

A Work Project, presented as part of the requirements for the Award of a Master's degree in
Finance from the Nova School of Business and Economics.

The potential acquisition of Haute Equipe by Korn Ferry: a Build-up Model approach

João Miguel da Silveira Menezes
Capinha Alves

Work project carried out under the supervision of:

Ekaterina Gavrilova

11/01/2023

Abstract

This thesis aims to analyze the potential acquisition of the small private consultancy firm, Haute Equipe, by a multinational consultancy, Korn Ferry. To evaluate it several valuation methods were conducted: income-based and market-based in order to have a range and to discuss the most suitable one. Furthermore, the M&A deal is studied: a synergy valuation range is determined as a premium that could be paid above the standalone value. Finally, following a discussion on the limitations of the CAPM, a build-up model was implemented to determine a more accurate cost of capital and thus a more accurate Enterprise Value.

Keywords: Valuation, Acquisition, Cost of Capital, Build-up model

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

Table of Contents

Introduction.....	4
I. Business Overview	5
i. SWOT	6
II. Industry overview	8
i. Main competitors	8
III. Literature Review.....	10
i. Market approach	10
a) Guideline Public company method.....	10
ii. Income approach.....	11
a) Discount Cash Flow (DCF)	11
b) Free Cash-Flows	13
c) Discount Rate.....	14
d) CAPM.....	14
e) Beta	15
f) Weighted Average Cost of Capital (WACC)	17
g) Adjusted Present Value (APV).....	18
IV. Valuation	19
i. Financial Statements & Forecasting	19
ii. Multiples	21
iii. Cost of capital	23
iv. CAPM	24
v. Growth and Value Creation	24
vi. DCF.....	26
vii. APV	26
viii. Discussion.....	28
V. M&A.....	30
i. Background.....	30
ii. Acquirer	30
iii. Kon Ferry past acquisitions	31
iv. Kon Ferry motives	31
v. Operating Synergies.....	32
vi. Revenue synergies	32
vii. Cost Synergy's.....	33
viii. Total Merger and Integration Cost	33

ix. Value for the synergy's for the acquirer	34
x. Discussion	35
VI. The Build-up Model	37
i. Theoretical Background and inputs	37
ii. Determination of Cost of Capital.....	44
iii. Valuation	45
iv. Sensitivity analysis	47
v. Discussion	47
References.....	49
Appendix.....	52

Introduction

Haute Equipe (also referred to as “HE”) is a Dutch consultancy firm located in the Netherlands, founded by Frans Lustermans and Marion van Staveren. One of their most noticeable projects is a public regulation change for of all taxi cars into electric ones, in Amsterdam. They are also responsible for developing the first-ever low-emissions zones in the Netherlands, which was later applied by the rest of the European Union.

Their objective is to lay the foundation for better social results. It works in the public domain in the field of financial business management, legal affairs, and European subsidies. Their field of expertise is in strategic policy, financial or risk management, public and private law, subsidy schemes, processes, management, and administration (Haute Equipe, 2022).

One of HE main priorities is Corporate Social Responsibility (CSR). The slogan "People, Environment and Society” is a perfect indication of what HE stands for: making responsible choices to give something back to people, the environment and society.

HE is a private company that is being targeted for M&A acquisitions. The goal of this dissertation is to assess HE’s value through different valuation methods and assess possible synergies arising from the deal. Due to it being a non-listed company, access to inside information is limited and data is not as profoundly reported, making it a greater challenge. There is also not much depth about the Dutch consultancy industry available to the public.

I. Business Overview

Haute Equipe works very closely with local Dutch governments and B2B clients. Their company can be broken down into 3 parts. Haute Equipe Partners in Public (main office with full-time employees), Haute Equipe Flex (outsourcing work) and Haute Equipe N.V., which is the legal holding that controls both units. This structure is very common in the Netherlands as it offers tax incentives. Partners and Flex have their own financial reports and for that reason they will be evaluated separately as two business units. The *modus operandi* of HE fundamentals derives from Boston Consultancy Group where both owners started their careers. Creating a collaborative, multi-purpose environment, enhancing experience and prioritizing sustainability (BCG, 2022). From its start, HE is committed to slow, steady, organic growth, for instance, it took them 8 years to double its growth.

Their mission is to add value to their customers to contribute for social results. Which goes along with their values. The vision is to advise people, environment, and society for one better world together (Haute Equipe, 2022). HE target segments are public organizations, local governments, ministries provinces (95%), B2B companies (5%) and operates in four different business areas: Legal consultancy (where a client pays a fixed fee for the number of hours required for legal advice), Financial Consultancy (where the fee can be fixed or floating depending on the NPV of the project), European subsidies, and CSR. The first two business areas yield a riskier cash flow due to higher competition execution risk.

HE is a cash rich company that has been building a pile of cash on their balance sheet to account for uncertainty, to have enough cash to face current debt obligations, to have liquidity available and, at the moment, they are looking for investment opportunities to employ it. To evaluate HE's financial health different solvency ratios were used as the primary metric. The first level solvability ratio (weight of Equity to Total Assets) for Partners and Flex is 30%

and 26%, respectively. The probability of defaulting on their current and long-term obligations is very low, indicating that it has low financial distress risk. The interest cover ratio for Partners has increased gradually over the past years, currently at 57. This value indicates that the unit can meet their interest obligations, thus adding to the overall financial health of HE.

Regarding its capital structure, the Net Debt-to-Asset ratio for Partners and Flex is 0,12 and 0 respectively. Partners derive almost 90% of their financing from shareholder's equity and the rest from debt, while Flex capital financing is exclusively from shareholders' equity. Moreover, Partners' aim is to payout all remaining debt in the following years, targeting a capital structure similar to Flex of fully equity-financing.

HE uses most of its earnings to invest in their workforce, giving above average salaries and above average conditions (company car, computer, phone), which has a big impact on their results. Additionally, the Net Income Margin is 7% and 1% for Partners and Flex respectively. The average Net Income Margin varies from industry to industry, but a general rule of thumb is around 10% (Mulyadi, 2020). This low value for both holdings may indicate that HE is not using the most effective cost structure and/or pricing strategies.

i. SWOT

The strengths of HE is the company's culture (the relationships that they have built with their long-term employees and with their customers). It's focused on people, everyone knows each other on a professional and personal level, and strong interpersonal relationships are developed since day one. This advantage over the bigger consultancy firms allows for better work synergies.

Regarding weaknesses, the primary is the lack of specialization. HE operates in four main areas as mentioned before. Following Michael Porter's generic strategies, HE can be argued to be "stuck in the middle" (Porter M., 2009). Porter has noted that strategy is as much

about executives deciding what a firm *is not* going to do as it is about deciding what the firm *is* going to do (Porter, 1996). In other words, a firm's business-level strategy should not involve trying to serve the varied needs of different segments of customers in an industry.

Industry overview, evaluated in the next section, will show that HE competitors are very specialized firms. Opportunities rely on very young talent with big prospects constantly innovating with very good ideas for the future of the firm.

Finally, the main threats are the big four (consulting companies) trying to contract young prospects from HE. Business used to be "face to face" with the clients, but nowadays especially due to COVID most of the contact is done via email. Through email, it became harder for HE to transmit its culture and values to its clients. Hence it has weakened their relationship with them. Another major threat is the recent acquisitions/partnership of their same-scale competitors with larger conglomerates. The threat of new entries is low due to high brand loyalty, government policies and cumulative experience.

II. Industry overview

Haute Equipe is a unique company, and it is challenging to find a group of comparable public and private companies which operate within the four areas described above. By providing 4 different core consulting areas, HE is exposed to a wider range of competitors that provide identical services. Ultimately, a description of the industry encompasses all consultancies for and with public organizations (governments/provinces) on a legal and/or financial with strong CSR values.

i. Main competitors

Yacht Group and Bruce International are B2B consultancy that work for government entities and public sector aiming to make the Netherlands more sustainable and more innovative (Yacht Group, 2022).

Vanbarkel Professionals is a knowledge-driven organization and partner for the broad public sector being part of Cohedron (Vanbarkel Professionals, 2022) , like HE they work for both legal and financial areas with strong CSR.

NCOD offers legal and HR consulting for the public sector (NCOD, 2022). From a financial perspective, JS Consultancy has been the market leader in mediating professionals for the public sector for more than 28 years (JS Consultancy, 2022).

Bender Group is a consultancy B2B and B2C mainly focused on environmental projects (Bender Group, 2022).

BMC contributes to realizing effective, powerful solutions for challenges in the public sector, having 35 years of experience working with clients (BMC, 2022).

PNO is a financial consultancy specializing in European subsidies. Since 1985, PNO has become the European market leader in subsidies, innovation, and project management, also working with Dutch local governments (PNO, 2022).

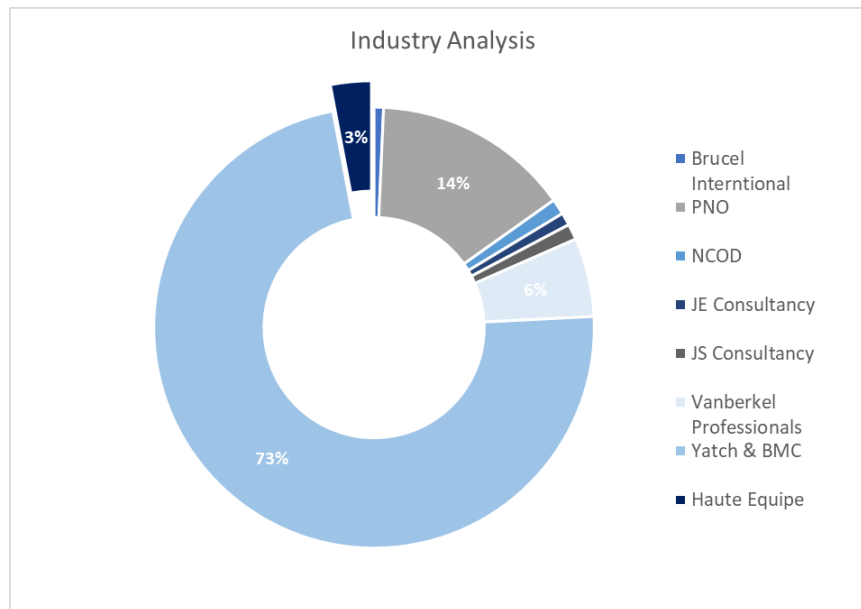


Figure 1 Industry Overview

These competitors are all private, so it is not possible to use their market multiples for HE's valuation as information is not available. The overall, consultancy market in the Netherlands is much broader than these 10 companies mentioned, for instance, none of the Big 4 consultancies were included because although they are a threat, HE does not see them as a peer for the specific segments they operate. Currently, HE holds 3% of market share, based on a comparison of last year's revenues.

III. Literature Review

i. Market approach

This valuation method is a predominant approach in M&A and Private Equity. It studies similar public companies and establishes an estimate for the value of the business.

a) Guideline Public company method

This method creates a valuation based on observed multiples from similar publicly traded companies. This approach relies on data that is generated in the market. This means that this information is accessible to the public and has a historical background, it is considered by some to be preferable to other approaches (Income approach, etc.) when evaluating a private company (Pinto, 2020).

The main challenge when using this approach is finding comparable public firms to the firm in question. This happens because every business is different in some way, whether it be its business environment, capital structure, management, growth opportunities, etc. Because of this, it is challenging to find suitable matches.

Factors used to identify similar companies may include industry type, form of operation, and operating status, amongst others (Pinto, 2020).

The main advantage of this method is the potentially large number of comparable companies that can be used. With a larger pool of comparable companies, standard error will decrease as there exists a larger sample size, meaning that the unsystematic risk of each company will be less relevant, also, there will exist more information regarding the industry, business prospects, etc., which will further enrich this analysis (Pinto, 2020). Pricing multiples used in this paper are:

- EV/EBITDA – Enterprise value to earnings before interest, taxes, depreciation, and amortization

- EV/EBIT – Enterprise value to earnings before interest and taxes.

When performing this multiple valuation, it is common to have the Enterprise value (EV) as a numerator, as it is usually what investors try to analyze, and with it, on the denominator, it becomes simpler to extract it. In the Pricing multiples above, one must multiply the company's EBITDA or EBIT (depending on the multiple choice), to estimate the enterprise value of the business in analysis.

The Enterprise value is the value of the firm after paying all the debts, and can be calculated as:

$$\text{Enterprise Value} = \text{Market Capitalization} + \text{Debt} - \text{Cash}$$

Equation 1

EV can also be interpreted as the total amount of capital required to fully purchase a company.

ii. Income approach

The income approach to valuation relies on the anticipation of future income streams, implying continuity. There exist several methods in this approach in order to compute the valuation of a private/public firm. In this thesis, the methods are going to be chosen in terms of relevancy for evaluating private firms:

a) Discount Cash Flow (DCF)

The discounted cash flow method estimates the value of a business by discounting the future free cash flows to the present value.

The cash flows are discounted according to the opportunity cost and risk of the business which will be looked at later in this dissertation. This valuation approach implies that money today is worth more than tomorrow due to interest (CFI, 2022), hence the need to discount the cash flows to have a more accurate and precise valuation.

There are some limitations with this valuation method. The first one is its need to estimate future cash flows which are uncertain and can be imprecise as it requires many assumptions and the isolated analysis of the company, not evaluating relative valuations of competitors.

The second issue is its Capex projections, as it is extremely difficult and uncertain to predict its future and is dependent on the management plans. Also, even an incremental change in its value will significantly affect the DCF calculation.

The present value of future cash flows formula is required to perform the DCF method, and as shown in (Brealey, 2018) it can be calculated as follows:

$$PV = CF_0 + \frac{CF_1}{(1+r)} + \frac{CF_2}{(1+r)^2} + \dots + \frac{CF_n}{(1+r)^n}$$

Equation 2

PV: present value

CF: cash flows in the period n where they are realized

r: discount rate.

When analyzing a business, it is common practice to assume the *Going Concern* of the business, meaning that the company will continue to operate in the foreseeable future. So, when calculating the DCF, it is assumed that from a certain point onwards the company will have a constant growth rate and discount rate, meaning that a terminal value can be calculated as suggested by (Brealey, 2018). This is calculated as follows:

$$PV(FCF \text{ in perpetuity with constant growth}) = \frac{CF_n}{(r - g)}$$

Equation 3

g: perpetual growth rate

Commonly firms have different levels of growth over time and have a stabilized growth rate after a certain period. Considering this, both equations can be combined, in order to include both of the growth stages and have the present value result (Damodaran A. , 2012). This is represented in the equation below:

$$PV = \sum_{n=0}^n \frac{CF_n}{(1+r)^n} + \frac{CF_n * (1+g)}{(r-g) * (1+r)^n}$$

Equation 4

b) Free Cash-Flows

Free Cash-Flow (FCF) is the amount of capital that a company generates taking into consideration all the different outflows of capital that are required to maintain and improve their current operations. These outflows of cash consist of capital expenditure and also operating expenses. In simpler terms, Free Cash-Flow is the ability of a firm to be able to generate cash, which is an important indicator of how the business is performing.

Free cash flow to the firm (FCFF) is the measure of the company's profitability after all operating expenses, capital expenditure, depreciation expenses, taxes, and investments (Damodaran A. , 2012). It can be calculated by:

$$FCFF = EBIT * (1 - \tau_c) - Capex + Depreciation - \Delta NWC$$

Equation 5

EBIT: are earnings before interest and taxes

τ_c : corporate tax rate

ΔNWC : Net working capital change.

c) Discount Rate

There are some techniques when trying to estimate the discount rate for the firm's valuation, i.e., its cost of capital. The method that is going to be explored in this thesis is the capital asset pricing model (CAPM), which was introduced by William Sharpe, John Lintner and Jack Treynor in the mid-1960's.

Abudy, Benninga and Shust (Menachem Abudy, 2016) observed that in most cases, private firms have a higher cost of capital when compared to public firms hinting at a possible downfall of the discount rate being modelled by the CAPM model, as it does not take into consideration the firms proprietorship.

d) CAPM

The capital asset pricing model (CAPM) explains the relationship between systematic risk (β_e) and the expected return of an underlying asset implying a linear relationship (Brealey, 2018).

It is constituted of two parts, firstly, the risk-free rate, which is the return an investor is expected to earn when its investment does not carry any risk. In practice, this rate is commonly associated with a long-term government treasury bond, where the risk of default is extremely low. The 2nd part of the CAPM model is the market risk premium multiplied by Beta, the firm systematic risk. The market risk premium is the difference between the expected return of the market (return an investor anticipates given historical data) and the risk-free rate.

In practice, this historical data is commonly associated with the return of a market-tracking index fund, such as the *S&P500*.

The Beta is the systematic risk/volatility of the asset in question, and it is calculated using historical data on the pricing of that asset, by (Kenton, 2022):

$$\beta = \frac{\text{Covariance}(R_e, R_m)}{\text{Variance}(R_m)}$$

Equation 6

R_e : Return on equity

R_m : Return of the market.

This Beta can be interpreted as the expected change in the required rate of return for the asset as the market returns change (the market's Beta is 1), meaning that if a company's beta is higher than 1, it should have a higher return when comparing to the market, and consequently a proportionately higher risk.

To conclude, the Cost of equity is calculated using the equation bellow (CAPM) (Brealey, 2018):

$$R_e = R_f + \beta_e * (E[R_m] - R_f)$$

Equation 7

When trying to calculate the Beta for a private firm several issues occur. The beta value is calculated using historical share prices for firms, and, because private firms are not publicly traded, they do not have that information (Damodaran A. , 2012). To resolve this issue a different model will be produced to estimate its value.

e) Beta

The method that will be explored in this dissertation to calculate the systematic risk for the firm in the analysis will be the *bottom-up Beta*. This method calculates beta by extracting the betas from similar publicly traded, and then by calculating an average or weighted average of the acquired betas to use as a proxy for the private companies' beta.

An advantage of this method is that the standard error is reduced. This happens because this beta is calculated by various regression betas from similar firms (Beneda N. L., 2003)

diluting the unsystematic risk of each company. Also, the bottom-up method does not require historical price data for the firm in analysis, which is not available for private firms.

The main issue that arises from using the *bottom-up Beta* method is the decision process used to select which firms to use as comparables. This process can be highly subjective and can lead to some inconclusive results, as the firms chosen might not capture the volatility of the firm in analysis.

As aforementioned, the first step in this process is to search for comparable public firms and after register the observed market betas. As these firms have different capital structures, one must calculate the unlevered beta, to eliminate specific financing risk (Benedito, 2003).

$$\beta_{Ui} = \frac{\beta_L}{[1 + (1 - \tau_c) * (\frac{D}{E})]}$$

Equation 8

β_{Ui} : observed unlevered beta

β_L : levered beta

$\frac{D}{E}$: debt-to-equity ratio

After calculating the unlevered betas for all the comparable public firms, one calculates the average as the proxy of the unlevered beta:

$$\beta_U = \frac{1}{n} * \sum_{i=0}^n \beta_{ui}$$

Equation 9

β_U : unlevered beta

β_{ui} : observed unlevered beta

n: number of observations

The second method is by calculating a weighted average of the betas:

$$\beta_U = \frac{\sum_{i=0}^n (\beta_{ui} * w_i)}{\sum_{i=0}^n (w_i)}$$

Equation 10

f) Weighted Average Cost of Capital (WACC)

The Free Cash-flows of a firm are discounted at the weighted average cost of capital (WACC).

The WACC is the required rate of return after taxes that the firm must pay to investors, both equity and debtholders. It represents the risk level for all the investors at the firm. When the firm is all equity financed (no debt), WACC is the same as the return on equity, R_e (DeMarzo, 2017). Calculated by (Brealey, 2018)

$$r_{WACC} = \frac{E}{D + E} * r_e + \frac{D}{D + E} * r_D * (1 - \tau_c)$$

Equation 11

r_{WACC} : Weighted Average Cost of Capital (WACC)

E: Total Equity

D: Debt

When analyzing public firms, it is easier to estimate the discount rate for debt, r_D and equity, r_e (as previously mentioned) as they are traded and have been assigned a market price. Despite that the cost of debt r_D can be calculated without market information, as shown below:

$$r_D = \frac{\text{Interest expense}}{\text{Interest bearing debt}}$$

Equation 12

Private firms are usually riskier when compared to public firms, which should be represented in a higher WACC (Denis Boudreaux, 2011).

g) Adjusted Present Value (APV)

Another income-based approach useful to evaluate the firm is the Adjusted Net Present Value (APV). This formulates the NPV of the company if it was solely financed by equity and afterwards, adds any additional benefits of debt financing, usually in the form of tax shields.

Tax Shields occur only when interest payments are tax deductible. The APV formula is the following:

$$APV = \text{Unlevered EV} + \text{Value of Tax Shields}$$

Equation 13

The Unlevered EV is the sum of the future unlevered FCFF (same as in the DCF) discounted to the unlevered cost of capital (R_u), assuming a 100% Equity Capital Structure.

The future tax shields (TS) are calculated by the product of the interest payments and the tax rate discounted by R_u . The sum of all discounted tax shields adds up to the present value of TS.

This approach is especially relevant when valuing HE because the firm is mainly financed by equity except for the Covid period when a Bank Loan was taken to provide liquidity. However, this is a particular case and was not common before or will be after the loan is fully repaid.

IV. Valuation

i. Financial Statements & Forecasting

The methodology is to separate the two business units, Partners and Flex, value them separately, and, finally, sum them to get the total Enterprise Value. One limitation of the forecasts is the lack of past information as the units only got separated from 2019 onwards.

Invested Capital (IC) in the Partners Business Unit grew from 2019 to 2020, driven by the increase in cash in hand to face adversities during the pandemic. Looking at cash, the firm does not have a fixed payout rate and distributes each year a variable amount of their earnings to the owners depending on what they believe is a fair sum that does not jeopardize the sustainability of their operations. For this reason, all cash that remains in the firm is said to be operating. The firm became cash rich after 2020 and plans on keeping that high liquidity hereafter, for instance, cash represented 5.3% of revenues for Partners, and it is assumed to be constant for the future years.

Since the company does not sell a physical product, it does not have inventory, so the payables and receivables comprise all the working capital that has been progressively decreasing. These are evaluated using the average payable period (APP), the average number of days that took the company to pay their suppliers, and the average collectable period (ACP), the average number of days that took them to receive the payments from their clients, respectively. Partners' ACP is about 13 days and APP is 57 days allowing them to have a good cash conversion cycle (negative), in other words, suppliers are helping to finance the business. From 2022 onwards, the rate is considered to be constant and equal to that.

The loan owned to credit institutions was paid off in the FY of 2019 and one year after another exceptional loan was taken (due to the pandemic) named under Long-Term Liabilities.

LT Liabilities and Debt obligations are paid at a rate of 50% per year and by 2025 Net Debt will be under 10€ thousand and thus having almost zero impact on valuation. Null debt is what HE's managers target.

Revenue is the sum of six drivers: turnover of own personnel, turnover of external staff, turnover project staff, turnover abroad, turnover miscellaneous and trade discounts. However, nowadays 99% of the revenue stream comes from the own personnel item, which had an average growth (last 3 FY) of 11% annually. Revenue was forecasted as a weighted average of all sub-items which produced a similar growth rate of revenue since one item has almost all the weight.

The cost of Sales of a consultancy service was almost negligible as it accounted for less than 1% of total revenue until 2021. Also, the costs of subcontracted work are not very relevant in Partner's cost structure (average 2% of revenues) but very relevant in Flex as we will see. The major costs in their business lie in staff costs, averaging 77% of revenues, seen as the true cost of sales, and other operating costs, averaging 14% of revenues, which is intrinsic in the way they conduct business. Operating expenses were forecasted as a percentage of revenues, and it is assumed that the average rate will go on. Earnings before taxes increase massively from 2020 to 2021 due to the restart of economic activity but as discussed with the managers it will not keep increasing at this rate and the EBIT margin will decrease in the next years driven by the increase in costs.

Until 2023 the statutory tax rate for earnings is 15% if the earnings are lower than 395€ thousand and 25.8% otherwise, after 2023 the statutory tax rate is 19% for earnings under 200€ thousand and 25.8% over that limit (the same applies for Flex).

Flex does not have any historical record as it started in 2019. Their operational activities are the same but executed differently which leads them to have no Fixed Tangible

Assets nor Intangible Assets. Cash was forecasted following the same principle as before and also has an overwhelming weight of it in the IC. Without much historical data, the future amounts were said to be 14% of revenues same as in 2021. Working Capital once more was forecasted following the trend of ACP, 9 days, and APP, around 22 days. It has no interest-bearing debt and shall remain the same onwards.

Flex's revenue has three sub-items, project staff turnover, external staff turnover and re-loan turnover. The last two account for 80% and 18% respectively and following the same principle it could be calculated as a weighted average growth rate for this unit's revenue.

The cost structure is now mainly focused on costs of subcontracted work which is not surprising as this unit's operations are mainly dependent on external employees. It averages 86% of revenues, while staff costs that were more impactful at Partners' drop to 11% of revenues.

ii. Multiples

To perform this analysis, one must gather information from public firms. The platform that was chosen to gather this information was Bloomberg.

To select public companies to be comparable to HE, one must add specific parameters for the multiples to be representative of the company. These parameters were that the firm needed to be a consultancy firm. These firms were also required to work in similar areas within consultancy, meaning that they had to have at least a public, financial or legal sector within their activities, and finally they needed to have similar observed market Betas, as it was appropriate to select firms with similar risk profiles.

Finding comparable firms was a challenge, as consultancies are usually private, and public ones usually have large dimensions. Also, they operate in a vaster majority of areas which is

a large limitation given the available information. The peers were picked preferably if they worked already in the Netherlands or at most had business units in European countries.

In the end, these were the companies that were chosen with their respective information:

Av Ratios	Market cap	EV	EV/EBITDA	EV/EBIT	BETA
ADECCO GROUP AG	9184.36	10069.08	12.97	25.93	1.08
GROUP CRIT	721.32	658.48	5.42	8.68	0.60
HAYS PLC	2575.30	2411.84	10.29	13.81	1.29
ManpowerGroup Inc	5061.69	5388.85	8.22	11.21	1.00
Randstad NV	9613.71	10665.70	10.02	14.73	1.01
Synergie SE	791.85	745.86	6.19	7.26	0.70
Talenom Oyj	253.44	277.46	16.49	31.70	1.10
Triad Group PLC	8.43	5.68	5.69	7.49	1.29

Table 1 – Comparable companies' Multiples

After compiling those 8 companies' information it was performed a simple statistical analysis to be able to better describe the multiples, which is represented in the table below:

2021 Multiples				
	Min	Median	Max	Average
EV/EBITDA	3.74	7.84	19.86	10.40
EV/EBIT	5.62	10.74	37.22	16.17

Table 2 – 2021 Multiples

With these results, one can now calculate a range for the value of HE by simply multiplying the EBITDA to the EV/EBITDA multiple and EBIT to the EV/EBIT. This is shown in the table below:

Haute equipe		EV			
	2021	Min	Median	Max	Average
EBITDA	0.984	3.7	7.7	19.6	10.2
EBIT	0.858	4.8	9.2	31.9	13.9

Table 3- Haute Equipe Valuation with Multiples method (values in €millions)

There is not enough publicly available information of past transactions to accurately perform an analysis on what are the range of multiples used.

iii. Cost of capital

The companies found should be a sufficient sample to decrease the standard error, giving a more accurate estimation for the unlevered beta for Haute Equipe. After compiling the various companies and de-levering their betas (as shown previously) we achieved the following table:

Beta Estimation							
Peers	Levered beta	D/E	Tax Rate	Unlevered beta	EV	Weighted EV	
ADECCO GROUP AG	1.081	0.77	25%	0.686	8015.761	25.95%	
GROUP CRIT	0.597	0.44	25%	0.449	423.083	1.37%	
HAYS PLC	1.293	0.09	30%	1.217	2863.116	9.27%	
Randstad NV	1.013	0.13	21%	0.922	11413.95	36.95%	
ManpowerGroup Inc	0.999	0.34	25%	0.794	5166.774	16.73%	
Synergie SE	0.701	0.24	32%	0.604	719.57	2.33%	
Talenom Oyj	1.095	0.10	20%	1.015	549.501	1.78%	
Triad Group PLC	1.29	0.05	19%	1.241	18.616	0.06%	
Mercer LLC	1.500	1.780	25%	0.642	1720.00	5.57%	

Table 4: Beta Breakdown

After this compilation it was calculated the average beta, weighted average beta and median, as shown below:

Average Beta	0.841
Weighted average beta	0.839
Median	0.794

Table 5: Beta Estimation

From these results, after a group discussion, it was decided that the average Beta was going to be the value that was going to represent the proxy for HE Partners and Flex, as the values were so similar, it would not make a significant difference on which would be chosen.

iv. CAPM

For the risk-free rate, one usually utilizes a long-term government bond, thus HE as a Dutch firm, the 10-year Dutch treasury bond from the 31st of December 2021, was used as a proxy, which had a return of -0.03% (WSJ, 2022). For the market risk premium, the expected return of the Dutch market was used, which had a return of 4.24% (Damodaran A. , 2022) at of the end of 2021.

With this information, the WACC for Partners and Flex can be calculated, as shown below:

Flex		Partners	
WACC Calculations	Inputs	WACC Calculations	Inputs
Tax Rate	15.15%	Tax Rate	21.55%
Levered Beta	0.84	Levered Beta	0.93
Risk-free rate	-0.03%	Risk-free rate	-0.03%
Market Risk Premium	4.27%	Market Risk Premium	4.27%
CAPM		CAPM	
E/EV	100.00%	E/EV	87.96%
D/EV	0.00%	D/EV	12.04%
Re	3.56%	Re	3.95%
Rd	0.00%	Rd	9.99%
After-tax WACC	3.56%	After-tax WACC	4.42%
Ru	3.56%	Ru	4.68%

Table 6: WACC breakdown

It can be observed from these results that both WACC's are quite low, this is a result of a low unlevered beta due to the risk differences that public and private companies have, which are not reflected in the beta estimate calculated.

v. Growth and Value Creation

Value creation indicators such as Return on Invested Capital (ROIC) and Return on New Invested Capital (RONIC) are important to evaluate if the firm is creating value for their shareholders and the long-term growth rate for their future perspectives and terminal value. The formulas are the ones that follow:

$$ROIC = \frac{Core\ Result_t}{Invested\ capital_t}$$

Equation 14

$$RONIC = \frac{\Delta\ Core\ Result}{\Delta\ Invested\ Capital}$$

Equation 15

$$Growth\ rate = RONIC \times Reinvestment\ Rate$$

Equation 16

From 2018 to 2021, Partners' ROIC was always positive and higher than their WACC. It peaks in 2021 and stabilizes in 2025 at around 25%. According to this metric, the shareholders can find more profitable investment opportunities within this company than alternative investments elsewhere. RONIC fluctuates a lot in the first years due to the lack of past information (it tracks yearly changes) producing worthless values but from 2023 onwards the values start to be more consolidated, and it tends to stabilize also in 2025 around 23%.

The Reinvestment Rate had to be equal to the average of the last 4 years. As stated, before, HE does not have a fixed payout rate and distributes to the owners a fair percentage, but for simplicity, it was calculated the average payout rate of 86% and thus a reinvestment rate of 14% (the same applies to Flex). The growth rate obtained from the product is 2.19% for the Partners' unit. The firm hits a steady state early (only 3 years into the forecast) which is a good picture of their business model of seeking a low and controlled organic long-term growth. This is always dependent on the ability to increase sales either by gaining new customers, exploring new markets, or diversifying their offers.

For Flex the same happens it is concluded that the fast pace to obtain a constant return is due to an already established and proven right business model that just was reformulated to incorporate an outsourcing business unit. RONIC is negative in 2021 because the IC decreased probably to the uncertainty in investments during the pandemic. For a new business unit and

in a context of an uncertain scenario the return on new invested capital takes longer to reach a steady state as it does so in 2025 with a 2% RONIC. The reinvestment rate was also considered to be 14% resulting in a very low 0.23% growth rate. The moment when indicators reach a steady state altogether is a good sign of when to apply a terminal value calculation on Unlevered Free Cash Flows, for instance, it was 2025 for both segments.

vi. DCF

To estimate the Free Cash Flow to firm, equation 5 will be used, and, as aforementioned there will be a separation between Partners and Flex. These results can be observed in the appendix table 19 and 21.

Afterwards was calculate the Enterprise value of HE Flex and Partners with the DCF method, which outputs for partners.

Σ Present Value UFCFF	€	1,189.54
Terminal Value	€	18,103.00
Present Value of Terminal Value	€	15,229.35
Enterprise Value	€	16,418.89

Table 7: Partners' EV (value in € thousands)

And for Flex:

Σ Present Value UFCFF	€	270.20
Terminal Value	€	2,198.76
Present Value of Terminal Value	€	1,911.49
Enterprise Value	€	2,181.69

Table 8: Flex EV (value in € thousands)

Giving a total Enterprise value of 18.6€ millions.

vii. APV

One assumption of the DCF is that the current capital structures at the end of 2021 will remain the same and the calculation of the cost of capital is based on that.

Haute future debt prospects target a long-term capital structure of zero Debt or in other words fully equity financing. In this sense, the APV adds value to the prior valuations as by reformulating the cost of capital calculations assuming a 100% Equity to Enterprise Value structure the unlevered free cash flows can be discounted at the corresponding unlevered cost of capital. A full equity structure for Partners (zero financial risk) results in the same cost of capital as Flex which is a fair observation as it has been shown that due to the similarity of work, they have similar business risk, only the operational model is different (in-housework vs outsourcing). The cost of capital for the APV model is 3.56% for both units.

Partners by having cost of capital of 3.56% and a growth of 2.19% the Unlevered EV is 26.7€ millions. The value of tax shields is also considered as the unit still has to repay their current debt in future years but is not impactful on the valuation as it only adds about 2€ thousand. Levered EV would be the sum of both parts which is almost equal to the unlevered value.

Flex's cost of capital of 3.56% and a long-term growth rate of 0.23% produce an unlevered EV of 2.18€ million. The sum of this part with the last valuation mentioned for Partners results in a total EV of 28.9€ million. A valuation outcome that might not reflect the real value by overvaluing it.

Growth is already quite low and stable, so it is fair to assume that it is not being overvalued but rather the discount rate is very low to the actual risk of the company. Perhaps the CAPM is not accurate to do so, and an alternative method is required.

viii. Discussion

The DCF method and the APV method register the highest EV when compared to the multiple's valuations and managers expectations. This can be observed in the table below:

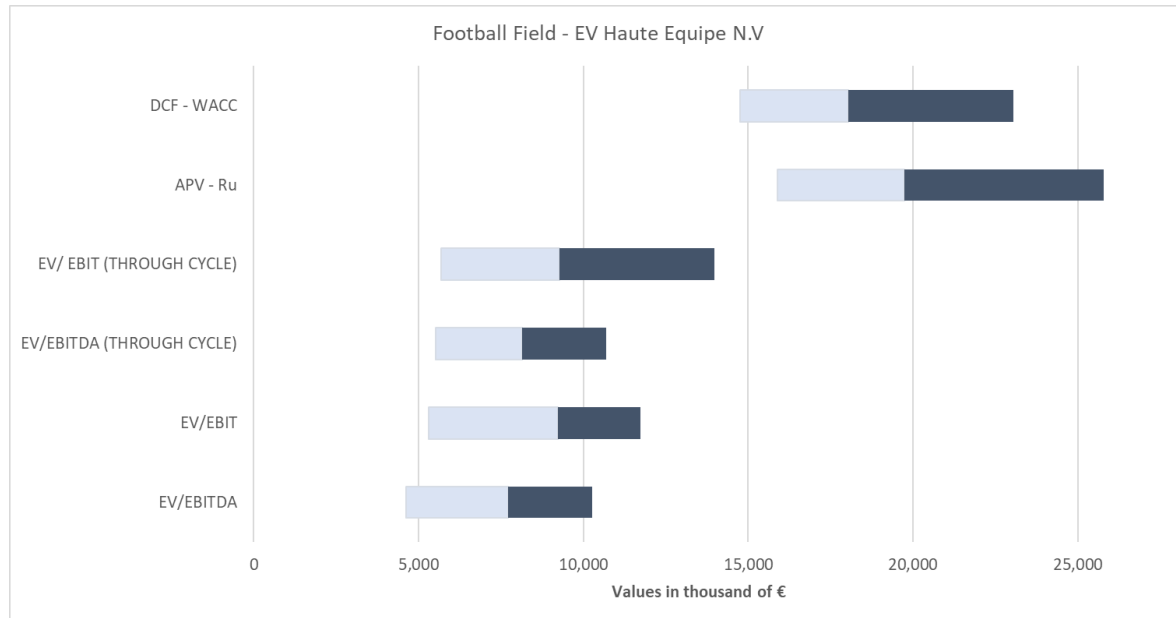


Figure 2: HE Football Field Comparison

Multiples through cycle are analysed the same way that EV/EBIT and EV/EBITDA are, but instead of only considering the 2021 multiple, they include values since 2017.

Due to this overestimation in the HE's valuations, the income approaches (DCF and APV) might not be the most suitable in terms of accuracy of final results. The multiples valuation is much more in line with both the authors' and managers' expectations of HE's valuation. During meetings with the managing team, it was mentioned that according to their predictions and to the predictions of experts in the area, a fair multiple is about 8x EV/EBITDA, which is very close to the median 2021 EV/EBITDA (7.8x) and to the overall EV/EBITDA (8.3x) computed. The EV/EBITDA multiples produce valuations between 7.71€ million and 8.14€ million, respectively, which are the best estimation range for the EV.

This thesis applied the most common valuation methods to a small private firms and it is perceived that the income-based approaches offer more detailed and specific solutions to

the analysis however as discussed, they underestimate the cost of capital and consequently over value the business. On the other hand, the multiples are a much broader approach as they do not take into account firm specifics such as capital structure, revenue and cost's breakdown but for private firms they ought to be a preferred approach. For instance, they are commonly used in Private Equity firms to perform valuations in detriment of income methods.

V. M&A

i. Background

Synergy in mergers and acquisitions (also referred to as M&A) arises when the value of the acquirer (A) and target (T) as a single entity exceeds the summed value of the two firms operating individually: $\text{Value}[A+T] > \text{Value}[A] + \text{Value}[T]$ (DePamphilis, 2009). The company who intends to buy (acquirer) in theory will have an economical gain from the company who will be bought (target), through synergies. Either by additional higher revenues, decrease in costs or financial gains. The most frequent motive for an acquirer to buy a target is synergies (DePamphilis, 2009). The acquisition price shall not exceed the value of the target plus the present value of potential synergies (value created), otherwise it would theoretically be a ruinous investment. Nevertheless, synergies are not always easy to quantify and in most acquisition deals synergies are not realized or the premium paid for the target surpasses the standalone value plus the synergies.

There are several types of synergies. Empirical finance has identified: operational synergies (47.1%), market power (16.5%) and tax benefits (7.6%). (Apaydin, 2010).

ii. Acquirer

According to the discussions had with HE's managers, the company was the subject of meetings to discuss a potential acquisition. Within the list of potential acquirers, some were private limiting the information available to conduct a proper valuation of synergies. After consideration "Korn Ferry" was picked as the acquirer subject to this analysis in order to avoid for the most part subjective or non-factual based assumptions.

Korn Ferry is a global consulting firm. It works directly with clients to design optimal organizational structures, roles, and responsibilities. They are experts in helping companies

manage the best way possible their human resources. Like Haute Equipe, they are present in different areas including financial services, corporate social responsibility (CSR) (Korn Ferry, 2022). Founded on November 14, 1969, this multinational operates in 53 countries and employs more than 8 thousand people worldwide. (Korn Ferry, 2022). The stock price, listed on NASDAQ as of the 31st of December 2021, was \$75,67 (Bloomberg, 2022). This does not represent the today's share price, but it is chosen in coherence with the date of valuation of HE.

iii. Kon Ferry past acquisitions

It has acquired 8 total businesses and their latest acquisitions were infinity Consulting Solutions (August 2022), Patina Solutions (April 2022), and Lucas Group (October 2021) (Tracxn, 2022). These acquisitions are mainly consulting firms specialized in areas that Kon Ferry was not operating or had very low market share.

iv. Kon Ferry motives

Kon Ferry is already present in the Netherlands having two offices in Amsterdam (Korn Ferry, 2022). Given the lack of market share in the public sector, and no acquisitions of firms operating directly within the public sector area, it is believed that this potential acquisition can greatly accelerate the scale and capabilities of Korn Ferry's current interim executive solutions business. The motives for this acquisition can be identical to the Korn Ferry's acquisitions of Patina (2022), where the combination would present "real, tangible opportunity for Korn Ferry and the clients looking for the right talent, who are highly agile, with specialized skills and expertise, to help them drive superior performance, including on an interim basis" said Gary D. Burnison, CEO, Korn Ferry (Korn Ferry, 2022). In that sense, Haute Equipe with the knowledge and the professional relationships built with entities in the public sector can bring that market share and expertise to Korn Ferry. Korn Ferry has a strong acquisition capacity

with cash and cash equivalents gradually increasing and is constantly looking, as shown, for investment opportunities that would allow them to expand their portfolio horizontally (Bloomberg, 2022).

v. Operating Synergies

Operating synergies are responsible for most of the value creation in M&As (Krishnamurti, 2008). They rely on the further development and general improvements of the firm's operating activities, and they provide a range of opportunities, for instance, an increase in growth, new markets or new clients, more bargaining power due to economies of scale and subsequently a higher pricing power. Operational synergy can be either reflected in increased revenue and/or a decrease in cost (Hamza et al, 2016). The method is to determine the value of the changes in the target's cash flow (Loukianova, 2017).

vi. Revenue synergies

A recent global Deloitte study found that capturing revenue synergies was the second top concern for new acquisitions (Deloitte, 2016). According to this Deloitte's Synergy Database, revenue synergies range typically between 2% and 14% of the acquired company's revenue, however 85% of transactions report up to 25% in synergies (Deloitte, 2016).

To minimize the uncertainty of assuming a specific revenue growth, three scenarios were developed in order to create a range of possibilities and to account for the uncertainty of conducting a business that is exposed to much more risks than the ones that are found indoors. The revenue synergies rate was calculated as a percentage of the total revenues (both units), and for the Bad, Base, and Good scenarios it is assumed 1%, 8% and 20%, respectively. The forecast of the impact on future cash flow generation is presented in the Appendix Table 32. Revenue increase will not directly result in a corresponding boost of the company's FCF because it is accompanied by an inevitable increase in costs: cost of sales, wage costs and

other operational costs (Deloitte, 2016). Therefore, the additional operating income amounts to the sum of additional revenue minus the sum of the additional costs mentioned.

vii. Cost Synergy's

According to Deloitte Synergy database, the cost synergies typically range between 1-5% of total combined costs (SG&A and COGS), but some achieve much more than others. (Deloitte, 2016). Therefore, for cost reduction, Haute Equipe's total costs are evaluated and assessed which ones could be decreased in case of an acquisition by a multinational. Assuming an initial "preservation" strategy (maintaining independence and workforce), two main costs are identified: car fleet expenses and housing cost. Assuming a 3-year period to achieve 50% cost reduction (10% year 1, followed by 15% year 2, followed by 25% year 3) since the lease contracts will not be renovated once the term is up. Total cost savings amounts to the sum of both cost reductions.

viii. Total Merger and Integration Cost

Merger integration costs will not be high due to the disparity of size. One common integration drawback is to adapt the staff of the acquired to a new corporate culture but since Haute has so few employees it is not a very risky subject. However, employees at Haute have several benefits that are not common in a multinational company, for instance, everyone has a company car.

According to Empirical Finance, post-merger integration (PMI) is the biggest cause of M&A failure (Gueorgieva, 2022). Korn Ferry therefore must develop PMI initiatives before the transaction is finalized.

Bruner's comparative integration tactics, which are based on Haspeslagh & Jemison's (1991) study model, can be applied by Korn Ferry. The three elements of this model include control, interdependence, and autonomy (Haspeslagh, 1991) . In this circumstance, adopting

an initial preservation strategy is the most beneficial. As per Bruner's strategy, the PMI ought to have a high level of autonomy and a low amount of oversight and interdependence. Korn Ferry decides on this course of action to protect the HE culture and values. Higher levels of independence for employees may lead to higher motivation.

It is important to smooth this transition, but it is also important for Korn Ferry to avoid different treatment of the old employees and the new ones. Integration costs is very correlated with cost savings in the sense that integration costs occur because Korn Ferry is progressively trying to reduce old Haute's employees perks in order to have an equal work environment for all staff. Therefore, the integration expenses were simplified to the total cost savings at year 3 and similarly to the assumptions made before integration costs will be deferred through those years. They amount to 214€ thousand.

ix. Value for the synergy's for the acquirer

The cash flows for each year were calculated using the formula below by adding all the elements discussed in the three previous chapters. The perpetuity, for all 3 scenarios, considered a conservative growth rate of 1%.

Cash – flow from synergies

$$= (Revenue Synergies + Cost synergies - Integration Costs) \times (1 - tax rate_{Korn Ferry})$$

Equation 17

The present values and perpetuity were discounted using the buyer's weighted average cost of capital of 9.4% retrieved from Bloomberg. The total value for the acquirer in each scenario can be found in table 9. For each scenario, bad, base, and good the total synergy value amount to 0,23€ million, 0,98€ million, and 2,27€ million respectively. To estimate a

recommendation of the most likely present value of synergies it is computed the average of the three scenarios: 1,16€ million.

(Values in thousands of €)	Bad Case Scenario	Base Case Scenario	Good Case Scenario
Present Value of Synergies	€ 229,82	€ 981,31	€ 2 269,57
Synergies per share	€ 0,00	€ 0,02	€ 0,04

Table 9: Present value of Synergy's for each scenario (Values in thousands €)

Korn Ferry has 52.71 million shares outstanding so the value of the synergies per share is less than one cent in the bad case, about 2 cents in the base case and 4 cents in the good case. This is a very small and marginal increase but is not surprising considering the sizes of each company. The average synergy per share is also 2 cents.

The rationale behind the acquisition is clearly not a short-term value creation for Korn Ferry's shareholders but rather an operational decision to gain new clients and absorb their customer loyalty, for instance, the City of Amsterdam.

x. Discussion

The goal of the work project is to determine a valuation of the firm itself and the synergies for the acquirer. Previously, it was concluded that the most accurate valuation interval for HE was between 7.71€ million and 8.14€ million. These constitute the range of prices that Korn Ferry should be willing to pay if there were no synergies. After, the standalone valuation it should be added a premium range (present value of synergies) to it, constituting the maximum price of the deal.

Korn Ferry should be willing to pay between 7.94€ million (minimum standalone plus bad case scenario of synergies) up to a maximum of 10.41€ million (maximum standalone plus good case scenario of synergies). Thus, the buyer should start the bid at the minimum and increase their offer, if rejected initially, only up to the maximum price.

Once again, it should be noticed due to the disparity of size of the companies in play that this is not a short-term investment in the sense that it will not result in immediate gains but rather a strategic long-term decision supported by the penetration in a new market segment incorporating HE longer-term clients. The key clients, as mentioned before, are governmental entities that will inevitably have future projects that will yield them greater returns.

VI. The Build-up Model

i. Theoretical Background and inputs

The valuations obtained by methods in which the capital asset pricing model (CAPM) was used to determine the cost of capital seem to undervalue the cost of equity, thus undervaluing the weighted average cost of capital and overvaluing the company. This conclusion is based purely on observation and common sense since the income-based approaches (DCF and APV) produce much higher Enterprise Values than the multiple approach. Furthermore, this is a very common observation when valuing small private firms, not specific to this analysis, and therefore has caught the eye of several academics who identified sources of error in the CAPM for small private firms.

This observation brought up the research question: is the CAPM a feasible model to determine the cost of capital for small private firms?

Academic literature such as (Boudreaux, Das, Rumore, & Rao, 2012) and (Pratt & Grabowski, 2014) studied and discussed the possibility that the traditional cost of equity (R_e) determined by the CAPM might not accurately represent the true R_e . Small private firms warrant a higher discount rate due to size effects that are not represented in the comparables betas (Paschall & Hawkins, 1999). The academics mentioned developed a build-up model that presented the cost of equity as the sum of multiple factors, consisting of the risk-free rate and a combination of a few risk-premium elements (Sorin, 2009). These elements are the additional return of investing in the riskless asset option.

The value of this model is the elimination of the beta and all its limitations from the calculation because it assumes that it equals 1. Nevertheless, it incorporates other problems subject to the assumptions made as it will be discussed after.

The formula for the R_e proposed by this model is the following:

$$r_e = r_f + MRP + SP + CP + SCRP$$

R_f : Risk-free rate

MRP : Market risk-premium (Equity Risk Premium)

SP : Size Premium

CP : Country risk premium

SCP : Specific company premium

a) Risk-free rate

The risk-free rate is the return an investor obtains by investing in the riskless asset. It is commonly assumed to be the return of Government Bonds and thus in conformity with the rate taken into account for the CAPM the risk-free rate of this model will be the yield of the 10-year Dutch Treasury Bonds at the 31st of December 2021 of -0.03% (WSJ, 2022).

b) Market-Risk Premium

The Market Risk premium is the historical yield from investing in the Dutch Stock Market. Answath Damodaran publishes an annual report with Market Premiums for a variety of countries (Damodaran A. , 2022). This yield will be used as a proxy of the MRP factor, and the Dutch yield at the end of 2021 (beginning of 2022) is 4.24% (Damodaran A. , 2022).

c) Size Premium

The size premium is a tendency for stocks of smaller firms to outperform firms with much bigger market capitalizations and is also a factor of the well-known Fama-French 3-factor model (asset pricing model that results from the expansion of the CAPM by introducing new sources of risk). The model's authors' and some other researchers identified an inverse relationship between size and risk therefore a smaller company would have sources of risk

due to its size that are not captured when using betas of traded comparable companies with much higher market caps. Note that the comparables' betas presented in the group work had the limitation of being taken from multinational, with much greater and more diversified business operations due to the lack of available information (similarly sized consultancy companies working in the industry are also private).

The size premium is not a tabled value and is quite subjective, the first step in looking into it is to consider the conclusion that size is inversely related to risk so a small firm will have a much higher risk than a bigger competitor in the industry. This includes, among others concerns, liquidity, sustainability, and governance. The broadness of this conclusion makes the definition of the risk into a numeric rate very challenging.

The estimation of this factor, for simplicity, has to be done by a proxy. A size risk premium of 9.85% will be used in this build-up model based on a proxy from a similar valuation report done regarding a US consultancy company (ValuAdder, 2020). The lack of available information forces the usage of a non-accurate input but the sensitivity analysis at the end shall mitigate part of the inherent error.

d) Country Risk Premium

Country Premium should cover the uncertainty from the economic and political state of a specific country (Pratt & Grabowski, 2014). The Netherlands has both a stable economy and political organization and even with the recent conflicts in Ukraine and other economic forces such as the rise in inflation, it is still unlikely that the country enters in default or close. According to the Damodaran 2021 report on Country Default Spreads and Risk premiums, the Dutch-specific premium is 0%. Even if the data is from the 31st of December 2021 (the date of the valuation) and does not consider the 2022 events, the author still believes that this is the most accurate input in the model for the factor in discussion.

e) Specific Company Premium

Company premium incorporates the specificities of the business and risks of operating within that industry and sector. It accounts for particular data of the company such as earnings, profit margins, asset returns, financial risks, and dependency on clients, suppliers, etc. Once again, this is also a very subjective factor, and therefore quite hard to calculate an accurate value.

In this work, the calculation of this factor is based on a matrix developed by the strategic advisor, specialized in valuations, Highland Global in (Highland Global LLC, 2004). The report identified 7 sub-factors within the SCRP: revenue growth, financial risk (measured by Debt-to-Equity Ratio), Operational Risk (Fixed Costs over Sales), Profitability (Net Profit Margin), Industry Risk (Firm ROA divided by Industry ROA), Economic Risk (Firm ROA over GDP change) and Customer Concentration (weight of top 5 customers sales). Each sub-factor has a rating depending on the value obtained according to the matrix and a weight that is one-seventh or around 14%. SCRP is the sum of the weighted ratings of the seven sub-factors.

Revenue Growth and risk are typically inversely correlated (Highland Global LLC, 2004). A preliminary look at it, higher revenues, signals investors that it has better prospects of future liquidity and payout (e.g., dividends). Highland matrix sets a range for this first criterion that is a rating of 0 if the company's revenue growth is higher than 8% and a rating of 10 if it shows a decreasing trend, with intermediate ratings set apart by a range of 1%. Partners has a future revenue growth of 11.4% rated as 0 and Flex has a revenue growth of 1.1% rated as a 7.

Financial risk (capital structure) directly impacts the firm's risk as it increases the risk of bankruptcy. Nevertheless, for this specific case since the debt is low or almost null and the company has high liquidity there is still financial slack to increase debt benefiting from the

present value of future tax shields without risking getting close to financial distress. The Firm's rating ranges from 0 if it has no leverage and a rating of 10 for high leverage ratios. This analysis considers the capital structure of the last fiscal year-end balance sheet (2021), even though Partners business unit has a structure that is close to being fully equity financed (long-term strategy) it still has future debt repayments for the next years. With no leverage, Flex has zero financial risk while existing debt at Partners rate them a 1, according to the criteria.

Operational risk is defined in the matrix as the weight of fixed costs on sales. Firms might not be able to meet the operational leverage obligations as sales decrease, increasing the probability of bankruptcy. For the same reasons as the financial risk, this is not a close realistic scenario for this company. Moreover, Haute's fixed costs are lower than the variable costs. Due to a lack of information, it is not clear what constitutes fixed costs for the Partner's B.U. and rather easy for Flex as it works on an outsourcing model the weight of the fixed costs is close to zero. The best approach, in accordance with the discussions had with the managers, is to set fixed costs equal to the item described in the income statement as other operating costs. The criteria ratings range from 0 to 10 with the lower bound if it has no operational leverage and the upper bound for leverage above 90%. Flex with null operating leverage has a rating of 0 while Partners' other operating costs amount to an average of 14% of sales rating it a 2.

The next one is profitability which is measured quite straightforwardly by the net income margin (net income over sales). A higher net profit margin has a lower rating while lower margin results in a higher rating to compensate for the risk. The net income margin will be an average of the last three years. Partners has an average net profit margin of 4% obtaining a rating of 7 while Flex with an average margin of 2% rates them an 8.

Industry risk is not an easy metric to evaluate as there is not much information available about the business consultancy services risk and return on assets, as it is low fixed capital intensive and it's hard to measure the return of the work produced by employees. Also, the information obtained from the company does not help to clarify the picture in order to find an accurate value. The rating flows from null if the ratio of Firm Return on Assets (ROA) over Industry Return on Assets is higher than 1.80, rating of nine if it is close to 0 and 10 if negative. The rationale behind the definition of this benchmark for the Partners' unit is that the average ROA is 11% (last 3 fiscal years) and as it is a small company it is probably not as efficient as a larger competitor, so the ratio is probably lower than 1. To simplify the rating, it was set as 5 meaning that the ROA ratio is between 0.80-1.0. Even though it is probably lower than 1, the company shows good performance and good management of its sales-generating assets, thus it might be lower but close to 1. This factor is subjective but once again a sensitivity analysis shall mitigate some of the uncertainty.

Flex's ROA is zero because the assets in the balance sheet do not produce revenue due to outsourcing work and it should get a rating of 9, but, once again, the rating does not seem right. Flex is part of a service company, so it is hard to evaluate accurately the ROA. It does not have large capital investment requirements nor sells a physical product and there is not information to measure productivity of the outsourcing workers because the staff is not in the company's books. All in all, the best option is to give Flex the same rating as Partners.

Economic risk measures Haute's ability to generate a return on its assets compared to the ability of the overall economy to do so. The upper bound has a rating of 0 if the company has returns at least 4.5 times the GDP change, 9 if returns are much smaller but positive and 10 if negative. The average ROA for Partners is 11% and the Dutch GDP change in 2021 was about 5%, therefore the ratio of both is between 2-2.5 times resulting in a rating of 5. To Flex, as explained, it cannot be determined a ROA so theoretically it should get a rating of 9. Once

again, this rating does not seem fair and for the same reasons explained in the industry risk Flex gets the same rating as the other unit.

The last sub-factor for the specific company premium is the customer concentration or in other words the weight of the top 5 clients in overall sales. The same rating was assumed for both units as they perform similar projects and work collaboratively. It was not clear in the information available the percentual slice of the main customers, but it was made an educated guess that it would be between 70% and 80% based on the fact that Haute does not have a long list of clients and their major ones such as the Amsterdam City Hall bring up the greater part of the total revenue. Customer concentration, for these reasons, receives a rating of 8.

Specific company premium is a very subjective appraisal, and even with the limitations of the matrix and assumptions made, the model described is a fair approach to quantifying a somewhat qualitative topic.

The summary of results for the company-specific premium according to the Highland matrix and criteria is presented below.

	Weight	Rating	Weighted average rating
Revenue growth	14%	0	0.0
Financial risk	14%	1	0.1
Operational risk	14%	2	0.3
Profitability	14%	7	1.0
Industry risk	14%	4	0.6
Economic risk	14%	5	0.7
Customer Concentration	14%	8	1.1
Total	100%	27	3.86%

Table 10 -Partners' Specific Company Risk Premium

	Weight	Rating	Weighted average rating
Revenue growth	14%	7	1.0
Financial risk	14%	0	0.0
Operational risk	14%	1	0.1
Profitability	14%	8	1.1
Industry risk	14%	4	0.6
Economic risk	14%	5	0.7
Customer Concentration	14%	8	1.1
Total	100%	33	4.71%

Table 11 - Flex's Specific Company Risk Premium

The weighted average rating is the simple product of the rating times the weight of the equally weighted 7 sub-factors. As one can see in the summary tables the specific company risk premium is similar and the main source of difference is the risk of revenue growth as the in-house model presents high growth rates while the outsourcing very low ones perhaps due to the recent creation of the unit that with only three years of life as faced the challenges imposed by the pandemic in their early growth strategy. Nevertheless, the main focus of Haute is the in-housework.

ii. Determination of Cost of Capital

The first step to calculate the new weighted average cost of capital is to find the new cost of equity by adding up the factors of risk. Considering the inputs mentioned before one can determine the cost of equity by following *equation 7* and the WACC by *equation 11*. The results obtained are presented below:

Risk Free rate	-0.03%
Market risk premium	4.24%
Size premium	9.85%
Country specific premium	0.00%
Company specific premium	3.86%
Cost of equity	17.92%
E/EV	87.96%
D/EV	12.04%
Cost of debt	9.99%
WACC	16.70%

Table 12 - Partners' Build-up Cost of Capital

Risk Free rate	-0.03%
Market risk premium	4.24%
Size premium	9.85%
Country specific premium	0.00%
Company specific premium	4.71%
Cost of equity	18.78%
E/EV	100.00%
D/EV	0.00%
Cost of debt	0.00%
WACC	18.78%

Table 13 - Flex's Build-up Cost of Capital

The tax rate considered is the effective tax rate of 2021. Nevertheless, the cash flows are considering the appropriate tax rate for each bracket. Also, the capital structure is the same as seen previously for the DCF (presented in the preceding tables).

The new costs of equity rise from 3.95% to 17.92% (Partners) and from 3.56% to 18.78% (Flex) which is a considerable change and perhaps the first point of confirmation of the importance of the research question mentioned earlier. The updated costs of equity identify sources of risk that otherwise would be overlooked certifying the relevancy of the model and the sensitivity analysis which will be shown afterwards, to suppress the uncertainty of the subjective assumptions.

With a fully equity-financed structure, the after-tax cost of capital for Flex is equal to the cost of equity. Partners' after-tax cost of capital is lower than the cost of equity because 12% of the business is financed by debt which has a lower cost thus lowering the overall cost. Tax shield also brings value by decreasing the cost of capital.

iii. Valuation

The valuation follows the same steps as the Discounted Cash Flow method (DCF).

	WACC	Growth Rate
Partners	16.70%	2.19%
Flex	18.78%	0.23%

Table 14 - Capitalization inputs

The results are presented below considering the cash flows earlier calculated also for the DCF.

Partners

Σ Present Value UFCFF	€	896.41
Terminal Value	€	2,780.54
Present Value of Terminal Value	€	1,498.97
Enterprise Value	€	2,395.38

Table 15 - Partners' EV (Values in thousands of €)

Flex

Σ Present Value UFCFF	€	195.88
Terminal Value	€	343.29
Present Value of Terminal Value	€	172.49
Enterprise Value	€	368.37

Table 16 - Flex's EV (Value in thousands of €)

The total EV of Haute is the sum of both individual EVs thus according to the build-up model the fair value of the entire firm is 2.76€ million.

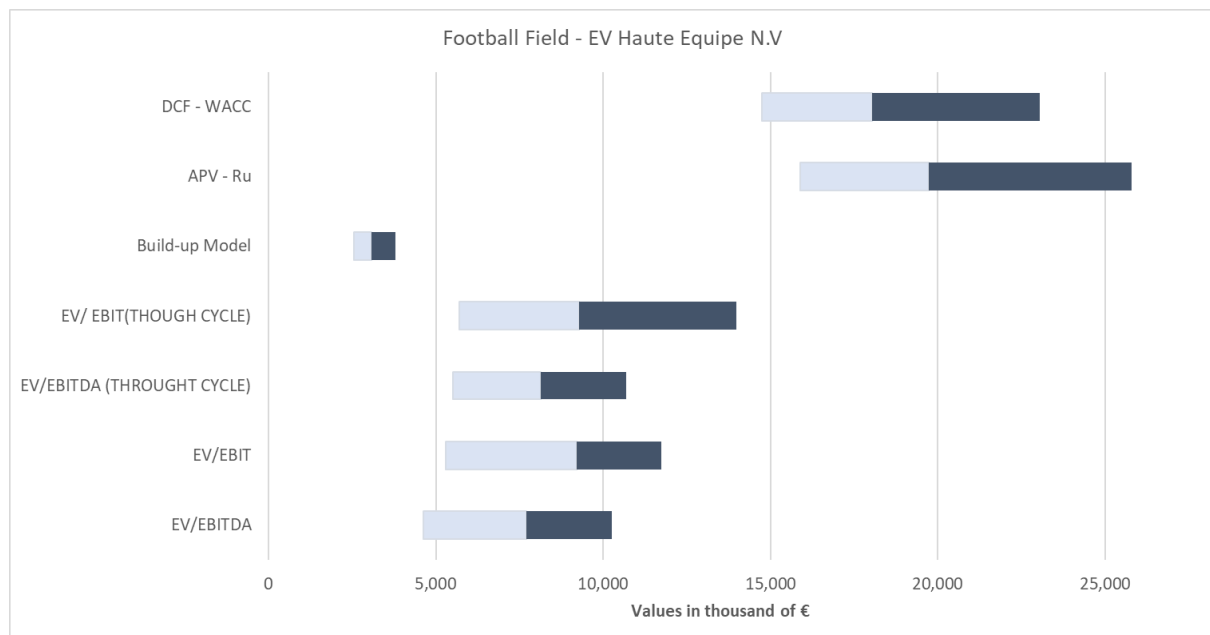


Figure 3 - Football Field Valuations

An interesting observation presented in the football field diagram is that the HE's Enterprise value calculated by this model is lower than the market-based methods (multiples) and much lower than the other income-based methods (DCF and APV) which might indicate that while the CAPM underestimates the cost of capital the build-up overestimates it. Also, the range of values is much shorter because the capitalization factor (cost of capital minus growth rate) is large enough to make small variations in the growth rate almost negligible in the final calculation.

iv. Sensitivity analysis

The point of this work is to study the impact of rewriting the cost of equity and if it produces more accurate results. Therefore, it is important to not fluctuate the terminal growth rate in order to have comparable outcomes.

Partners WACC is allowed to fluctuate between 12% and 20% and Flex WACC is allowed to fluctuate between 15% and 23%. For the same growth rate, the highest enterprise value coincides with the lowest WACC and vice versa.

The minimum EV obtained within that range is 2.23€ million and the maximum is 4.06€ million, averaging an EV of 3.02€ million. Flex EV might not fluctuate much from the minimum of 303€ thousand up to 457€ thousand in absolute terms, but it is an increase of 50%. Partners' EV within that range starts at 1.93€ million and peaks at 3.61€ million.

v. Discussion

In conformity with the results obtained and subsequent comparison to other valuation models, one could state that the build-up model offers more accurate outputs than the CAPM for small private firms or at least Haute in specific.

There could be made a second valuation for Partners with the target capital structure (zero debt), but it does not bring value to the analysis to rewrite the entire model just to drop the

financial risk to 0 and increase the equity weight from 90% to 100% because as seen in the sensitivity analysis the valuation output is within a fair range.

The build-up model produced a more suitable valuation not only closer to the various multiple valuations but in line with the common-sense value of the firm predicted by the management team. However, the determination of the factors would still need to be revised to minimize subjective assumptions or fully eliminate them by looking for more easily quantitative solutions. The valuation is lower than others which might indicate that the cost of capital is too high. Another drawback is that the user needs to be very careful to avoid double counting the same risk in different factors. Previously, in the group work section it is stated that the market-based approach (multiples) computed the best results for the standalone. Theoretically, an income-based one should be more accurate, however the cost of capital was not representative. After the build-up adaption and considering all arguments presented, an adapted income-based approach for small private firms is the best solution.

The new valuation range valuation for the M&A deal with Korn Ferry is between 2.99€ million and 5.03€ million.

To sum up, the build-up model proved to be valuable to the outcomes, the model itself works but there is still a need for an academic and theoretical review of the calculation of the most subjective factors. Alternatively, the assumptions made and the lack of available information for this thesis might also contribute to play a part in the overestimation of the cost of equity and subsequent cost of capital. Lastly, with all things considered this is the most accurate valuation.

References

- Apaydin, C. a. (2010). A multi-dimensional framework of organizational innovation: A systematic review of the literature. *Journal of management studies*, 1154-1191.
- Barney, J. B. (1988). Returns to bidding firms in mergers and acquisitions: Reconsidering the relatedness hypothesis. In *Strategic Management Journal* 9.S1 (pp. 71-78).
- BCG. (2022, 12 14). *BCG. The boston Consulting Group*. Retrieved from Fostering collaboration, sustainability and inclusivity: <https://www.overbury.com/case-studies/bcg>
- Bender Group. (2022, November 20). *Home*. Retrieved from Bender Group: https://bendergroep.nl/?gclid=Cj0KCCQiA1NebBhDDARIsAANiDD3tSW4d5BePw6aeq-wc7aoLAXC5TpSwPA8Gv_GDSofnybgh2ezWhwMaAm6LEALw_wcB
- Beneda, N. (2003). Estimating Free Cash Flows and Valuing a Growth Company. *Journal of Asset Managemen*.
- Beneda, N. L. (2003). Estimating Cost of Capital Using Bottom-up Betas. *The CPA Journal*.
- Bloomberg. (2022, November 16). *KFY: US Korn Ferry*. Retrieved from Bloomberg: <https://www.bloomberg.com/quote/KFY:US?leadSource=uverify%20wall>
- BMC. (2022, November 20). *Over BMC*. Retrieved from BMC: <https://www.bmc.nl/over-bmc>
- Boudreaux, D. O., Das, P., Rumore, N., & Rao, S. (2012). A Better Way To Measure The Cost Of Equity Capital For Small Closely Held Firms. *Journal of Business & Economics Research (JBER)*, 10, 97-104. Retrieved from <https://doi.org/10.19030/jber.v10i2.6789>
- Brealey, R. A. (2018). *Principles of Corporate Finance. Vol 12*. Boston et al.: McGraw-Hill/Irwin,.
- Calandro, J. R. (2007). *Berkshire Hathaway and GEICO: an M&A case study*. Strategy & Leadership.
- CFI. (2022, November 26). *Discounted Cash Flow DCF Formula*. Retrieved from Corporate finance institute: <https://corporatefinanceinstitute.com/resources/valuation/dcf-formula-guide/>
- CFI. (2022, 12 6). *Precedent Transaction Analysis*. Retrieved from Corporate Finance Institute: <https://corporatefinanceinstitute.com/resources/valuation/precedent-transaction-analysis/>
- Coportate Finance Institute. (2022, October 4). *M&A Synergies*. Retrieved from Coportate Finance Institute: <https://corporatefinanceinstitute.com/resources/valuation/mergers-acquisitions-ma-synergies/>
- Damodaran, A. (2012). *Investment Valuation - Tools and Techniques for Determining the Value of Any Asset*. Wiley Finance Series.
- Damodaran, A. (2022, January 5). *Damodaran Online*. Retrieved September 27, 2022, from https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html

- Deloitte. (2016). *mergers-acquisitions: Deloitte*. Retrieved from Deloitte: <https://www2.deloitte.com/content/dam/Deloitte/ch/Documents/mergers-acquisitions/ch-en-fa-st-gallen-mergers-acquisitions-study-v2.pdf>
- Deloitte. (2020, November 15). *Reading between the lines. The merits of an asset-based approach to valuing businesses*. Retrieved from Deloitte: <https://www2.deloitte.com/xe/en/pages/about-deloitte/articles/closer-than-we-think/reading-between-lines.html>
- DeMarzo, J. B. (2017). *Corporate Finance- 4th Global Edition*. Pearson.
- Denis Boudreaux, S. P. (2011). A New And Better Way To Measure The Cost Of Equity Capital For Small Closely Held Firms. *Journal of Business & Economics Research*.
- DePamphilis. (2009). *Mergers, Acquisitions, and Other Restructuring Activities, 5th ed.* Elsevier.
- Endres, D. a. (2007). The determination of corporate taxable income in the EU member states.
- Feldman, S. J. (2005). *Principles of Private Firm Valuation*. Wiley Finance.
- Gaughan, P. A. (2011). *Mergers, Acquisitions, and Corporate Restructuring*. Hoboken: John Wiley & Sons.
- Gueorgieva, Z. (2022). *Merger & Acquisitions Lectures at Imperial College Business School*. London.
- Haspeslagh, P. C. (1991). *Managing acquisitions: Creating value through corporate renewal*. New York.
- Haute Equipe. (2022, 10 31). *About us: Haute Equipe* . Retrieved from Haute Equipe: <https://haute-equipe.nl/>
- Highland Global LLC. (2004, July). Retrieved November 10, 2022, from HG Business Valuations: <https://hgbusinessvaluations.files.wordpress.com/2015/01/specificcompanyriskpremium.pdf>
- Holland Capital. (2022, 12 17). *Holland Capital 40 years*. Retrieved from Holland Capital: <https://hollandcapital.nl/en/>
- JS Consultancy. (2022, November 20). *Over JS*. Retrieved from JS Consultancy: <https://www.jsconsultancy.nl/over-ons/over-jsconsultancy/>
- Kenton, W. (2022, June 30). *Investopedia*. Retrieved from <https://www.investopedia.com/terms/b/beta.asp>
- Korn Ferry. (2022, November 10). *Industries*. Retrieved from Korn Ferry: <https://www.kornferry.com/industries/specialties/government-consulting>
- Krishnamurti, C. &. (2008). *Mergers, acquisitions and corporate restructuring*. SAGE Publications India.
- Loukianova, A. N. (2017). Valuing synergies in strategic mergers and acquisitions using the real options approach. *Investment Management and Financial Innovations*, (14, № 1 (contin.)), 236-247.

- Menachem Abudy, S. B. (2016). The cost of equity for private firms. *Journal of Corporate Finance*.
- Mulyadi, D. a. (2020). *Analysis of Current Ratio, Net Profit Margin, and Good Corporate Governance against Company Value*. Systematic Reviews in Pharmacy 11.1.
- NCOD. (2022, November 20). *Over NCOD*. Retrieved from NOCD: <https://www.ncod.nl/over-ons/>
- Paschall, M. A., & Hawkins, G. B. (1999, December). *Resources: Business Value*. Retrieved November 2, 2022, from Business Value: <https://www.businessvalue.com/resources/Valuation-Articles/Small-Company-Cap-Rates.pdf>
- Pinto, J. E. (2020). *Equity asset valuation*. John Wiley & Sons.
- PitchBook. (2022, October 21). *Leveraged loan financing for LBOs deteriorates as cost of debt rises*. Retrieved from PitchBook: <https://pitchbook.com/news/articles/leveraged-loan-financing-for-lbos-deteriorates-as-cost-of-debt-rises>
- PNO. (2022, November 20). *Over PNO*. Retrieved from PNO consultancy: <https://www.pnoconsultants.com/nl/over-pno/>
- Porter, M. (2009). *Porter's generic strategies*.
- Porter, M. E. (May 1979). How Competitive Forces Shape Strategy. Harvard Business Review.
- Pratt, S. P., & Grabowski, R. J. (2014). *Cost of Capital: Applications and Examples* (5th ed.). John Wiley & Sons Inc.
- Sorin, V. (2009). *Build-up Model as a Discount Rate for a Private Sector Investment*.
- Tracxn. (2022, November 10). *Aquisitions by Korn Ferry*. Retrieved from Tracxn: <https://tracxn.com/d/acquisitions/acquisitionsbyKorn-Ferry>
- ValuAdder. (2020). *Business Valuation Report*. Retrieved November 9, 2022, from <https://www.valuadder.com/product/sample-business-valuation-report.pdf>
- Vanbarkel Professionals. (2022, November 20). *Home*. Retrieved from Vanbarkel Professionals: <https://www.vbprofs.nl>
- Weisstein, E. W. (2022, 11 30). Retrieved from MathWorld: <https://mathworld.wolfram.com/TriangularDistribution.html>
- WSJ. (2022). *Market Data: Wall Street Journal*. Retrieved from WSJ: <https://www.wsj.com/market-data/quotes/bond/BX/TMBMKNL-10Y>
- Yacht Group. (2022, November 20). *Yacht - Overview*. Retrieved from Yacht : https://www.yacht.nl/professionals/overheid?gclid=Cj0KCQiA1NebBhDDARIsAA NiDD32QQM-4-u6mj-C-aHG57TRbqCbwnW643QnSkSWKVioAeQdqQjqfr8aAqpgEALw_wcB

Appendix

Appendix Table 1 Income Statement

(Amounts in thousands, €)	Fiscal year ending in December, 31st			
	2018	2019	2020	2021
Net Revenues	10,012	10,613	11,674	12,843
Partners	10,012	6,965	7,526	9,125
Turnover own personnel	6,750	6,912	7,516	9,093
Turnover external staff	3,089	30	8	33
Turnover project staff	171			
Turnover abroad	16			
Turnover miscellaneous	11	22,70	1,50	
Trade Discounts	-26			
Flex	0	3,648	4,147	3,717
External staff turnover		3,057	3,337	2,993
Project staff turnover		32		89,46
Re-loan turnover		557	810	635
Turnover miscellaneous		2	0	0
Cost of sales	72	80	49	72
Partners	72	55	47	70
Advertising and publicity costs	22	13	15	38
Representation costs	11	14	5	18
Promotional gifts	9	7	5	7
Scholarship costs	4	1	0	
Travel and accommodation costs	3	2	1	3
Change in provision for doubtful debts	3		7 -	4
Sponsorship	3	3	7	3
Other selling expenses	18	14	7	4
Flex	0	25	2	2
Advertising and publicity costs		4	1	-
Corporate gifts		1	1	2
Provision for bad debt		13	0	0
Other selling expenses		8	0	0
Gross profit	9,940	10,533	11,624	12,771
Other Operating income	96	16	0	0
Partners - Sales price edunamics	96	16		
Flex				
Total Operating Costs	9,770	10,248	11,013	11,786
Partners - Costs of subcontracted work and other external	2774	166	145	208
Flex - Costs of subcontracted work and other external costs		3,069	3608	3,277
Staff Costs	6031	5,955	6215	7,196
Partners	6031	5,493	5819	6,825
Wage and Salaries	4397	3942	4241	4935
Social security costs	785	796	760	841
Pension costs	221	201	217	268
Management fee other	358	272	360	360
Personal costs	272	283	242	421
Flex	0	462	395	372
Wages and Salaries		314	335	312
Management fees		147	60	60
Other personnel costs		1	0	0
Other Operating Costs	965	1059	1045	1105
Partners	965	1054	1035	1102
Housing costs	101	173	148	158
Office costs	149	180	165	179
Car expenses	722	692	709	737
General expenses	-8	10	13	28
Flex		4	10	3
Office expenses		0,4	0	0
General expenses		4	9	3
EBITDA	266	301	611	984
Amortization of Intangible Assets	9	34	62	66
Depreciation of Tangible Fixed Assets	84	54	57	60
EBIT	173	212	493	858
Interest Expenses - Partners	11	31	19	14
Interest Expenses - Flex		0,1	1	2
Earnings before tax	163	181	474	842
Corporate tax - Partners	31	18	64	168
Corporate tax - Flex		17	22	9
Net Income	132	147	388	665

Appendix Table 2 Balance Sheet

(Amounts in thousands, €)		Fiscal year ending in December, 31st			
Core Operations	2018	2019	2020	2021	
Assets					
Intangible assets					
Goodwill	332	298	264	114	
Software		99	105	230	
Tangible fixed assets					
Office Equipment & materials	102	170	140	136	
Current assets					
Receivables	1258	1497	1910	2802	
Trade receivables	394	469	300	425	
Trade receivables -Partners	394	396	289	336	
Trade receivables -Flex		72	11	89	
Receivables from group companies	56	192	513	800	
Receivables from group companies-Partners	56	38	513	800	
Receivables from group companies-Flex		155	0	0	
Other taxes and premiums social insurances	20	42	25	25	
Other taxes and premiums social insurances-Partners	20	21	23	19	
Other taxes and premiums social insurances-Flex		21	2	6	
Other receivables and accruals	788	794	1072	1551	
Other receivables and accruals-partners	788	592	774	1269	
Other receivables and accruals-Flex		203	299	282	
Cash at bank and in hand	11	37	1185	1004	
Cash at bank and in hand-Partners	11	4	537	480	
Cash at bank and in hand-Flex		33	648	523	
Total Assets	1702	2100	3603	4284	
Equity					
Shareholders equity					
Subscribed capital	0,3	0,6	0,6	0,6	
Subscribed capital-Partners	0,3	0,3	0,3	0,3	
Subscribed capital-Flex		0,3	0,3	0,3	
other reserves	196	193	580	1245	
other reserves-Partners	196	122	400	1013	
other reserves-Flex		70	180	232	
Total Equity	196	193	581	1246	
Liabilities					
Long-term liabilities			154	64	
Provisions					
Deferred tax liabilities	19	16	12	10	
Short-term liabilities					
Amounts owed to credit institutions	454	353			
Repayment obligations non-current liabilities			75	75	
Debt to suppliers and trade credits	247	390	246	241	
Debt to suppliers and trade credits-Partners	247	101	36	44	
Debt to suppliers and trade credits-Flex		289	210	197	
Payables to group companies		154			
Other taxes and premium social insurances -Partners	345	362	1610	1752	
Other liabilities and accrual liabilities	442	616	500	560	
Other liabilities and accrual liabilities-Partners	442	510	357	427	
Other liabilities and accrual liabilities-Flex		106	143	132	
Income Tax Payables-Flex		17	425	338	
Total Liabilities	1507	1907	3022	3039	
Total Liabilities + Equity					
Total Liabilities + Equity	1702	2100	3603	4284	

Appendix Table 3Reformulated Income Statement

(Amounts in thousands, €)	Fiscal year ending in December, 31st			
Core Result	2018	2019	2020	2021
Revenue Partners	10.012	6.965	7.526	9.125
Revenue Flex	0	3.648	4.147	3.717
Other Operating Revenue	96	16	0	0
Total Revenue	10.108	10.629	11.674	12.843
Cost of Sales - Partners	72	55	47	70
Cost of Sales - Flex	0	25	2	2
Costs of subcontracted work and other external costs - Pa	2.774	166	145	208
Costs of subcontracted work and other external costs - Fle	0	3.069	3.608	3.277
Staff Costs - Partners	6.031	5.493	5.819	6.825
Staff Costs - Flex	0	462	395	372
Other Operating Costs - Partners	965	1054	1035	1102
Other Operating Costs - Flex	0	4	10	3
Amortization of Intangible Assets	9	34	62	66
Depreciation of Tangible Fixed Assets	84	54	57	60
Core Result before taxes	173	212	493	858
Statutory taxes	33	40	89	181
Core result	141	172	404	677
Financial Result				
Interest Expenses	11	31	19	16
Financial result before taxes	11	31	19	16
Statutory taxes	-2	-6	-4	-3
Financial Result	9	25	16	12
Total Comprehensive income	132	147	388	665

Appendix Table 4 Reformulated Balance Sheet

(Amounts in thousands, €)	Fiscal year ending in December, 31st			
Core Operations	2018	2019	2020	2021
Operating Cash	11	37	1185	1004
Goodwill	332	298	264	114
Software	0	99	105	230
Office Equipment & materials	102	170	140	136
Trade Receivables	394	469	300	425
Prepayments and accrued income	788	794	1072	1551
Other taxes taxes and premium social insurance:	20	42	25	25
Receivables from group companies	56	192	513	800
Trade Payables	247	390	246	241
Accruals and deferred income	442	616	500	560
Other taxes taxes and premium social insurance:	345	362	1610	1752
Income taxes payable - Flex	0	17	425	338
Provisions - deferred tax liabilities	19	16	12	10
Payables to group companies	0	154	0	0
Total Invested Capital	650	546	810	1384
Financial				
Excess of cash	0	0	0	0
Amounts owned to credit institutions	454	353	0	0
Debt obligations	0	0	75	75
Long-term liabilities	0	0	154	64
Net Debt	454	353	229	139
Equity	196	193	581	1246

Appendix Table 5 Liquidity Ratios

Item							
Year	2016	2017	2018	2019	2020	2021	Trend Line
Current ratio							
Current ratio- P	1,04	1,16	0,85	0,71	1,03	1,41	
Current ratio- F				1,17	1,23	1,35	
Quick ratio							
Quick ratio- P	1,04	1,16	0,85	0,71	1,03	1,26	
Quick ratio- F				1,17	1,23	1,35	
Cash ratio							
Cash ratio- P			0,01	0,00	0,27	0,22	
Cash ratio- F				0,08	0,83	0,78	
Terms of payment							
Partners	24	22	14	21	14	13	
Flex				7	1	9	

Appendix Table 6 Solvency Ratio

Item							
Year	2016	2017	2018	2019	2020	2021	
Solvency first level							
Partners	18,3	22,14	11,51	7,57	15,5	29,94	
Flex				14,65	18,78	25,83	
Solvency second level							
Partners	8,18	13	28,43	22,4	17,86	42,73	
Flex				17,17	23,12	34,83	
Solvency third level							
Partners	92,43	88,49	77,86	81,7	84,85	70,06	
Flex				85,35	81,22	74,17	
Interest coverage ratio							
Partners	4,06	16,11	19,91	5,5	19,23	57,35	
Flex				1065,44	241,04	33,78	
D/A							
Partners			0,70	0,74	0,36	0,12	
Flex				0	0,00	0,00	
D/E							
Partners			2,32	2,88	0,57	0,14	
Flex				0	0,00	0,00	
Debt/EBITDA							
Partners			1,71	1,65	0,48	0,15	
Flex				0	0,00	0,00	

Appendix Table 7 Profitability Ratio

Item					
Year	2018	2019	2020	2021	
Profitability from Operation					
Profitability from Operation- P	0,99	0,99	0,99	0,99	
Profitability from Operation- F		0,99	1,00	1,00	
Gross Margin					
Gross Margin- P	0,99	0,99	0,99	0,99	
Gross Margin- F		0,99	1,00	1,00	
EBITDA Margin					
EBITDA Margin- P	0,03	0,03	0,06	0,10	
EBITDA Margin- F		0,02	0,03	0,02	
EBIT Margin					
EBITDA Margin- P	0,02	0,02	0,05	0,09	
EBITDA Margin- F		0,02	0,03	0,02	
Net income Margin					
Net income Margin- P	0,01	0,01	0,04	0,07	
Net income Margin- F		0,02	0,03	0,01	
Profitability from Investments					
Return on Assets (ROA)					
Return on Assets (ROA)- P	0,08	0,05	0,11	0,18	
Return on Assets (ROA)- F		0,00	0,00	0,00	

Appendix Table 8 Cash Convention Cycle

Item				
Year	2018	2019	2020	2021
AHP	0	0	0	0
AHP Partners	-	-	-	-
AHP Flex	-	-	-	-
ACP	114	114	57	55
ACP Partners	14	21	14	13
ACP Flex	0	7	1	9
APP	1253	1780	1828	1221
APP Partners	32	167	68	57
APP Flex	0	34	21	22
CCC				
CCC Partners	-17	-146	-54	-44
CCC Flex	0	-27	-20	-13
Year-on-year change Partners		744,03%	-63,26%	-18,36%
Year-on-year change Flex		0,00%	-24,62%	-34,60%

Appendix Table 9 Industry Overview by revenues

Competitors	Revenues	
	2021	%
Brucel Interntional	€ 3.000.000,00	0,69%
PNO	€ 62.700.000,00	14,49%
NCOD	€ 5.000.000,00	1,16%
JE Consultancy	€ 4.000.000,00	0,92%
JS Consultancy	€ 5.000.000,00	1,16%
Vanberkel Professionals	€ 25.000.000,00	5,78%
Yatch & BMC	€ 315.000.000,00	72,80%
Haute Equipe	€ 13.000.000,00	3,00%
Total	€ 432.700.000,00	100,00%

Appendix Table 10 Forecast Income Statement

(Amounts in thousands, €)	Fiscal year ending in December, 31st							
Core Result	2018	2019	2020	2021	2022	2023	2024	2025
Revenue Partners	10.012	6.965	7.526	9.125	10168	11331	12626	14069
Revenue Flex	0	3.648	4.147	3.717	3759	3801	3843	3886
Other Operating Revenue	96	16	0	0	0	0	0	0
Total Revenue	10.108	10.629	11.674	12.843	13.927	15.131	16.469	17.955
Cost of Sales - Partners	72	55	47	70	73	82	91	102
Cost of Sales - Flex	0	25	2	2	10	10	10	11
Costs of subcontracted work and other external costs - Partners	2.774	1.66	145	208	223	249	277	309
Costs of subcontracted work and other external costs - Flex	0	3.069	3.608	3.277	3.249	3.285	3.322	3.359
Staff Costs - Partners	6.031	5.493	5.819	6.825	7.829	8.724	9.721	10.832
Staff Costs - Flex	0	462	395	372	403	408	412	417
Other Operating Costs - Partners	965	1054	1035	1102	1.389	1.547	1.724	1.921
Other Operating Costs - Flex	0	4	10	3	5	5	6	6
Amortization of Intangible Assets	9	34	62	66	86	95	106	119
Depreciation of Tangible Fixed Assets	84	54	57	60	77	86	95	106
Total Costs	9.934	10.417	11.181	11.984	13.344	14.491	15.765	17.180
Core Result before taxes	173	212	493	858	583	640	704	774
Statutory taxes	33	40	89	181	98	145	162	180
Core result	141	172	404	677	485	495	542	595
Financial Result								
Interest Expenses	11	31	19	16	7	3	2	1
Financial result before taxes	11	31	19	16	7	3	2	1
Statutory taxes	-2	-6	-4	-3	-1	-1	0	0
Financial Result	9	25	16	12	6	3	1	1
Total Comprehensive income	132	147	388	665	479	492	541	594

Appendix Table 11 Forecasting Balance Sheet

(Amounts in thousands, €)	Fiscal year ending in December, 31st							
Core Operations	2018	2019	2020	2021	2022	2023	2024	2025
Operating Cash	11	37	1185	1004	1064	1131	1206	1288
Goodwill	332	298	264	114	312	348	388	432
Software	0	99	105	230	135	151	168	187
Office Equipment & materials	102	170	140	136	173	193	215	240
Trade Receivables	394	469	300	425	465	508	557	611
Prepayments and accrued income	788	794	1072	1551	1362	1598	1812	1903
Other taxes taxes and premium social insurances	20	42	25	25	25	25	25	25
Receivables from group companies	56	192	513	800	800	800	800	800
Trade Payables	247	390	246	241	243	250	258	267
Accruals and deferred income	442	616	500	560	692	758	832	914
Other taxes and premium social insurances	345	362	1610	1752	1752	1752	1752	1752
Income taxes payable - Flex	0	17	425	338	268	213	169	134
Provisions - deferred tax liabilities	19	16	12	10	6	7	7	8
Payables to group companies	0	154	0	0	0	0	0	0
Total Invested Capital	650	546	810	1384	1376	1775	2152	2411
Financial	2018	2019	2020	2021	2022	2023	2024	2025
Excess of cash	0	0	0	0	0	0	0	0
Amounts owned to credit institutions	454	353	0	0	0	0	0	0
Debt obligations	0	0	75	75	38	19	9	5
Long-term liabilities	0	0	154	64	32	16	8	4
Net Debt	454	353	229	139	69	35	17	9
Equity	196	193	581	1246	1307	1740	2135	2403

Appendix Table 12 Unelevered Beta

Beta Estimation							
Peers	Levered beta	D/E	Tax Rate	Unlevered beta	EV	Weighted EV	
A DECCO GROUP AG	1,081	0,77	25%	0,686	8015,761	25,95%	
GROUP CRIT	0,597	0,44	25%	0,449	423,083	1,37%	
HAYS PLC	1,293	0,09	30%	1,217	2863,116	9,27%	
Randstad NV	1,013	0,13	21%	0,922	11413,95	36,95%	
ManpowerGroup Inc	0,999	0,34	25%	0,794	5166,774	16,73%	
Synergie SE	0,701	0,24	32%	0,604	719,57	2,33%	
Talenom Oyj	1,095	0,10	20%	1,015	549,501	1,78%	
Triad Group PLC	1,29	0,05	19%	1,241	18,616	0,06%	
Mercer LLC	1,500	1,780	25%	0,642	1720,00	5,57%	
2021 data							

Appendix Table 13Value Creation Partner and Flex

Partners		Flex	
Debt		Debt	
Net Debt	\$ 139	Net Debt	\$ -
Stockholders' equity	\$ 1.013	Stockholders' equity	\$ 232
Debt to equity	13,69%	Debt to equity	0,00%
Cost of Debt		Cost of Debt	
Interest expense	\$ 14	Interest expense	\$ -
Net Debt	\$ 139	Net Debt	\$ -
Rd	9,99%	Rd	0,00%
Risk-free rate	-0,03%	Risk-free rate	-0,03%
Partners		Flex	
WACC Calculations		WACC Calculations	
Tax Rate	21,55%	Tax Rate	15,15%
Levered Beta	0,93	Levered Beta	0,84
Risk-free rate	-0,03%	Risk-free rate	-0,03%
Market Risk Premium	4,27%	Market Risk Premium	4,27%
CAPM		CAPM	
E/EV	87,96%	E/EV	100,00%
D/EV	12,04%	D/EV	0,00%
Re	3,95%	Re	3,56%
Rd	9,99%	Rd	0,00%
After-tax WACC	4,42%	After-tax WACC	3,56%
Ru	4,68%	Ru	3,56%
Partners		Flex	
WACC Calculations		WACC Calculations	
Tax Rate	21,55%	Tax Rate	15,15%
Levered Beta	0,93	Levered Beta	0,84
Risk-free rate	-0,03%	Risk-free rate	-0,03%
Market Risk Premium	4,27%	Market Risk Premium	4,27%
CAPM		CAPM	
E/EV	87,96%	E/EV	100,00%
D/EV	12,04%	D/EV	0,00%
Re	3,95%	Re	3,56%
Rd	9,99%	Rd	0,00%
After-tax WACC	4,42%	After-tax WACC	3,56%
Ru	4,68%	Ru	3,56%

Appendix Table 14ROIC analysis for Partners and Flex

Value Creation Indicators FY ending in December, 31st													
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Core Result	€ 140,89	€ 101,51	€ 293,64	€ 623,30	€ 407,49	€ 420,13	€ 466,60	€ 518,37	€ 576,07	€ 640,35	€ 711,99	€ 791,81	€ 880,76
IC	€ 649,99	€ 474,96	€ 629,49	€ 1.151,96	€ 1.085,23	€ 1.407,06	€ 1.734,02	€ 1.956,95	€ 2.323,51	€ 2.702,72	€ 3.098,09	€ 3.570,95	€ 4.085,11
ROIC	22%	21%	47%	54%	38%	30%	27%	26%	25%	24%	23%	22%	22%
Δ Core Result		\$ -39	\$ 192	\$ 330	\$ -216	\$ 13	\$ 46	\$ 52	\$ 58	\$ 64	\$ 72	\$ 80	\$ 89
Δ IC		\$ -175	\$ 155	\$ 522	\$ -67	\$ 322	\$ 327	\$ 223	\$ 367	\$ 379	\$ 395	\$ 473	\$ 473
RONIC		-110%	213%	-41%	-19%	14%	16%	16%	18%	19%	20%	19%	19%
Growth Rate		0%	-67%	101%	-6%	-3%	2%	2%	4%	2%	3%	3%	3%
Payout Rate	151%	102%	39%	53%	86%	86%	86%	86%	86%	86%	86%	86%	86%
Reinvestment rate	-51%	-2%	61%	47%	14%	14%	14%	14%	14%	14%	14%	14%	14%
Value Creation Indicators FY ending in December, 31st													
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Core Result	€ -	€ 70,49	€ 109,78	€ 54,01	€ 77,46	€ 74,64	€ 75,47	€ 76,31	€ 77,17	€ 78,03	€ 78,90	€ 79,78	€ 80,67
IC	€ -	€ 70,73	€ 180,05	€ 232,46	€ 291,12	€ 367,99	€ 418,08	€ 454,23	€ 491,91	€ 519,84	€ 543,16	€ 564,47	€ 582,05
ROIC	-	100%	61%	23%	27%	20%	18%	17%	16%	15%	15%	14%	14%
Δ Core Result		\$ 70	\$ 39	\$ -56	\$ 23	\$ -3	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1
Δ IC		\$ 71	\$ 109	\$ 52	\$ 59	\$ 77	\$ 50	\$ 36	\$ 38	\$ 28	\$ 23	\$ 21	\$ 21
RONIC		56%	-51%	45%	-5%	2%	2%	2%	3%	4%	4%	4%	4%
Growth Rate		0%	34%	-24%	6%	-1%	0%	0%	0%	0%	1%	1%	1%
Payout Rate	151%	102%	39%	53%	86%	86%	86%	86%	86%	86%	86%	86%	86%
Reinvestment rate	-51%	-2%	61%	47%	14%	14%	14%	14%	14%	14%	14%	14%	14%

Appendix Table 15Multiples Data

Company	Ticker	Date	Market cap	EV	EV/EBITDA	EV/EBIT	EV/ICFO (Firm)	EV/FCF	DEB/EV	EQUITY/EV	Capx and Capx equivalents	BETA	Average			
													Market cap	EV	EV/EBITDA	EV/ICFO
ADECCO GROUP AG	ADEN SW	2015	10663.52	11905.32	27.38	39.70	14.85	16.90	0.18	0.82	1137					
		2016	10582.76	11476.76	9.72	10.81	15.76	17.59	0.18	0.82	1123					
		2017	10562.58	11564.58	10.50	11.66	14.95	17.16	0.17	0.83	958					
		2018	6668.97	7800.97	9.71	11.73	10.39	13.15	0.23	0.77	652	1.08	9184.36	100.6708	12.97	25.93
		2019	9142.52	10000.52	7.72	11.07	11.08	13.39	0.22	0.78	1351					
		2020	8893.43	9707.43	18.60	86.15	14.79	19.44	0.24	0.76	1485					
GROUPE CRT	CEN FP	2021	7576.76	8015.76	7.14	10.43	10.61	12.85	0.43	0.57	3051					
		2015	640.58	678.24	5.66	6.63	9.49	17.80	0.26	0.74	159.672					
		2016	765.00	819.73	6.59	7.80	39.41	522.33	0.19	0.81	107.052					
		2017	818.78	833.00	5.56	6.57	12.21	14.73	0.18	0.82	137.608					
		2018	594.25	589.95	3.95	4.69	6.14	7.33	0.24	0.66	213.8	0.60	721.32	658.48	5.42	8.68
		2019	898.00	747.07	4.37	5.78	4.06	4.27	0.20	0.80	231.071					
HANS PLC	HAS LN	2020	703.13	519.30	8.06	23.64	4.39	4.54	0.26	0.74	320.013					
		2021	697.50	423.08	3.74	5.62	3.44	3.63	0.31	0.69	405.63					
		2016	1713.10	1669.00	6.86	7.70	13.66	15.19	0.02	0.98	75.4					
		2017	2770.06	2646.86	9.94	10.96	17.31	19.16	0.00	1.00	127.7					
		2018	3086.93	2948.06	10.08	10.72	16.10	17.76	0.00	1.00	138.9	1.29	2575.30	2411.84	10.29	13.81
		2019	2570.62	2425.67	8.72	9.29	12.93	14.06	0.00	1.00	145					
Mempower Group Inc	MAN US	2020	2203.97	1922.33	11.05	18.36	4.90	5.03	0.13	0.87	533.5					
		2021	3107.11	2863.12	15.07	25.85	24.67	27.80225	0.08	0.92	478.2					
		2015	5665.75	5842.81	8.28	9.22	11.88	13.17	0.13	0.87	672.2805					
		2016	5642.88	5958.13	7.49	8.34	10.04	11.04	0.13	0.87	567.4899					
		2017	6931.46	7215.27	9.93	10.99	19.83	22.66	0.11	0.89	573.116					
		2018	3493.56	3924.02	5.09	5.64	8.48	9.92	0.24	0.76	516.853	1.00	5061.69	5388.85	8.22	11.21
Randstad NV	RAND NA	2019	5073.67	5541.12	7.11	9.44	6.20	6.54	0.25	0.75	913.5275					
		2020	4098.93	4093.86	12.30	24.97	4.60	4.83	0.31	0.69	1281.8814					
		2021	4381.58	5166.77	7.36	9.87	7.20	7.81	0.26	0.74	744.5966					
		2015	10477.53	10956.56	12.20	15.52	19.04	20.54	0.03	0.97	133.5					
		2016	9400.52	10500.45	10.87	13.28	18.25	20.46	0.11	0.89	385.8					
		2017	9368.69	10700.93	9.90	12.45	15.09	16.45	0.13	0.87	326.3	1.01	9613.71	10665.70	10.02	14.73
Synergie SE	SDG FP	2018	7340.65	9354.98	6.90	11.11	9.34	10.01	0.20	0.80	273					
		2019	9959.35	11710.68	9.16	13.63	9.06	9.50	0.14	0.86	225					
		2020	9758.81	10022.34	12.75	26.10	6.70	6.92	0.07	0.93	474					
		2021	10990.42	11413.95	8.31	11.05	12.22	13.13	0.11	0.89	859					
		2015	647.79	603.03	6.02	6.64	14.11	17.10	0.07	0.93	87.187					
		2016	892.67	889.21	7.91	8.74	-173.64	-77.55	0.05	0.95	59.513					
Telecom Oyj	TNDM FH	2017	1009.13	1067.15	8.07	9.18	27.58	67.81	0.06	0.94	78.283					
		2018	995.65	610.04	4.61	5.14	13.57	20.71	0.14	0.86	85.322	0.70	791.85	745.86	6.19	7.26
		2019	711.37	693.34	5.39	6.08	3.06	3.81	0.18	0.82	162.166					
		2020	779.58	685.70	6.40	8.84	5.40	5.39	0.21	0.79	256.752					
		2021	886.78	719.57	4.94	6.18	4.88	5.28	0.19	0.81	309.186					
		2015	35.83	53.97	16.71	44.24	5.50	5.97	0.44	0.56	5.361					
Third Group PLC	TRD LN	2016	49.01	67.18	9.85	16.08	9.95	12.12	0.33	0.67	4.332					
		2017	87.06	104.68	11.01	21.62	10.89	12.18	0.21	0.79	4.879					
		2018	130.81	148.40	10.85	17.37	12.33	12.93	0.16	0.84	5.914	1.10	253.44	277.46	16.49	31.70
		2019	312.64	341.35	18.06	32.80	18.97	20.22	0.11	0.89	7.786					
		2020	648.12	677.15	29.09	52.57	29.43	30.48	0.06	0.94	9.104					
		2021	510.58	549.50	19.86	37.22	21.92	22.78	0.09	0.91	10.121					
Third Group PLC	TRD LN	2014	1.97	2.00	8.27	13.23	-8.03	-7.32	0.08	0.92	0.1308					
		2015	2.20	1.69	2.26	2.65	2.41	2.97	0.02	0.98	0.53964					
		2016	5.60	4.42	3.08	3.57	—	—	0.01	0.99	1.2078					
		2017	12.55	9.73	5.15	5.36	—	—	0.00	1.00	2.6357	1.29	8.43	5.68	5.69	7.49
		2018	9.78	5.33	2.78	2.89	2.88	2.93	0.00	1.00	4.2704					
		2019	7.21	1.90	1.51	1.61	1.28	1.43	0.01	1.00	5.3311					
Third Group PLC	TRD LN	2020	4.79	1.51	—	—	—	—	0.70	0.30	4.3395					
		2021	23.53	18.62	16.79	23.11	—	—	0.05	0.95	5.776					

Appendix Table 16 Multiples through cycles

Multiples through cycles		EV/EBITDA				EV/EBIT			
Year	Min	Median	Max	Average	Min	Median	Max	Average	
2017	5,1x	9,9x	11,0x	8,8x	5,4x	11,0x	21,6x	11,1x	
2018	2,8x	6,0x	10,9x	6,7x	2,9x	8,2x	17,4x	8,7x	
2019	1,5x	7,4x	18,1x	7,8x	1,6x	9,4x	32,8x	11,2x	
2020	6,4x	12,3x	29,1x	14,0x	8,8x	25,0x	86,1x	34,4x	
2021	3,7x	7,8x	19,9x	10,4x	5,6x	10,7x	37,2x	16,2x	
2022	3,0x	6,3x	14,3x	7,6x	4,0x	8,1x	27,7x	11,0x	

Appendix Table 17 Overall and 2021 multiples

Overall Multiples				
	Min	Median	Max	Average
EV/EBITDA	1,5x	8,3x	29,1x	9,4x
EV/EBIT	1,6x	10,8x	86,1x	15,1x

2021 Multiples				
	Min	Median	Max	Average
EV/EBITDA	3,7x	7,8x	19,9x	10,4x
EV/EBIT	5,6x	10,7x	37,2x	16,2x

Appendix Table 18 Haute Equipe multiples

Haute Equipe		EV			
	2021	Min	Median	Max	Average
EBITDA	984,294	3.679	7.712	19.553	10.239
EBIT	858,189	4.825	9.218	31.943	13.874

Appendix Table 19 DCF, Free Cash Flow Partner

Partners	year	2019	2020	2021	2022	2023	2024	2025	Terminal Value
		Actual			Forecasted				
Total Revenue		6.981	7.526	9.125	10.168	11.331	12.626	14.069	
EBITDA		213	480	921	654	729	812	905	
(-)Amortization		34	62	66	86	95	106	119	
(-)Depreciation		54	57	60	77	86	95	106	
EBIT		125	361	795	492	548	611	680	
(-)Tax		24	68	171	84	128	144	162	
NOPLAT		102	294	623	407	420	467	518	
(-)Change NWC		-143	-173	56	41	48	54	60	
(-)Capex		153	91	101	267	232	259	288	
(+)Amortization		34,00	61,60	65,65	86	95	106	119	
(+)Depreciation		54,31	56,88	60,45	77	86	95	106	
Unlevered Free Cash Flows		180	495	593	261	321	356	395	18103
Present Value of Unlevered Free Cash Flows					250	294	313	332	15229

Appendix Table 20 Sensitivity Analysis, DCF Partners

Sensitivity Analysis (WACC/Growth Rate)		WACC									
		€	16.418,89	3,00%	3,50%	4,00%	4,50%	5,00%			
Growth Rate	0,50%	€	15.338,41	€	12.747,01	€	10.896,82	€	9.509,86	€	8.431,73
	1,00%	€	18.953,40	€	15.122,24	€	12.569,06	€	10.746,13	€	9.379,60
	1,50%	€	24.978,39	€	18.685,10	€	14.910,20	€	12.394,49	€	10.598,29
	2,00%	€	37.028,36	€	24.623,18	€	18.421,91	€	14.702,18	€	12.223,21
	2,50%	€	73.178,27	€	36.499,36	€	24.274,77	€	18.163,73	€	14.498,10

Appendix Table 21 DCF, Free Cash Flow Flex

Flex	year	2019	2020	2021	2022	2023	2024	2025	Terminal Value
		Actual			Forecasted				
Revenues		3.648	4.147	3.717	3759	3801	3843	3886	
EBITDA		87	132	64	91	92	93	94	
(-)Amortization									
(-)Depreciation									
EBIT		87	132	64	91	92	93	94	
(-)Tax		17	22	10	14	18	18	18	
NOPLAT		70	110	54	77	75	75	76	
(-)Change NWC		361	-140	65	0	3	3	3	
(-)Capex		0	0	0	0	0	0	0	
(+)Amortization		0	0	0	0	0	0	0	
(+)Depreciation		0	0	0	0	0	0	0	
Unlevered Free Cash Flows		-291	250	-11	78	71	72	73	2199
Present Value of Unlevered Free Cash Flows					75	67	65	64	1911

Appendix Table 22 Sensitivity Analysis, DCF Flex

Sensitivity Analysis (WACC\Growth Rate)		WACC									
		€	2.181,69	2,50%	3,00%	3,50%	4,00%	4,50%			
Growth Rate	0,25%	€	3.225,94	€	2.640,00	€	2.234,35	€	1.936,87	€	1.709,38
	0,75%	€	4.087,38	€	3.180,25	€	2.602,97	€	2.203,31	€	1.910,22
	1,25%	€	5.637,98	€	4.029,20	€	3.135,42	€	2.566,64	€	2.172,86
	1,75%	€	9.256,03	€	5.557,33	€	3.972,14	€	3.091,45	€	2.531,00
	2,25%	€	27.346,29	€	9.122,94	€	5.478,22	€	3.916,16	€	3.048,31

Appendix Table 23 Total EV, Both DCF

Total EV	€	18.600,58
Share Price	€	61,54

Appendix Table 24 APV, Partners

Partners	year	2019	2020	2021	2022	2023	2024	2025	Terminal Value
Unlevered Free Cash Flows		180	495	593	261	321	356	395	29.336
Re	3,56%								
Growth	2,19%								
Present Value of Unlevered Free Cash Flows					252	299	320	343	25.503
Tax Shields					-1	-1	0	0	0
Ru	3,56%								

Appendix Table 25 Sensitivity Analysis, APV Partners

Sensitivity Analysis (WACC\Growth Rate)		Cost of Equity (Re)									
		€	26.720,87	2,75%	3,25%	3,75%	4,25%	4,75%			
Growth Rate	0,50%	€	17.072,74	€	13.929,80	€	11.754,44	€	10.159,60	€	8.940,40
	1,00%	€	21.696,79	€	16.829,84	€	13.733,27	€	11.589,97	€	10.018,62
	1,50%	€	30.020,09	€	21.387,04	€	16.591,58	€	13.540,46	€	11.428,59
	2,00%	€	49.441,11	€	29.590,00	€	21.083,21	€	16.357,84	€	13.351,29
	2,50%	€	146.546,24	€	48.730,25	€	29.168,14	€	20.785,15	€	16.128,52

Appendix Table 26 APV, Flex

Flex	year	2019	2020	2021	2022	2023	2024	2025	Terminal Value
Unlevered Free Cash Flows		-291	250	-11	78	71	72	73	2.199
Re	3,56%								
Growth	0,23%								
Present Value of Unlevered Free Cash Flows					75	67	65	64	1.911

Appendix Table 27 Sensitivity Analysis, APV Flex

Sensitivity Analysis (WACC\Growth Rate)		Cost of Equity (Re)									
		€	2,181,69	2,50%		3,00%		3,50%		4,00%	
Growth Rate	0,25%	€	3.225,94	€	2.640,00	€	2.234,35	€	1.936,87	€	1.709,38
	0,75%	€	4.087,38	€	3.180,25	€	2.602,97	€	2.203,31	€	1.910,22
	1,25%	€	5.637,98	€	4.029,20	€	3.135,42	€	2.566,64	€	2.172,86
	1,75%	€	9.256,03	€	5.557,33	€	3.972,14	€	3.091,45	€	2.531,00
	2,25%	€	27.346,29	€	9.122,94	€	5.478,22	€	3.916,16	€	3.048,31

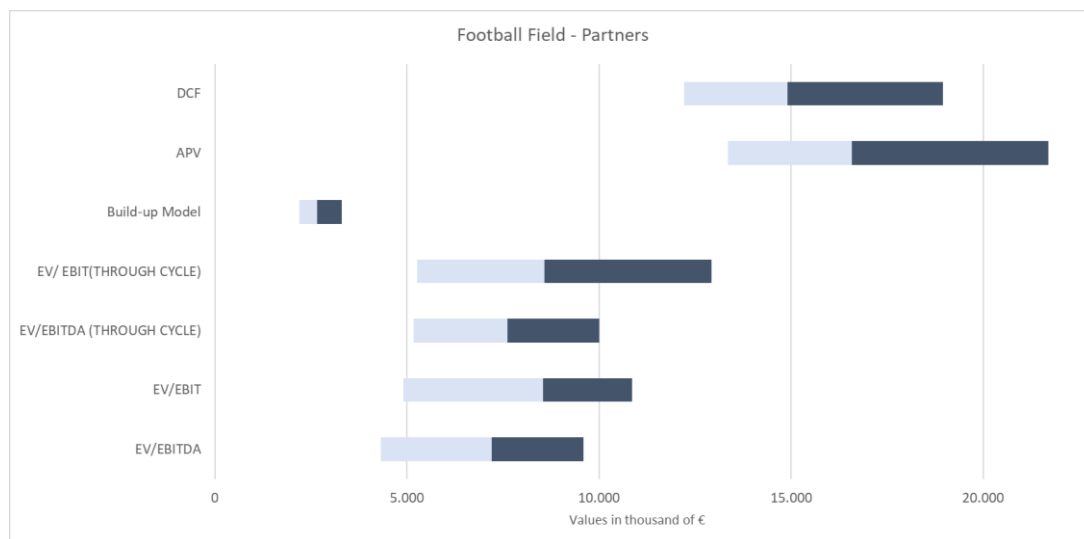
Appendix Table 28 Total EV, Both APV

Total EV	€	28.900,37
Share Price	€	96,34

Appendix Table 29 Football Fields Partners

	EV/EBITDA	EV/EBIT	EV/EBITDA (THROUGH CYCLE)	EV/ EBIT(THROUGH CYCLE)	Build-up Model	APV	DCF
Min	3,7x	5,6x	1,5x	1,6x	2,0x	9,7x	9,2x
1st Quartile	4,7x	6,2x	5,6x	6,6x	2,4x	14,5x	13,3x
Median	7,8x	10,7x	8,3x	10,8x	2,9x	18,0x	16,2x
3rd Quartile	10,4x	13,7x	10,9x	16,3x	3,6x	23,6x	20,6x
Max	19,9x	37,2x	29,1x	86,1x	5,3x	159,2x	79,5x

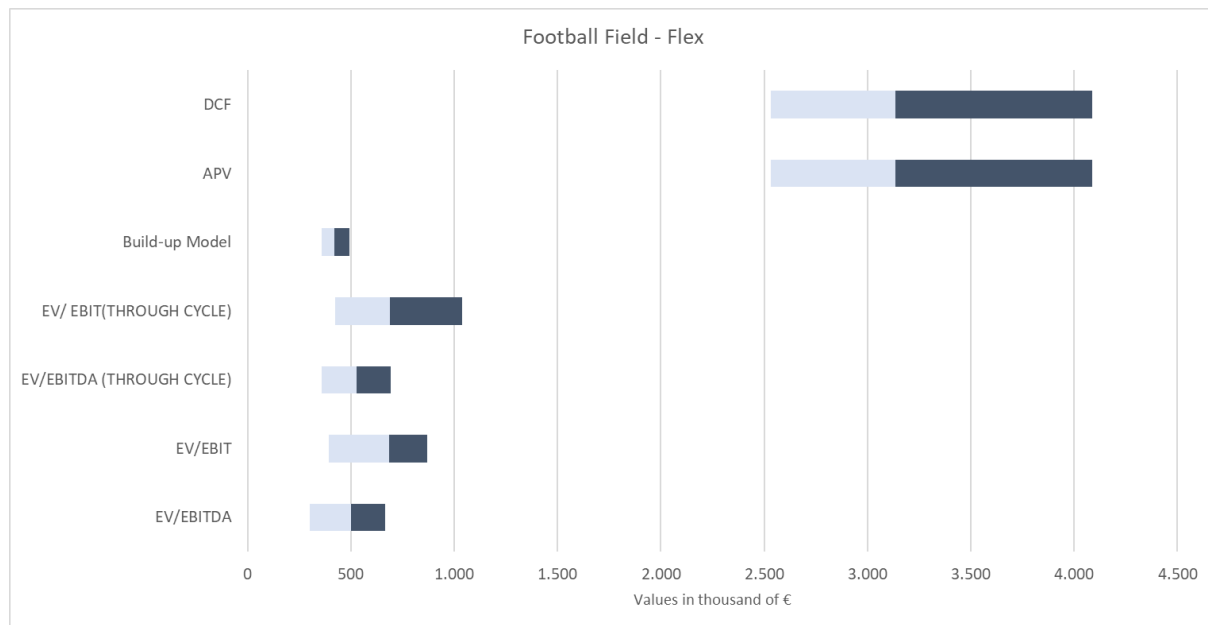
Appendix Graph 1 Football Fields Partners



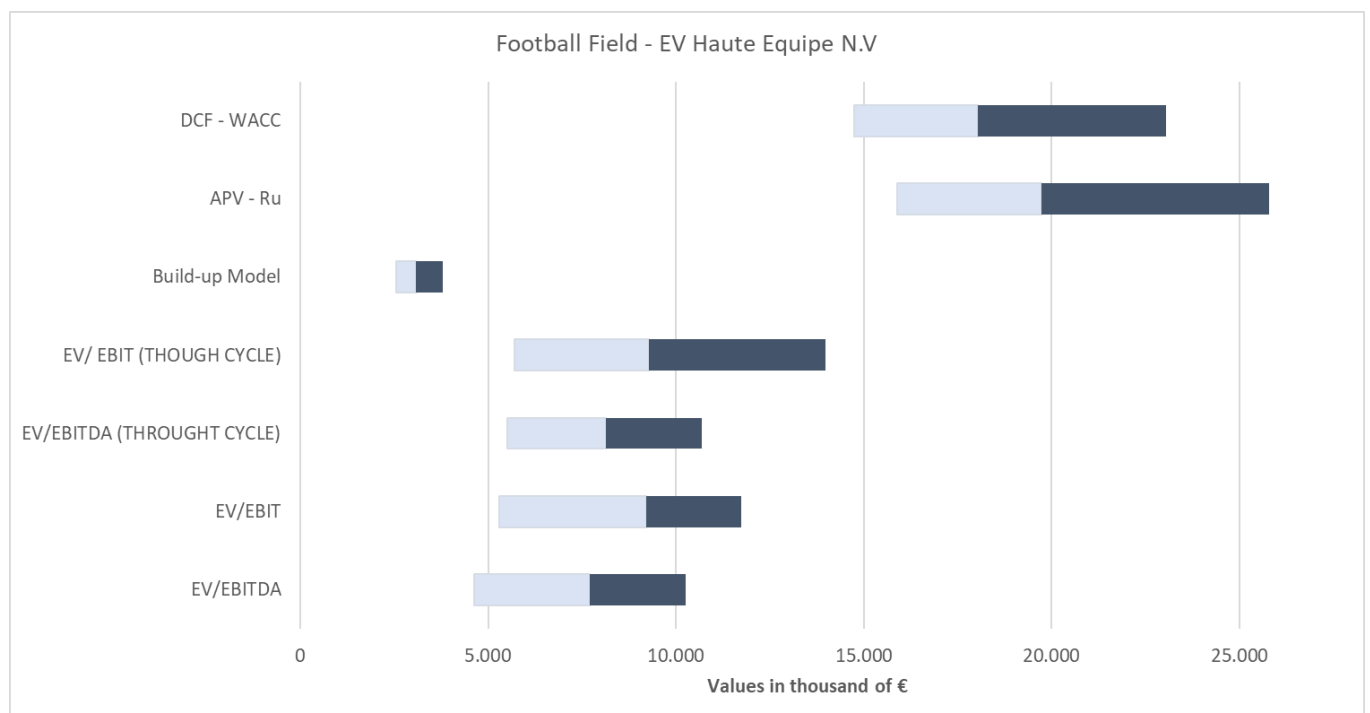
Appendix Table 30 Football Fields for Flex

	EV/EBITDA	EV/EBIT	EV/EBITDA (THROUGH CYCL	EV/ EBIT(THROUGH CYC	Build-up Mod	APV	DCF
Min	3,7x	5,6x	1,5x	1,6x	4,8x	26,9x	26,9x
1st Quartile	4,7x	6,2x	5,6x	6,6x	5,7x	39,8x	39,8x
Median	7,8x	10,7x	8,3x	10,8x	6,6x	49,3x	49,3x
3rd Quartile	10,4x	13,7x	10,9x	16,3x	7,7x	64,2x	64,2x
Max	19,9x	37,2x	29,1x	86,1x	16,5x	429,6x	429,6x

Appendix Graph 2 Football Fields Flex



Appendix Graph 3 Football Fields Haute Equipe N.V



Appendix Table 31 Synergy Assumption

Synergy Assumptions:	Units:	Projected:											
		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	
Integration Costs % Year 3 Cost Synergies:	%	100,0%											
Total Merger & Integration Costs:	€	€ 214,28											
Annual Recognition %	%		33,3%	33,3%	33,3%	0,0%							
Risk-Free Rate:	%	5,14%											
Equity Risk Premium:	%	4,20%											
Historical Levered Beta:	#	1,25											
Acquirer - Cost of Equity:	%	10,4%											
Shares Outstanding	thousands	52.710											
Acquirer - Pre-Tax Cost of Debt:	%	7,25%											
Acquirer - % Equity:	%	80,0%											
Acquirer - % Debt:	%	20,0%											
Tax Rate	%	28,0%											
Acquirer's WACC:	%	9,4%											
After-Tax Synergy Long-Term Growth:	%	1,0%											

Appendix Table 32 Target Revenue synergy

Target - Revenue Synergies Based on Percentage Increases in Overlapping Segme		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Sales	%		1,0%	1,0%	1,0%	1,0%	1,0%	1,0%	1,0%	1,0%	1,0%	1,0%
(+) Additional Revenue:	€		€ 128,43	€ 139,27	€ 151,31	€ 164,69	€ 179,55	€ 196,06	€ 214,42	€ 234,83	€ 257,52	€ 282,77
(-) Additional Cost of Sales:	€		-€ 0,72	-€ 0,84	-€ 0,92	-€ 1,02	-€ 1,12	-€ 1,24	-€ 1,37	-€ 1,51	-€ 1,68	-€ 1,86
(-) Additional Wage Costs:	€		-€ 106,81	-€ 117,04	-€ 126,65	-€ 137,32	-€ 149,16	-€ 162,32	-€ 176,93	-€ 193,17	-€ 211,23	-€ 231,30
(-)Additional Operational costs:	€		-€ 11,05	-€ 13,94	-€ 15,53	-€ 17,30	-€ 19,27	-€ 21,47	-€ 23,91	-€ 26,64	-€ 29,68	-€ 33,07
Additional Operating Income:	€		€ 9,84	€ 7,45	€ 8,21	€ 9,05	€ 9,99	€ 11,04	€ 12,20	€ 13,50	€ 14,94	€ 16,55
Sales	%		8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%
(+) Additional Revenue:	€		€ 1.027,41	€ 1.114,17	€ 1.210,50	€ 1.317,50	€ 1.436,37	€ 1.568,48	€ 1.715,34	€ 1.878,61	€ 2.060,18	€ 2.262,14
(-) Additional Cost of Sales:	€		-€ 5,76	-€ 6,69	-€ 7,37	-€ 8,13	-€ 8,97	-€ 9,91	-€ 10,95	-€ 12,12	-€ 13,41	-€ 14,85
(-) Additional Wage Costs:	€		-€ 854,49	-€ 936,33	-€ 1.013,21	-€ 1.098,55	-€ 1.193,30	-€ 1.298,54	-€ 1.415,45	-€ 1.545,38	-€ 1.689,81	-€ 1.850,38
(-)Additional Operational costs:	€		-€ 88,41	-€ 111,53	-€ 124,23	-€ 138,39	-€ 154,16	-€ 171,73	-€ 191,31	-€ 213,13	-€ 237,45	-€ 264,54
Additional Operating Income:	€		€ 78,74	€ 59,63	€ 65,69	€ 72,44	€ 79,95	€ 88,31	€ 97,62	€ 107,98	€ 119,52	€ 132,36
Sales	%		20,0%	20,0%	20,0%	20,0%	20,0%	20,0%	20,0%	20,0%	20,0%	20,0%
(+) Additional Revenue:	€		€ 2.568,53	€ 2.785,42	€ 3.026,25	€ 3.293,74	€ 3.590,93	€ 3.921,21	€ 4.288,34	€ 4.696,53	€ 5.150,46	€ 5.655,34
(-) Additional Cost of Sales:	€		-€ 14,41	-€ 16,72	-€ 18,42	-€ 20,32	-€ 22,43	-€ 24,77	-€ 27,38	-€ 30,29	-€ 33,53	-€ 37,14
(-) Additional Wage Costs:	€		-€ 2.136,23	-€ 2.340,81	-€ 2.533,03	-€ 2.746,37	-€ 2.983,25	-€ 3.246,34	-€ 3.538,63	-€ 3.863,46	-€ 4.224,52	-€ 4.625,96
(-)Additional Operational costs:	€		-€ 221,03	-€ 278,82	-€ 310,58	-€ 345,96	-€ 385,39	-€ 429,33	-€ 478,28	-€ 532,83	-€ 593,61	-€ 661,34
Additional Operating Income:	€		€ 196,86	€ 149,07	€ 164,22	€ 181,09	€ 199,87	€ 220,77	€ 244,04	€ 269,94	€ 298,79	€ 330,91

Appendix Table 33 Target Cost Synergy

Target - Cost Synergies and Merger & Integration Costs:		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Target - Reduction in operational expenses:	# Car expense reduction		10%	15%	25%	0%	0%	0%	0%	0%	0%	0%
Spending in Car expenses:	€ as Stated		€ 708,93	€ 708,93	€ 708,93	€ 708,93	€ 708,93	€ 708,93	€ 708,93	€ 708,93	€ 708,93	€ 708,93
Target - Cost Savings:	€		€ 70,89	€ 106,34	€ 177,23	-	-	-	-	-	-	-
Target - Reduction in operational expense:	# Housing costs Reduction		10%	15%	25%	0%	0%	0%	0%	0%	0%	0%
SG&A Spending per Employee:	€ as Stated		€ 148,19	€ 148,19	€ 148,19	€ 148,19	€ 148,19	€ 148,19	€ 148,19	€ 148,19	€ 148,19	€ 148,19
Target - Cost Savings:	€		€ 14,82	€ 22,23	€ 37,05	-	-	-	-	-	-	-
Total SG&A Cost Savings:	€		€ 85,71	€ 128,57	€ 214,28	-	-	-	-	-	-	-
Merger & Integration Costs:	€		€ 71,43	€ 71,43	€ 71,43	-	-	-	-	-	-	-

Appendix Table 34 Total Value Synergies

Value of Synergies to Acquirer:		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Bad Case Scenario												
After-Tax Cash Flow from Synergies:	€		€ 17,37	€ 46,51	€ 108,77	€ 6,52	€ 7,20	€ 7,95	€ 8,79	€ 9,72	€ 10,76	€ 11,91
Terminal Value of Synergies:	€											€ 144,06
Present Value of Synergies:	€		€ 229,82	€ 15,89	€ 38,89	€ 83,18	€ 4,56	€ 4,60	€ 4,65	€ 4,70	€ 4,75	€ 4,81
Base Base Scenario												
After-Tax Cash Flow from Synergies:	€		€ 66,98	€ 84,07	€ 150,15	€ 52,15	€ 57,56	€ 63,58	€ 70,28	€ 77,74	€ 86,05	€ 95,30
Terminal Value of Synergies:	€											€ 1.152,47
Present Value of Synergies:	€		€ 981,31	€ 61,25	€ 70,31	€ 114,83	€ 36,47	€ 36,81	€ 37,19	€ 37,59	€ 38,02	€ 38,49
Good Case Scenario												
After-Tax Cash Flow from Synergies:	€		€ 152,02	€ 148,47	€ 221,09	€ 130,39	€ 143,91	€ 158,95	€ 175,71	€ 194,36	€ 215,13	€ 238,25
Terminal Value of Synergies:	€											€ 2.881,17
Present Value of Synergies:	€		€ 2.269,57	€ 139,02	€ 124,16	€ 169,08	€ 91,19	€ 92,03	€ 92,96	€ 93,97	€ 95,06	€ 96,22

Appendix Table 35 Partners Specific Company premium

Partners

	Weight	Rating	Weighted average rating
Revenue growth	14%	0	0.0
Financial risk	14%	1	0.1
Operational risk	14%	2	0.3
Profitability	14%	7	1.0
Industry risk	14%	4	0.6
Economic risk	14%	5	0.7
Customer Concentration	14%	8	1.1
Total	100%	27	3.86%

Appendix Table 36 Flex Specific Company premium

Flex

	Weight	Rating	Weighted average rating
Revenue growth	14%	7	1.0
Financial risk	14%	0	0.0
Operational risk	14%	1	0.1
Profitability	14%	8	1.1
Industry risk	14%	4	0.6
Economic risk	14%	5	0.7
Customer Concentration	14%	8	1.1
Total	100%	33	4.71%

Appendix Table 37 Partners & Flex WACC

Risk Free rate	-0.03%
Market risk premium	4.24%
Size premium	9.85%
Country specific premium	0.00%
Company specific premium	3.86%
Cost of equity	17.92%
E/EV	87.96%
D/EV	12.04%
Cost of debt	9.99%
WACC	16.70%

Risk Free rate	-0.03%
Market risk premium	4.24%
Size premium	9.85%
Country specific premium	0.00%
Company specific premium	4.71%
Cost of equity	18.78%
E/EV	100.00%
D/EV	0.00%
Cost of debt	0.00%
WACC	18.78%

Appendix Table 38 Partners build-up EV

Partners

Σ Present Value UFCFF	€ 896.41
Terminal Value	€ 2,780.54
Present Value of Terminal Value	€ 1,498.97
Enterprise Value	€ 2,395.38

Appendix Table 39 Partners build-up Sensitivity Analysis

Sensitivity Analysis (WACC/Growth Rate)		WACC					
		€ 2,395.38	12.00%	14.00%	16.00%	18.00%	20.00%
Growth Rate	1.00%	€ 3,298.54	€ 2,767.36	€ 2,378.93	€ 2,082.79	€ 1,849.74	
	2.19%	€ 3,607.51	€ 2,973.31	€ 2,523.81	€ 2,188.88	€ 1,929.87	
	3.19%	€ 3,932.58	€ 3,182.02	€ 2,666.79	€ 2,291.51	€ 2,006.19	
	4.19%	€ 4,340.85	€ 3,433.26	€ 2,833.97	€ 2,409.00	€ 2,092.16	
	5.19%	€ 4,868.96	€ 3,741.52	€ 3,032.07	€ 2,544.83	€ 2,189.75	

Appendix Table 40 Flex build-up EV

Flex

Σ Present Value UFCFF	€ 195.88
Terminal Value	€ 343.29
Present Value of Terminal Value	€ 172.49
Enterprise Value	€ 368.37

Appendix Table 41 Flex build-up Sensitivity Analysis

Sensitivity Analysis (WACC/Growth Rate)		WACC					
		€ 368.37	15.00%	17.00%	19.00%	21.00%	23.00%
Growth Rate	0.23%	€ 457.32	€ 405.29	€ 364.19	€ 330.87	€ 303.29	
	1.23%	€ 477.85	€ 420.29	€ 375.49	€ 339.60	€ 310.18	
	2.23%	€ 529.40	€ 456.82	€ 402.39	€ 360.01	€ 326.04	
	3.23%	€ 650.81	€ 537.06	€ 458.55	€ 401.00	€ 356.93	
	4.23%	€ 1,050.36	€ 754.71	€ 593.21	€ 491.18	€ 420.69	

Appendix Table 42 HE total EV

Total EV	€ 2,763.75
Share Price	€ 8.75