

FREE HOUSE

BUSINESS PLAN SCANNER + COMPANY PROFILE

Contacts

Company full name: **Free House**
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Valuation set on: **01.01.2019**
Report date: **17.08.2018**

The Team



Founders committed full time
Top-tier management experience
Previously founded other companies
All technical skills inhouse

Marketing



Contracts with key strategic partners signed

The idea



Demand validated
Active globally
IP protection not applicable
Scalable business

The Company



Legal entity
Advisory board in place
Startup stage

Finance



Not breakeven yet
Funded by incubators / accelerators
Some exit opportunities

Scan business plan in a glance

The Business Plan Scanner displays the main features of the company project in the form of icons. The color at the top of the icon indicates the impact of that specific feature on the overall quality of the company. Green stands for positive impact while red for negative. The purpose of this page is to give the reader an immediate overview of the company quality and to make different projects comparable with each other based upon the same criteria. The parameters analyzed are those identified as of the highest importance to angel investors according to the researches over historical company investing activity.

COMPANY PROFILE

Free House

Started in: **2017**
Incorporated: **Yes**
Year of incorporation: **2017**
Country: **United Kingdom**
Scalability: **Yes**
Industry: **Restaurants & Bars**
Business Activity: **Other Restaurants & Bars**

Committed resources

Capital: **£ 10,000**
Founders time commitment: **Full time**

Stage of development:

Product roll-out: **Minimum Viable Product**
Profitability: **Not breakeven yet**

Investment proposal

Capital needed: **£ 2,000,000**
Equity offered: **15.0%**

Core Business

#ReinventingTheLocal

Team

Founders: **5**
Employees (excluding founders, interns and freelancers): **12**
Founders time commitment: **Full time**

Skills and Experience

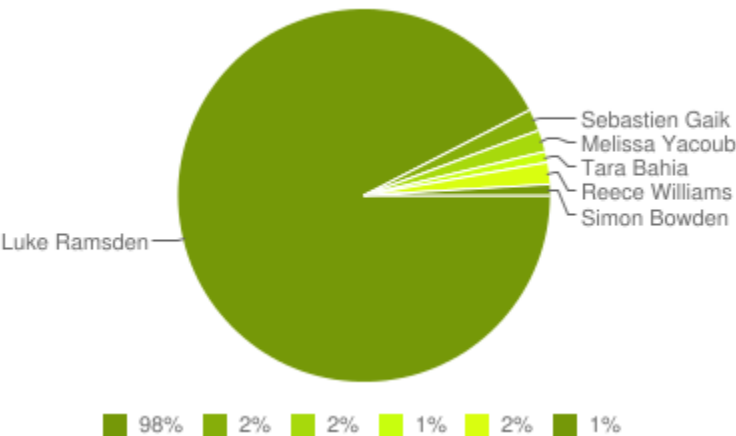
Years of experience in the industry: **100**
Founded other companies before: **Yes**
Business and managerial: **Top-tier management experience**
Technical: **Top-tier management experience**

Competition

Level of competition: **Dominated by several players**
Competitive products are: **On the same level and not comparable solutions**

COMPANY PROFILE

Shareholders



Key figures

Latest operating performance

Revenues	£ 0
Cost of Goods Sold (COGS)	£ 0
Salaries	£ 0
Operating expenses (SGA)	£ 0
EBITDA	£ 0
EBIT	£ 0
Net profit	£ 0

Ratios

Net profit as % of revenues	0%
COGS as % of revenues	0%
EBITDA as % of revenues	0%

Assets

Cash and Equivalents	£ 5,702
Accounts Receivables	£ 0
Inventory	£ 0
Tangible assets	£ 818
Intangible assets	£ 156
Financial assets	£ 0

Liabilities

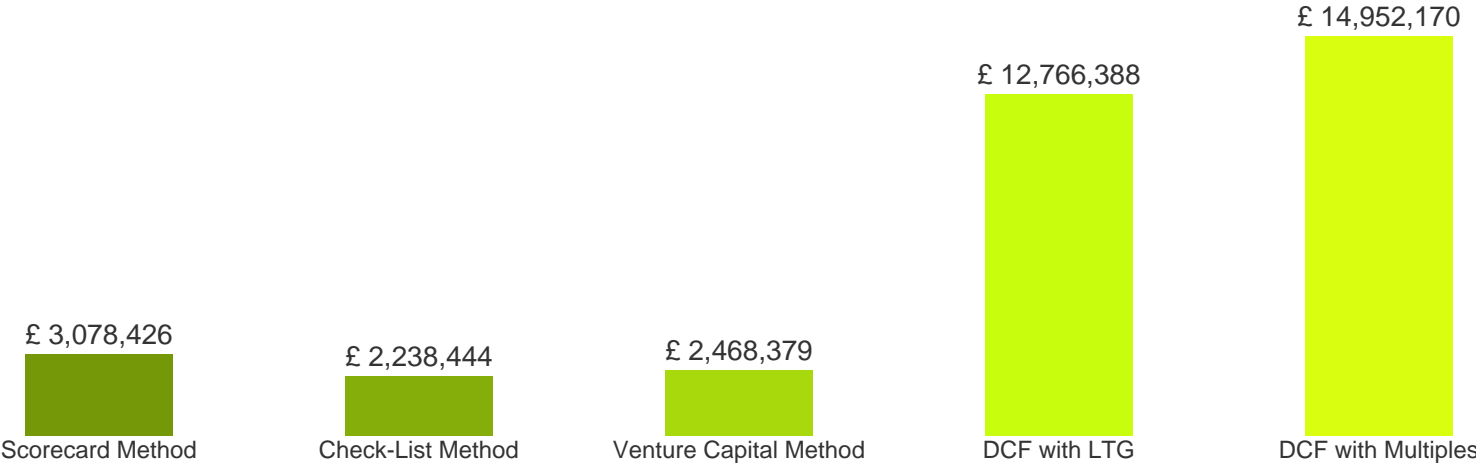
Accounts Payables	£ 0
Other current liabilities	£ 0
Long term liabilities (Debt)	£ 0
Equity	£ 6,846

Elevator pitch

Free House is a rewards-based, inclusive members club with its own currency, at the centre of three major global movements, Environmental Health, Distribution of Wealth & Mental Health.

VALUATION

The 5 Methods Used



Valuation Average Weights

Weights of the 5 methods



Valuation weights

The weights displayed in the chart are those used to average the outcomes of the 5 valuation methodologies implemented in this analysis. The weights are set according to the stage of development of the start-up: the later the stage and the higher the influence of analytical models given the higher reliability of the financial projections. Users may however prefer one method over another in determining their valuation estimate.

VALUATION

The Average Pre-Money valuation is:

£ 8,676,482

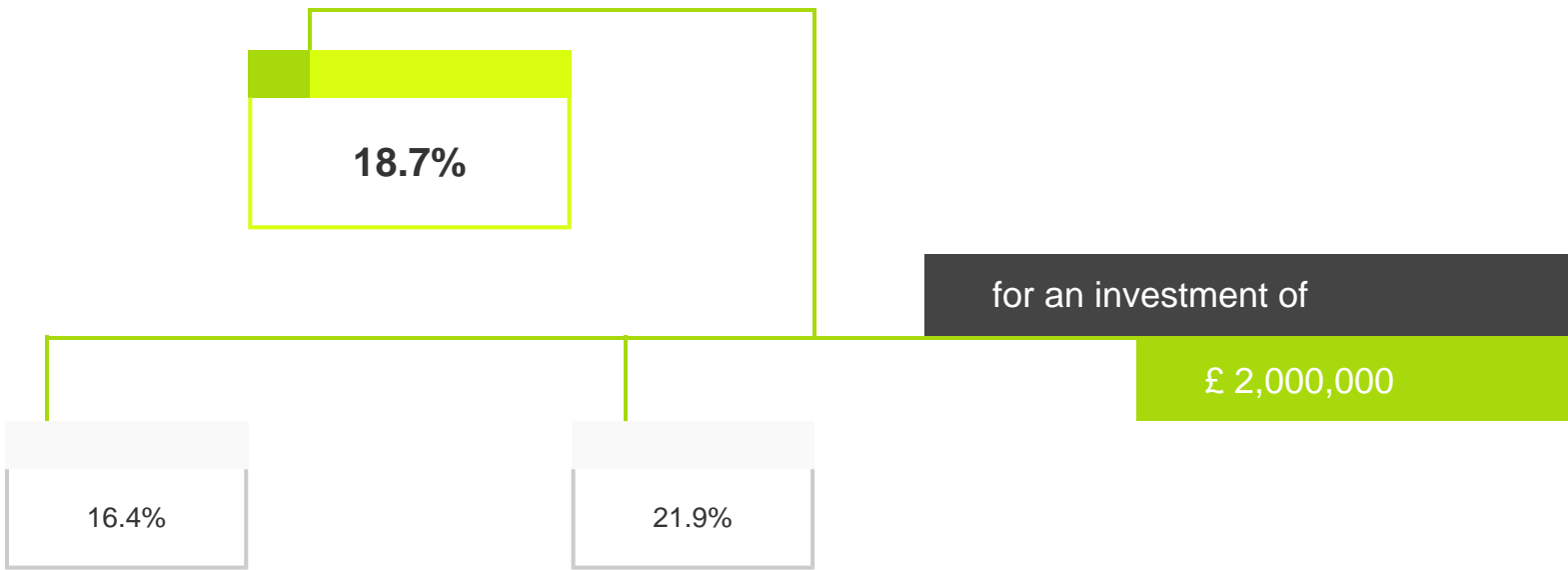
Lower Bound

£ 7,143,000

Higher Bound

£ 10,210,000

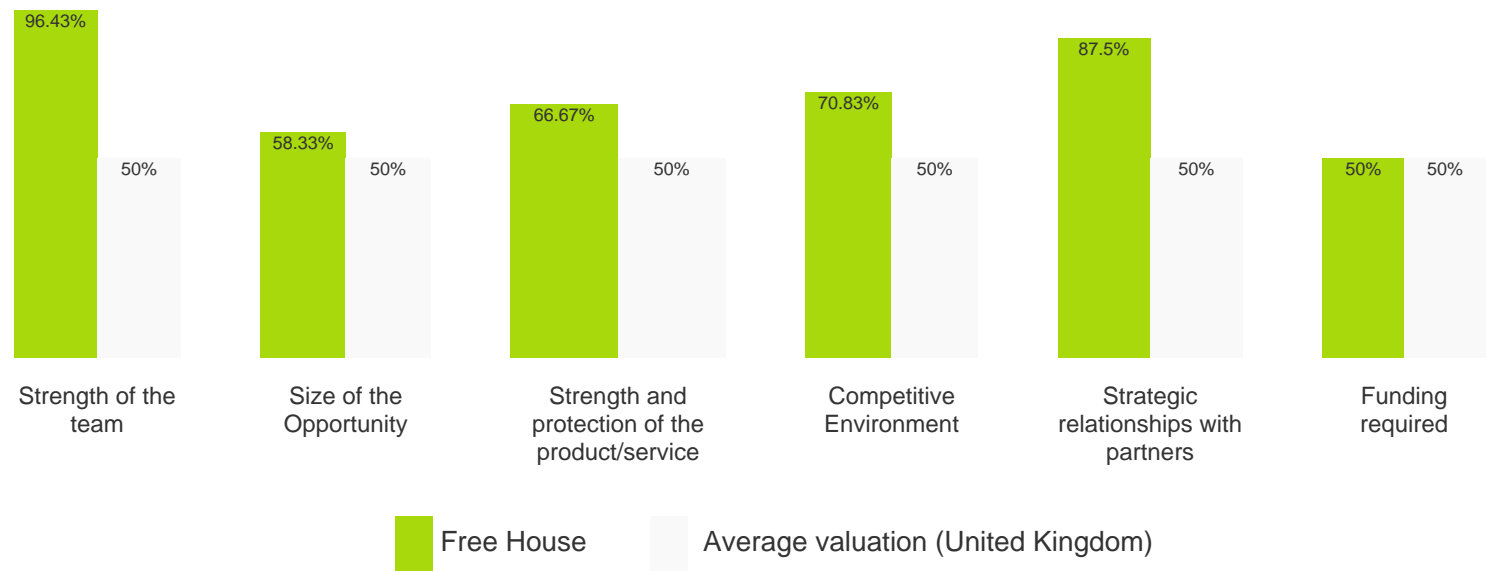
This determines a percentage of



QUALITATIVE METHODS

SCORECARD METHOD

£ 3,078,426



CRITERIA



ASSUMPTIONS

Starting value of this method (Average Company Valuation) £ 1,817,521

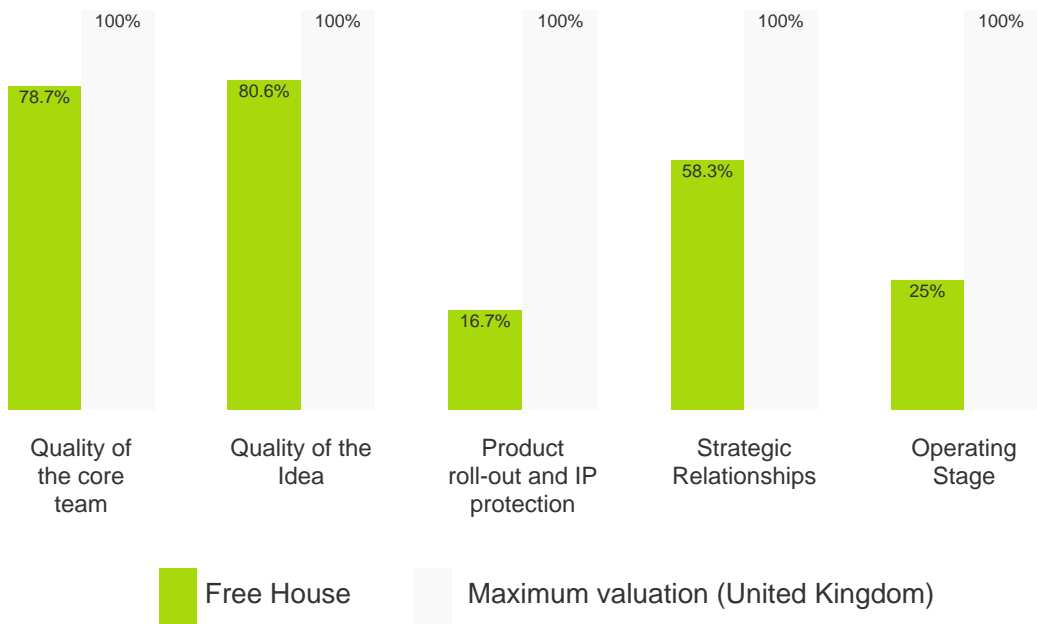
Comparable transactions are relevant in pricing a company

The main tenet of this method is that comparable transactions are relevant in pricing a company. It considers the average pre-money valuation of companies from the same region as starting point. Then, for each of the 6 criteria, the company is assigned a score that indicates whether it performs better or worse than comparable companies for those criteria. Based on these scores and their weights, the starting valuation will be adjusted upward or downward. Originally developed in 2001 by American business angels, this method was published in 2007 by the Kauffman Foundation and revised in 2011 by Bill Payne from Ohio TechAngels. Equidam reviewed the score system and the information on which the scores are attributed.

QUALITATIVE METHODS

CHECK-LIST METHOD

£ 2,238,444



CRITERIA



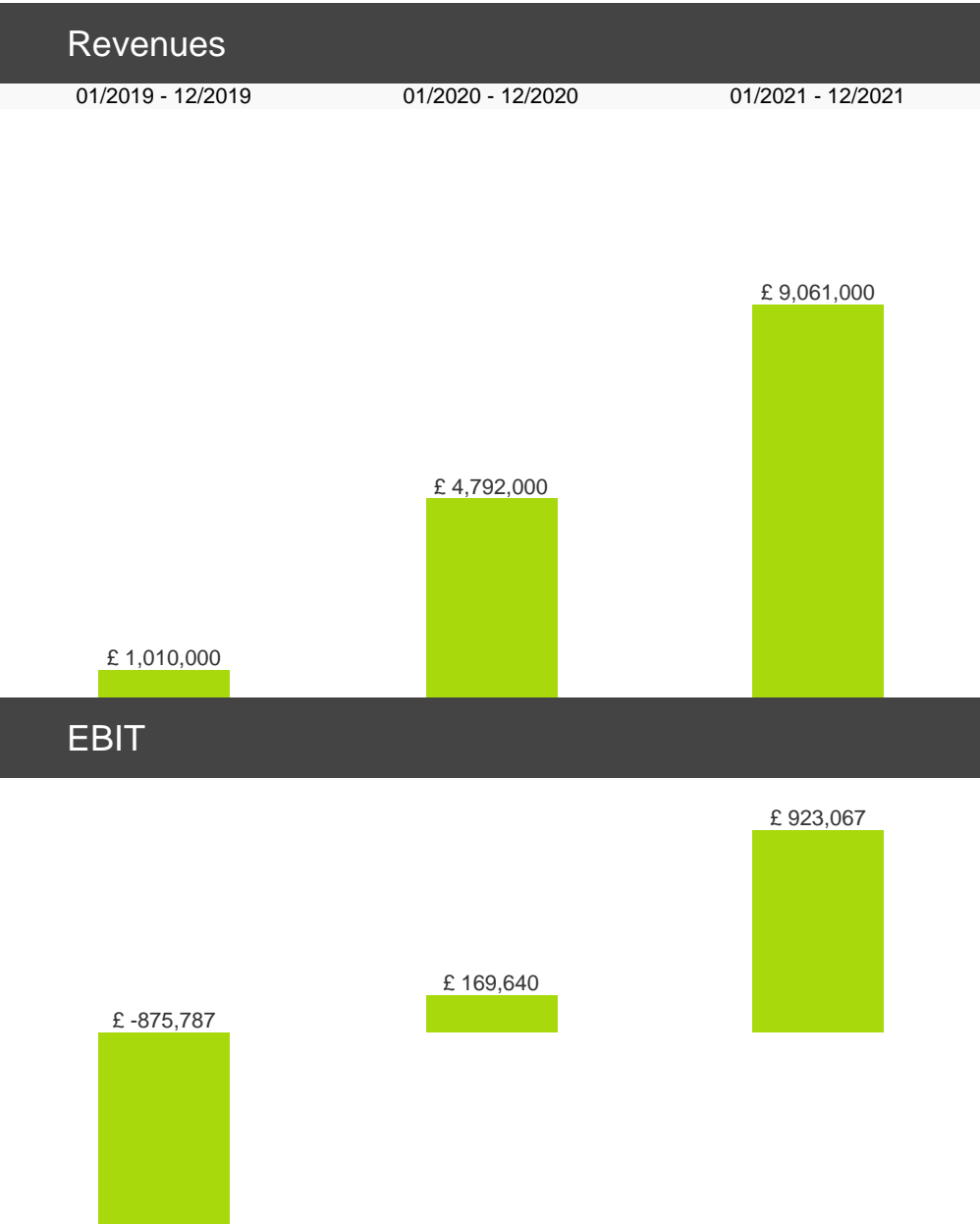
ASSUMPTIONS

Maximum value for this method £ 4,000,000

Valuing intangible assets

The main tenet of this method is that intangible assets of early stage companies are the foundation of their future success, thus valuable - just as tangible assets are for established businesses. It assumes a fixed maximum valuation based on the region and assigns the company a score for each of the 5 criteria. The weighted sum of the score of each criteria determines the pre-money valuation. Business Angel Investor Dave Berkus, who has participated in more than 140 early-stage deals, proposed this method in 1996, and later extended it in 2016. Equidam reviewed the weights system and the information on which the scores are attributed.

FINANCIAL FORECASTS



Too Early-Stage

The stage development of the company does not allow for reliable forecast of the expected performance. The risk involved cannot be accurately estimated and remains uncertain.

The uncertainty featuring financial projections

The projections about the expected performance of the company are provided by the users and are not, by any means, subject to the previous check by Equidam. The users are required to indicate the projected values regarding revenues and costs (fixed and variables), while other items as Working Capital, Depreciation and Amortization and the interest expenses are estimated by Equidam according to industry-specific databases. The Cash Flows are also estimated by the Equidam algorithm combining users' inputs and the Equidam data. Equidam provides an indication of the level of reliability of the users' projections based upon the stage of development of the business. Another way to check the reliability of the projections is offered by the revenues from contracts in place, displayed in the second page of the Company Profile.

VC METHOD

DCF WITH LTG

DCF WITH MULTIPLES

Free Cash Flow to Equity for the next three years

£ -1,751,016

£ -2,361,664

£ -3,369,218

£ 8,896,999
EBITDA Year 6

X

12.7

Industry multiple

£ 2,468,379

Pre-money valuation

89%
discount rate per year

44.8%

Equity
percentage

£ 2,000,000
Investment

CRITERIA

Exit value in year 6

£ 112,921,341

ASSUMPTIONS

Annual discount rate applied

89.12%

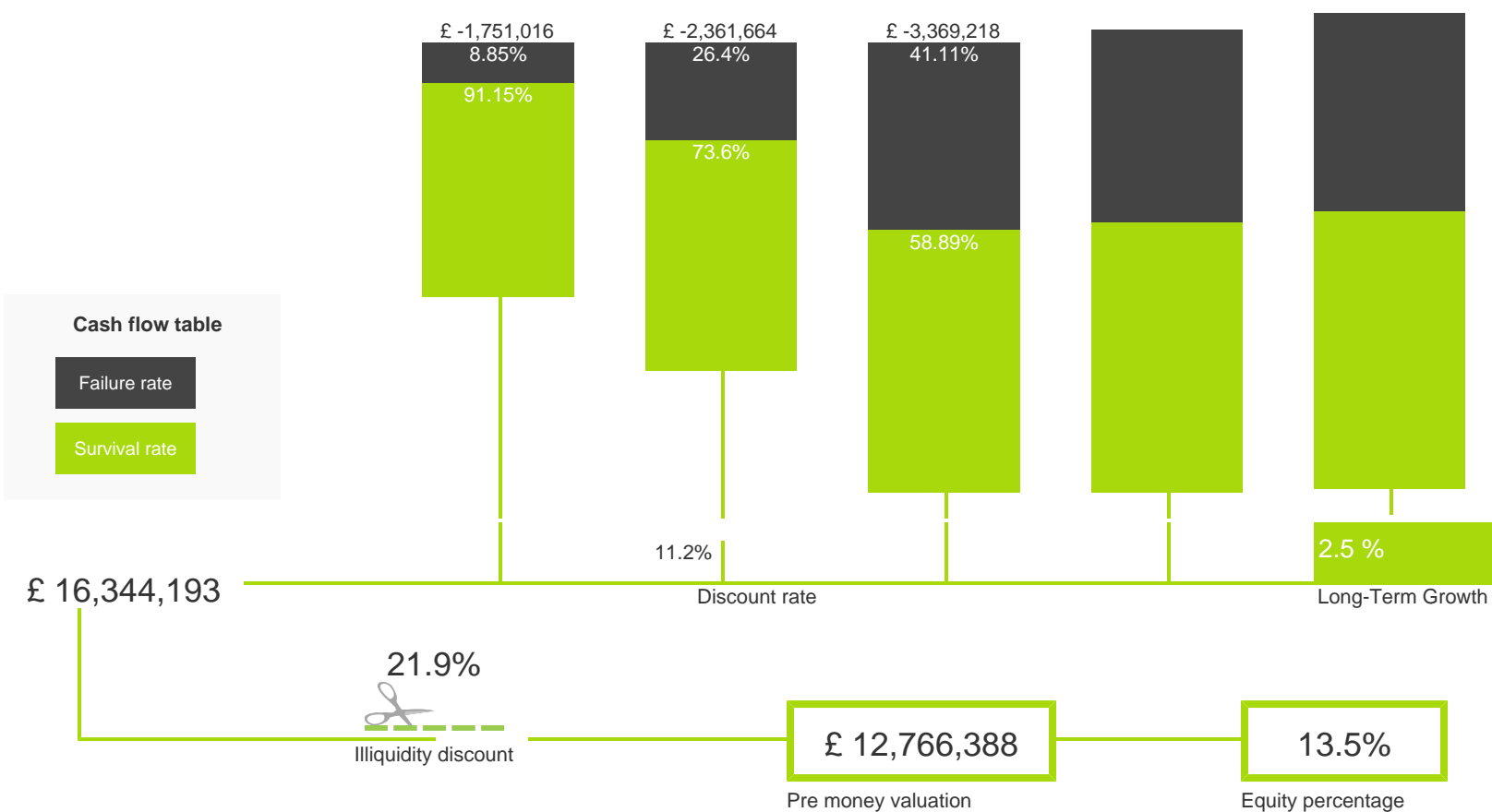
The quick approach used by Venture Capital Funds

The venture capital method is a quick approach to the valuation of companies. It comprises in estimating the exit value of the company at the end of the forecast horizon and ignoring the intermediate cash flows. The exit value is calculated by taking the final financial result of the company and applying the EBITDA multiple. This value is then discounted at a high rate to get the present value. The discount rate is determined according to the stage of development and is reported in the table above. Given its simplistic approach, this model does not apply illiquidity or survival discount as the following to methods do. The annual discount rate applied already accounts for these issues.

VC METHOD

DCF WITH LTG

DCF WITH MULTIPLES



CRITERIA

EBITDA Year 6

£ 8,896,999

Long Term Growth Winsorized*

2.5%

Value of the company in the last Year (Terminal Value)

£ 39,876,047

*Winsorization is a statistic approach that eliminates the outliers from a dataset by applying a lower and higher bound. In this case is necessary since some of the industries in the Equidam database have a negative historical growth.

ASSUMPTIONS

Beta

1.71

Market Risk Premium

5.7%

Weighted Average Cost of Capital

11.17%

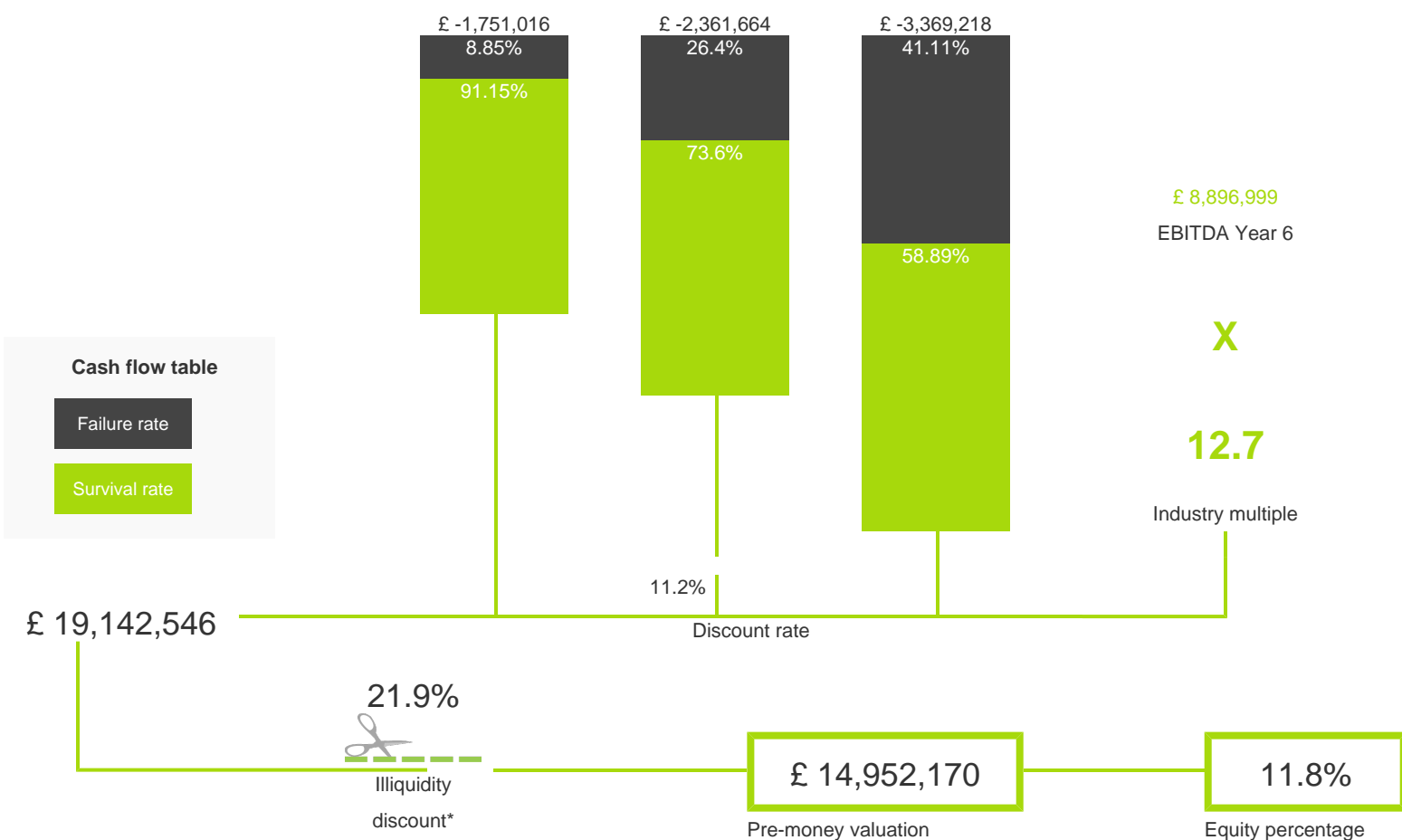
The innovative approach to Discounted Cash Flows (DCF)

The DCF with terminal growth model is one of the most used models to value public companies. This method assumes that the company is going to survive at a steady and constant growth rate. The growth rate applied is based on the industry of belonging. The Equidam methodology however applies two important additional features: 1. The annual cash flows are estimated by the Equidam algorithm and are weighted according to the country-specific survival rate for companies. 2. The calculated present value is further discounted by applying an illiquidity discount to account for the fact that the sale of the equity stake is likely to happen on the private market. As a consequence, investors need a higher return. The illiquidity discount is estimated according to the work of academic researches.

VC METHOD

DCF WITH LTG

DCF WITH MULTIPLES



CRITERIA

EBITDA Year 6

£ 8,896,999

EBITDA multiple Year 6

12.69

Value of the company in the last Year (Terminal Value)

£ 45,158,489

Implied Annual Return if sale value realized (ROI)

17.74%

ASSUMPTIONS

Beta

1.71

Market Risk Premium

5.7%

Weighted Average Cost of Capital









11.17%

Industry peers' comparison

The DCF with exit multiple is the other most used valuation approach. It is based on the assumption that the exit value of the company is determined by the average of industry peers. The most commonly used multiple is the EBITDA multiple since the generated estimate is less susceptible to differences in the operating margin among industry peers. The Equidam methodology also applies: 1. The annual cash flows are estimated by the Equidam algorithm and are weighted according to the country-specific survival rate for companies. 2. The calculated present value is further discounted by applying an illiquidity discount to account for the fact that the sale of the equity stake is likely to happen on the private market. As a consequence, investors need a higher return. The illiquidity discount is estimated according to the work of academic researches

PROFIT AND LOSS

CASH FLOW








		01/2019 - 12/2019	01/2020 - 12/2020	01/2021 - 12/2021
	Revenues	£ 1,010,000	£ 4,792,000	£ 9,061,000
	Cost of goods sold	£ 281,000	£ 1,301,000	£ 2,587,000
	Gross margin	72.2%	72.9%	71.4%
	Salaries	£ 478,000	£ 1,425,000	£ 2,514,000
	Selling, General and Administrative	£ 1,049,000	£ 1,667,000	£ 2,672,000
	EBITDA	£ -798,000	£ 399,000	£ 1,288,000
	Depreciation and Amortization	£ 77,787	£ 229,360	£ 364,933
	as % of revenues	7.7%	4.8%	4%
	EBIT	£ -875,787	£ 169,640	£ 923,067
	Financial Gain-Loss	£ 0	£ 0	£ 0
	Debt interest payment	£ 0	£ 0	£ 0
	Interest rate on debt	0%	0%	0%
	Cash interest gain	£ 0	£ 0	£ 0
	Taxes	£ 0	£ 0	£ 0
	Nominal tax rate	19%	19%	19%
	Effective tax payable	£ -166,400	£ 32,232	£ 175,383
	Deferred tax assets	£ 166,400	£ 134,168	£ -41,215
	Net profit	£ -875,787	£ 169,640	£ 923,067

Good understanding of numbers is good understanding of business

Revenues, Cost of Goods Sold and Selling, General and Administrative are provided by the user, while the D&A and Financial expenses are estimated by Equidam. The former is based upon the average D&A as % of Revenues of the industry peers and the latter upon the COVERAGE RATIO (EBIT/INTEREST PAID) and then adding the related risk premium to the country-specific risk free rate. The risk premia related to the COVERAGE RATIO are fixed as determined by academic researches. The tax outlays are determined by applying the country-specific tax rate for companies, as reported in the Equidam databases.

PROFIT AND LOSS

CASH FLOW

	01/2019 - 12/2019	01/2020 - 12/2020	01/2021 - 12/2021
 Net profit	£ -875,787	£ 169,640	£ 923,067
 Change in Working Capital	£ -112,197	£ -347,189	£ -357,702
Account payables	£ 135,843	£ 571,530	£ 1,029,124
Account receivables	£ 0	£ 0	£ 0
Inventory	£ 23,646	£ 112,144	£ 212,036
 Depreciation and Amortization	£ 77,787	£ 229,360	£ 364,933
 Investments	£ 1,065,213	£ 3,107,853	£ 5,014,920
 Change in outstanding debt	£ 0	£ 0	£ 0
Debt at the end of the year	£ 0	£ 0	£ 0
FREE CASH FLOW TO EQUITY	£ -1,751,016	£ -2,361,664	£ -3,369,218
 Raise or repayment of equity	£ 2,000,000	£ 5,000,000	£ 0
 Free cash flow	£ 248,984	£ 2,638,336	£ -3,369,218
Beginning of the year cash	£ 2,005,702	£ 2,254,686	£ 4,893,022
End of the year cash	£ 2,254,686	£ 4,893,022	£ 1,523,804

Cash is the king

The cash flows are estimated by Equidam starting from the user's data. This is to provide the reader with a more reliable estimation based upon industry peers benchmarks rather than leaving the user the freedom to guess the estimates.

Both Depreciation and Amortization and Working Capital are based on the Equidam industry databases, while the change in Debt and in Equity and the investment outlays are based upon the user's projections.

SCORECARD METHOD CRITERIA DESCRIPTION

Strength of the team analyzes:

- Time commitment of the founders
- Number of employees
- Team spirit and comradeship
- Years of industry experience of the core team
- Business and managerial background of the core team
- Technical skills of the core team

Size the opportunity analyzes:

- Estimated revenues in the third year according to the stage of the development
- Estimated size of the market in three years
- Geographical scope of the business

Strength and protection of the product/service analyzes:

- Stage of the product/service roll-out
- Degree of loyalty of customers
- Type of IP protection applicable
- IP protection in place (if any)

Competitive environment analyzes:

- Level of competition in the market
- Quality of competitive products/services
- Competitive advantage over other products/services
- Barriers to entry to the market
- Threat of international competition

Strategic relationships with partners analyzes:

- Strength of the relationships with key strategic partners

Funding required includes:

- Capital required according to the stage of development

CHECK-LIST METHOD CRITERIA DESCRIPTION

Quality of the core team analyzes:

- Average age of the founders
- Presence in the team of serial, successful entrepreneurs
- Time commitment of the founders
- Team spirit and comradeship
- Years of industry experience of the core team
- Business and managerial background of the core team
- Technical skills of the core team

Quality of the idea analyzes:

- Validation of the demand for the product/service
- Feedback received by early adopters/industry experts
- Level of competition in the market
- Competitive advantage over other products/services
- Geographical scope of the business
- Threat of international competition
- Degree of loyalty of customers

Product roll-out and IP protection analyzes:

- Stage of the product/service roll-out
- Type of IP protection applicable
- IP protection in place (if any)

Strategic relationships analyzes:

- Presence of an advisory board and number of advisors
- Presence and type of current shareholders
- Relationship with legal counselors
- Strength of the relationships with key strategic partners

Operating stage

- Stage of development
- Current profitability



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