Zx VENTURES

Explore PPM Case Study: Valuation Process & Frameworks

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Investment and Market Overview

Option 1: Early-stage brand in emerging **canned cocktail** category

- Seeking to raise **$10MM**
- Early-stage goal: refine product, increase sales, grow customer base
- Investment goal: manage business risk, seek a lower valuation for higher ROI

Option 2: Late-stage brand in established **craft beer** category

- Seeking acquisition for **$100MM**
- Late-stage goal: scale business, expand into new markets, efficiencies
- Investment goal: manage investment risk, seek lower valuation for higher ROI

Market

Ready-to-drink (RTD) market growing quickly – over 40 new products launched in the last three years.

ZX/ABI portfolio includes comparable products as part of **"Beyond Beer"** such as *Cutwater Spirits* with 14 flavor options and sales growth of over 356%+ versus prior year. Other adjacencies include *Bon & Viv* spiked seltzer and *Kombrewcha* spiked kombucha.

Craft beer market showing growth of ~7% despite overall declining beer market with craft making up roughly ¼ of total beer sales.

ZX/ABI portfolio includes comparable craft beer products: global brands such as *Goose Island* and *Hoegaarden* and local/regional brands such as *Bogota Beer Company* and *Boxing Cat*.

Pre-money and Post-money Valuations as a Baseline

We can calculate a **simple pre-money valuation and post-money valuation** after funding using *target ROI, target revenues* and *equity %* of the investments. These high-level estimates are compared with the various valuation methodologies described in the following slides to find a level of comfort.

[investment or funding] / equity % = post-money valuation
post-money valuation – funding = pre-money valuation

Note: Due to the estimated nature of valuations, it is important to use a variety of methodologies, both quantitative and qualitative in nature, to minimize risk. Valuations and estimates are dynamic and subject to change as new information becomes available and/or strategic and business goals change.

Valuation Summary

Canned Cocktail

Valuation approach: Qualitative-focused

1. **Scorecard method** using a comparable brand to calculate valuation factor to be applied to pre-money valuation of target
2. Compare with another high-level valuation such as **multiples of projected revenue** for viability

Key information required:

Equity % in exchange for investment, target ROI, valuation of comparable brand with additional considerations provided for on the following slides.

Craft Beer

Valuation approach: Quantitative-focused

1. **EBITDA multiple** method using historical financials and adjusted for qualitative factors (market, management, product)
2. **DCF and NPV** methods based on forecasted financial information
3. Compare average with a valuation of a **comparable established brand** for viability

Key information required:

Acquisition %, target ROI, ZX investment IRR, discount rate with additional considerations provided for on the following slides.

Recommendation

Investment Recommendation: TBD

Valuation is a key component to the process; however it is necessary to understand other factors including ZX's risk tolerance and strategic plans for investment in addition to opportunity costs, potential synergies and competitive environment. Without knowledge of financial performance and equity information, the opportunity cost of utilizing the whole fund for the craft beer investment might outweigh the risk of entering the relatively new RTD canned cocktail market.

Canned Cocktail Valuation

*A **qualitative** focused approach is recommended due to the brand being an emerging business and lack of financial information. Using the **scorecard method**, we hone in on primarily qualitative value drivers that are intrinsic and unique to this particular brand and allocate a percentage based on importance of the factor in the overall valuation.*

30% — **Quality and Strength of Management Team**
Experience & Skills, Development and execution of business strategy, Leadership, Motivation, Coachable team, Completeness of team, Culture

25% — **Unique Product Prototype**
Flavor quality, Flavor offerings, Quality of inputs (e.g. organic v artificial), Differentiation, Consumer feedback

20% — **Size of Opportunity and Market Potential**
Competition, Market growth potential and trends, Competitive advantage, Company growth since day 1, Dynamic business model

10% — **Sales Strategy and Product Roll-Out**
Existing customers, Revenue goals, Go-to-market plan, Existing sales channels (if any), Supply chain, Production and distribution

5% — **Capital Requirements**
Additional capital needed to achieve strategic goals/benchmarks, Investment in assets and technologies

5% — **Historical and Forecasted Performance**
Capital already invested (founds, Operational costs and needs, Available financial information, Units produced, Forecast reasonableness

5% — **Other Considerations**
IP/ patents, R&D, region, etc.

Apply the scorecard metrics (left) of the target to a **comparable brand**, such as Cutwater Spirits, to arrive at a comparison % taking into account differences such as region, # of products, stage etc.

Multiply the factor % and comparison % to arrive at a scorecard value factor. Sum the factors and multiply the aggregate value to the **average pre-money valuation** of the target for an updated enterprise value.

Compare this estimate to a “back-of-the envelope” or high-level quantitative valuation such as the **multiples of revenue method** from revenue projections for viability.

Canned Cocktail Valuation, continued

Key Scorecard Components Explained:

85%

Quality of the target management team is key as they are the true drivers of strategy implementation and execution and act as the front line defense for identifying and addressing problems and flaws of the business.

Product emphasized as second in importance as a differentiated, high-quality product is at the core of the business and will drive growth relative to competition as a competitive advantage.

As the **ready-to-drink (RTD) market** continues to grow rapidly, the **opportunity to capitalize** on this growth before more competition emerges and enters the market will drive overall investment value and brand growth potential.

Effectiveness of initial **sales strategy and product roll-out plan** demonstrates proof of concept and market viability. While important, this factor is not weighted as heavily since these plans are dynamic and can be refined through utilizing synergies with ZX/ABI.

Additional Considerations

Financial:

- Equity % in exchange for $10MM of capital
- **Risk tolerance**: higher risk due to early-stage and competitive landscape, lower risk due to investment $ value
- Investment **holding period**: potentially longer timeline to see profitability
- ZX target ROI, IRR, revenue goals
- Opportunity cost and the ability to use additional $90MM of fund to invest in other opportunities

Strategic/ Operational:

- Target Company operational needs and reason for capital raising; e.g., focus on sales channels and strategy, business development, customer acquisition
- Potential **synergies with ZX/ABI;** e.g., utilize marketing assets and network to develop sales
- Non-financial metrics (KPIs) for measuring success and growth in early stage post-investment; e.g., % growth in customer base
- ZX/ABI portfolio: **product/brand need** v. potential to cannibalize existing portfolio offerings; e.g., if offered in same region

Craft Beer Valuation

*Due to the brand being an established business and the availability of financial information, it is recommended to first perform **financial due diligence** to understand underlying business trends and historical performance to **calculate EBITDA** as a preliminary valuation. We then adjust EBITDA for consideration of both **qualitative and quantitative factors** unique to the brand and market.*

HISTORICAL FINANCIAL PERFORMANCE

Financial Due Diligence- analysis of historical financials (income statement, balance sheet, cash flow) with an emphasis on the following:

- Revenue- sales growth and trends, volume, pricing considerations
- Costs- operating expense trends, fixed and variable, inputs
- Margins- EBITDA margin %, gross margin %, costs as % of revenue
- Understanding of accounting policies, budgeting and reporting
- Understanding of working capital and cash flow metrics
- Ability to convert capital into growth; i.e., capital expenditures (CapEx)
- Isolation and identification of performance drivers and post-acquisition focus areas: particular SKU/product line, region, cost centers, seasonality, specific customer(s)

Use historical analyses to **calculate EBITDA** as a measure of earning potential

Calculate **adjusted EBITDA** adjusting for items such as business normalization adjustments and the factors below:

MARKET/ COMPETITION

Growth %, brand market share, overall market size, saturation, trends, competition in current and potential regions/markets, competitive advantage, risk, threat of entrants (e.g. liquor brands moving into RTD)

MANAGEMENT

Experience and skills, leadership, business strategy execution, track record, goal setting, culture, turnover, stake in business and compensation, coachable team, passion

PRODUCT

Flavor offerings, quality, cost to produce, production capabilities, distribution channels, consumer feedback, product refinement and product line development

Use an **EBITDA multiple** of ~3-10x based on risk tolerance and apply to adjusted and unadjusted EBITDA metrics to calculate enterprise value

Craft Beer Valuation, continued

*Apply analyses and information from forecasted financials and use the **discounted cash flow (DCF)** and **net present value (NPV)** of future cash flows methods to model a valuation. We then use and compare these forecasted methods in conjunction with other methods such as **EBITDA multiple** and **comparable market** methods for revenue and EBITDA to find an enterprise value average.*

FORECASTED/ PROJECTED FINANCIALS

Focus on viability and reasonableness:

- **Analyze estimates and projections** given historical performance and growth trends
- Ensure forecasts account for post-acquisition focus areas and drivers from historical performance in addition to adjusting for market and competition trends
- **Scenario analysis and dynamic** adjustments for strategy and input changes such as year-over-year growth %
- Calculate terminal value as NPV of EBITDA multiple for DCF model

VALUATION

- DCF
- NPV
- EBITDA Multiple
- Comparable Market
- Other

Discount rate established through discussions with finance team and comparison to other comparable brands

Additional Considerations

Financial:

- Acquisition type (asset v. stock) and acquisition % if less than 100%
- **Risk tolerance:** lower risk due to late-stage and higher risk due to investment $ value and competition
- **Opportunity cost** of utilizing whole fund budget of $100MM for one investment
- **Target timeline** and exit date (if applicable)
- ZX target ROI, revenue goals
- Need to buy out other investors (if applicable)

Strategic/ Operational:

- Target Company operational needs and **reason for acquisition**; e.g., scale business, grow into new markets/regions, refine supply chain
- Potential **synergies with ZX/ABI**; e.g., implement efficiencies to supply chain and utilize network/ reach to expand into new regions
- **ZX/ABI portfolio**: product/brand needed v. potential to cannibalize existing portfolio offerings (if offered in same region)
- Speed & ability to implement change and accomplish goals to capitalize on opportunity