

Working Papers

Valuation of WBTech

as at 2019-02-28

Valuation (R '000)

71,294

Method	40%	100%
DCF (MV)	22,928	57,320
DCF (VIU)	28,518	71,294
NAV	3,648	9,119

Reasonableness calculations

Simulated Leverage Buyout	Variables
Loan percentage of enterprise value	30%
Loan as a ratio of EBITDA	1.6

Recovery & Repayment periods	Years
Enterprise value loan repayment period	3
Investment Recovery Period (DCF)	7

Implied Multiples	Current	Forward
EV/EBIT	5.49	5.02
PE (DCF)	6.63	6.09

DCF Valuation on an open market principle	R '000
Enterprise value	68,574
Other balances at fair value	2,720
Property	6,000
Cash and cash equivalents	800
Long-term liabilities	(4,600)
Tax asset/(liabilities)	520
Value of WBTech on a non-marketable majority basis	71,294
Marketability discount (6.8%)	(4,848)
Minority discount (12.8%)	(9,126)
Value of WBTech on a marketable minority basis	57,320
×Shareholding valued	40%
40% of WBTech	22,928

DCF Valuation on a value in use principle	R '000
Value of WBTech on a non-marketable majority basis	71,294
×Shareholding valued	40%
40% of WBTech	28,518

EV/EBITDA multiple calculation	Current	Forward
Enterprise Value	68,574	68,574
÷ Normalised EBITDA	12,489	13,672
EBITDA for F2019	9,267	
Normalisation adjustment	3,222	
EBITDA Multiple	5.49	5.02

Financial Overview (R '000)

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
Gross Profit	11,457	13,148	14,339	16,992	18,666	22,850	24,906	26,899	28,781	30,508
Other Income	80	95	108	128	160	83	91	98	105	111
Overhead costs (excl dpr)	7,060	7,644	7,923	9,453	9,559	9,261	9,817	10,406	11,030	11,692
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
Revenue growth rate		11%	9%	21%	19%	25%	9%	8%	7%	6%
Overhead costs growth rate		8%	4%	19%	1%	(3%)	6%	6%	6%	6%
Gross Profit %	60%	62%	62%	61%	56%	55%	55%	55%	55%	55%
Overhead % of Revenue	37%	36%	34%	34%	29%	22%	22%	21%	21%	21%
EBIT%	22.6%	25.5%	27.3%	26.6%	27.1%	31.5%	32.0%	32.2%	33.2%	33.0%
Stock on hand	559	603	743	789	924	1,280	1,396	1,507	1,613	1,710
Trade debtors	4,105	4,290	4,820	5,301	5,802	7,854	8,561	9,245	9,893	10,486
Trade creditors	(1,368)	(1,320)	(1,326)	(1,900)	(2,150)	(2,945)	(3,210)	(3,467)	(3,710)	(3,932)
Other receivables/payables	40	40	40	80	80	415	453	489	523	555
Net working capital	3,327	3,313	3,977	4,270	4,656	6,604	7,200	7,774	8,319	8,819
Stock days in cost of sales	26	27	31	26	23	25	25	25	25	25
Trade debtors days in sales	68	64	66	66	55	60	60	60	60	60
Trade creditors days in cost of sales	56	55	58	55	47	50	50	50	50	50
Net working capital days in sales	63	60	62	66	51	58	58	58	58	58
Capital expenditure	100	250	350	522	460	561	595	630	668	708
Depreciation	140	156	180	209	263	589	708	834	496	633
Book value	660	754	924	1,237	1,406	1,406	1,293	1,089	1,262	1,337

Calculation of Enterprise Value R '000

Enterprise Value (R '000)	F2020	F2021	F2022	F2023	F2024
EBITDA	13,672	15,180	16,591	17,856	18,927
Less: Depreciation	(589)	(708)	(834)	(496)	(633)
EBIT	13,083	14,472	15,757	17,360	18,294
Taxes at 28%	(3,663)	(4,052)	(4,412)	(4,861)	(5,122)
Normalised operating profit after tax	9,420	10,420	11,345	12,499	13,172
Add back : Depreciation	589	708	834	496	633
Change in working capital	(1,948)	(596)	(574)	(545)	(500)
Capital expenditure	(561)	(595)	(630)	(668)	(708)
Free cash flows	7,500	9,937	10,975	11,782	12,597
Discount period	0.50	1.50	2.50	3.50	4.51
Discount factor based on WACC	0.91	0.76	0.63	0.53	0.44
Discounted free cash flows	6,825	7,552	6,914	6,244	5,543
Aggregate Of Free Cash Flows Over Forecast Period					33,078
Expected free cash flow for F2024 + 1 year				13,311	
÷ Difference: Re and assumed growth rate				15%	
WACC				20%	
Less: Assumed growth rate				(5%)	
Terminal value				88,740	
x Discount Factor				0.40	
Terminal value taken into account in valuation				35,496	35,496
Enterprise value					68,574

Terminal value cash flow calculated (R '000)	
Normalised operating profit after tax	13,172
Depreciation	633
CapEx	(708)
	13,097
x Assumed growth factor	105%
Expected cash flow from above for + 1 year	13,752
Add: Growth in working capital funded	(441)
Working capital funded in F2024	(8,819)
x growth	5%
Expected cash flow after F2024	13,311

Weighted Average Cost of Capital (WACC)

Weighted Average Cost of Capital	
Risk free rate	7.8%
Risk adjusted market risk premium	6.0%
Beta	1.0
×Market risk premium	6.0%
Unsystematic risk premium	11.8%
Small stock risk	6.3%
Specific risk premium	5.5%
Required return on equity (Re)	25.6%
×Portion attributable to Equity	70%
Weighted Re	17.9%
Weighted Cost of Debt	2.4%
Cost of Debt	11%
×After tax factor	72%
After tax cost of debt	7.9%
×Portion attributable to Debt	30%
Weighted Average Cost of Capital (WACC)	20.3%
Rounded RE	26%
Rounded WACC	20%

Fictitious Sample Company