

CAPSTONE PROJECT SUMMARY

The valuation of a Hungarian SME

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1. Introduction

Valuating a little and medium-sized venture (SME) can be a major challenge. Valuation benchmarks and business practices are for the most part based on the case of huge companies. Subsequently, recognized strategies ought to be adjusted for the appraisal of SMEs.

Only little and medium-sized practices - in numerous cases proficient counsels to little businesses - ought to comply with recognized benchmarks such as International Valuation Standards (IVS) and other local measures in arrange to guarantee their self-added esteem with professional support and to provide value that's recognizable to the parties involved.

This requires professionals master best practices, consider the achievability of utilizing recognized strategies, and, in case so, adjust the proposed formulas. Basic components incorporate gathering all pertinent data, selecting the assessment criteria, and analyzing the one-of-a-kind characteristics of the entity being valued.

The quality and amount of monetary and non-financial data of SMEs can be lower than those of expansive entities. SMEs, as private businesses, may not have a wide extend of partners and may usually not plan monetary reports for the financial community. These components can decrease the unwavering quality of monetary statements and may suggest a distinctive recognition of risk, particularly when valuations are based on monetary data.

2. Project outcome summary

I undertook to estimate the fair market value of a business known as XY Kft. in January of 2022, in order to offer the subject business for sale. At the client's request, instead of preparing a separate comprehensive report, I prepared a limited valuation report, which is of an advisory nature and is intended to offer the subject company for sale.

For business valuation purposes, fair market value is the expected price at which the entity concerned will change hands between a willing buyer and a willing seller, neither of whom is required to enter into a transaction, and both are fully aware of all relevant facts.

I valued the controllable shareholding interest in the assets of the company concerned. The valuation was performed under the premise of value in continued use as a going business enterprise. In my opinion, this value represents the highest and best use of the business assets of the object.

Based on the information in this report, I estimate the fair market value of XY Kft.:

Business value: 999 999 999 999 Ft

The value of a business is highly based on future cashflows. The valuation depends on the information and the assumptions and financial data provided to me by the client.

3. Describing my added value

The main focus of the project on my part is to come up with a valid valuation for the company and estimate the selling price, for which the owners should sell XY Kft.. I am working on the so called “sell-side” of this M&A. In M&A, the “sell-side process” describes the deal process from the seller’s (and its financial advisors’) perspective.

I can separate the process of my work into two main stages. The first stage was the so called “due diligence”, the second part was building the model. Before the due diligence part, I visited the factory, inspected the production process, and had an interview with the CEO. These formalities seem unnecessary at first, but they almost always turn out to be very productive and important, not mentioning that during this project, this was the only time I met the client face to face. I learned about his business and learned about the person he is, which always plays a big factor during valuating an SME. Then I started the due diligence part of the deal. I sent the client a very detailed list about the input data that we needed from them.

During the second stage I successfully built a working Discounted Cashflow model, using what I have learnt at Company valuation and Entrepreneurial finance classes. The outcome for my Capstone project could be very easily defined, as I was helping to prepare a very well-structured M&A project. My job was only to prepare the firm for the M&A process, so I had to come up with a very precise estimation of the company’s worth and help to prepare the sales memorandum as well. The Private Equity firm I was working for is a very professional Private Equity firm, so I also had to be aware of their standards and prepare a very exacting material.

4. The outcome of the project

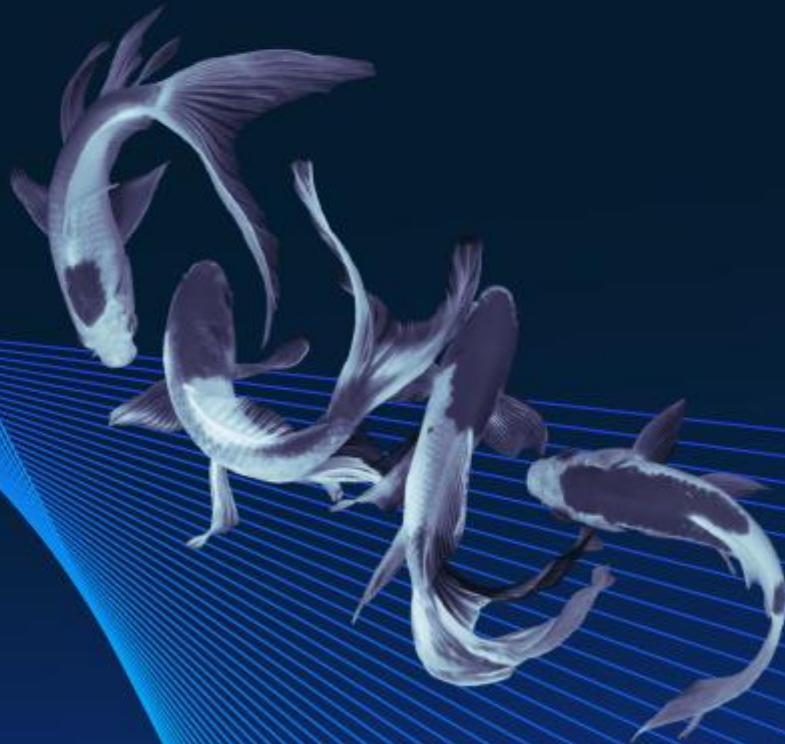
The product that I am creating for the client is a dynamic model for estimating the company’s future cashflows and worth. We gave this model to the client, with an exact price tag of the company. The model however is so much more than just a DCF model, as you can also calculate the ideal level of CAPEX or working capital in the firm. With the help from my project sponsor, and one other student we finished the deliverables for our client. After finishing

up the model and the Information Memorandum we got the first impressions and feed backs about my price estimation and the material that I have prepared so far from the client. They saw the finished product with which they were very satisfied.

After sending the material to the client, we had to deliver a final presentation for Oktotrade Kft. showing them our estimations and projections and helping them understand the value of the firm.

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Capstone Final Report
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Picture 1: Peszlen Gergő, 2022, Cover page, Valuating a Hungarian SME

