



PE Leader of the Year



Niche UK PE House of the Year



Best UK Commercially Motivated PE



Industry 4.0 Portfolio



DraxFuture40 Investor

Brookstreet 2.0

Valuation & Value

Webcast 4: May 29, 2025

Series: *Connecting the Dots of Today | Building the Future of Tomorrow*

#ConnectingTheDots

In Collaboration with PRAXI Network (FORTH)



About Us

Brookstreet 2.0

Brookstreet Equity Partners LLP (“Brookstreet”) is an award-winning, commercially-focused **Growth Capital** investor.

Our **2.0** thesis is based on investing in **Artificial Intelligence** innovations for **Digital Transformation, Green Transition, and Longevity Scale Ups**.

We are headquartered in London’s Mayfair and operate globally with partners, assets, and investors in the **USA, Europe, Middle East, and Asia**.



Digital Transformation

- AI & IoT Transformative Integrations
- Autonomy, Robo, Drones, Security
- Industrial Automation
- Business Optimization
- Defence-Tech Solutions (Dual Use)



Green Transition

- Geo-Secure Energy
- Production & Storage
- Sustainability Innovations
- Climate Solutions
- Circular Economy



Longevity

- HealthSpan (Living Well)
- LifeSpan (Living Long)
- Wellness & Performance
- Age-Tech
- Med-Tech



Commercial Scale Ups

- Growth Capital
- Pre/Post Series A & B
- Hyper Growth (>2x a year)
- Sustainable Growth (>35% YoY, EBITDA+)
- Bridge to M&A (LOI Required)

About Us

Brookstreet was one of the first growth capital investment managers to integrate **Artificial Intelligence (AI), Commercial Due Diligence, Talent DNA and ESG Rankings into its processes**. Brookstreet unites a distinguished team of Ivy League and Oxbridge PEVC fund managers, McKinsey consultants, M&A bankers, Founders, and CEOs, on an **AI and KPI enhanced institutional investment platform**, offering “Precision in Asymmetry”.

Our Difference

- Global Deal Flow (450+ Connections)
- Thematic Investments
- Talent (Ivy League, Oxbridge, London, EU)
- Global Institutional Co-Investors
- Expert Network (130+ Advisors)
- AI/Commercial/Managerial Due Diligence
- Brookstreet AI Intelligence & KPI Analytics
- Dual Returns Strategy
- Trusted Administrator (\$2.5TN AUM)
- Governance & Sustainability
- United Nations PRI Signatory (ESG)

Our Journey

Pitch Competition

Applications are open [\[Link\]](#)

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Webcast 1: Demystifying Financial Sponsors

January 15, 2025



- Understand Who to Pitch

Webcast 2: Mastering the Pitch

February 12, 2025



- Understand How to Pitch

Webcast 3: Investor Termsheets Revealed

March 12, 2025



- Understand How to Read T&Cs & Negotiate

Webcast 4: Value & Valuation

May 29, 2025



- Understand How to Value

Pathway Valuation

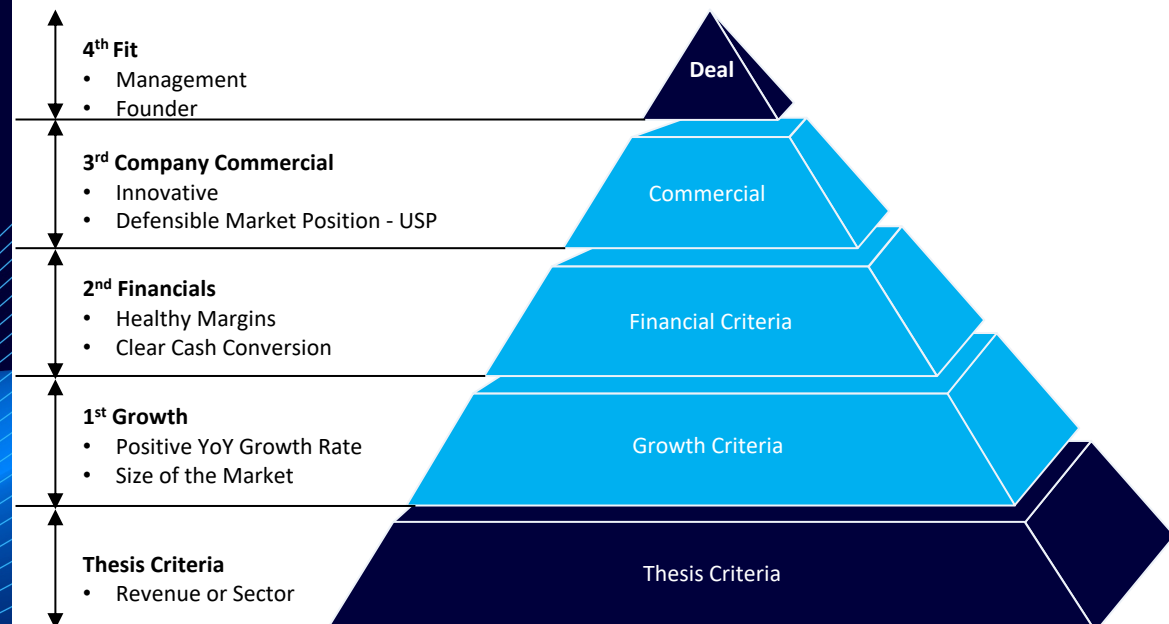
To Negotiate a Deal.
You Need to Understand

1.
Your
Valuation

2.
The Elements of your
Term Sheet

3.
The Zone of Possible
Agreement

Simplified Illustrative Selection Process



Agenda

Section

Valuation

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graph TD; A[Valuation] --> B[Value]; B --> C[Take Away Readings];
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Value

Take Away Readings

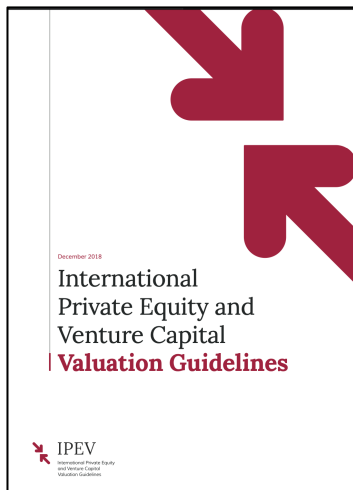
Valuation & Value

IPEV Valuation Guidelines

IPEV

International Private Equity
and Venture Capital
Valuation Guidelines

Framework



Sample of the IPEV Guidelines Book

The Valuer will select the Valuation Technique that is the most appropriate and consequently make valuation adjustments on the basis of their informed and experienced judgement. This will include consideration of factors such as:

- the relative applicability of the techniques used given the nature of the industry and current market conditions;
- the quality and reliability of the data used in each Valuation Technique;
- the comparability of Enterprise or transaction data;
- the stage of development of the Enterprise;
- the ability of the Enterprise to generate maintainable profits or positive cashflow;
- any additional considerations unique to the Enterprise; and
- the results of testing (calibrating) techniques and inputs to replicate the entry price of the Investment. (Note: at subsequent Measurement Dates the calibrated Valuation Techniques should be used with updated inputs reflecting then current market conditions. See also section I 2.6).

3.3 Selecting the Appropriate Valuation Technique

3.3 The Valuer should use one or more of the following Valuation Techniques as of each Measurement Date, taking into account Market Participant assumptions as to how Value would be determined:

- A. Market Approach
 - a. Multiples (3.4)
 - b. Industry Valuation Benchmarks (3.5)
 - c. Available Market Prices (3.6)
- B. Income Approach
 - a. Discounted Cash Flows (3.7, 3.8)
- C. Replacement Cost Approach
 - a. Net Assets (3.9)

The Price of a Recent Investment, if resulting from an orderly transaction, generally represents Fair Value as of the transaction date. At subsequent Measurement Dates, the Price of a Recent Investment may be an appropriate starting point for estimating Fair Value. However, adequate consideration must be given to the current facts and circumstances, including, but not limited to, changes in the market or changes in the performance of the Investee Company.

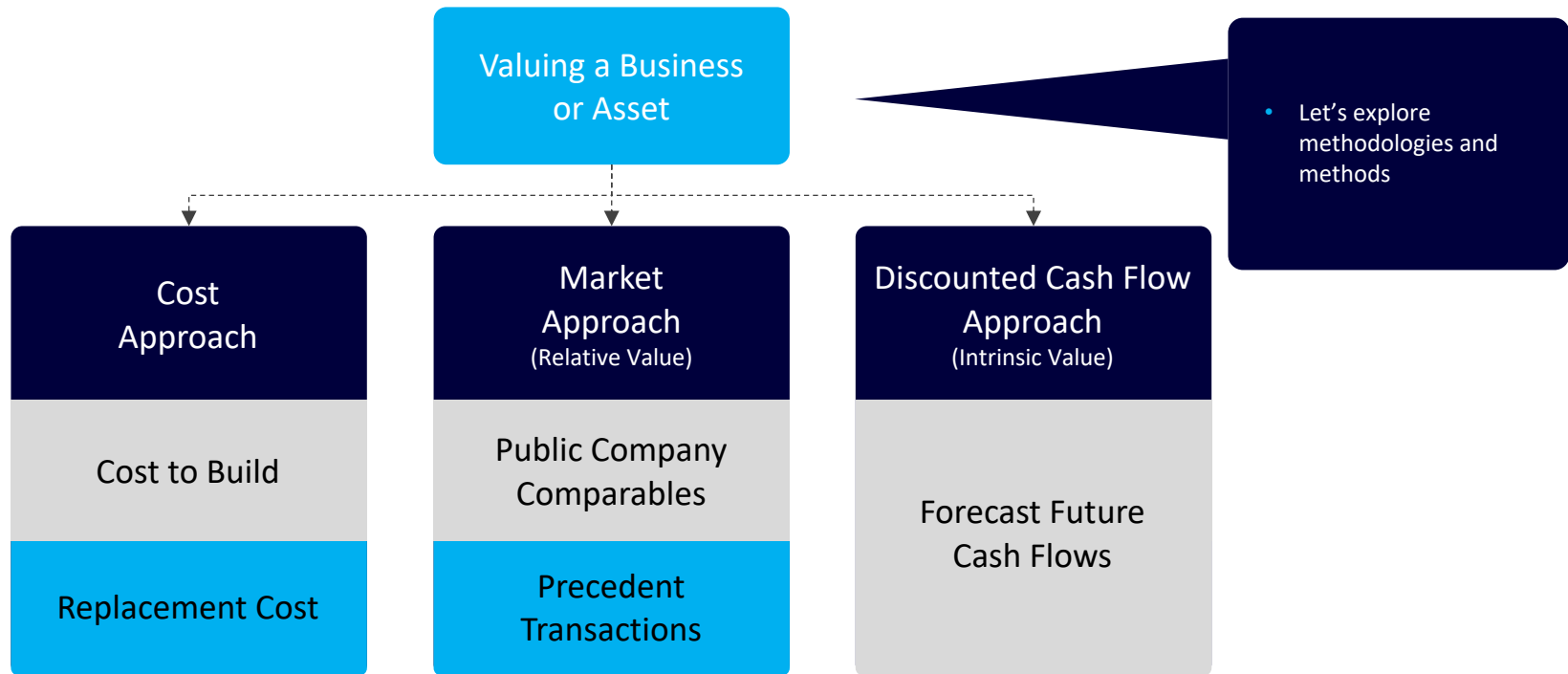
Inputs to Valuation Techniques should be calibrated to the Price of a Recent Investment, to the extent appropriate (3.10).

The **International Private Equity and Venture Capital Valuation (IPEV) Guidelines** provide a standardized framework for valuing private companies, ensuring consistency across investors, regulators, and fund managers. Since private companies lack a public stock price, IPEV defines three primary valuation methods:

- **Market Approach:** Values a company by comparing it to similar businesses or recent transactions.
- **Income Approach:** Assesses value based on projected future cash flows, discounted to present value.
- **Cost Approach:** Determines value based on replacement costs (i.e., the cost to recreate the asset or business).

Valuation & Value

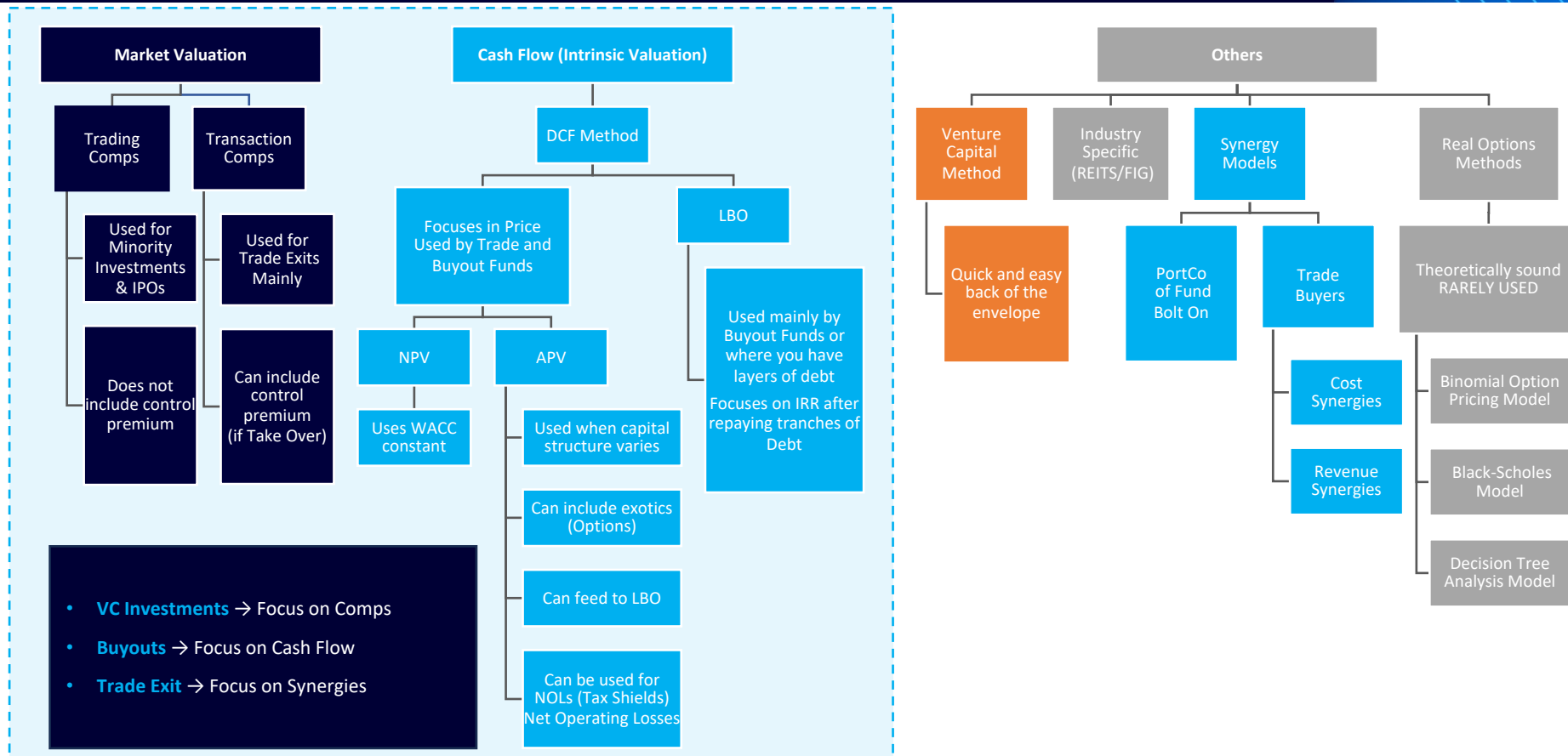
Value a Business or Asset



Valuation & Value

Traditional Valuation Methods

Brookstreet Notes



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Draft for Discussion Purposes Only

8

Valuation & Value

Trading Comparables

Material and examples from online valuation courses include CFI, BIWS, TTS, WSP and others.

Trading Multiples

Operating Statistics		Capitalization		Revenue		EBITDA		EPS		Projected Revenue Growth	EBITDA Margin	
Company Name	Share Price	Equity Value	Enterprise Value	2024	2025E	2024	2025E	2024	2025E		2024	2025E
Hewlett-Packard Company	\$ 47.07	\$ 114,779	\$ 124,430	\$ 114,552	\$ 124,179	\$ 16,433	\$ 18,186	\$ 3.14	\$ 3.87	8.4%	14.3%	14.6%
Dell Inc.	12.90	25,241	15,080	51,430	55,380	3,426	4,129	0.79	1.18	7.7%	6.7%	7.5%
Cisco Systems, Inc.	22.47	131,739	106,671	34,807	41,163	10,076	12,774	0.97	1.38	18.3%	28.9%	31.0%
Intel Corporation	19.40	107,224	92,786	32,784	39,941	12,708	18,332	0.41	1.17	21.8%	38.8%	45.9%
Motorola, Inc.	6.15	14,239	10,665	23,457	22,056	926	1,927	(1.70)	0.14	(6.0%)	3.9%	8.7%
Maximum	\$ 47.07	\$ 131,739	\$ 124,430	\$ 114,552	\$ 124,179	\$ 16,433	\$ 18,332	\$ 3.14	\$ 3.87	21.8%	38.8%	45.9%
75th Percentile	22.47	114,779	106,671	51,430	55,380	12,708	18,186	0.97	1.38	18.3%	28.9%	31.0%
Median	\$ 19.40	\$ 107,224	\$ 92,786	\$ 34,807	\$ 41,163	\$ 10,076	\$ 12,774	\$ 0.79	\$ 1.18	8.4%	14.3%	14.6%
25th Percentile	12.90	25,241	15,080	32,784	39,941	3,426	4,129	0.41	1.17	7.7%	6.7%	8.7%
Minimum	6.15	14,239	10,665	23,457	22,056	926	1,927	(1.70)	0.14	(6.0%)	3.9%	7.5%

Comparable Company Analysis - Operating Statistics & Valuation Metrics

Comparable Companies Multiples Analysis

- The Comparable Companies multiples approach estimates a company's value by comparing it to similar firms using market-based valuation multiples.
- Multiples derived from peer companies indicate investor expectations.
- Entity and equity values of comparable firms are compared to key financial metrics.
- The resulting multiple is applied to operating data to determine an indicative market value.

Selection of Peer Companies

- Growth rate
- Balance sheet
- Capital structure
- Profitability
- Governance
- Management
- Business story

EV/Revenue

Pros

- Good for companies w/ low earnings
- Good for early-stage firms
- Helps evaluate undervalued/overvalued

Cons

- Does not account for profitability
- Could be manipulated by revenue recognition
- Does not address rev. quality

EV/EBITDA

Pros

- Accounts for profitability
- Less affected by accounting
- Helps evaluate undervalued/overvalued
- Helps in M&A process

Cons

- Does not account for different tax rates
- Affected by revenue recognition policy
- Ignores D&A

P/E Ratio

Pros

- Helps evaluate if undervalued/overvalued
- Great for mature companies
- Widely understood metric
- Easy to calculate

Cons

- Bad for early-stage firms
- Affected by capital structure via debt/interest expense
- Affected by accounting policy

Comps

Pros

- Simple & quick to calculate
- Uses current market data
- Widely recognised leading to easier communication
- Helpful in M&A process

Cons

- Easily influenced by market swings
- Difficult to find exact comps
- Data set is less reliable with few comparisons

Valuation & Value

Transaction Comparables

Material and examples from online valuation courses include CFI, BIWS, TTS, WSP and others.

Precedent Transactions

Apple Inc. - Comparable M&A Transactions

Acquirer Name	Target Name	Date	Operating Metrics						Valuation Multiples			
			Equity Value	Enterprise Value	Trailing Revenue	Forward Revenue	Trailing EBITDA	Forward EBITDA	EV / Trailing Revenue	EV / Forward Revenue	EV / Trailing EBITDA	EV / Forward EBITDA
Hewlett-Packard Company	3Com	11/11/2009	\$ 3,180	\$ 2,714	\$ 1,265	\$ 1,223	\$ 152	\$ 110	2.1 x	2.2 x	17.8 x	24.6 x
Cisco Systems, Inc.	Starent Networks	10/13/2009	2,777	2,386	288	320	154	110	8.3 x	7.5 x	15.5 x	21.6 x
Emerson Electric Co.	Avocent	10/6/2009	1,114	1,147	611	542	105	93	1.9 x	2.1 x	10.9 x	12.3 x
EMC Corporation	Data Domain	7/8/2009	2,362	2,085	301	375	53	64	6.9 x	5.6 x	39.7 x	32.8 x
Oracle Corporation	Sun Microsystems	4/20/2009	7,075	5,392	13,256	12,462	623	559	0.4 x	0.4 x	8.7 x	9.6 x
Brocade Communication Systems, Inc.	Foundry Networks	7/21/2008	2,899	2,063	621	633	156	125	3.3 x	3.3 x	13.2 x	16.5 x
Maximum			\$ 7,075	\$ 5,392	\$ 13,256	\$ 12,462	\$ 623	\$ 559	8.3 x	7.5 x	39.7 x	32.8 x
75th Percentile			3,110	2,632	1,104	1,075	155	121	6.0 x	5.0 x	17.3 x	23.9 x
Median			\$ 2,838	\$ 2,235	\$ 616	\$ 587	\$ 153	\$ 110	2.7 x	2.7 x	14.4 x	19.1 x
25th Percentile			2,466	2,068	378	417	117	97	1.9 x	2.1 x	11.5 x	13.4 x
Minimum			1,114	1,147	288	320	53	64	0.4 x	0.4 x	8.7 x	9.6 x

Comparable M&A Transactions and Valuation Multiples Table

Advantages

- Implied value is determined by the prices paid in real-life to purchase similar companies.
- Multiples-based approach with the “control premium” estimated, which can be very practical in pricing guidance.
- Comparable acquisitions can function as a frame of reference for participating parties, i.e. insights from similar deals.

Precedent Analysis Traction Overview

Precedent transactions analysis is a relative valuation method comparing a company to others recently sold or acquired in the same industry, factoring in take-over premiums. The values represent the en bloc value of a business.

- Useful for M&A transactions.
- Can become stale-dated and no longer reflective of the current market as time passes.
- Less commonly used than trading multiples but critical for strategic acquisitions.

Additional Considerations

- Who is the buyer, and what is their motivation?
- What was the economic and market environment during the deal? Is it the same now?
- Was the acquisition financed with equity, debt, or a mix?
- What were the conditions of the debt and equity capital markets at the time?
- What synergies existed between the firms, and how did they impact valuation?

Disadvantages

- Implicit assumptions that buyers are rationale, yet poor decisions are often made in M&A, namely overpaying.
- Limited public information around M&A make the process challenging and time-consuming.
- Necessity for transaction recency and occurrence in relatively similar market conditions further reduces pool of comps.

Valuation & Value

Cash Flow Methods: DCF & LBO

Material and examples from online valuation courses include CFI, BIWS, TTS, WSP and others.

Discounted Cash Flow

Apple Inc. - Cash Flow Projections					
	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Revenue:	\$53,631	\$ 62,749	\$ 69,651	\$ 75,919	\$ 81,234
EBITDA:	\$16,480	\$ 19,282	\$ 21,403	\$ 23,329	\$ 24,962
Operating Income:	\$14,635	\$ 17,133	\$ 19,030	\$ 20,761	\$ 22,218
Less: Taxes	(\$4,391)	(\$5,140)	(\$5,709)	(\$6,228)	(\$6,665)
Plus: Depreciation	\$918	\$1,073	\$1,192	\$1,299	\$1,390
Plus: Amortization	\$40	\$37	\$28	\$13	\$10
Plus: Stock-Based Compensation	\$888	\$1,038	\$1,153	\$1,256	\$1,344
Less: Increase in Working Capital:	\$2,136	\$1,815	\$1,374	\$1,248	\$1,058
Less: Capital Expenditures	(\$1,430)	(\$1,673)	(\$1,857)	(\$2,024)	(\$2,166)
Unlevered Free Cash Flow	\$12,795	\$ 14,284	\$ 15,211	\$ 16,324	\$ 17,189
Present Value of Free Cash Flow	\$12,064	\$ 11,971	\$ 11,332	\$ 10,811	\$ 10,119
Normal Discount Period:	1.000	2.000	3.000	4.000	5.000
Mid-Year Discount:	0.500	1.500	2.500	3.500	4.500
Free Cash Flow Growth Rate:		11.6%	6.5%	7.3%	5.3%

Apple Inc. - DCF Assumptions & Output	
Use Multiples Method?	Yes
Discount Rate:	12.5%
Terminal EBITDA Multiple:	7.0 x
Terminal Growth Rate:	3.0%
Terminal Value:	\$ 174,733
PV of Terminal Value:	\$96,980
Sum of PV of Cash Flows:	\$56,296
Enterprise Value:	\$153,276
Terminal Value % EV:	63.3%
Enterprise Value:	\$153,276
Balance Sheet Adjustment:	\$35,395
Implied Equity Value:	\$188,671
Implied Price Per Share:	\$ 204.96

DCF Projections and Valuation Output

- Understand the business of the company you are valuing
- Find inputs
 - Calculate **Discount Rate**
 - WACC (Weighted Average Cost of Capital)
 - Build Future (Pro Forma) Cash Flow and find the **PV** of these cashflows
 - Calculate **Terminal Value**
 - Multiple Method
 - Perpetual Growth Method
- Analyse Outputs
 - Enterprise Value** (EV)
 - Equity Value** (Share Price)
 - Perform **Sensitivity Analysis**

Leveraged Buyout (LBO)

Sources & Uses									
Sources:					Uses:				
Bank Debt:			\$79,768		Equity Value of Company:			\$212,713	
High-Yield Debt:			\$26,589		Advisory Fees:			\$43	
Investor Equity:			\$106,463		Financing Fees:			\$64	
Total Sources:			\$212,820		Total Uses:			\$212,820	

Investor Returns									
			FY 2007	FY 2008	FY 2009	FY 2010E	FY 2011E	FY 2012E	FY 2013E
EBITDA:					\$13,184				\$24,962
EBITDA Multiple:					13.4 x				10.0 x
Enterprise Value:					\$177,318				\$249,618
Investor Equity:					(\$106,463)	\$0	\$0	\$0	\$0
IRR:					16.7%				

LBO Sources & Uses Table & Exit Assumptions and Returns Analysis

8 Step Process

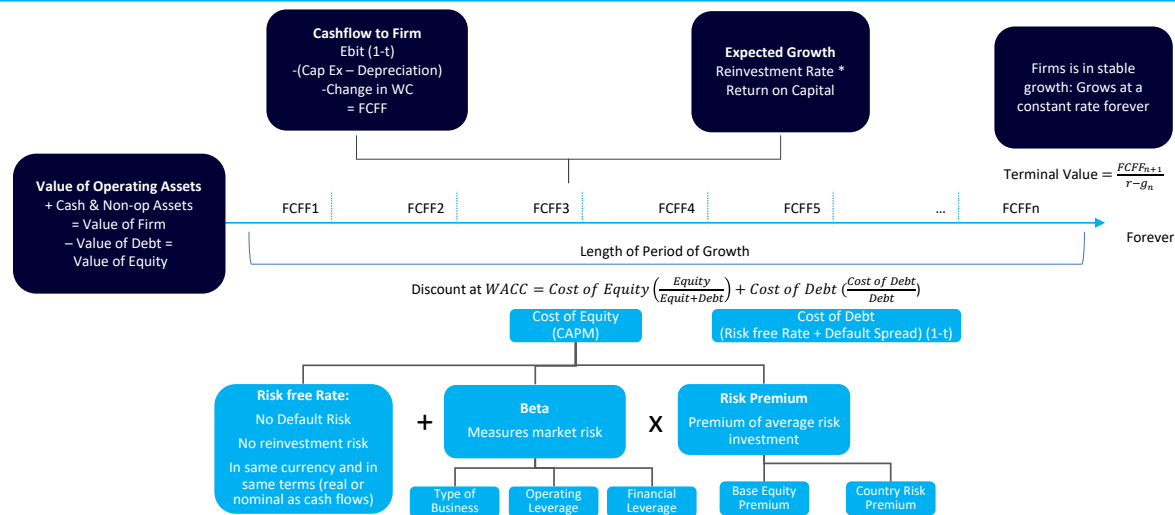
- Determine the purchase price and required **debt/equity mix**
- Assign **debt tranches**, **interest rates**, and **repayment structure**
- Create a **Sources & Uses table** to track fund allocation
- Build **financial projections** for revenue and expenses
- Calculate **Free Cash Flow** (FCF) and cash available for **debt repayment**
- Complete the Debt Schedule and **define repayment obligations**
- Link the Debt Schedule** to financial statements (cash flow & income)
- Calculate investor returns (IRR)** and perform sensitivity analysis

Valuation & Value

DCF Introduction

Brookstreet Notes

Discounted Cash Flow - Fundamentals



Pros

- **Comprehensive Approach:** Considers all future cash flows and discounts them to present value.
- **Flexibility:** Can be adapted to various assets and includes a range of assumptions and inputs.
- **Future-oriented:** Focuses on expected future cash flows to gauge long-term business potential.
- **Sensitivity analysis:** Tests how changes in assumptions and inputs affect valuation.

Cons

- **Assumption-driven:** Relies on subjective assumptions like growth and discount rates, affecting accuracy.
- **Time-consuming:** Requires in-depth financial analysis and business understanding.
- **Limited Historical Data:** Less reliable for companies with minimal or no financial history.
- **Sensitivity to Inputs:** Small input changes can significantly impact valuation results.

Valuation & Value

DCF: In Practice

Material and examples from online valuation courses include CFI, BIWS, TTS, WSP and others.

Discounted Cash Flow – In Practice

Apple Inc. - Cash Flow Projections					
	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Revenue:	\$53,631	\$ 62,749	\$ 69,651	\$ 75,919	\$ 81,234
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Plus: Depreciation	\$918	\$1,073	\$1,192	\$1,299	\$1,390
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Mid-Year Discount:	0.500	1.500	2.500	3.500	4.500
Free Cash Flow Growth Rate:		11.6%	6.5%	7.3%	5.3%

Adjustment
of Non-Cash
Expenses

Choosing Discount Rate
WACC (Weighted
Average Cost of Capital)

Choose if you sell (Exit
Multiple) or if you keep
for ever (Gordon Growth)

Terminal Value is usually
60-60% of EV

Understanding CapEx and
Working Capital

Apple Inc. - DCF Assumptions & Output	
Use Multiples Method?	Yes
Discount Rate:	12.5%
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Observations:

- Notice that most of the value often depends on the **Exit (Terminal Value "TV")**.
- **How will we achieve an exit?** Will the market conditions be favourable?
- **IPO?** This typically results in a minority valuation, relying on trading comparables.
- **M&A?** This usually leads to a majority valuation, based on precedent transactions.

Questions:

- Will the tax structure, P&L, or capital structure remain unchanged?
- Will the cost of capital (discount rate) stay constant?
- Is the perpetual growth rate realistic, just above inflation?
- What is the assumed exit multiple?
- How reliable are the growth rate and margin assumptions over the projection period?

Valuation & Value

DCF: WACC & CAPM

Brookstreet Notes

Weighted Average Cost of Capital (WACC)

- Represents the company's overall cost of capital, combining the required return for both debt and equity investors.
- Used as the hurdle rate for company projects.
- Serves as a discount rate in DCF analysis for valuing future cash flows.

Biases in WACC

- **Capital Structure Bias:** Assumes a fixed debt-to-equity ratio, ignoring real-world fluctuations.
- **Debt Cost Underestimation:** Often uses pre-tax cost of debt, which may not reflect true borrowing costs.
- **Static Tax Rate Assumption:** Treats the tax shield as constant, despite policy and corporate structure changes.
- **Circularity in Valuation:** WACC is used in valuation models that influence capital structure, potentially leading to incorrect estimates.

Capital Asset Pricing Model (CAPM)

- Determines an investor's expected return on equity (Also known as the Cost of Equity).
- Uses beta (β) to measure a company's risk relative to the market, adjusting expected returns based on volatility.

CAPM assumes a linear relationship between risk and return, but its inputs introduce biases:

- **Risk-Free Rate Bias:** Typically based on government bonds, which may not reflect the true opportunity cost for investors, especially in low or negative interest rate environments.
- **Beta Bias:** Beta is backward-looking and based on historical volatility, failing to account for future risks or structural changes in a business.
- **Market Risk Premium Bias:** The expected excess return over the risk-free rate is estimated using historical data, which may not align with forward-looking investor expectations.
- **Assumption of Efficient Markets:** CAPM assumes markets are efficient and that investors hold diversified portfolios, ignoring real-world factors like behavioural finance, market inefficiencies, and liquidity constraints.

$$WACC = (\%Equity \times CoE) + (\%Debt \times CoD) \times (1 - Tax Rate))$$

$$CAPM = R_F Rate + \beta_{company}(Expected Market Return - R_F Rate)$$

Valuation & Value

DCF: NPV & APV

Brookstreet Notes

Aspect	NPV (WACC-Based DCF)	APV (DCF with Changing Leverage)	APV (LBO Valuation)
Application	Standard corporate DCF for firms with stable capital structures	Alternative DCF method for firms with fluctuating debt levels	Preferred in LBOs, where debt plays a central role in valuation
Approach	Uses WACC to value the firm as a whole.	Values the firm assuming all-equity financing, then adds tax benefits of debt separately	Similar to APV in DCF but accounts for aggressive debt repayment and sponsor returns.
Formula	$NPV = \sum \frac{FCF_t}{(1 + WACC)^t} - \text{Initial Investment}$	$APV = \sum \frac{FCF_t}{(1 + r_u)} + PV(\text{Tax Shields}) - \text{Initial Investment}$	Same APV formula, but models changing debt levels over time, affecting tax shields
Discount Rate	Uses WACC, which blends cost of debt & equity.	Uses the unlevered cost of equity (r_u) for the base valuation, separately discounting tax shields	Uses r_u for unlevered firm value, adjusting tax shields as debt is repaid
Debt Treatment	Debt effects are included within WACC.	Debt benefits (tax shields) are explicitly modeled and added separately.	Debt repayment, tax shields, and financial structuring are explicitly factored in.
Handling of Changing Leverage	Assumes a constant debt-to-equity ratio, making it less accurate for firms with shifting leverage.	Models fluctuating debt levels, making it more precise for firms adjusting leverage over time.	Essential for LBOs, where debt financing drives investor returns and impacts valuation.
Complexity	Simpler, widely used in corporate finance.	More detailed, required explicit modeling of tax shields.	Most complex requiring debt schedules, IRR analysis, and sponsor return modeling.
Best Use Case	Steady companies with predictable capital structures (corporate finance, stable firms).	Firms with shifting leverage (project finance, M&A with evolving capital structures).	Highly leveraged deals (LBOs, project finance, PE buyouts) where debt repayment is crucial.

Key Differences Between NPV & APV

- **NPV (WACC-based DCF)** – Best for stable firms with fixed leverage.
- **APV (DCF variant)** – Useful for firms with changing debt levels, where tax shields vary.
- **APV (LBO)** – Essential for highly leveraged deals, explicitly modelling tax benefits and debt repayment.

Rule of Thumb:

1. If leverage is constant, use NPV (WACC).
2. If leverage changes, use APV.

$$APV = NPV_{OCF} + PV(\text{Tax Advantage}) - PV(\text{Financial Distress}) + PV(\text{Real Options}) + \dots$$

Valuation & Value

Leverage Buyout Model (LBO)

Precedent Transactions

LBO Model for Retail Co.									
		Live Case →		Base Case		Sponsor IRR → 26.6%		Error Checks → OK	
IRR by Investor Type									
Investor	IRR	3/31/2018	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023	12/31/2024
Term Loan 1	4.7%	(50,000)	7,375	7,125	7,075	9,081	27,947	-	-
Term Loan 2	6.7%	(50,000)	8,325	7,975	7,823	9,702	6,734	23,044	-
Sub Debt 1	12.0%	(11,250)	1,350	1,350	1,350	1,350	1,350	1,350	11,925
Sponsor Equity	26.6%	(46,495)	-	-	-	-	-	-	229,254
Sponsor Cash-on-Cash	4.9x								
Sponsor IRR (Entry vs Exit Multiple)									
Exit EV/EBITDA	5.0x	5.5x	6.0x	6.5x	7.0x				
5.0x	38.3%	29.1%	23.3%	19.0%	15.6%				
5.5x	40.2%	31.0%	25.0%	20.7%	17.3%				
6.0x	42.1%	32.7%	26.6%	22.2%	18.8%				
6.5x	43.7%	34.2%	28.1%	23.7%	20.2%				
7.0x	45.3%	35.7%	29.5%	25.0%	21.5%				
Sponsor Cash-on-Cash (Entry vs Exit Multiple)									
Exit EV/EBITDA	5.0x	5.5x	6.0x	6.5x	7.0x				
5.0x	8.9x	5.6x	4.1x	3.2x	2.7x				
5.5x	9.8x	6.2x	4.5x	3.6x	2.9x				
6.0x	10.7x	6.8x	4.9x	3.9x	3.2x				
6.5x	11.6x	7.3x	5.3x	4.2x	3.5x				
7.0x	12.5x	7.9x	5.7x	4.5x	3.7x				
LBO Model for Retail Co.									
DCF & Rates of Return									
DCF Analysis									
	Entry	2018F	2019F	2020F	2021F	2022F	2023F	2024F	Exit
	3/31/2018	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023	12/31/2024	12/31/2024
Enterprise Value		0.75	1.00	1.00	1.00	1.00	1.00	1.00	
EBIT		24,369	25,387	26,355	27,455	29,089	29,789	31,102	
Less: Taxes		7,311	7,616	7,906	8,236	8,727	8,937	9,331	
Less: Capex		6,979	7,189	6,969	7,178	7,393	7,139	7,353	
Plus: D&A		6,400	6,516	6,650	6,714	6,807	6,924	6,967	
Less: Changes in WC		1,172	196	142	144	147	215	221	
Unlevered Free Cash Flow (Free Cash Flow to the Firm)		15,307	16,902	17,988	18,610	19,629	20,423	21,165	
DCF Values	-	11,833	16,902	18,037	18,610	19,629	20,423	21,223	228,416
IRR Values	(150,000)	11,833	16,902	18,037	18,610	19,629	20,423	21,223	228,416
Equity Value									
Cash from Operations		21,698	23,503	24,369	25,200	26,434	26,974	27,930	
Less: Capex		6,979	7,189	6,969	7,178	7,393	7,139	7,353	
Less: Debt Repayment		14,719	16,314	17,400	18,022	19,041	19,835	12,168	
Levered Free Cash Flow (Free Cash Flow to Equity)		(0)	(0)	(0)	(0)	(0)	(0)	8,431	
DCF Values	-	(0)	(0)	(0)	(0)	(0)	(0)	8,455	246,824
IRR Values	(46,495)	(0)	(0)	(0)	(0)	(0)	(0)	8,455	246,824
Terminal Value									
Exit Year EBITDA	38,069	DCF Value		Discount Rate		NPV		Internal Rate of Return	
Exit Multiple	6.0x	Enterprise Value		16.9%		150,000		Unlevered	
Terminal Enterprise Value	228,416	Equity Value		28.7%		46,495		Levered	
								16.9%	
								28.7%	

Like all Cash Flow approaches, common problems encountered when building an LBO model include:

- Inaccurate assumptions about future financial performance,
- Overly optimistic projections,
- Neglecting key financial details like working capital needs,
- Miscalculating debt structure and repayment schedules,
- Not considering market risks and economic fluctuations,
- And failing to adequately address potential operational challenges within the target company;

All of the above can lead to unrealistic valuations and potential investment risks.

Valuation & Value

DCF vs LBO

Brookstreet Notes

DCF vs. LBO: Key Differences

Both DCF and LBO models use cash flow projections but serve different purposes.

- DCF estimates a company's intrinsic value by forecasting free cash flows (FCFs) and discounting them using WACC. It assumes the business operates indefinitely, with exit value based on Terminal Value (TV) (via market multiples or the Gordon Growth Model).
- LBO evaluates a company's buyout feasibility using high-debt financing. It focuses on debt repayment and achieving strong IRR (Investor Returns) at exit, rather than intrinsic value. Exit value is based on EBITDA multiples and leverage structure.

DCF in Action:

- Used by investors, analysts, and corporations to assess intrinsic value.
- Ideal for growth companies, mature businesses, and strategic decision-making.
- Common in equity research, M&A advisory, and corporate finance.

LBO in Action:

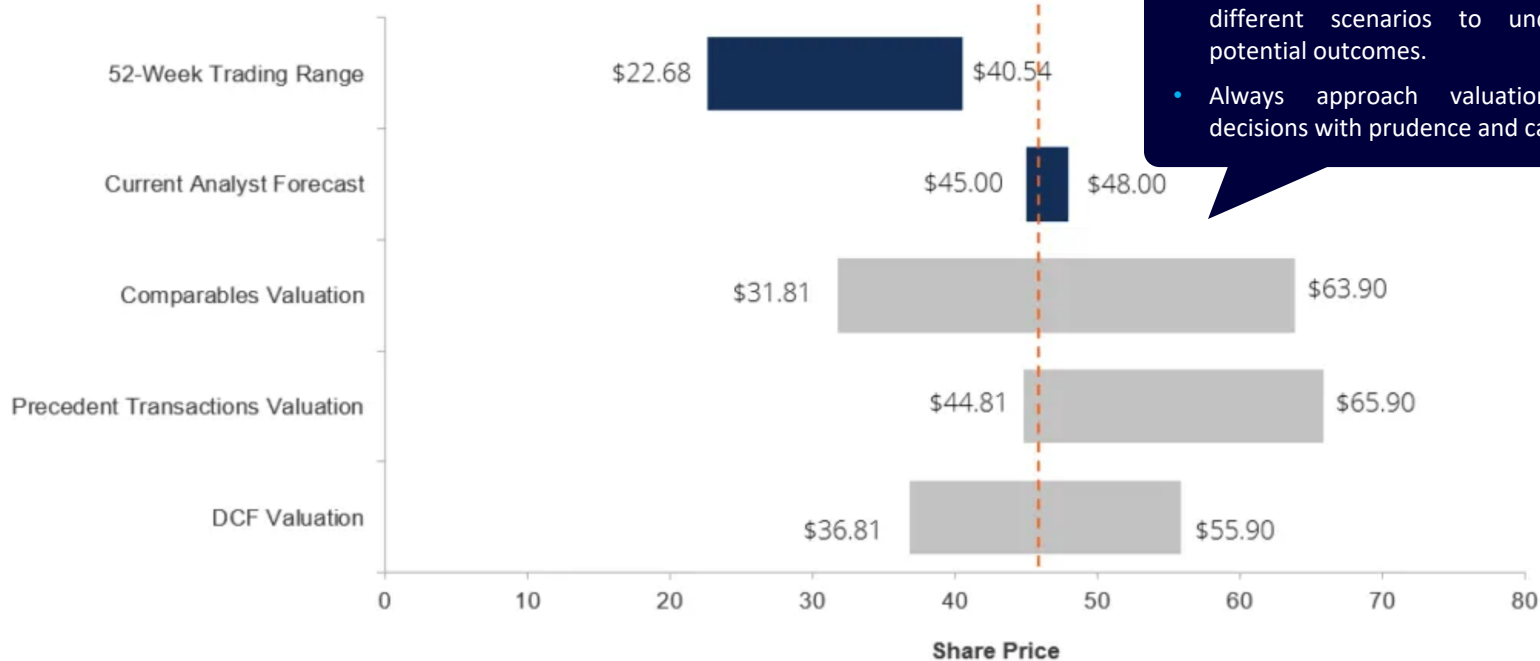
- Primarily used in private equity, investment banking, and buyout transactions.
- Focuses on maximizing investor returns through debt financing and efficient capital structure.
- Key in evaluating highly leveraged deals and financial sponsor exits.

Aspect	DCF Model	LBO Mode
Scope	Valuation model based on discounted future cash flows.	Valuation for assessing buyout returns using debt leverage.
Objective	Company Valuation	Valuation in a leveraged buyout context
Valuation Method	Intrinsic valuation	Transaction-based valuation
Timeframe	Long-term	Short to medium-term
Principal Inputs	Free cash flows, discount rate, growth rate	Acquisition cost, capital structure, exit multiple
Cash Flow	Unlevered Free Cash Flow	Levered Free Cash Flow
Discount Factor	Weighted Average Cost of Capital (WACC)	Cost of Equity
Terminal Value	Perpetual growth or Exit Multiple Approach	Determined by Exit Multiple
Capital Structure	Incorporates both equity and debt	Maximizes debt use to limit equity
Principal Outputs	Enterprise value and implied equity value	Internal Rate of Return (IRR) and Multiple of Money (MoM)
Applicability	Broadly applicable	For companies with stable cash flows
Sensitivity	Highly sensitive to revenue growth rate, WACC	Highly sensitive to company profitability and interest rates
Exit Strategy	Values the business as a going concern	Exit is a critical component; determines ROI

Valuation & Value

Football Field

Valuation Football Field (Company A)



Examine the full range of possibilities:

- Conduct sensitivity analyses across different scenarios to understand potential outcomes.
- Always approach valuations and decisions with prudence and caution.

Reflections

Valuation: A Guide, Not a Rulebook

In Summary

PRIVATE MARKETS: INFORMATION IS ASYMMETRIC AND HARD TO MODEL

- The earlier the stage of the firm, the more uncertain and speculative the valuation.

OUR PERSPECTIVE:

- **Buyout Valuation can be a science.** Detailed analysis of precise and transparent cash flows and debt repay.
- **Growth and M&A modelling is an art.** Assumptions make all the difference. Junk in = Junk out.
- **VC valuation is often an educated guess.** The future is very uncertain.

HOW TO USE VALUATION:

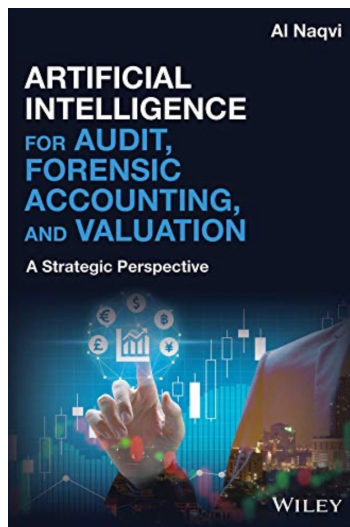
- Use valuation not just as a number but as a **tool for discussion** to explore key aspects of the business, such as:
 - The business model, margins, profitability, and growth rate.
 - Capital expenditures (CapEx), working capital needs, and use of debt and cash.
 - Management incentive schemes (e.g., stock options) and tax implications.
 - Exit assumptions: types of exit, timing, and expected outcomes.
 - Pre- and post-money valuation, dilution, and funding rounds.
- Ultimately, valuation helps answer: **What kind of business are we buying, how does it compare to where we want to be, and what steps can we take to create value?** Use valuation as a framework to guide your discussions, not as a rigid formula that dictates your actions.

Valuation & Value

Impact of AI & ESG

Impact of AI

AI Automations



- **AI in Valuation:** AI tools like ChatGPT can support valuations by quickly analyzing large data sets, offering insights and predictions based on market trends and financial indicators. This enhances decision-making and improves valuation accuracy. Example below:
- <https://www.amazon.co.uk/Artificial-Intelligence-Forensic-Accounting-Valuation-ebook/dp/B08DXCZMRJ>

Impact of ESG

ESG Criteria



Future of Valuations: The Impact of ESG An Open Conversation

- **ESG in Business Valuation and Private Companies:** The report highlights the growing role of ESG factors in valuation, affecting risk, cost of capital, and investment choices. It explores evolving methods that integrate ESG considerations. Example below:
- <https://ivsc.org/pdfviewer/future-of-valuations-impact-of-esg/>

Agenda

Section

Valuation

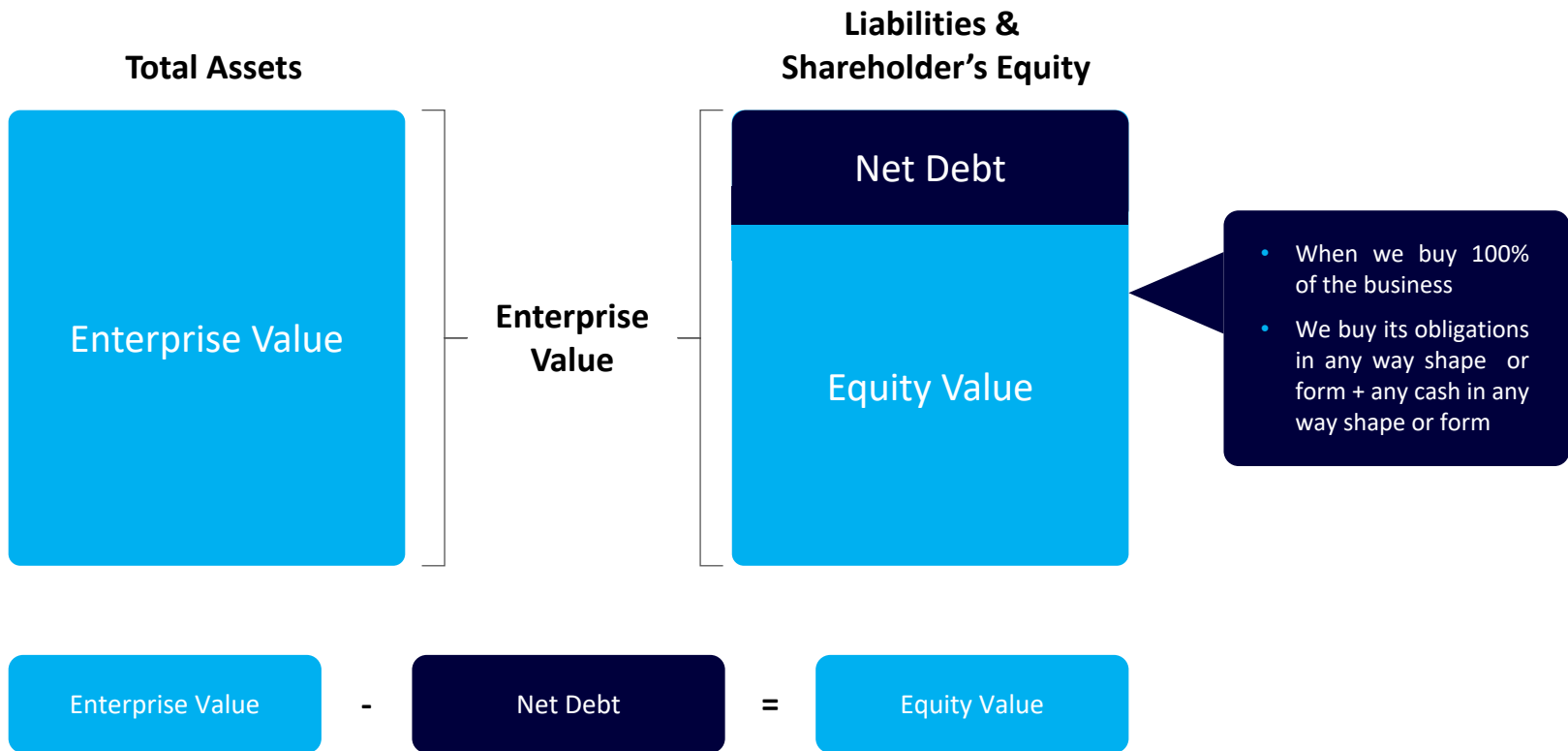
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graph TD; A[Valuation] --> B[Value]; B --> C[Take Away Readings];
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Value

Take Away Readings

Valuation & Value

Enterprise Value Vs Equity Value



Valuation & Value

Pre and Post Money Value

Pre-Money Valuation

	Value	Percent		Value	Percent
Entrepreneur	\$ 1,000,000	80%	Entrepreneur	\$ 750,000	80%
Investor	\$ 250,000	20%	Investor	\$ 250,000	20%
Total	\$ 1,250,000	100%	Total	\$ 1,000,000	100%

Post-Money Valuation

Pre-Money Valuation

Pre-money valuation refers to the value of a company not including external funding or the latest round of funding. Pre-money is best described as how much a startup might be worth before it begins to receive any investments into the company. This valuation doesn't just give investors an idea of the current value of the business, but it also provides the value of each issued share.

Post-Money Valuation

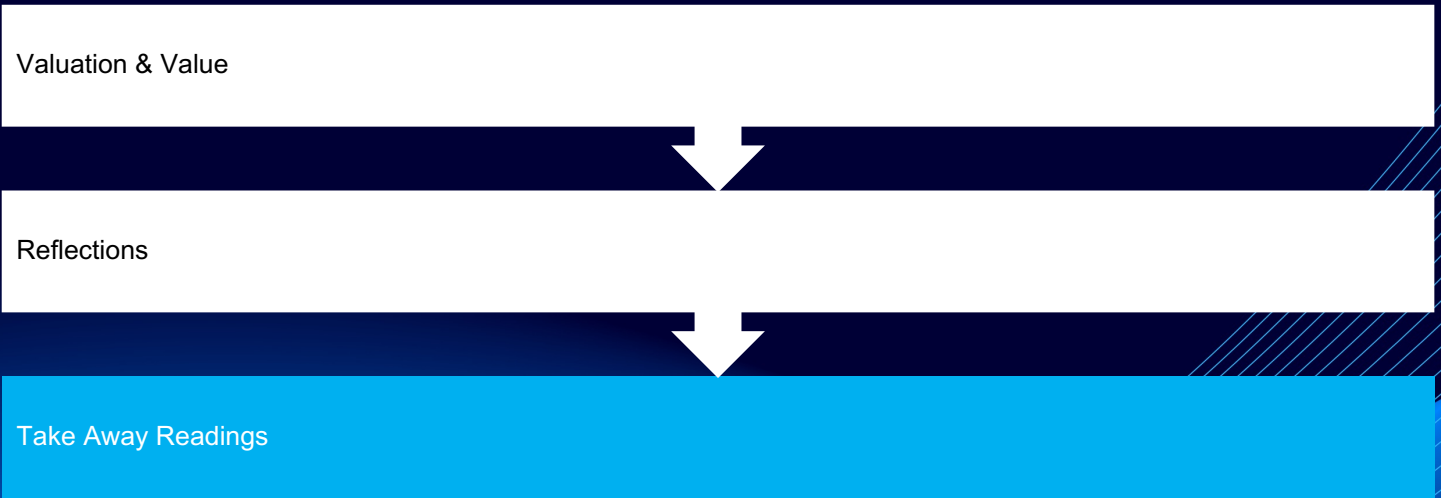
On the other hand, post-money refers to how much the company is worth after it receives investment money. Post-money valuation includes outside financing or the latest capital injection. It is important to know which is being referred to, as they are critical concepts in the valuation of any company.

- Suppose an investor is looking to invest in a tech startup. The entrepreneur and the investor both agree the company is worth \$1 million and the investor will put in \$250,000.
- The ownership percentages will depend on whether this is a \$1 million pre-money or post-money valuation. If the \$1 million valuations are pre-money, the company is valued at \$1 million before the investment and after investment will be valued at \$1.25 million. If the \$1 million valuation takes into consideration the \$250,000 investment, it is referred to as post-money.

Agenda

Section

Valuation & Value



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graph TD; A[Valuation & Value] --> B[Reflections]; B --> C[Take Away Readings];
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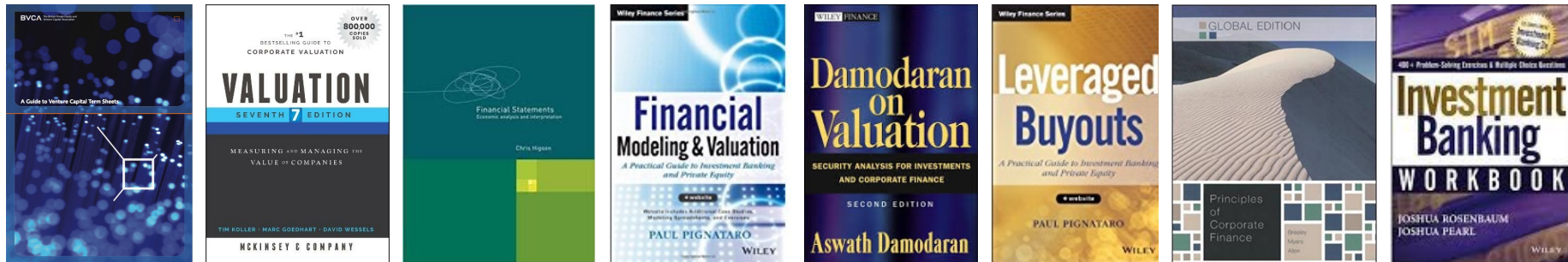
Reflections

Take Away Readings

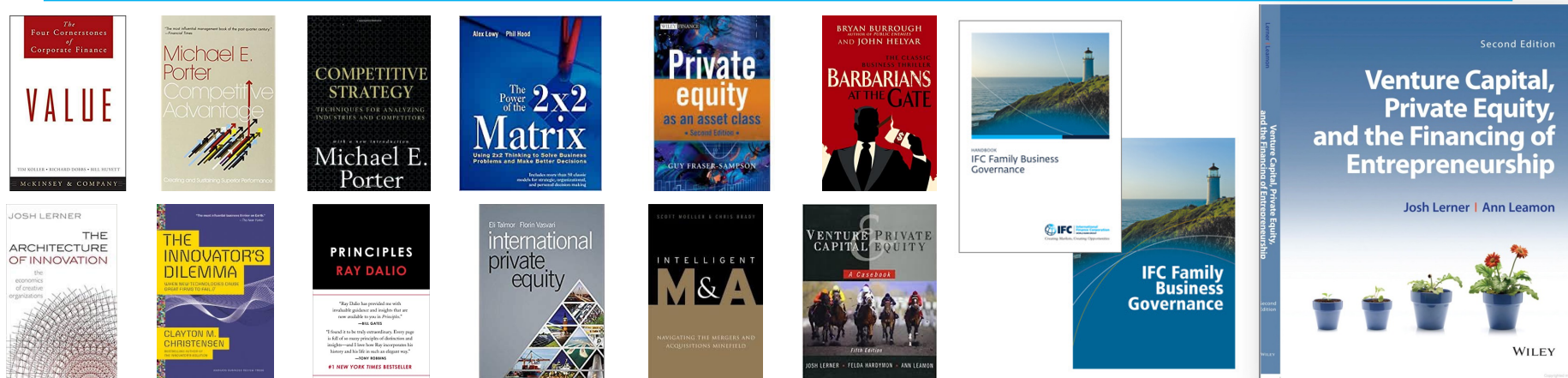
Take Away

PE/VC Readings

Technical Readings



Recommended



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