

## Case Study - Client 060605A

### Summary

- Emerging solar energy firm selling a controlling interest to Chinese investors
- Valuation required by board and investors before closing the deal
- Three analysts participated (New York and Bay Area)
- Results: \$18 million (+/- \$2.1 million) pre-money.
- Quote: *“The outcome was on the money, and your process worked as promised.”*

### The Target (Cloaked name, “Alpha”)

Alpha, a new firm in the solar energy market, planned to be formed through a complex series of transactions. The operating assets of several entities would be consolidated by Alpha with funding provided by a Chinese private equity firm and several high-net-worth investors, who would together own a controlling interest.

### The Client

In this instance, the client was the Asian investor group that subscribed for the largest portion of the shares to be issued.

### The Valuation Objective

Because the consolidation and capitalization of Alpha would involve multiple investors, several entities and operations on three continents, the largest investor and the board selected Numeria<sup>SM</sup> to value the deal because it is:

- *Objective* – Numeria could ensure that the negotiated price was reasonable and fair to all parties;
- *Independent* – Numeria helped the parties in interest avoid a contentious situation among and between the investors and management; and
- *Robust* – Numeria gave Alpha’s directors and the investment committee confidence when they approved the final transaction.

These points were of particular importance to the person who proposed Numeria for the valuation. As a venture capitalist who is an independent director of Alpha, he needed the valuation done quickly, discreetly and properly so that the governance aspects of the deal were beyond reproach.

## The Analysts

Given Alpha's industry (technology) and its valuation objective (pre-money private equity), Numeria selected three analysts from its network whose experience and perspective were appropriate and complementary.

<u>Perspective</u>	<u>Prior Experience</u>
<i>Investment Banker</i>	Goldman Sachs & Co. MBA, University of Chicago MS – Operations Research, SUNY Buffalo BTech, Indian Institute of Technology
<i>Venture Capitalist</i>	Mellon Ventures, Mellon Financial MBA, University of Pennsylvania BS, Georgetown University (studies at Oxford)
<i>Corporate Development Officer</i>	Nektar Therapeutics; Agilent Technologies; NASA MBA, Lake Forrest College JD, McGeorge School of Law BS (chemistry, mathematics), N. Illinois University

This group participated from New York City and the California Bay Area, while board members, management and investors observed the market from around the world.

## The Process

For Alpha, the valuation comprised four phases:

1. *Due diligence* was conducted by Waterford Advisors LLC, the sponsor;
2. *Initial valuation* reports were prepared by the independent analysts;
3. *Price discovery* occurred in the Numeria marketplace, where analysts debated and defended their positions; and the
4. *Final valuation* report was prepared and delivered by Waterford Advisors.

While the typical Numeria valuation requires two to three weeks, this one was completed in ten days so that the pending transaction could close on schedule.

## The Results

<b>Analyst</b>	<b>Initial Valuation</b>	<b>Final Valuation</b>
Investment Banker	\$23,800,000	\$20,000,000
Venture Capitalist	\$12,011,477	\$14,903,458
Corporate Development Officer	\$18,433,828	\$19,079,011
	◆	◆
Mean	\$18,081,768	\$17,994,156
Mean Absolute Deviation	\$ 4,046,861	\$ 2,060,466
MAD as % Mean	22%	11%

The final report included these beginning and ending data points, and was prepared in the customary format for a situation of this nature. In addition, it included in its appendix the three written valuation reports and spreadsheets that were independently prepared and submitted by the analysts before the pricing session began.

## The Outcome

The deal closed on schedule and the following sentiments of board members, management, and investors were conveyed to Numeria:

*“We needed a completely independent and robust solution to satisfy the new investors before we could close our deal. And, by the way, we needed it fast. The valuation was on the money.”*

*“Your people are highly professional; they handled our self-inflicted hassles with aplomb, and the market worked as expected.”*

*“We learned a lot about how we’re perceived, and will change how we present ourselves to investors and the public accordingly”*