

*Appraisal of Equity
"MLEKARA", Srbija*

Presentation



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1. Legal Framework and Appraisal Methodology

2. General Assumptions in Appraisal

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- Discounted Cash Flow Method**
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Legal Framework and Appraisal Methodology

❖ LEGAL REGULATIONS AND METHODOLOGICAL FRAMEWORK FOR APPRAISAL OF EQUITY

- Law on Privatization**
- Regulation on methodology for appraisal of assets and property**
- Instruction on application of the method for appraisal of assets and property, and method of presenting appraised value of assets**
- Law on Accounting**
- Uniform Standards of Professional Appraisal Practice**
- Business Valuation Standards**
- International Valuation Standards**

❖ THREE APPROACHES IN APPRAISAL

- Return approach: DISCOUNTED CASH FLOW**
- Expense approach: NET ASSETS METHOD**
- Market approach: METHOD OF COMPARABLE COMPANIES AND TRANSACTIONS METHOD**

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General Assumptions in Appraisal

- ❖ Object of appraisal: 100% of the value of equity of "MLEKARA" Srbija
- ❖ Appraisal date: 06/30/2003
- ❖ Purpose of appraisal: privatization, recapitalization, negotiations with partners....
- ❖ Standard of value: fair market value

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Financial Analysis

- ❖ **Basis – financial reports of the company for the period 1997 – 2001 and 06/30/2002**
- ❖ **Steady growth of the level of business activities and funds**
- ❖ **Solvency favorable – own sources dominate**
- ❖ **Long term financial balance established throughout the period, net turnover fund covers more than 80% of the inventory**
- ❖ **Indicators of general and current liquidity very favorable**
- ❖ **Activity indicators favorable (turnover expedited)**
- ❖ **Profitability in business and financial area positive in each monitored year**
- ❖ **Total profitability at low level**

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Appraisal of Equity

DISCOUNTED CASH FLOW

- ❖ Definition of cash flow - "BEFORE DEBT SERVICING"
- ❖ Calculation done with fixed prices on the day of appraisal, which eliminated the effect of inflation
- ❖ Basis: production-financial plan for the year 2002, realization in 10 months, and purchase plans for the year 2003
- ❖ Business and financial results projected for 5 year period, where the flows have been normalized in the last year

Appraisal of Equity

❖ BUSINESS INCOME

- Determined on the basis of probability of plan realization for the year 2002, planned purchase of milk in 2003, as well as estimated possibilities of purchase by the end of 5 year period
- Trends in physical size of production and external sale projected by products and groups of products
- Sales prices: valid prices on the day of appraisal
- In the first year, planned realization of 92% of the plan for 2002, in the second 9.5% growth of income, and by the end of the period average of 4.6% per year
- Total income (in millions of dinars):
 - First year 2.123,4
 - Fifth year 2.662,9

Appraisal of Equity

❖ BUSINESS EXPENSES

- The basis for calculation was rebalanced expenses plan for 2002
- Basic projected expense categories, with appreciation of division into fixed, relatively fixed, and variable
- Variable expenses calculated in accordance with normative provisions and/or empiric shares in proceeds
- Depreciation calculated on the basis of book reevaluated purchase values of fixed assets and appropriate depreciation rates
- Total business expenses (in millions of dinars):
 - First year 2.097,1
 - Fifth year 2.487,3

Appraisal of Equity

❖ INVESTMENTS

- New investments in fixed assets are not planned
- reserve investments at average annual level in the amount of 70,2 mil. din. year 1 through 4, and in the last year they absorb the entire available depreciation
- Investments in working capital in accordance with normalized ratios of turnaround of individual categories, with appreciation of their previously found level
- Average turnaround ratio around 7

❖ DEBT SERVICING

- In accordance with selected definition of the cash flow, repayment of long term loans is not planned, i.e. long term loan is kept at constant realistic level in the amount of 110.7 mil. din.
- Found short term financial and other liabilities (total of 6.1 mil.din) planned for repayment in the first year

Appraisal of Equity

❖ DISCOUNT RATE – COST OF INVESTED CAPITAL		
❖ COST OF OWN CAPITAL (reconstruction method)		18.4 %
RISK FREE RATE	4.5 %	
INVESTMENT COUNTRY RISK	7.5 %	
RISK OF INVESTING IN COMPANY	6.4 %	
❖ COST OF DEBT (market)		8.6 %
REALISTIC INTEREST RATE	10.0 %	
TAX RATE	14.0 %	
❖ CAPITAL STRUCTURE (GLC)		
OWN CAPITAL	61 %	
CREDIT SOURCES	39 %	
❖ AVERAGE WEIGHTED COST OF CAPITAL		14.6 %
❖ RESIDUAL GROWTH RATE		2.5 %

Appraisal of Equity

VALUE OF EQUITY – DNT METHOD

in 000 din

Sum of present value of net income

933.332

Residual value

590.669

Appraised value of invested capital

1.524.001

Long term liabilities

(110.665)

APPRAISED VALUE OF EQUITY (rounded)

1.413.000

(without discounts or premiums)

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Appraisal of Equity

NET ASSETS METHOD

❖ APPRAISAL OF BUSINESS ASSETS AND TOTAL LIABILITIES OF THE COMPANY

- Non tangible investments
- Fixed assets
- Long term financial marketing
- Working capital
- Liabilities

APPRAISED
VALUE OF
EQUITY

=

APPRAISED
VALUE OF
ASSETS

-

APPRAISED
VALUE OF
LIABILITIES

Appraisal of Equity

❖ Recapitulation of appraisal of fixed assets

in 000 din.

FIXED ASSETS	Present Book Value	Appraised Present Value	Difference Between Appraised and Book Value
Non tangible investments	57,431	207,416	149,985
Land	17,775	22,236	4,461
Buildings	443,449	817,932	374,483
Equipment	216,605	752,001	535,396
Basic herd	673	0	-673
Advance payments and assets in preparation	20,374	20,374	0
Long term financial marketing	67,416	176,364	108,948
TOTAL	823,723	1,996,323	

Appraisal of Equity

- ❖ **Recapitulation of appraised land by locations**
- ❖ **Recapitulation of appraised value of buildings**
- ❖ **Recapitulation of appraised value of equipment**
- ❖ **Recapitulation of appraised value of basic herd**

Appraisal of Equity

❖ Recapitulation of appraised value of working capital

in 000 din.

WORKING CAPITAL	Present Book Value	Appraised Present Value	Differences Between Appraised and Book Value
Inventory	243,432	243,432	0
Short term receivables and cash	166,676	172,236	5,560
TOTAL	410,108	415,668	5,560

Appraisal of Equity

❖ Recapitulation of appraisal of long term contingencies and liabilities

in 000 din.

LIABILITIES	Present Book Value	Appraised Present Value	Differences Between Appraised and Book Value
Long term contingencies	22,084	22,084	0
Long term liabilities	34,600	110,665	76,065
Short term liabilities	204,150	172,993	-31,157
TOTAL	260,834	305,742	44,908

Appraisal of Equity

VALUE OF EQUITY – NET ASSETS METHOD

	<u>in_000 din</u>
Appraised value of business assets	2.411.991
Appraised value of long term contingencies	(22.084)
Appraised value of long term and short term liabilities	(283.658)
<i>APPRAISED VALUE OF EQUITY</i>	<i>2.106.250</i>

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Appraisal of Equity

- ❖ **Basic method: price of shares of comparable companies being traded in stock market**
- ❖ **Market value of equity of selected companies is related to financial result, and obtained multiplier is applied to respective financial result of the subject of appraisal**
- ❖ **Eight companies selected**
- ❖ **Selected multipliers:**
 - **MVIC/EBIT (market value of invested capital / earnings before interests and taxes)**
 - **MVIC/EBITDA (market value of invested capital / earnings before interests, taxes, and debt amortization)**
 - **P/E (market value of own capital / net profit)**

Appraisal of Equity

- ❖ Selected value of multipliers (median of subset) corrected by differences in size, risks, and growth rate
- ❖ After deducting interest bearing debts, obtained amount is corrected by
 - control premium
 - surplus / deficit of working capital
 - fair market value of non operative assets
 - discount for reduced marketability of shares
- ❖ Appraised value of equity is 1,093,378,000 din

Appraisal of Equity

Price of shares of comparable companies method

000 din

MLEKARA, Srbija	MVIC/EBITDA
Profit in the last 12 months	297,628
Selected multiplier	8.05
Corrections:	
Risk of country of investment	6.02
Size of company	5.30
Specific company risk	4.29
Preliminary value of invested capital	1,276,934
Minus: Interest bearing debts	110,665
Preliminary value of own capital	1,166,269
Plus: Control premium	25% 291,567
Plus: Surplus TOS	
Plus: FMV of non operative assets	
Preliminary value of own capital II	1,457,837
Minus: Discount for poor marketability of shares	25% 364,459
Appraised value of own capital	1,093,378

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Appraisal of Equity

- ❖ **Basic method: price obtained in transaction between comparable companies**
- ❖ **Methodology analogous to GLC method**
- ❖ **Selected transaction: Purchase of Moloko Plc by Milk PLC**
- ❖ **Selected multiplier: MVIC/EBITDA**
- ❖ **Selected value is corrected by differences in size, risks, and growth rate**
- ❖ **Preliminary value of invested capital of Mlekara is 1.883.403.000 dinars**
- ❖ **After deducting interest bearing debts, obtained amount is corrected by discount for reduced marketability of shares and surplus of working capital**
- ❖ **Appraised value of own capital is 1.329.553.000 din.**

Appraisal of Equity

Method of comparable transaction

000 din

MLEKARA, Srbija	MVIC/EBITDA
Profit in the last 12 months	297,628
Selected multiplier	11.88
Corrections:	
Risk of country of investment	8.88
Size of company	7.82
Specific company risk	6.33
Preliminary value of invested capital	1,883,403
Minus: Interest bearing debts	110,665
Preliminary value of own capital I	1,772,738
Plus: Control premium	
Plus: Surplus TOS	-
Plus: FMV of non operative assets	-
Preliminary value of own capital II	1,772,738
Minus: Discount for poor marketability of shares	25% 443,184
Appraised value of own capital	1,329,553

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Appraisal Results

VALUE OF EQUITY

	<u>in 000 din.</u>
Method of discounted cash flow	1.413.000
Net assets method	2.106.250
Method of comparable companies	1.093.378
Method of comparable transactions	1.329.553
<i>APPRAISED VALUE OF EQUITY</i>	<i>1.485.545</i>
Foreign currency equivalent for equity (1 USD = 61.3468 din.)	24.215.530 USD

Appraisal Results

BALANCE SHEET AS OF 06/30/2002

in 000 din.

ASSETS	Appraised value	LIABILITIES	Appraised value
Non tangible investments	207,416	Equity	1,485,545
Fixed assets	991,839	Long term contingencies	22,084
Long term financial investments	176,364		
Inventory	243,432	Long term debts	110,665
Short term receivables and cash	172,236	Short term debts	172,993
OPERATIVE ASSETS	1,791,287	OPERATIVE LIABILITIES	1,791,287