

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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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

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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.

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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 DCF method most often include valuation based on trading multiples and transaction multiples.

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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.

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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.

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Evaluation of Strategic Options

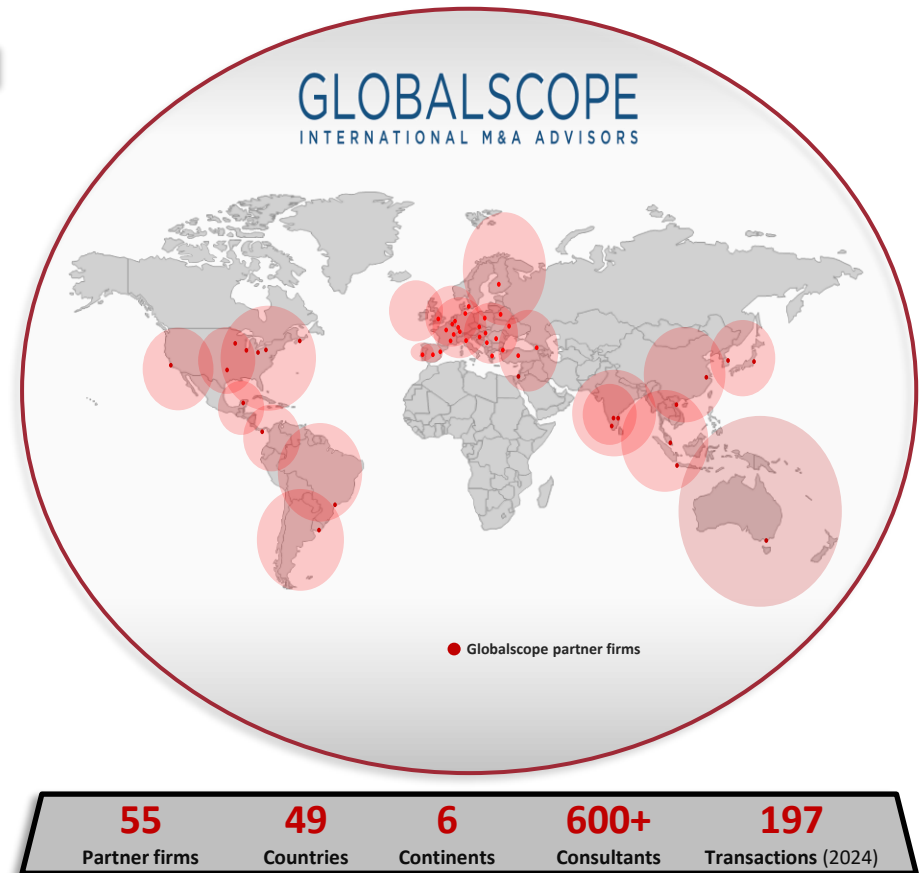
- Entrance of strategic or financial investor.
- Sale of a company or acquisition of other businesses.
- Choosing financing structure.
- Debt restructuring / refinancing.
- Merging companies or spinning off parts of existing business.
- Transfer of ownership.
- Treatment of non-operating assets.
- Investment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

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:
 - Easy identification and access to relevant strategic investors
 - Utilization of a global network with strong local presence and reach of partner firms in their respective home markets resulting in strong synergies
 - 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

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	Strategie	Capital Times
Carlsquare	Aventis Advisors	Corbett Keeling
CCI Management	Liberdade Capital	Silverpeak
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		
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



Projects

Selection of Completed Sell-Side Transactions

MPR upravljanje specijalnim projektima MPR upravljanje specijalnim projektima has acquired a 62% ownership stake in Vodokok Vodokok PIPES AND FITTING SYSTEMS MANUFACTURING AND WHOLESALE  September 2025	Molins TITAN Molins and TITAN have agreed to acquire a majority ownership stake in Baupartner BAUPARTNER Gradnja za građevinarstvo PRECAST CONCRETE AND STEEL STRUCTURE SOLUTIONS  August 2025	NEFTYS-PHARMA Neftys Pharma has acquired a majority ownership stake in DDL ZAGREB DDL ZAGREB Zdravstvena zaštita WHOLESALE AND RETAIL OF PET PRODUCTS  July 2025	ACRISURE Acrisure partner, Unilink, has acquired Priori Zavarovanje PRIORI ZAVAROVANJE Društvo za osiguranje INSURANCE BROKERAGE  June 2025	DH dental holding a portfolio company of Abris Dental Investments Holding, a portfolio company of Abris Capital Partners, has acquired Sanitaria Dental sanitaria dental DISTRIBUTION OF DENTAL SUPPLIES & EQUIPMENT  April 2025	TeraPlast Teraplast acquires 70% ownership stake in Optiplast OPTIPLAST PRODUCTION OF PLASTIC BAGS AND FOILS  October 2024	Perutnina Ptuj has acquired Toni TONI PURCHASE, STORAGE, DRYING, AND WHOLESALE OF GRAINS  July 2024
invera Invera Equity Partners has provided EUR 9m growth equity capital to Entrio ENTRIO EVENT MANAGEMENT PLATFORM  June 2024	modirum Modirum has acquired a majority ownership stake in ITgma ITgma SOFTWARE DEVELOPMENT  April 2024	ACRISURE Acrisure partner, Unilink, has acquired Euro Posredovanje EURO POSREDOVANJE INSURANCE BROKERAGE  December 2023	DÖHLER Döhler has acquired Frikos FRIKOS FRUIT IQF AND FREEZE DRYING  December 2023	ALFI PE ACP ALFI PE and Accession Capital Partners have acquired Vemo Trade Vemo PAPER BAG PRODUCTION  August 2023	biochem Biochem Polska has acquired Kvantum-Tim KVANTUMTIM MEDICAL DEVICES & CONSUMABLES DISTRIBUTION  May 2023	EUROPAPIER Europapier, a member of Heinz Group, has acquired Hygiene Pro Team HYGIENETEAM DISTRIBUTION OF PROFESSIONAL HYGIENE PRODUCTS  January 2023
SANDBERG Sandberg Capital has provided EUR 20m growth equity capital to Quantox Technology QUANTOX SOFTWARE DEVELOPMENT  December 2022	BELFRY Belfry has acquired a significant ownership stake in Pismorad pismorad TRAFFIC SIGN PRODUCTION  December 2022	MEZZ Mezzanine Partners provided growth (expansion) capital to Camping Plitvice Camping Plitvice PULSE OF NATURE CAMPING RESORT  November 2022	Adria Dental Group Adria Dental Group has acquired a majority ownership stake in Dentum DENTUM DENTAL CLINIC  October 2022	ANGELINA yacht charter Angelina Yacht Charter has acquired 85% of shares in Ultra ULTRA BOAT CHARTER  August 2022	TaskUs TaskUs (NASDAQ: TASK) has acquired Heloo heloo CUSTOMER CARE SERVICES  April 2022	Groupe Looping has acquired Aquapark Istralandia AQUAPARK Istralandia OUTDOOR WATER PARK  March 2022
OYO vacation homes OYO Vacation Homes has acquired Direct Booker directbooker VACATION RENTAL SOLUTIONS  February 2022	Provectus Capital Provectus Capital Partners has acquired a majority ownership stake in Salona Dental salona dental DENTAL CLINIC  November 2021	EKO MEDIMURJE Eko Medimurje has acquired a majority stake in Hittner HITTNER FORESTRY AND AGRICULTURAL TRACTOR MANUFACTURING  October 2021	Merkury Market Merkury Market has acquired 100% of shares in Emmezeta Croatia and Serbia from Conforama emmezeta HOME FURNISHING RETAIL  September 2021	bazzar EMMA Capital Group has provided growth equity capital to Bazzar EMMA CAPITAL E-COMMERCE MARKETPLACE  August 2021	Iskra Iskra has acquired 100% of shares in Elka ELKA CABLE PRODUCTION  May 2021	Vela CONSTELLATION SOFTWARE Vela Software has acquired 100% of shares in SVAM Plus SVAM PLUS BUSINESS IT SOLUTIONS ENTERPRISE RESOURCE PLANNING SOFTWARE  May 2021

Projects

Selection of Completed Buy-Side Transactions

 EMMA CAPITAL EMMA Capital Group has acquired a majority ownership stake in Urion  URION MEDICAL DEVICES & CONSUMABLES DISTRIBUTION  September 2025	 ALGEBRA Algebra University has acquired (merged with) Edward Bernays University of Applied Sciences  Bernays HIGHER EDUCATION INSTITUTION  July 2025	 INFINUM Infinum has acquired 3P Development  ETR DIGITAL PRODUCT DESIGN AND DEVELOPMENT  September 2023	 span Span has acquired GT Tarkvara  gt tarkvara LICENSING AND SOFTWARE ASSET MANAGEMENT  March 2023	 span Span has acquired Ekobit  ekobit IT SOLUTIONS AND SOFTWARE DEVELOPMENT  March 2022	 INFINUM Infinum has acquired 3P Development  THR3P SOFTWARE DEVELOPMENT  December 2021
 EMMA CAPITAL Emma Capital acquired Marina Trogir  Marina Trogir NAUTICAL MARINA  October 2021	 STANIĆ Stanić Beverages has acquired Maraska  MARASKA PRODUCTION AND DISTRIBUTION OF BEVERAGES  September 2021	 GENERALI INVESTMENTS Generali Growth Equity Fund has acquired Diverto  diverto CYBERSECURITY SERVICES  September 2021	 Transcom Transcom has acquired City Connect  CC CITY CONNECT CUSTOMER CARE SERVICES  July 2021	 ano INSURANCE SOLUTIONS Ano Insurance Solutions has acquired business operations of Raiffeisen Bonus  Raiffeisen BONUS INSURANCE BROKERAGE  July 2019	 TOKIĆ Tokić has acquired 100% of shares in Autocentar Marinići  ac Marinići AUTOMOTIVE SPARE PARTS RETAIL  June 2019
 sanitaria dental Management of Sanitaria Dental has acquired 51% of company shares from Sanitaria Dentalwaren  SANITARIA DENTALWAREN DENTAL EQUIPMENT DISTRIBUTION  November 2018	 KONČAR D&T Končar DS&T has acquired 74% of shares in Power Engineering Transformatory  PE POWER ENGINEERING TRANSFORMATORY TRANSFORMER MANUFACTURING  May 2017	 AON Croatian Branch Office AON plc sold its Croatian subsidiary to local management Management Buyout INSURANCE BROKERAGE  April 2017	 HRS Through its subsidiary HRS has acquired 100% of shares in MICROS-Fidelio Hrvatska from Oracle  micros IT SOFTWARE FOR HOTEL & LEISURE INDUSTRY  ORACLE December 2016	 ALGORITAM Algoritam has acquired 100% of shares in Profil Mozaik  PROFIL MOZAIK PUBLISHING HOUSE AND BOOK RETAIL  April 2016	 Bomark Ambalaža Bomark Ambalaža has acquired 100% of shares in Linpac Packaging  LIN PAC 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

 MEDICAL DEVICES & CONSUMABLES DISTRIBUTION  May 2025	 MEDTECH AND PHARMACEUTICALS DISTRIBUTION  January 2024	 E-DOCUMENT MANAGEMENT SOLUTIONS    July 2022	 SPORT NUTRITION AND HEALTH PRODUCTS RETAIL  December 2021	 DOCUMENTATION MANAGEMENT SOLUTIONS AND SERVICES  May 2021	 RENTAL OF EMBROIDERY AND BOAT SERVICING  April 2021	 RENTAL OF EMBROIDERY AND BOAT SERVICING  April 2021
 IT SECURITY SERVICES  April 2021	 RENTAL OF EMBROIDERY AND BOAT SERVICING  March 2021	 ICE CREAM AND FROZEN FOOD PRODUCTION      December 2020	 ICE CREAM AND FROZEN FOOD PRODUCTION   December 2020	 GEOTHERMAL FIELD  April 2020	 ALCOHOLIC AND NONALCOHOLIC BEVERAGE PRODUCTION  March 2020	 TELECOMMUNICATION  February 2020
 HOME FURNISHING RETAIL   January 2020	 AUTOMOTIVE SPARE PARTS RETAIL   October 2019	 AUTOMOTIVE SPARE PARTS RETAIL  June 2019	 IT SOLUTIONS FOR BOAT CHARTER  January 2019	 VACCINE PRODUCTION  November 2018	 NATURAL GAS SUPPLY AND DISTRIBUTION  October 2018	 NATURAL GAS SUPPLY AND DISTRIBUTION  May 2017

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

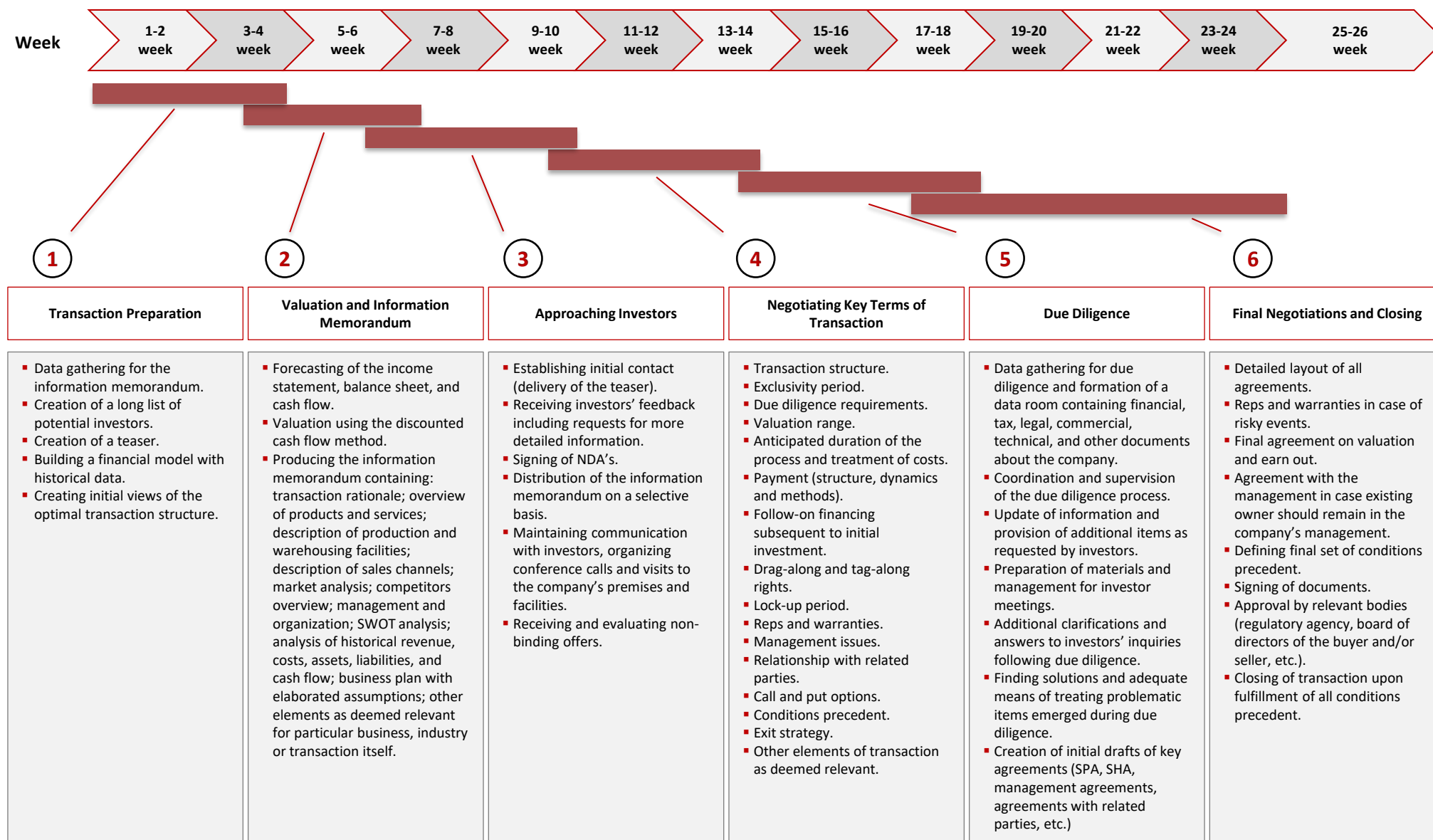
- Non-binding offers come in the form of a Memorandum of Understanding, Letters of Intent or a Term Sheet, before the start of due diligence, which, depending on the type of investor and type of transaction, usually includes:
 - i. Transaction structure
 - ii. Period of exclusivity in negotiating and 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



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).

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.



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



Darijo Kresić
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

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