

The ROI of a NumeriaSM Valuation

We believe that NumeriaSM (www.numeria.us) should not only reveal the likely return on your investment, but deliver a compelling ROI itself. And from our experience it does.

By using Numeria you should expect the dollarized benefit of your valuation to be at least *ten times* the fee you pay for the valuation. To gauge your ROI, we measure the Wild Card RiskSM and the Valuation Price EfficiencySM and compare them to your fee.

| <u>Benefit</u> | <u>Target ROI</u> |
|-----------------------------------|-------------------|
| <i>Wild Card Risk</i> | > 10x |
| <i>Valuation Price Efficiency</i> | > 10x |

While we say you should expect an ROI of least a 10 times the fee you pay for your Numeria valuation, in many cases the ROI is considerably higher.

Wild Card Risk:

Because valuing a private firm is very complex, it is highly unlikely that all experts would agree on the valuation. But with a traditional valuation relying on just one source, what would other experts say? Put another way, what's the risk in dollar terms that a single source will differ significantly from the average of all experts?

Before Numeria, this couldn't be measured; now only Numeria can measure it.

The Wild Card Risk is the standard deviation (or variance) of all the initial valuations of your firm prepared by independent analysts. It is the risk you take if you were to choose just one of the analysts (the "Wild Card") to value your firm and then rely on his or her value when pricing your acquisition, divestiture, equity issuance, or other strategic decisions.

Here are two examples from Numeria clients:

Wild Card Risk

| | Client A | Client B |
|--------------------------------------|-------------------|----------------------|
| Mean Initial Value | \$34 million | \$18 million |
| Range of Initial Values | \$17-\$65 million | \$12 to \$24 million |
| Standard Deviation of Initial Values | \$18 million | \$4 million |

Client A was considering a merger with another firm and used Numeria to estimate its value to a strategic acquirer; the mean initial value by the analysts was \$34 million and the standard deviation was \$18 million.

Before Numeria Client A would have chosen one valuation expert (or relied on their CFO's analysis), but it would never know what other independent experts think about the result.

Our measure of their Wild Card Risk showed that, had they chosen one of the analysts at random and relied on his or her valuation when deciding to merge, Client A would have erred either by (a) agreeing to merge for \$18 million less than their fair market value or (b) refusing to merge because they mistakenly believed the merger price was \$18 million too low.

The same issues faced Client B, which was negotiating to sell a majority stake in their firm to a financial investor. Their Wild Card Risk was \$4 million.

Ask any experienced dealmaker and you'll hear that private firms sell themselves short or walk away from otherwise sound deals all too often, yet those firms have had no way of knowing their risk of doing so. With Numeria they now can see it and act accordingly.

Valuation Price Efficiency

Markets are considered efficient when they reflect at least most of the information about the assets traded there. Efficient markets offer fair prices to both buyers and sellers.

Since there isn't a liquid market for private companies, their values are difficult to estimate even by experts; our measure of Wild Card Risk shows this clearly. But what if there *is* a marketplace where valuation experts can gather not only to learn more about your private company, but where they can change their valuations when they learn something new?

With Numeria there is, and you can see your firm's price efficiency improve as the analysts spend time in the market and modify their valuations based on what they learn from each other.

Valuation Price Efficiency is the change in the standard deviation (or variance) from the initial valuations of your firm to the final valuations. It typically decreases, sometimes a lot, indicating that the analysts considered the work of other valuation experts, as well as the critique of each others' work, and modified their valuations accordingly.

A firm's valuation becomes more efficient when the standard deviation (or variance) shrinks during the live Numeria pricing sessions. In other words, the analysts begin to agree more and more about the firm's value.

Valuation Price Efficiency

| | Client A | Client B |
|----------------------------|--------------|-------------|
| Initial Standard Deviation | \$18 million | \$4 million |
| Final Standard Deviation | \$ 5 million | \$2 million |
| Efficiency Gained | \$13 million | \$2 million |

In the case of Client A (the firm considering a merger) there was considerable initial disagreement among analysts, evidenced by the \$18 million Wild Card Risk. But once they entered the Numeria marketplace, the disagreement dissipated to a more acceptable level of \$5 million (as a percent of the means, it fell from 53% to 16%).

This occurred because the analysts had an opportunity to review each others' written valuation opinions and then debate and defend them –

in the presence of the client – while in the Numeria marketplace. They learned from each other, and incorporated this into their valuations.

Client B (selling a majority stake to financial investors) had a similar experience, as their valuation price efficiency improved and the variance in opinions – as a percent of the mean values – fell from 22% to 11%.

Return on Investment

In summary, here is the return Client A and Client B earned by investing in a Numeria valuation rather than hiring a traditional firm or doing it themselves:

| | Client A | Client B |
|---|----------------------------------|---------------------------------|
| Numeria Fee | \$35,000 | \$25,000 |
| ROI - Wild Card Risk ¹ | $\$18,000,000 / \$35,000 = 514x$ | $\$4,000,000 / \$25,000 = 160x$ |
| ROI - Valuation Price Efficiency ² | $\$13,000,000 / \$35,000 = 371x$ | $\$2,000,000 / \$25,000 = 80x$ |

In both cases and in both measures, the clients earned eighty to over five-hundred times their investment in a Numeria valuation.

How is a Numeria valuation an investment? It’s a hedge, actually.

Just like an insurance policy (or a put option tied to an investment), Numeria lessens the risk that a Wild Card valuation prompts you to make the wrong decision when it counts the most. And like a market with free-floating prices and information, Numeria allows multiple independent valuations to converge toward a clear and precise result.



NUMERIA: Harnessing the forces of price discoverysm.

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¹ ROI - Wild Card Risk: (Initial S.D. / Numeria Fee)

² ROI - Valuation Price Efficiency: ((Initial S. D. – Final S. D.) / Numeria Fee)