**Client Name Group**

Valuation for EMI Purposes

August 2022

Contents

[Executive Summary 3](#_Toc111021106)

[Background Information 4](#_Toc111021107)

[Summary EMI Valuation 5](#_Toc111021108)

[Asset Based Valuation 6](#_Toc111021109)

[Maintainable Earnings Method 7](#_Toc111021110)

[Appendix 1 – Shareholder Information 8](#_Toc111021111)

[Appendix 2 – Group Structure and Key Information 9](#_Toc111021112)

[Appendix 3 – Balance Sheet 10](#_Toc111021113)

[Appendix 4 – Maintainable EBITDA Calculation 11](#_Toc111021114)

[Appendix 5 – Research on Multiples 12](#_Toc111021115)

# Executive Summary

Client intends to grant share options of up to 2% of the share capital of the company to three individuals (i.e. up to 6% in total).

These shares will be a new class of shares “C ordinary shares”. The rights of each C ordinary share will be as follows:

* 1% entitlement to any exit or capital value (exiting being share sale only)
* No voting rights
* Right to share in dividends pro rata to their class in such amounts decided by the board

The three individuals will be granted options over two shares each. The option over the first share can be exercised immediately upon entering the EMI agreement, whereas the option over the second share can only be exercised upon exit if a sale value of £x is achieved for the company.

We have concluded that each C share has a current value of:

|  |  |  |
| --- | --- | --- |
| Unrestricted Market Value per C share |  | 4,348.25 |
|  |  |  |
| Actual Market Value per C share | | 217.41 |

# Background Information

Client (“Holdings”) was recently incorporated as the parent of Client as part of a share for share exchange. As such Client is a 100% subsidiary of Holdings. Together the companies are a group (“Group”) The current shareholders of Holdings are set out at Appendix 1.

A diagram setting out the group structure and a table with key information about Holdings and Client are included at Appendix 2.

Since incorporation there have been no transactions through Holdings, however, the longer term plan is that it will hold excess cash generated by

Client and will acquire any future fixed assets required and lease them to Client for use in its trade.

Based in the North East of England, Client provides the following services to clients in a range of sectors:

* XYZ

EMI scheme

The directors of Holdings would like to put an Enterprise Management Incentive Scheme (“EMI”) in place to incentivise three key employees. To facilitate the EMI scheme a new class of shares will be introduced, C ordinary shares. The rights of each C ordinary share will be as follows:

* 1% entitlement to any exit or capital value (exiting being share sale only)
* No voting rights
* Right to share in dividends pro rata to their class in such amounts decided by the board

The three individuals will be granted options over two shares each. The option over the first share can be exercised immediately upon entering the EMI agreement, whereas the option over the second share can only be exercised upon exit if a sale value of £x is achieved for the company.

Purpose of the document

The purpose of this document is to value the C shares. As such this document sets out the valuation methods considered and the methodology for concluding the valuation.

# Summary EMI Valuation

The basis of the EMI valuation is as follows:

* Several valuation methods have been considered (see following sections).
* The “maintainable earnings” method has been deemed the most appropriate for the purposes of an EMI valuation.
* A discount of 95% has been applied because the EMI shareholders will:
* only hold a maximum of 2% each of the share capital, therefore are minority shareholders
* have no voting rights, therefore can exert no influence
* will only be entitled to up to 2% of any exit value
* be entitled to dividends, but only at the discretion of the board
* Whilst there are currently 1,500 share in issue, the rights on these shares differ to those of the C shares, therefore to calculate the market value of 1 C share 1% of valuations have been taken.

|  |  |  |
| --- | --- | --- |
|  |  | £ |
| Maintainable EBITDA |  |  |
|  |  |  |
| Multiple |  |  |
|  |  |  |
| Value |  |  |
|  |  |  |
| Balance sheet adj: surplus cash |  |  |
| Balance sheet adj: overdraft |  |  |
| Balance sheet adj: hire purchase |  |  |
|  |  |  |
| **Company Valuation** |  |  |
|  |  |  |
|  |  |  |
| Minority share value discount | 95% |  |
|  |  |  |
| **Discounted Whole Company Valuation** |  |  |
|  |  |  |
|  |  |  |
| **Unrestricted Market Value per C share** |  |  |
|  |  |  |
| **Actual Market Value per C share** | |  |

# Asset Based Valuation

The valuation of the Group based upon its net assets is set out below:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Year | Year | Year |
|  | **Actuals** | **Actuals** | **Draft** |
| Valuation range | **31/01/2020** | **31/01/2021** | **31/01/2022** |
|  | **£000** | **£000** | **£000** |
|  |  |  |  |
| Net assets | 74 | 177 | 275 |
|  |  |  |  |
| 100% shareholding | 74 | 177 | 275 |

This valuation basis has been disregarded. This is because the value of the group arises from profits generated, rather than the holding of assets. The group holds no substantial fixed assets.

Note that further details on the balance sheet of Client can be seen at Appendix 3.

# Maintainable Earnings Method

The maintainable EBITDA has been calculated for the three years ending 31 January 2022, 2021 and 2020 (see Appendix 4 for details).

As the company had only been incorporated for two years at 31 January 2020 a weighted average approach has been taken to find the average maintainable EBITDA over the past 3 years.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | Actuals | Actuals | Draft |
|  |  | **31/01/2020** | **31/01/2021** | **31/01/2022** |
|  |  | **£000** | **£000** | **£000** |
|  |  |  |  |  |
| EBITDA |  |  |  |  |
|  |  |  |  |  |
| Add back directors’ salary |  |  |  |  |
| Deduct director's dividends |  |  |  |  |
|  |  |  |  |  |
| Maintainable EBITDA |  |  |  |  |
|  |  |  |  |  |
| Weights |  |  |  |  |
|  |  |  |  |  |
| Weighted average profits |  |  |  |  |

Research was performed to attempt to find a relevant multiple to apply to the maintainable EBITDA. This research can be found at Appendix 5. Unfortunately no relevant multiple could be found. The companies found with multiples available were much larger than Holdings and Client. Also, the description of their activities didn’t exactly match that of Holdings and Client. Given the size of the company, its limited trading history and the value of maintainable EBITDA a multiple of 2 to 3 appears reasonable.

After applying the multiples we have assumed that surplus cash in the group amounts to £100k. A deduction has also been made for outstanding amounts under hire purchase agreements. As a result, a valuation of between £367k-£502k has been calculated. This can be seen in the table below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Indicative valuation range |  | Low | Middle | High |
|  |  |  |  |  |
|  |  |  |  |  |
| Maintainable EBITDA |  |  |  |  |
|  |  |  |  |  |
| Multiple |  |  |  |  |
|  |  |  |  |  |
| Valuation of 100% |  |  |  |  |
|  |  |  |  |  |
| Add surplus cash |  |  |  |  |
|  |  |  |  |  |
| Deduct hire purchase |  |  |  |  |
|  |  |  |  |  |
| Profit valuation |  |  |  |  |

The middle value of £435k would appear to be a fair valuation of the Group.

# Appendix 1 – Shareholder Information

The shareholders of Holdings are as follows:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Name | Role | Address | NI Number | Share Type | Rights | Number of shares | % shares (voting rights) |
| D Smith | Director |  |  | Ordinary Shares | * Full voting rights * Full dividend rights * Right to return of capital upon winding up * Shares are not redeemable | 750 | 50.5% |
| J Bloggs | Share holder |  |  | Ordinary B Shares | * Full voting rights * Full dividend rights * Right to return of capital upon winding up * Shares are not redeemable | 735 | 49.5% |
| H Smith | Employee |  |  | Ordinary D Shares | * No voting rights * Full dividend rights * No right to return of capital upon winding up * Shares are not redeemable | 15 | 0% |
|  |  |  |  |  |  | **1,500** |  |

# Appendix 2 – Group Structure and Key Information

Group structure:

100%

Key information:

|  |  |
| --- | --- |
| Company name | Client Holdings Limited |
| Company number | XXXX |
| Subsidiary UTR | XXXX |
| Date of incorporation | XXXX |
| Subsidiary Name |  |
| Subsidiary company number |  |
| Subsidiary UTR |  |
| Date of incorporation of subsidiary | 22 January 2018 |

# Appendix 3 – Balance Sheet.

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  | Draft |
|  | **31-Jan-20** | **31-Jan-21** | **31-Jan-22** |
|  | **£000** | **£000** | **£000** |
|  |  |  |  |
| Fixed Assets |  |  |  |
|  |  |  |  |
| Current Assets |  |  |  |
| Trade debtors |  |  |  |
| Bank |  |  |  |
|  |  |  |  |
| Creditors: Due within one year |  |  |  |
| Bank overdraft |  |  |  |
| Trade creditors |  |  |  |
| Taxation and social security |  |  |  |
| Accrued charges |  |  |  |
| Hire purchase |  |  |  |
|  |  |  |  |
| Creditors: Due more than one year |  |  |  |
| Hire purchase |  |  |  |
|  |  |  |  |
| Provisions |  |  |  |
| Deferred Tax |  |  |  |
|  |  |  |  |
| Total Net Assets |  |  |  |
|  |  |  |  |
| Capital and Reserves |  |  |  |
| Called up share capital |  |  |  |
| Profit and loss account |  |  |  |
|  |  |  |  |

As Holdings has only recently been incorporated, its assets are negligible. The table below only shows the balance sheet of Client for the past three years

Note: the figures in relation to the 31 January 2022 period are based upon draft accounts.

# Appendix 4 – Maintainable EBITDA Calculation

Set out below is the P&L account for Client for the last three financial years. As Holdings has only recently been incorporated and has had no transactions going through it, it has been ignored.

Note: the figures in relation to the 31 January 2022 period are based upon draft accounts.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Submitted | Submitted | DRAFT |
|  | **Year Ended** | **Year Ended** | **Year Ended** |
|  | **31-Jan-20** | **31-Jan-21** | **31-Jan-22** |
|  | **£000** | **£000** | **£000** |
|  |  |  |  |
| Turnover |  |  |  |
|  |  |  |  |
| Gross profit |  |  |  |
| *Gross margin* |  |  |  |
|  |  |  |  |
| Overheads (exc. depreciation) |  |  |  |
|  |  |  |  |
| EBITDA |  |  |  |
|  |  |  |  |
| Admin Depreciation |  |  |  |
|  |  |  |  |
| Operating profit |  |  |  |
|  |  |  |  |
| Interest |  |  |  |
|  |  |  |  |
| Profit Before Tax |  |  |  |

# Appendix 5 – Research on Multiples

Research found no similar businesses of a similar size upon which to base the multiple on.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Date Acquired | Target | Acquirer | Description | Enterprise value (EV) | EV/EBITDA (last 12m) multiple | Revenue |
| 09/04/2019 | client | Reconomy | Prismm provides consultancy waste management and compliance services specialising in the output from UK factories and materials that are particularly difficult to recycle. The company was founded in 2000 and is based in Kent UK | 2,384,171 | N/A | 6,313,025 |
| 13/09/2019 | client | Rsk Environment Limited | Ecologia Environmental Solutions based in Kent is an environmental consultancy. Founded in 2000 it specialises in contaminated land investigation consultancy and remediation as well as environmental claims responses and expert witness services for the industrial property and utility sectors | 2,498,834 | N/A | N/A |