Summary

Valuation of WBTech

as at 2019-02-28

Equity Value - DCF approach			R '000
Enterprise value	1		68,574
Non-operating assets/(liabilities)	2	3	2,720
Marketability discount (6.8%)	4		(4,848)
Minority discount (12.8%)	5		(9,126)
Equity value	7		**57,320**
x Shareholding valued			40%
40% of WBTech			**22,928**

Net Asset Value	8	9,119

Multiples		Current	Forward
EV/EBIT multiple	9	5.49	5.02
Normalised PE multiple	10	6.63	6.09

Weighted Average Cost of Capital ("WACC")	11	20%

Investment Recovery	Within 7 years
The forecast on which the Enterprise Value is based indicates an investment recovery within 7 years.	

Ability to finance	Within 3 years
The forecast on which the Enterprise Value is based indicates that a loan financing such a purchase can be fully repaid within 3 years if 30% of the Enterprise Value is financed at an interest rate of 11% per annum.	

Financial Overview (R '000)	FY2015	FY2016	FY2017	FY2018	FY2019	F2020	F2021	F2022	F2023	F2024
Revenue	19,156	21,330	23,220	28,001	33,232	41,545	45,284	48,907	52,330	55,470
Revenue growth		11%	9%	21%	19%	25%	9%	8%	7%	6%
GP margin	60%	62%	62%	61%	56%	55%	55%	55%	55%	55%
Overheads	7,060	7,644	7,923	9,453	9,559	9,261	9,817	10,406	11,030	11,692
Overheads growth		8%	4%	19%	1%	(3%)	6%	6%	6%	6%
EBITDA	4,477	5,599	6,524	7,667	9,267	13,672	15,180	16,591	17,856	18,927
EBIT	4,337	5,443	6,344	7,458	9,004	13,083	14,472	15,757	17,360	18,294
Operating margin	22.6%	25.5%	27.3%	26.6%	27.1%	31.5%	32.0%	32.2%	33.2%	33.0%
Working capital days	**63**	**60**	**62**	**56**	**51**	**58**	**58**	**58**	**58**	**58**
Capital expenditure	100	250	350	522	460	561	595	630	668	708

Enterprise value v Equity value

The operations of the business can be sold as an asset seperate to the other non-operating assets and liabilities of the company, at the Enterprise Value. The Enterprise value is calculated as the net present value of forecast future cash flows from these operations.

The Equity Value is the value of 40% of the shares of the company and is represented by all the assets and liabilities of the Company, including the Enterprise. An adjustment is made to compensate for a lack of marketability in selling the shares.

Discounted Cash Flow ("DCF") method

The DCF method is based on the net present value of forecast free cash flows, but allowing for adjustments for non-operating assets and liabilities. A minority discount or control premium is also taken into account, depending on the size of the shareholding being valued and the presence of certain circumstances as a result thereof. The accuracy of this method is dependent on the certainty of forecast free cash flows

The net present value of future free cash flows is determined by discounting those at the Weighted Average Cost of Capital ("WACC").

Notes

1. Enterprise: The operations of the business is referred to as its enterprise and comprise all operating assets (including goodwill and other relevant intangible assets) and liabilities necessary to operate the business.

2. Non-operating assets: Assets that are not essential for the operation of the business, e.g. excess cash, property that can be rented, liquid nvestments, etc.

3. Non-operating liabilities: Mostly non-current liabilities as they can be redeemed without affecting the operations of the business.

4. Marketability discount: This discount is provided as the marketability fo shares can be impacted by the size of the shareholding to be sold and if those shares are not listed on a securities exchange.

5. Minority discount: This discount normally applies when a minority shareholding valued as minority has less control over the operations of the business.

6. Control premium: A control premium may apply if a majority shareholding after the shareholder the ability to engineer certain synergies not yet included in the Current cash flows.

7. Equity: The shares held in the company by its shareholders.

8. Net Asset Value: Market value of tangible assets - Market value of liabilities.

9. EV/EBIT multiple: The value of the Enterprise relative to its EBIT. This should be compared to the company's peers.

10. Normalised P/E: Normalised (i.e. excluding non-operating assets and liabilities) equity value relative to its profit after tax. This should be compared to the company's peers.

11. WACC: The cost of finance supplied by shareholders and long-term lenders. WACC = the return required by shareholders if there are no long-term loans.