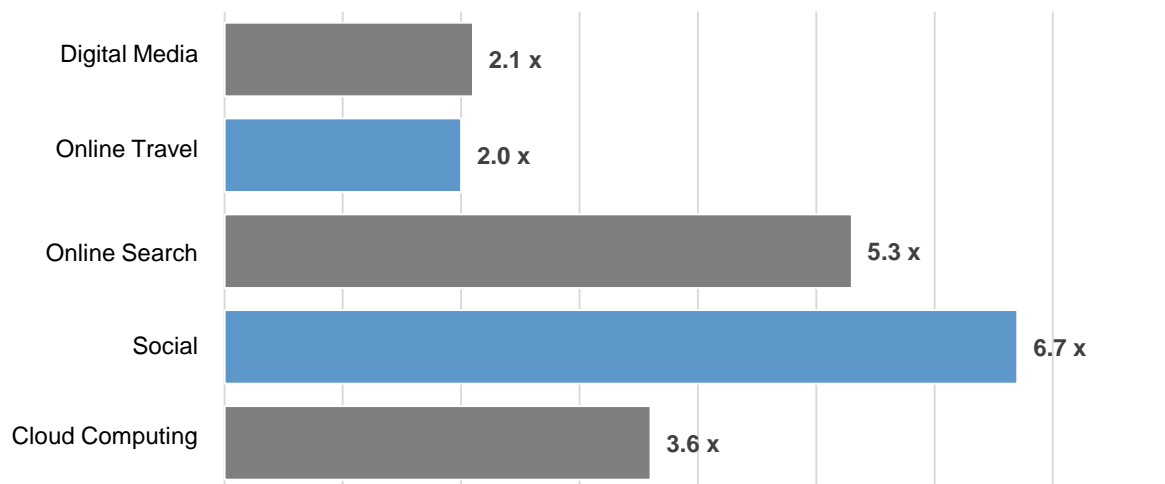
## Determination of a company's value by using current market prices

- The multiple approach is based on the idea of attributing the same value to same things.
- The given value of comparable peers is used to derive the demanded unknown value of a examined company



# Case Study: Trading Multiples of Comparable Listed Companies

## Investment Multiples: Internet Software & Services (EV/ Sales <sub>(CY+1)</sub>) May 2015



Source: Blue Tree Group Research

## Peer Group Constituents

### Digital Media

ProSiebenSat.1 Media AG  
Axel Springer SE  
News Corporation  
RTL Group SA  
Pandora Media, Inc.  
Demand Media, Inc.  
Brightcove Inc  
Netflix, Inc.

### Online Travel

Expedia Inc.  
HomeAway, Inc.  
Travelzoo Inc.  
Orbitz Worldwide, Inc.  
TripAdvisor Inc.

### Online Search

Baidu, Inc.  
Google Inc.  
Microsoft Corporation  
Yahoo! Inc.  
Naver Corporation.  
Yandex N.V

### Social

Facebook, Inc..  
LinkedIn Corporation  
XING AG  
Renren Inc.  
Yelp Inc.  
Youku Tudou Inc  
Twitter, Inc.

### Cloud Computing

BroadSoft, Inc.  
Citrix Systems, Inc.  
EMC Corporation  
NetSuite Inc.  
Rackspace Hosting, Inc.  
salesforce.com, inc.  
VMware, Inc.

# Case Study: Valuation

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# Comparable Company Multiples of Listed Companies

Company	Share Price 15/04/15	% of 52 Week High	Enterprise Value (in EUR Mio.)	TEV/Total Revenue				TEV/EBITDA				P/E		EBITDA Margin FY
				FY	LTM	CY+1	CY+2	FY	LTM	CY+1	CY+2	FY	Revenue CAGR 3Y	
<b>Catalog Retail</b>														
Beate Uhse AG	0,64	63,3%	86,8	0,5x	0,5x	0,3x	0,0x	n/a	n/a	0,0x	0,0x	20,0 x	-0,3%	2,4%
N Brown Group plc	4,88	52,9%	2.355,2	1,4x	1,4x	1,4x	1,3x	10,2x	10,2x	9,6x	9,3x	12,5 x	3,5%	13,7%
Home Retail Group plc	2,54	71,3%	1.760,3	0,2x	0,2x	0,2x	0,2x	4,9x	4,9x	3,9x	3,7x	27,0 x	0,5%	3,6%
Takkt AG	18,66	63,9%	1.269,2	1,4x	1,4x	1,4x	1,3x	10,3x	10,3x	9,2x	8,8x	17,5 x	1,4%	13,6%
HSN, Inc.	65,20	66,3%	3.692,3	1,0x	1,0x	0,9x	0,9x	11,1x	11,1x	9,2x	8,5x	20,2 x	3,2%	8,7%
Findel plc	3,47	60,2%	708,5	0,8x	0,8x	0,9x	0,8x	10,8x	10,8x	9,6x	8,7x	n/a	3,7%	7,4%
Liberty Interactive Corporation	29,28	73,1%	18.235,0	1,8x	1,8x	2,1x	2,1x	10,5x	10,5x	9,9x	9,5x	30,4 x	2,0%	16,8%

Als Peer Group nicht geeignet, obwohl Onlinehandel wichtiger Bestandteil des Geschäfts.

<b>Median</b>	1,0 x	1,0 x	0,9 x	0,9 x	10,4 x	10,4 x	9,2 x	8,7 x	20,1 x	2,0%	8,7%
<b>Median (-25% Abschlag)*</b>	<b>0,7 x</b>	<b>0,7 x</b>	0,7 x	0,7 x	<b>7,8 x</b>	<b>7,8 x</b>	6,9 x	6,5 x	15,1 x	1,5%	6,5%
<b>Min</b>	0,2x	0,2x	0,2x	0,0x	4,9x	4,9x	0,0x	0,0x	12,5x	-0,3%	2,4%
<b>Max</b>	1,8x	1,8x	2,1x	2,1x	11,1x	11,1x	9,9x	9,5x	30,4x	3,7%	16,8%

## Internet Retail

Amazon.com Inc.	385,11	72,9%	142.860,7	2,0x	2,0x	1,7x	1,5x	40,3x	40,3x	21,4x	16,6x	n/a	13,4%	4,9%
ASOS plc	59,15	35,8%	3.436,1	3,1x	3,1x	2,7x	2,2x	77,9x	77,9x	46,2x	35,9x	92,0 x	19,5%	5,1%
Zalando SE	25,67	62,8%	4.920,2	2,2x	2,2x	1,8x	1,5x	61,6x	61,6x	36,2x	25,7x	120,3 x	24,1%	3,6%
Cnova N.V.	6,56	52,7%	2.543,3	0,6x	0,6x	0,5x	0,4x	31,0x	31,0x	22,4x	13,3x	n/a	20,4%	1,9%
zooplus AG	102,31	45,1%	445,9	1,1x	1,1x	0,9x	0,7x	65,3x	65,3x	50,2x	28,6x	119,8 x	19,4%	1,8%
AO World Plc	2,71	44,5%	1.384,1	1,7x	1,7x	0,0x	0,0x	63,9x	63,9x	0,0x	0,0x	n/a	22,5%	2,8%
YOOX S.p.A.	31,12	46,8%	1.197,6	3,4x	3,4x	2,8x	2,4x	51,1x	51,1x	28,0x	22,3x	162,0 x	11,7%	6,8%

<b>Median</b>	2,0 x	2,0 x	1,7 x	1,5 x	61,6 x	61,6 x	28,0 x	22,3 x	120,0 x	20%	3,6%
<b>Median (-25% Abschlag)*</b>	<b>1,5 x</b>	<b>1,5 x</b>	1,3 x	1,1 x	<b>46,2 x</b>	<b>46,2 x</b>	21,0 x	16,7 x	90,0 x	15%	2,7%
<b>Min</b>	0,6x	0,6x	0,0x	0,0x	31,0x	31,0x	0,0x	0,0x	92,0x	12%	1,8%
<b>Max</b>	3,4x	3,4x	2,8x	2,4x	77,9x	77,9x	50,2x	35,9x	162,0x	24%	6,8%

\* Diskontierung von 25%, da das untersuchte Unternehmen nicht börsennotiert ist und bestimmte Größen nicht vorliegen.



# Comparable Transactions Multiples

Announcement Date	Target	Buyers	Total Transaction Value (EUR Mio.)
Mar-2015	Flaconi GmbH	7Commerce GmbH	N/A
Mar-2015	LogoSportswear, Inc.	Gladstone Investment Corporation	8,97
Feb-2015	WEBS srl	Rocket Internet AG (XTRA:RKET)	N/A
Jan-2015	Rameder Anhängerkupplungen Und Autoteile GmbH	Findos Investor GmbH	N/A
Jan-2015	Swags Galore, Inc.	Menrva Holdings, Inc.	N/A
Jan-2015	Bike24 GmbH	The Riverside Company	N/A
Dec-2014	CinemaNow Corporation	Regent Equity Partners, LLC	N/A
Dec-2014	Ashford.com, Inc.	Prudential Capital Group, L.P.	N/A
Dec-2014	Diamondback Drugs of Delaware, LLC	Tailwind Capital Group, LLC	N/A
Dec-2014	Modern Rugs Limited	Enterprise Ventures Limited; PHD Equity Partners LLP	4,06
Dec-2014	JM Bruneau SASU	Halisol; Weinberg Capital Partners	N/A
Nov-2014	7days Marc Staperfeld GmbH	Odewald KMU Gesellschaft für Beteiligungen mbH	N/A
Jul-2014	Westgate Credit Limited	Seneca Partners Limited; Intrinsic Equity	12,64
Jul-2014	Gerler & Son, Inc.	Hardy Capital Partners	103,15
Jan-2014	Discount Ramps.Com LLC	Rotunda Capital Partners, LLC	N/A
Jan-2014	1-800 CONTACTS, Inc.	Thomas H. Lee Partners, L.P.	N/A
Jan-2014	The Winetasting Network Inc.	TSG, LLC, Investment Arm	N/A
Dec-2013	Negri Electronics, Inc.	first Ascent, LLC	N/A
Nov-2013	Meemi Ltd.	Growth Capital Partners LLP	N/A
Nov-2013	Discount4Pets.nl	Value8 NV (ENXTAM:VALUE)	N/A
Nov-2013	Virgin Wines Online Ltd	Mobius Equity Partners LLP; Connection Capital LLP	18,85
Sep-2013	Pixmania S.A.S.	mutares AG (DB:MUX)	N/A
Sep-2013	Gem Shopping Network, Inc.	Sun Capital Partners, Inc.	N/A
Jun-2013	11 Group AB	eEquity AB; Unity Beauty Group AB	N/A
May-2013	CableOrganizer.com, Inc.	CapitalSouth Growth Fund; KT Capital	N/A
May-2013	Bluefly Inc.	Clearlake Capital Group, LLC	5,89
Apr-2013	mydays GmbH	SevenVentures GmbH	N/A
Mar-2013	Legalstore Inc.	Western Principal Partners LLC	0,074

# Discounted Cash Flow Valuation

## Pro-forma Financials: Base Year 2012

EUR Mio.	2010	2011	2012	2013	2014	2015	2016	2017		
	actual	actual	actual	actual	budget	forecast	forecast	TV	Assumptions	
<b>Net Sales</b>	<b>124,7</b>	<b>118,9</b>	<b>101,5</b>	<b>103,5</b>	<b>103,5</b>	<b>103,5</b>	<b>103,5</b>	<b>80,0</b>	WACC	9,0%
% growth	10,5%	-4,7%	-14,6%	2,0%	0,0%	0,0%	0,0%	0,5%	Perpetual Growth Rate	0,3%
<b>EBITDA</b>	<b>8,0</b>	<b>8,3</b>	<b>6,9</b>	<b>7,6</b>	<b>7,6</b>	<b>7,6</b>	<b>7,6</b>	<b>5,8</b>	<b>Present Value Calculation</b>	
% margin	6,4%	7,0%	6,8%	7,3%	7,3%	7,3%	7,3%	7,3%	NPV of FCF's	29,66
Depreciation & Amortisation	-0,7	-0,7	-0,7	-0,7	-0,7	-0,7	-0,7	-0,7	NPV of TV	68,34
% of sales	-0,6%	-0,6%	-0,6%	-0,7%	-0,7%	-0,7%	-0,7%	-0,7%	<b>Enterprise Value</b>	<b>98,0</b>
<b>EBIT</b>	<b>7,3</b>	<b>7,6</b>	<b>6,2</b>	<b>6,9</b>	<b>6,9</b>	<b>6,9</b>	<b>6,9</b>	<b>5,3</b>	Net debt	14,4
% margin	5,9%	6,4%	6,1%	6,6%	6,6%	6,6%	6,6%	6,6%	<b>Equity Value</b>	<b>83,6</b>
Tax	-2,7	-2,8	-2,2	-2,5	-2,5	-2,5	-2,5	-2,0		
% tax rate	37,0%	36,8%	36,1%	37,0%	37,0%	37,0%	37,0%	37,0%		
<b>NOPAT</b>	<b>4,9</b>	<b>5,2</b>	<b>4,2</b>	<b>4,4</b>	<b>4,4</b>	<b>4,4</b>	<b>4,4</b>	<b>3,3</b>	<b>EBITDA Multiple</b>	<b>14,2x</b>
Depreciation & Amortisation	0,7	0,7	0,7	0,7	0,7	0,7	0,7	0,7		
Capex	0,7	0,6	2,4	0,7	0,7	0,7	0,7	0,7		
Δ net working capital	5,6	-3,3	-3,5	3,2	3,3	3,4	3,5	3,6		
<b>Free Cash Flow</b>	<b>11,9</b>	<b>3,2</b>	<b>3,8</b>	<b>9,0</b>	<b>9,1</b>	<b>9,2</b>	<b>9,3</b>	<b>8,4</b>		

## Sensitivity Analysis for Key Valuation Parameters

Enterprise Value						EBITDA Multiple							
		2017E Perpetual Growth Rate							2017E Perpetual Growth Rate				
WACC	0,10%	0,20%	0,30%	0,40%	0,50%	WACC	0,10%	0,20%	0,30%	0,40%	0,50%		
10,00%	89,60	90,28	90,96	91,66	95,86	10,00%	13,0x	13,1x	13,2x	13,3x	13,9x		
9,50%	92,79	93,54	94,29	95,07	95,86	9,50%	13,4x	13,6x	13,7x	13,8x	13,9x		
9,00%	96,34	97,16	98,01	98,87	99,76	9,00%	14,0x	14,1x	14,2x	14,3x	14,5x		
8,50%	100,31	101,23	102,18	103,14	104,14	8,50%	14,5x	14,7x	14,8x	14,9x	15,1x		
8,00%	104,78	105,82	106,88	107,98	109,10	8,00%	15,2x	15,3x	15,5x	15,6x	15,8x		

\* Annahmen sind Angabe aus S&P CapitalIQ

\*\*\* Kein Zukauf enthalten und kein organisches Wachstum angenommen

\*\*\* Bewertung basiert auf pro-forma Zahlen sowie auf einem Going Concern Ansatz sowie Blue Tree Groups Annahmen



# APPENDIX

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# DCF-Methode is Applied to Mittelstands Companies

1. Set up business plan and financial model
2. Determine beta
3. Determine cost of equity
4. Determine weighted averaged cost of capital/ WACC
5. Discount future operating cash flow
6. Discount terminal value
7. Adjustment of excess cash and working capital
8. Deduct net debt
9. Derive present value of equity