# grubisic kresic

## CORPORATE FINANCE

**FINANCIAL ADVISORY SERVICES WITH SPECIAL EMPHASIS ON ...**

(i) Acquisition of Companies Including Financial Due Diligence (ii) Sale of Companies and Asset Disposals (iii) Capital Raising (iv) Valuation (v) Financial Analysis and Restructuring (vi) Evaluation of Strategic Options

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# Snapshot of GRUBISIC KRESIC Corporate Finance

## Selected Facts

- **Deep knowledge of corporate finance**
- **100+ completed engagements**
- **Experience in 45 different industries, sectors or niches**
- **Member of Globalscope International M&A Advisors**
- **55 partner firms in 49 countries on 6 continents**
- **In 2024 Globalscope members closed 197 transactions**
- **International academic and professional experience**
- **Structured approach in execution of projects and transactions**
- **Entrepreneurial spirit**

### 1 Sale of a Business

- Project management and financial advisory in sale process including:
  i. Transaction structuring
  ii. Preparation of a teaser and an information memorandum for investors
  iii. Valuation of a business
  iv. Identification and communication with potential investors
  v. Analysis of non-binding offers (term sheets)
  vi. Organization of due diligence
  vii. Advisory during the negotiation phase
  viii. Transaction closing.

### 2 Acquisition of a Business

- Project management and financial advisory in the acquisition process including:
  i. Identification of appropriate targets
  ii. Analysis of targets and initial valuation
  iii. Structuring and preparation of term sheet (non-binding bid)
  iv. Performing financial and tax due diligence
  v. Coordinating work of other advisors on the transaction
  vi. Preparation of the final valuation
  vii. Advisory during the post due diligence negotiation.

### 3 Valuation

- Some of the reasons for valuation include preparation for recapitalization or sale, exit of one of the partners from ownership, pledging shares as collaterals, etc.
- Fundamental valuation method is based on discounted future cash flows (DCF method) requiring detailed projections of income statement, balance sheet and cash flow.
- Methods used to check soundness of results received from DFC method most often include valuation based on trading multiples and transaction multiples.

### 4 Financial Due Diligence

- Detailed analysis of revenue and costs.
- Detailed analysis of assets (receivables, inventory, long term tangible and intangible assets).
- Detailed analysis of liabilities (suppliers, state, creditors, other liabilities).
- Determination of profit margins per product and service categories, seasonality, anomalies and normalization of operating profit.
- Analysis of cash flow.
- Quality of accounting practices.
- Identification of tax risks.

### 5 Capital Raising

- Raising debt or equity capital for expansion or restructuring purposes. Indicative order of capital sources from cheaper to more expensive:
  i. Bonds
  ii. Collateralized loans
  iii. Non-collateralized loans
  iv. Subordinated debt
  v. Convertible debt
  vi. Preferred shares
  vii. Ordinary shares.

### 6 Financial Restructuring

- Preparation of a detailed financial model with business projections in different scenarios.
- Identification of areas and measures for cost optimization, treatment of non-operating assets, and other measures needed to improve company's cash flow.
- Presenting a restructuring plan to creditors and debt restructuring.
- Bringing investors to perform recapitalization and/or refinancing of existing liabilities.

### 7 Evaluation of Strategic Options

- Entrance of strategic or financial investor.
- Sale of a company or acquisition of other businesses.
- Choosing financing structure.
- Debt restructuring / refinancing.
- Merging companies or spinning off parts of existing business.
- Transfer of ownership.
- Treatment of non-operating assets.
- Investment decisions and change in product and service portfolio.
- Modelling and simulation of scenarios.

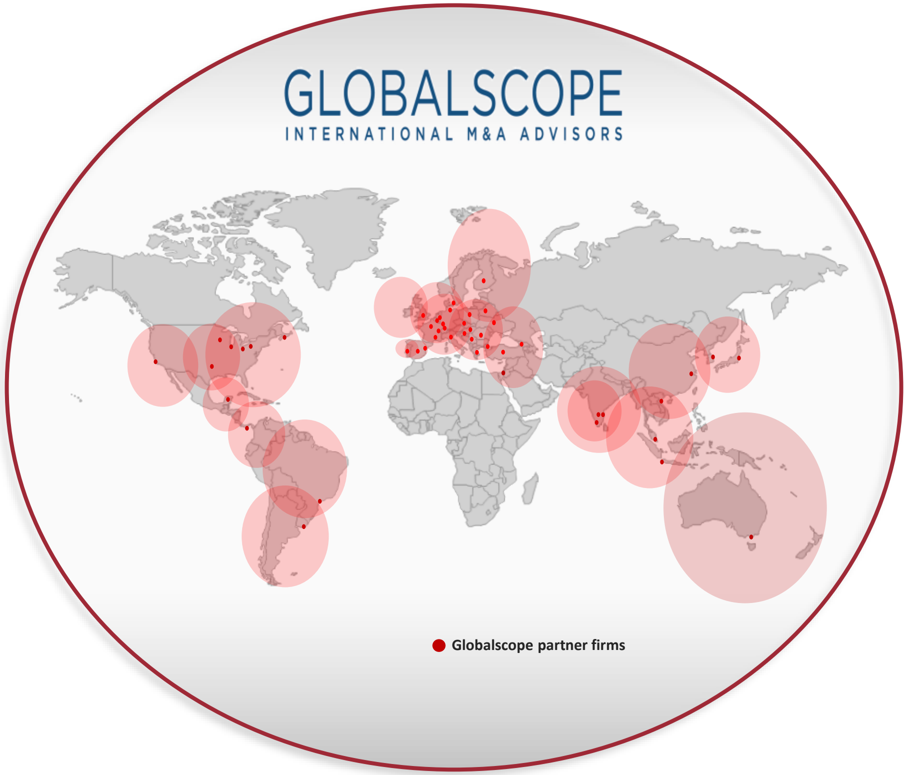
# Membership in Globalscope

## Overview

- **GRUBISIC KRESIC Corporate Finance ("GKCF")** is a member of one of the leading international associations of M&A advisors **– Globalscope International M&A Advisors.**
- **Globalscope is one of the 4 leading global associations of independent firms specialized for mergers & acquisitions.**
- As of December 2024, Globalscope counts 55 member firms allowing maximum utilization of local contacts and know-how of each respective member in its domestic market.
- Membership in Globalscope brings the following benefits for GKCF and our clients:
  I. Easy identification and access to relevant strategic investors
  II. Utilization of a global network with strong local presence and reach of partner firms in their respective home markets resulting in strong synergies
  III. Unique knowledge and expertise of all partners often coming from Big 4 firms, investment banks, and private equity funds, thus assuring that there is no transaction type or industry where member firms do not possess adequate experience
- In 2024 Globalscope members completed 197 transactions worth EUR +6bn**.**

## Globalscope partner firms

| | | | |
|---|---|---|---|
| Europe | Common Ground Corporate Finance | First Athens Corporate Finance | FSIP |
| | Sortis invest | Pegasus Capital | ESFA |
| | GKCF | Benedetti & Associates | Liberdade Capital |
| | VICF | Pirola Corporate Finance | NEXT Corporate Finance |
| | Suma Capital OY | Tenzing Partners SA | IFBC |
| | Atout Capital | DEX international M&A | InternationalScope Ltd. |
| | CMW Corporate Finance | Strategique | Capital Times |
| | Carlsquare | Aventis Advisors | Corbett Keeling |
| | CCI Management | Liberdade Capital | Silverpeak |
| Africa, Australia and Asia | MCF | Seedset Advisory | AIBJ Inc. |
| | a'XYKno Capital Services | MCF | MCF |
| | InCredMAPE Advisory Group | BDC Korea | Orion Capital Partners |
| | RSC Advisors | Locus Capital Partners | Octavian Group |
| | Rungta Advisors | AWR Lloyd | Terrain Capital |
| | Portfolio Investments | | |
| North and South America | Pactor Financas Corporatives | A. Bucholtz & Comp. | Melcap Partners, LLC |
| | Osprey Capital Partners | Brooks Houghton | Paramax Corporation |
| | Mora Limitada | Consilium Partners LLC | Sloan Capital, LLC |
| | Insignia Financial Advisors | Greif & C. | FICUS Advisory |




| 55 | 49 | 6 | 600+ | 197 |
|---|---|---|---|---|
| Partner firms | Countries | Continents | Consultants | Transactions (2024) |

**Acrisure partner, Unilink, has acquired Priori Zavarovanje**
INSURANCE BROKERAGE
June 2025

**Dental Investments Holding, a portfolio company of Abris Capital Partners, has acquired Sanitaria Dental**
DISTRIBUTION OF DENTAL SUPPLIES & EQUIPMENT
April 2025

**Teraplast acquires 70% ownership stake in Optiplast**
PRODUCTION OF PLASTIC BAGS AND FOILS
October 2024

**Perutnina Ptuj has acquired Toni**
PURCHASE, STORAGE, DRYING, AND WHOLESALE OF GRAINS
July 2024

**Invera Equity Partners has provided EUR 9m growth equity capital to Entrio**
EVENT MANAGEMENT PLATFORM
June 2024

**Modirum has acquired a majority ownership stake in ITgma**
SOFTWARE DEVELOPMENT
April 2024

**Acrisure partner, Unilink, has acquired Euro Posredovanje**
INSURANCE BROKERAGE
December 2023

**Döhler has acquired Frikos**
FRUIT IQF AND FREEZE DRYING
December 2023

**ALFI PE and Accession Capital Partners have acquired Vemo Trade**
PAPER BAG PRODUCTION
August 2023

**Biochem Polska has acquired Kvantum-Tim**
MEDICAL DEVICES & CONSUMABLES DISTRIBUTION
May 2023

**Europapier, a member of Heinzel Group, has acquired Hygiene Pro Team**
DISTRIBUTION OF PROFESSIONAL HYGIENE PRODUCTS
January 2023

**Sandberg Capital has provided EUR 20m growth equity capital to Quantox Technology**
SOFTWARE DEVELOPMENT
December 2022

**Belfry has acquired a significant ownership stake in Pismorad**
TRAFFIC SIGN PRODUCTION
December 2022

**Mezzanine Partners provided growth (expansion) capital to Camping Plitvice**
CAMPING RESORT
November 2022

**Adria Dental Group has acquired a majority ownership stake in Dentum**
DENTAL CLINIC
October 2022

**Angelina Yacht Charter has acquired 85% of shares in Ultra**
BOAT CHARTER
August 2022

**TaskUs (NASDAQ: TASK) has acquired Heloo**
CUSTOMER CARE SERVICES
April 2022

**Groupe Looping has acquired Aquapark Istralandia**
OUTDOOR WATER PARK
March 2022

**OYO Vacation Homes has acquired Direct Booker**
VACATION RENTAL SOLUTIONS
February 2022

**Provectus Capital Partners has acquired a majority ownership stake in Salona Dental**
DENTAL CLINIC
November 2021

**Eko Medimurje has acquired a majority stake in Hittner**
FORESTRY AND AGRICULTURAL TRACTOR MANUFACTURING
October 2021

**Merkury Market has acquired 100% of shares in Emmezeta Croatia and Serbia from Conforama**
HOME FURNISHING RETAIL
September 2021

**EMMA Capital Group has provided growth equity capital to Bazzar**
E-COMMERCE MARKETPLACE
August 2021

**Iskra has acquired 100% of shares in Elka**
CABLE PRODUCTION
May 2021

**Vela Software has acquired 100% of shares in SVAM Plus**
ENTERPRISE RESOURCE PLANNING SOFTWARE
May 2021

**AVK Group has acquired 70% of shares in OMV-Indoil**
INDUSTRIAL VALVE PRODUCTION
February 2021

**Weyland GmbH has acquired 50% of shares in MIP Weyland from MIP Metal**
METAL PRODUCTS WHOLESALE, RETAIL, AND PROCESSING
November 2020

**E.ON has acquired 100% of shares in Plin projekt and Moslavina plin**
NATURAL GAS SUPPLY AND DISTRIBUTION
July 2020

# Projects
## Selection of Completed Buy-Side Transactions

Infinum has acquired 3P Development
DIGITAL PRODUCT DESIGN AND DEVELOPMENT
September 2023

Span has acquired GT Tarkvara
LICENSING AND SOFTWARE ASSET MANAGEMENT
March 2023

Span has acquired Ekobit
IT SOLUTIONS AND SOFTWARE DEVELOPMENT
March 2022

Infinum has acquired 3P Development
SOFTWARE DEVELOPMENT
December 2021

Emma Capital acquired Marina Trogir
NAUTICAL MARINA
October 2021

Stanić Beverages has acquired Maraska
PRODUCTION AND DISTRIBUTION OF BEVERAGES
September 2021

Generali Growth Equity Fund has acquired Diverto
CYBERSECURITY SERVICES
September 2021

Transcom has acquired City Connect
CUSTOMER CARE SERVICES
July 2021

Ano Insurance Solutions has acquired business operations of Raiffeisen Bonus
INSURANCE BROKERAGE
July 2019

Tokić has acquired 100% of shares in Autocentar Marinići
AUTOMOTIVE SPARE PARTS RETAIL
June 2019

Management of Sanitaria Dental has acquired 51% of company shares from Sanitaria Dentalwaren
DENTAL EQUIPMENT DISTRIBUTION
November 2018

Končar DS&T has acquired 74% of shares in Power Engineering Transformatory
TRANSFORMER MANUFACTURING
May 2017

AON plc sold its Croatian subsidiary to local management
*Management Buyout*
INSURANCE BROKERAGE
April 2017

Through its subsidiary HRS has acquired 100% of shares in MICROS-Fidelio Hrvatska from Oracle
IT SOFTWARE FOR HOTEL & LEISURE INDUSTRY
December 2016

Algoritam has acquired 100% of shares in Profil Mozaik
PUBLISHING HOUSE AND BOOK RETAIL
April 2016

Bomark Ambalaža has acquired 100% of shares in Linpac Packaging
STRETCH FOIL AND PACKAGING PRODUCTION
July 2015

# Projects
## Selection of Valuation Mandates

| | |
| --- | --- |
| HIGHER EDUCATION INSTITUTION | June 2024 |
| WINE PRODUCTION | January 2024 |
| PERSONAL PROTECTIVE EQUIPMENT MANUFACTURING | May 2023 |
| SOFTWARE AND AI SOLUTIONS DEVELOPMENT | April 2024 |
| VALVE SEALS, COMPENSATORS AND METAL BELLOWS MANUFACTURING | January 2024 |
| DISTRIBUTION OF MEDICAL DEVICES AND EQUIPMENT | June 2022 |
| MECHANICAL BIOLOGICAL WASTE TREATMENT | December 2021 |
| PRODUCTION AND DISTRIBUTION OF BEVERAGES | October 2021 |
| WELDING CONSUMABLES PRODUCTION | March 2021 |
| ICE CREAM AND FROZEN FOOD PRODUCTION | September 2020 |
| IT SERVICES FOR GOVERNMENT ADMINISTRATION | April 2020 |
| TELECOMMUNICATIONS | May 2019 |
| CABLE PRODUCTION | February 2019 |
| WINE PRODUCTION | January 2019 |
| TRAFFIC SIGNALIZATION PRODUCTION AND INSTALLATION | October 2018 |
| ELECTRICAL EQUIPMENT DISTRIBUTION | October 2018 |
| INSURANCE BROKERAGE | February 2017 |
| FOOTWEAR RETAIL | January 2017 |
| SECURITY SYSTEMS INTEGRATION | April 2016 |
| CONSTRUCTION | March 2016 |
| CONSTRUCTION AND CIVIL ENGINEERING | February 2016 |

# Projects

## Selection of Completed Financial Due Diligence Projects

| Company | Sector | Date |
|---|---|---|
| URION medical equipment | MEDTECH AND PHARMACEUTICALS DISTRUBUTION | May 2025 |
| MAGNA PHARMACIA | MEDTECH AND PHARMACEUTICALS DISTRUBUTION | January 2024 |
| MIKROCOP | E-DOCUMENT MANAGEMENT SOLUTIONS | July 2022 |
| PROTEINI.SI | SPORT NUTRITION AND HEALTH PRODUCTS RETAIL | December 2021 |
| ITsistemi | DOCUMENTATION MANAGEMENT SOLUTIONS AND SERVICES | May 2021 |
| Marina Trogir | RENTAL OF EMBROIDERY AND BOAT SERVICING | April 2021 |
| Marina Nautica Novigrad | RENTAL OF EMBROIDERY AND BOAT SERVICING | April 2021 |
| diverto | IT SECURITY SERVICES | April 2021 |
| Marina Portorož | RENTAL OF EMBROIDERY AND BOAT SERVICING | March 2021 |
| ledo | ICE CREAM AND FROZEN FOOD PRODUCTION | December 2020 |
| Frikom | ICE CREAM AND FROZEN FOOD PRODUCTION | December 2020 |
| eco consult | GEOTHERMAL FIELD | April 2020 |
| MARASKA | ALCOHOLIC AND NONALCOHOLIC BEVERAGE PRODUCTION | March 2020 |
| Optima Telekom | TELECOMMUNICATION | February 2020 |
| emmezeta | HOME FURNISHING RETAIL | January 2020 |
| BARTOG | AUTOMOTIVE SPARE PARTS RETAIL | October 2019 |
| Autocentar Marinići | AUTOMOTIVE SPARE PARTS RETAIL | June 2019 |
| Stratus IT | IT SOLUTIONS FOR BOAT CHARTER | January 2019 |
| Imunološki zavod | VACCINE PRODUCTION | November 2018 |
| zagorski metalac | NATURAL GAS SUPPLY AND DISTRIBUTION | October 2018 |
| KC PLIN | NATURAL GAS SUPPLY AND DISTRIBUTION | May 2017 |

# Sale of a Business

## Typical Course of Action and Services Provided During the Process

**1 Transaction Preparation**

- Meetings with the management and agreement on an indicative transaction timeline.
- Defining the transaction structure.
- Creating a list of potential investors.
- Preparing initial transaction documents for investors:
  - *i. Teaser*
  - *ii. Non-Disclosure Agreement (NDA).*
- Estimate of a valuation range.

**2 Preparation of Information Memorandum**

- Information Memorandum is a document with detailed information about the company and envisaged transaction, which, among other things, includes:
  - i. Overview of the market (size, trends, potential growth), market shares, description of competitors, barriers to market entry of new competitors, etc.
  - ii. Overview of products and services, manufacturing sites and facilities, sales and distribution channels, customer structure, etc.
  - iii. Management and SWOT analysis
  - iv. Key investment highlights (why it makes sense to acquire ownership in the company)
  - v. Historical financial statements, analysis of revenue, expenses, assets, and liabilities
  - vi. Business plan and financial projections
  - vii. Other data, information, and analysis relevant to the transaction.

**3 Initial Contact and Continued Communication with Investors**

- Establishing initial contact with investors (by sending the teaser).
- Signing of confidentiality agreement upon receiving feedback and request for additional information.
- Distribution of the information memorandum to interested investors.
- Maintaining constant communication with investors and responding to inquiries.
- Organizing meetings and conference calls with the company’s management.
- Updating the information memorandum as needed.

**4 Negotiating a Term Sheet**

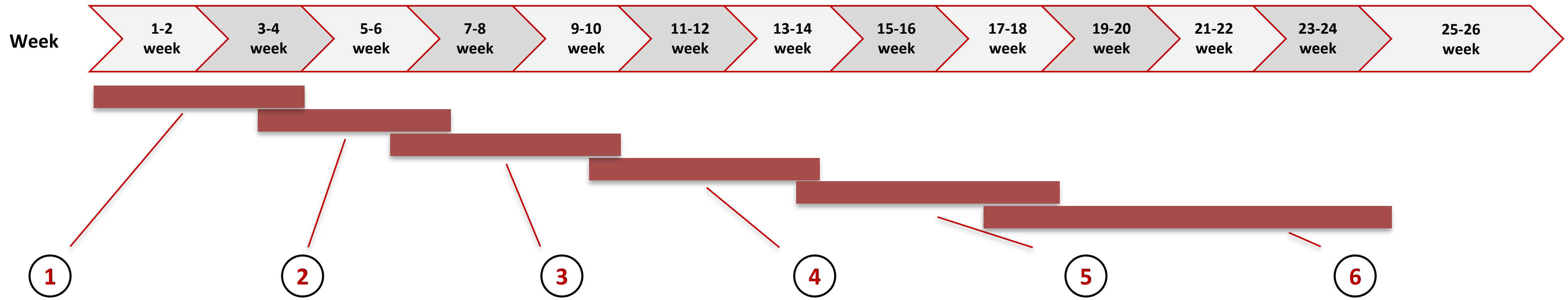
- Non-binding offers come in the form of a Memorandum of Understanding, Letters of Intent or a Term Sheet, before the start of due diligence, which, depending on the type of investor and type of transaction, usually includes:
  - i. Transaction structure
  - ii. Period of exclusivity in negotiating and executing due diligence
  - iii. Valuation range and assumptions upon which it is determined
  - iv. Anticipated duration of the process and treatment of costs incurred during the process
  - v. Structure, dynamics, and form of payment (cash, shares, assets, retained part of the purchase price for warranties, earn out, etc.)
  - vi. Representations and warranties to be provided by the seller (or vice versa)
  - vii. Requirements for additional funding (capital increase) in the period after the entry of the investor
  - viii. The rights of the buyer and seller in the event of the sale of shares by one party (e.g., drag-along rights, tag-along rights, etc.)
  - ix. Lock-up period
  - x. Treatment of business relationships between the company and related parties
  - xi. Conditions precedent for closing
  - xii. The basic outline of the Shareholders' Agreement
  - xiii. Buyer and seller representation in the management and supervisory board
  - xiv. Exit strategy for the founder and/or investor (initial public offering on the stock market, selling to a strategic buyer or financial investor, etc.)
  - xv. Other elements of the non-binding offer.

**5 Due Diligence and Negotiations of Transaction Agreements**

- Organization and coordination of due diligence performed by investors including: (i) Collecting documentation for due diligence, (ii) Preparation of a data room in which the potential buyer as part of due diligence will have access to relevant legal, technical, commercial, and financial documents, (iii) Coordinating and monitoring the process of due diligence, (iv) Preparation of materials and management for meetings with interested investors during due diligence, (v) Answering additional questions and distribution of additional documents to interested investors at the end of due diligence.
- Consulting in final negotiations usually includes: (i) Advising on Share Purchase Agreement (SPA) and Shareholder Agreement (SHA), (ii) Defining the final set of seller’s representations and warranties, (iii) Treatment of certain items arising from due diligence, (iv) Negotiating final valuation and earn out (if any), (v) Advising on contracts with the management in case existing owners who are at the same time managers remain in the ownership structure, (vi) Other issues.

# Sale of a Business
## Indicative Transaction Timeline






### Transaction Preparation

- Data gathering for the information memorandum.
- Creation of a long list of potential investors.
- Creation of a teaser.
- Building a financial model with historical data.
- Creating initial views of the optimal transaction structure.

### Valuation and Information Memorandum

- Forecasting of the income statement, balance sheet, and cash flow.
- Valuation using the discounted cash flow method.
- Producing the information memorandum containing: transaction rationale; overview of products and services; description of production and warehousing facilities; description of sales channels; market analysis; competitors overview; management and organization; SWOT analysis; analysis of historical revenue, costs, assets, liabilities, and cash flow; business plan with elaborated assumptions; other elements as deemed relevant for particular business, industry or transaction itself.

### Approaching Investors

- Establishing initial contact (delivery of the teaser).
- Receiving investors’ feedback including requests for more detailed information.
- Signing of NDA’s.
- Distribution of the information memorandum on a selective basis.
- Maintaining communication with investors, organizing conference calls and visits to the company’s premises and facilities.
- Receiving and evaluating non-binding offers.

### Negotiating Key Terms of Transaction

- Transaction structure.
- Exclusivity period.
- Due diligence requirements.
- Valuation range.
- Anticipated duration of the process and treatment of costs.
- Payment (structure, dynamics and methods).
- Follow-on financing subsequent to initial investment.
- Drag-along and tag-along rights.
- Lock-up period.
- Reps and warranties.
- Management issues.
- Relationship with related parties.
- Call and put options.
- Conditions precedent.
- Exit strategy.
- Other elements of transaction as deemed relevant.

### Due Diligence

- Data gathering for due diligence and formation of a data room containing financial, tax, legal, commercial, technical, and other documents about the company.
- Coordination and supervision of the due diligence process.
- Update of information and provision of additional items as requested by investors.
- Preparation of materials and management for investor meetings.
- Additional clarifications and answers to investors’ inquiries following due diligence.
- Finding solutions and adequate means of treating problematic items emerged during due diligence.
- Creation of initial drafts of key agreements (SPA, SHA, management agreements, agreements with related parties, etc.)

### Final Negotiations and Closing

- Detailed layout of all agreements.
- Reps and warranties in case of risky events.
- Final agreement on valuation and earn out.
- Agreement with the management in case existing owner should remain in the company’s management.
- Defining final set of conditions precedent.
- Signing of documents.
- Approval by relevant bodies (regulatory agency, board of directors of the buyer and/or seller, etc.).
- Closing of transaction upon fulfillment of all conditions precedent.

### 1 Identification of Potential Candidates for Acquisition

- A structured process of company acquisition starts with identification of the target firm. If the client has not identified potential candidates for acquisition, GKCF can perform systematic screening on the selected markets, in order to create the list of all potential targets.
- The first step in the process of market screening is the formation of a preferred target profile (geographic area, size, production capacity, indicative transaction value, etc.).

### 2 Access to Potential Candidates for Acquisition

- If the target is in the formal process of public sale (which includes the participation of a number of interested buyers) the representatives of the seller will contact potential buyers and send initial information on the subject of the transaction (teaser).
- If the target is not in the formal process of sale, GKCF will initiate contact with the target or the target's representatives. Some owners, especially the owners of family businesses, hesitate to communicate their willingness to sell the company. Consequently, this process assumes maximum professionalism and confidentiality from all interested parties. Hence, seriously interested buyers will be prepared to sign a confidentiality agreement, including the fact that the target is in the formal process of sale or that the target has already started negotiations with other potential buyers.

### 3 Analysis of Received Documents and Initial Valuation of the Target

- In the process of public sale, the seller's representatives will deliver an information memorandum to all interested buyers. The information memorandum includes a detailed description of the company's business, products, and services, financial information including historic data and forecasts, etc. Buyers should also request the report i.e. conclusions of vendor due diligence, if one has been performed.
- Based on the documentation provided, GKCF will perform the initial valuation of the target company using one or a combination of the following methods: (1) discounted cash flow (DCF) model; (2) valuation using comparable transaction multiples in the same industry; (3) valuation based on the trading indicators for comparable companies listed on the stock exchange.
- If the sale process is not a public (auction) one, GKCF will request from the target company data and information similar to those listed in the information memorandum. In order to ensure that the regular business of the target is performed without interruptions and to allow for better communication and understanding in the sale process GKCF's suggestion to target's representatives would be to appoint the advisor who is specialized in mergers and acquisitions.

### 4 Indicative Offer

- Based on the information stated in the information memorandum, answers from additional questions and results of indicative valuation, the buyer would, in case of further interest, jointly with its legal and financial advisor create an indicative, non-binding offer, which would be given to the seller. The offer should clarify the important assumptions used in the indicative valuation, describe sources of financing for conclusion of transaction and list all (pre)conditions for closure of transaction, which buyer plans to incorporate in obligatory offer.
- If the seller considers the indicative offer acceptable, the buyer is interested to obtain additional details on the target through the due diligence process.

### 5 Draft Share Purchase Agreement and Binding offer

- The seller or the seller's legal representatives could prepare and deliver to the buyer a draft share purchase agreement after or during the due diligence process. This draft contains, inter alias, a list of all guarantees and liabilities which the seller is willing to give or take as part of the transaction, as well as risks and events for which the seller is not ready to give guarantees or be held liable. If the seller has performed internal (vendor) due diligence, the results of which have not been included in the information memorandum, the report on internal due diligence could be delivered to the buyer.
- Based on the results of the due diligence process and other collected information (information memorandum, meetings with the seller's management) and proposed share purchase agreement clauses, GKCF will prepare the final valuation of the target.
- Based on the above-mentioned inputs, the legal advisor will prepare the draft binding offer. After the main components of the offer are agreed upon (price, protection clauses, sources of financing, timetable, additional requests, representations, warranties, etc.), the binding offer will be sent to the seller.

### 6 Transaction Closing

- The seller will enter into final negotiations with the small number of buyers with best offers. As part of the negotiation process, the chosen buyer could get an opportunity (exclusivity) to perform additional due diligence, after which the final terms of the agreement will be determined.
- Legally binding relation between the seller and the buyer starts with signing of a share purchase agreement. The signing of the share purchase agreement and/or transaction payment could be delayed for reasons not relating to mutual consent between the parties – e.g. the acquisition needs to be approved by the general assembly of the buyer company or by the regulator. It is common procedure that part of the agreed transaction price is paid in a special account to allow verification of fulfillment of certain conditions from the contract – e.g. the seller has guaranteed a certain level of inventory at the date of transaction's conclusion which requires checking balance sheet at the date of transaction's conclusion (preparation of balance sheet reflecting full accounts on transaction closing date can take few weeks).

# Valuation

## Possible Reasons to Perform Valuation, Valuation Methods, and Basic Principles

### 1 Possible Reasons to Perform Valuation

- Some of the possible reasons to perform a valuation exercise are:
  i. preparation for sale
  ii. impairment test to estimate the value of goodwill
  iii. redemption of co-owner wishing to exit from ownership structure
  iv. financial institution may ask for a valuation of shares of a company to which it provided a loan facility and now wishes to mortgage the shares as collateral
  v. preparation for recapitalization
  vi. as part of the preparation for initial public offering (IPO).
- At companies that combine several business units (such as independent divisions of food and beverages), valuation can be performed for a specific unit or part of a company. The reason for this might be prepared to carve out and sell a specific unit or part or something else. GKCF are experts for preparation of valuations part of which is development of sophisticated financial models which include sensitivity analysis and scenario analysis.

### 2 Valuation Methods

- In practice, we usually use one of the three valuation methods:
  i. **DCF i.e. discounted cash flow method.** This method calls for projections of company cash flows because the value of the company is assumed to be its current (discounted) value of future cash flows. Cash flows are discounted at a rate which represents investor's required rate of return. To project cash flow, it is necessary to prepare projections of the income statement and balance sheet. Depending on the desired level of details, the income statement and balance sheet can be projected as only a few main items or at the most detailed level.
  ii. **Trading multiples method.** In this method, we seek relative values of companies from the same industry (as our subject of valuation) listed on stock exchanges. "Relative value" refers to multipliers such as: EV/Income, EV/EBITDA, EV/free cash flow, P/E (price to earnings ratio), etc. Average or median values of the above stated multiples calculated for similar companies listed on stock exchanges are then multiplied with indicators of the company which is being valued. For example – average ratio EV/EBITDA for a listed company is 7x and EBITDA of the company being valued is EUR 10 million. Implied value of the company (EV) based on traded multiple EV/EBITDA is EUR 70 million (10m x 7 = 70m).
  iii. **Transaction multiples method**. Similar to trading multiples, here we talk about a method where we seek relative values of companies. To be more specific, we are interested to find at which multiples of sales, EBITDA, etc. have transactions been taking place in the industry in which the company under valuation is in.

### 3 Basic Valuation Principles

- Value of any type of asset, therefore of a company also, relates to two main questions:
  i. What are the expected benefits of owning the company / business?
  ii. What is the risk of realized benefits being different than expected benefits?
- The ultimate „benefit“ from the investment does not come in the form of profit but rather positive free cash flow. The higher the expected cash flow the company can generate in the future, the higher its current value.
- Why is cash flow important instead of profit? Because profit is an accounting term and accounting is a standard within which it is defined how to record business activities. Each standard is based on specific rules which are at the same time in some parts subject to discretionary interpretation and application by the management of the company. As a consequence, accounting profit is often different from cash flow. Here are a few examples:
  i. Depreciation is a cost item in the income statement (decreases profit) but does not represent cash outflow.
  ii. While issuing invoices increase in revenue is recorded, but that does not necessarily indicate that it was collected (if not, this will result in an increase in trade receivables in the balance sheet).
  iii. While selling products, the cost of their purchase or production is recorded in the income statement, but that does not necessarily indicate that the raw materials consumed in production were paid for (if not, this will result in an increase in trade payables in the balance sheet).
  iv. Purchase of a building that will be used for many years will not be reflected in the income statement as an expense in the year of acquisition but will be linearly depreciated (as an expense in the income statement) during the coming years i.e. estimated useful life (but cash outflow has happened today).
  v. During repayment of loan installment which includes interest and principal, the income statement will reflect the interest part only while repayment of principal will be reflected in the decrease in loan liabilities in the balance sheet (cash outflow included entire installment amount, while profit reflects only the interest part).
- Considering that projections are based on assumptions relating to a set of important variables, there is a possibility that actual results will differ from those projected. This implies that expected cash flow is a risky category. The amount of assessed risk will influence the investor's required rate of return. Higher the risk, the higher the required rate of return. In turn, the higher the required rate of return, the lower the amount an investor is ready to pay for the expected future cash flows of the company.

# Contacts



**Andrej Grubišić**
Partner
+385 98 458 610
andrej.grubisic@gkcf.eu

**Darijo Krešić**
Partner
+385 95 579 1566
darijo.kresic@gkcf.eu

**Marko Klipić**
Associate Director
+385 91 252 1276
marko.klipic@gkcf.eu

**Mario Bajlović**
Associate Director
+385 91 762 5416
mario.bajlovic@gkcf.eu

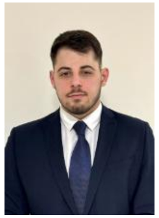
**Antonio Tandara**
Associate
+385 95 826 7921
antonio.tandara@gkcf.eu

**Roman Lovrić**
Associate
+385 99 442 9232
roman.lovric@gkcf.eu

**Leonardo Matanović**
Analyst
+385 99 330 7111
leonardo.matanovic@gkcf.eu

**Ivan Rajevac**
Analyst
+385 99 7231 897
ivan.rajevac@gkcf.eu

**Matej Vukić**
Analyst
+385 98 1749 507
matej.vukic@gkcf.eu



**Mislav Zonjić**
Analyst
+385 91 4044 905
mislav.zonjic@gkcf.eu

GRUBIŠIĆ KREŠIĆ d.o.o.
Sky Office, 11th Floor

ROBERTA FRANGEŠA MIHANOVIĆA 9
10110 ZAGREB, CROATIA
www.gkcf.eu
info@gkcf.eu

grubisic | kresic
CORPORATE FINANCE