Financial Feasibility Study Report

For the intendent reader only

Table of Contents

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Methodology

This Feasibility Study performed considers various industry, location and Company specific details. The focus of this report is to provide a detailed financial feasibility study for all types of projects by calculating the following two metrics:

Net Present Value (NPV)

The NPV is calculated by discounting the free cash flow (FCF) of the Company estimated to be generated in the future as well as the Company's estimated terminal value.

The terminal value is calculated by taking the average of the perpetual growth method and the multiple method, this method is used in order to take into consideration both the Company's fundamentals and valuation of market comparables. The perpetual growth method is calculated using the estimated long term growth rate (after the forecasted period) and the cost of equity of the Company. On the other hand, the multiple method attributes a value to the Company based on the value assigned to comparable public Companies.

Methodology

The cash flows and the terminal value of the Company are then discounted based on the cost of equity calculated. The cost of equity indicates the rate of return required by investors given the risk of the Company. It is calculated by taking into consideration the market risk premium of the Company, the beta of the industry wherein the Company is operating in and the risk free rate of the Company's Country of operation.

Additionally, a Company specific risk is added to the cost of equity rate (maximum of 5.0%). The Company specific risk comprises of the following:

Forecast risk

indicates the level of conservatism of the forecasts used

Management

the risk arising from the co-founders level of experience

Start-up

indicates the level of conservatism of the forecasts used

Methodology

///// Internal rate of return (IRR)

The internal rate of return is a measure of an investment's rate of return based on it's equity investment. It is used to evaluate the level of profitability of a project or investment

A positive IRR indicates that a project or investment is expected to return some value to the organization. On the other hand, a negative IRR means that the proposed project is expected to cost more than it returns. In general, a Company should decline making an investment that generates a negative IRR.

For further information, please refer to the Abbreviations section.

Company Overview

The Digital Bank

A Digital Bank that provides online banking services

Industry
Banks

Industry group
Banking Services

Business sector
Banking & Investment Services

Operational
2022-01-01

Country of Operations
United States

Country of Incorporation
United States

Co-founders
3

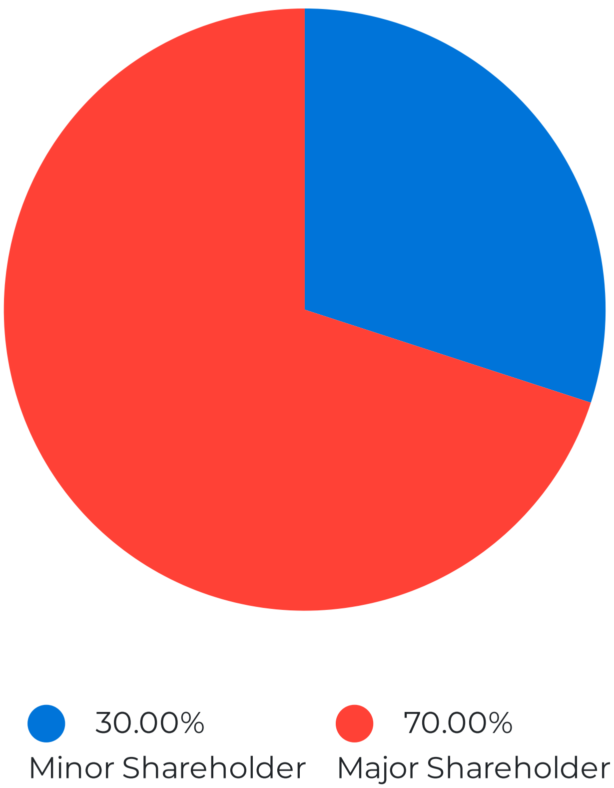
Full time employees
5

Paid up capital
1000000

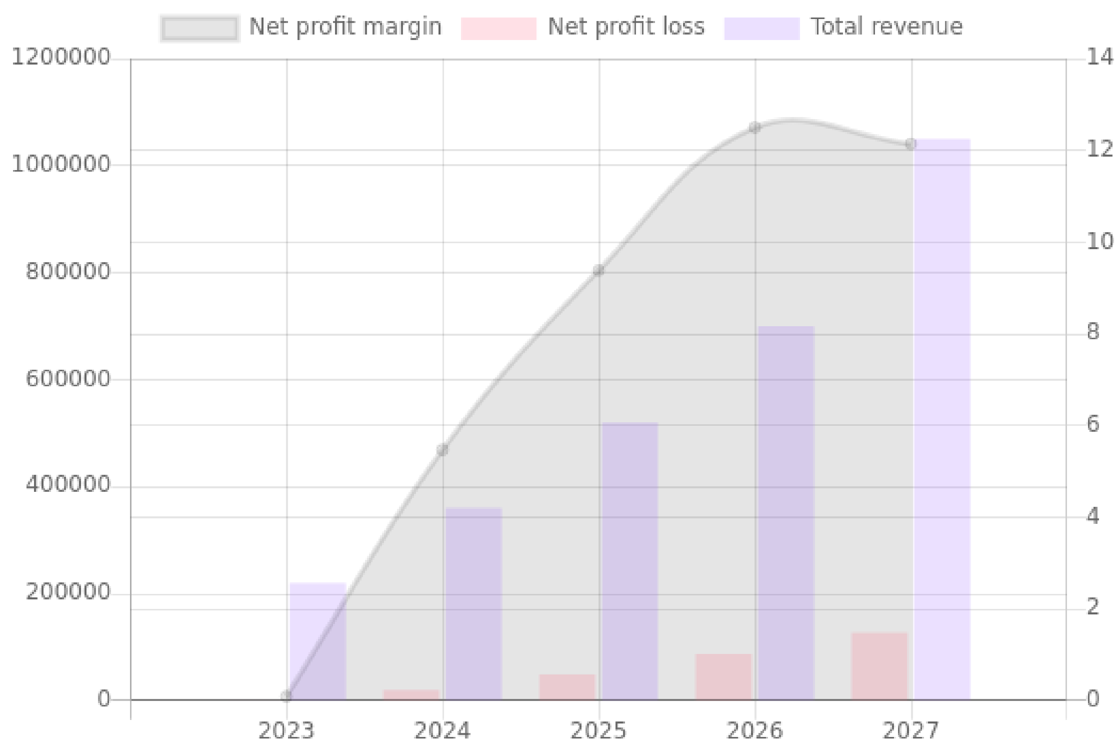
Performed by **Fundraising** Purpose **Fundraising** Currency **United States Dollar**

Company Overview

Shareholder Structure



Financial Overview



Company Qualitative Traits

Business Model

Scalable business

Yes, the business is scalable

Business model

Both (B2C and B2B)

Company's current stage

Start-up (Company has been operating for less than one year)

Estimated number of advisors

5

Exit strategy

No, we currently do not have an exit strategy, however, we will set up a plan in the future

Company Qualitative Traits

Market

Addressable market size (USDm)

500000000

Market annual growth rate

20

Market barrier to entry

Very high

Market level of competition

Dominated by 2-5 players

Comparable company name

Another Digital Bank

International expansion

We are considering internationalization but our focus now is on the local market

Legal and tax

Legal entity incorporated

Yes

Company type

Delaware C-Corp

Legal cases filed against the company

No

Company tax situation / risk

Perfect

Corporate governance implemented

Good

Company Qualitative Traits

Team

Co-founders average years of experience

20years

Total team years of industry experience

20years

Co-founders previous managerial background

No, but we do have work experience

Co-founders previous entrepreneurial experience

Yes, however, the company did not continue and was eventually closed

Product

Product/Service stage

The product is complete with only minor adjustments to be made going forward

Product/Service feedback received

Average

Product/Service compared to existing competitors

The products/services are completely different

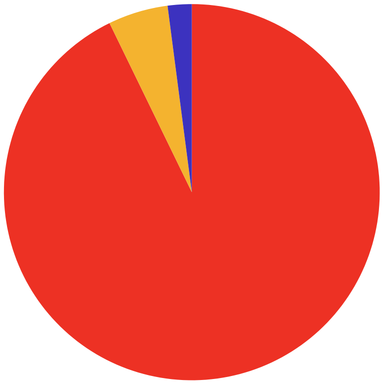
Company's relationship with partners(example, suppliers, distributors or affiliates)

Contracts signed

Initial Investment Breakdown

Below is the investment's estimated initial investment breakdown

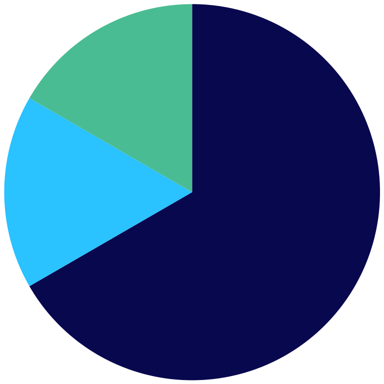
Initial investment breakdown



- **900,000.00 USD** Product
- **50,000.00 USD** Capital expenditures (CAPEX)
- **20,000.00 USD** Other

Below is the investment's estimated pre-operating expenses

Pre-operating expenses breakdown



- **20,000.00 USD** Salaries
- **5,000.00 USD** Sales & Marketing
- **5,000.00 USD** Other

Feasibility Study Result

The results shown below are the key metrics used worldwide by financial experts to assess the financial feasibility of an investment.

For further details, please refer to the methodology section of this report.

2,408,556.73 USD

Net Present Value (NPV)

4.13 USD

Cash on cash return

33.11954231 %

Internal rate of return (IRR)

1,000,000.00 USD

Total initial investment (including pre-operating expenses)

1,000,000.00 USD

Equity (including pre-operating expenses)

0.00 USD

Debt

1.00 %

Company specific risk

3,846,633.76 USD

Terminal Value

3.93 %

Cost of equity

Net Present Value (NPV)

Net Present Value

2,408,556.73 USD

Cost of Equity Parameters

Risk free rate (RFR): 0.69 %

Beta: 0.43

Market premium: 5.20 %

Company specific risk: 1.00 %

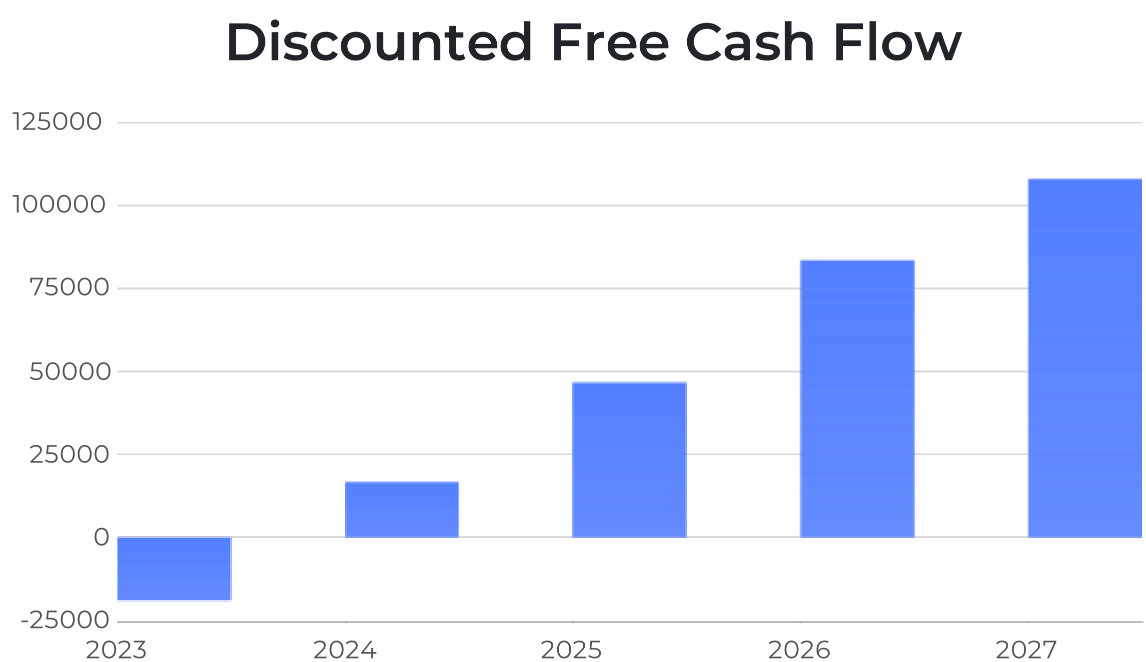
Cost of equity: 3.93 %

Long term growth: 1.70 %

Illiquidity discount: 20 %

Implied EBITDA multiple
21.37

Discounted terminal value
3,172,924.79



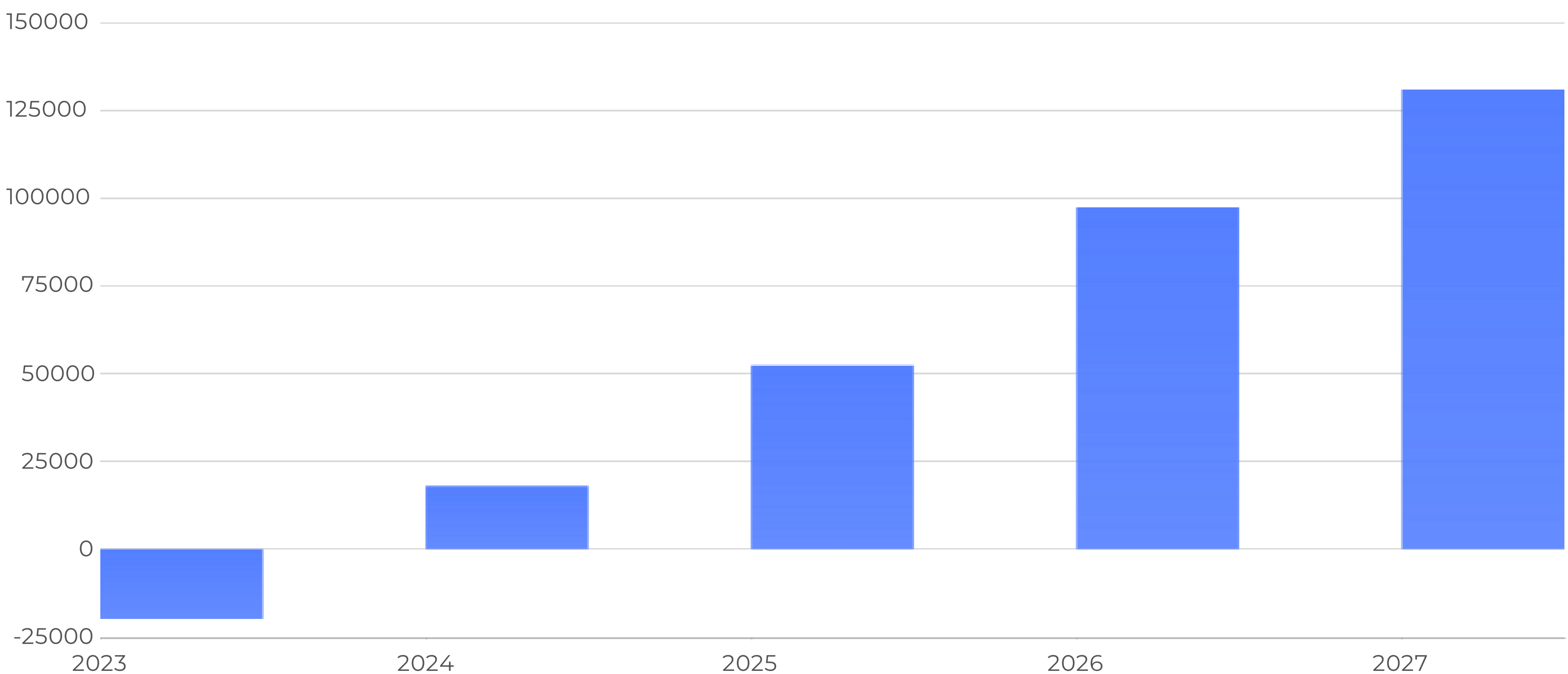
Internal Rate of Return (IRR)

Internal rate of return (IRR)
33.12 %

Implied EBITDA multiple
21.37

Terminal value
3,846,633.76

Free Cash Flow



Sensitivity analysis

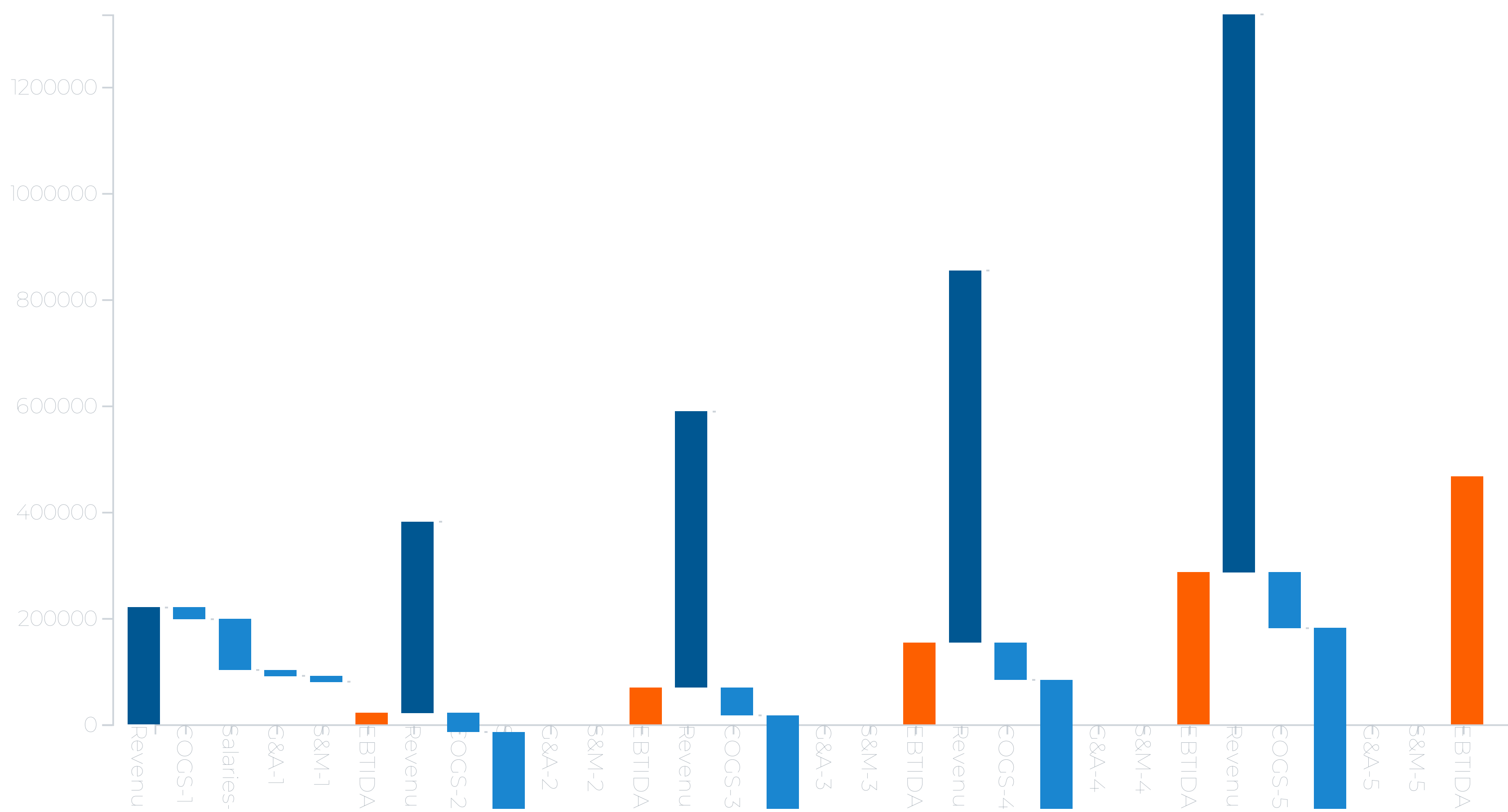
The sensitivity analysis below shows the change in the net present value (NPV) in the event of a change in the EBITDA multiple used in calculating the terminal value (TV).

The sensitivity analysis models the scenario of increasing / decreasing the EBITDA multiple by 10%, 20% and 30%.

EBITDA multiple (TV)	Net Present Value (NPV)
6.671	2,196,312.64
7.624	2,267,060.67
8.577	2,337,808.70
9.53	2,408,556.73
10.483	2,479,304.76
11.436	2,550,052.79
12.389	2,620,800.82

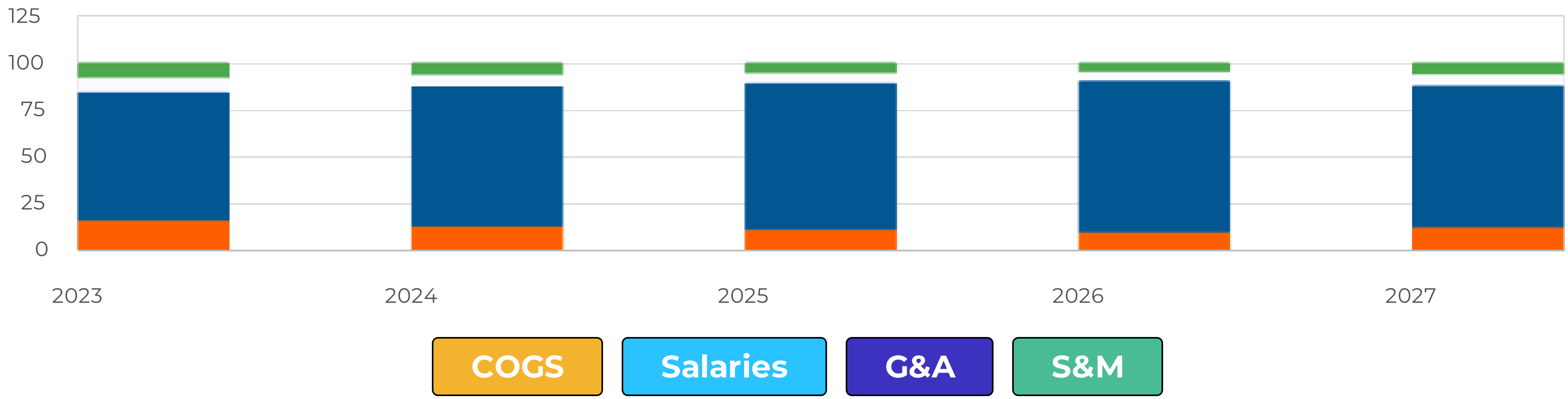
Projected EBITDA Bridge

The EBITDA flow bridge stated below illustrates the effect of each line item on the EBITDA during the forecasted period.

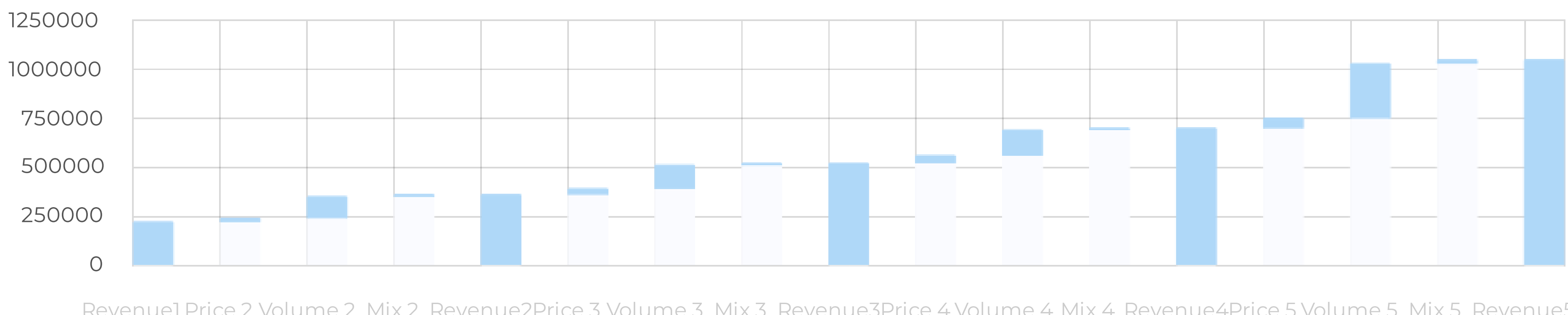


Projected Income Statement Analysis

Expenses analysis (% of total expenses)

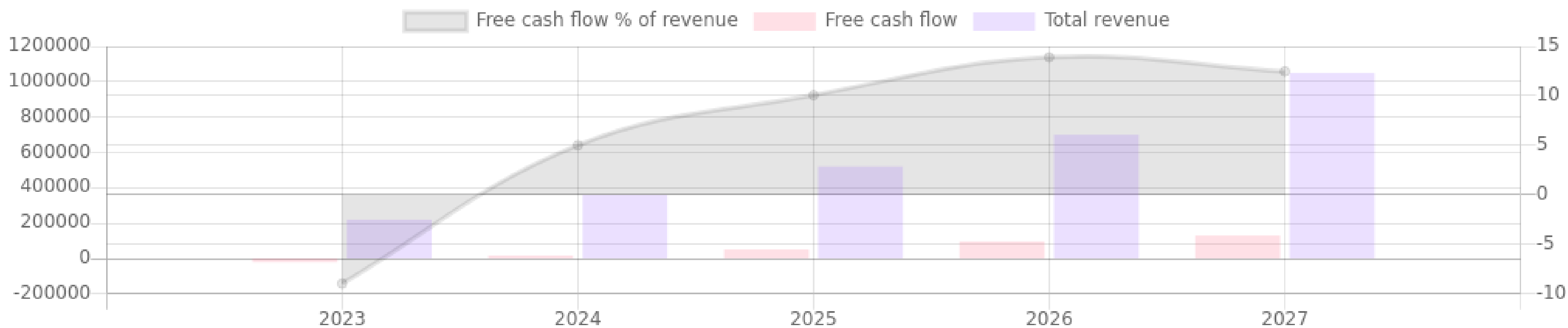


Price volume mix analysis (Revenue)

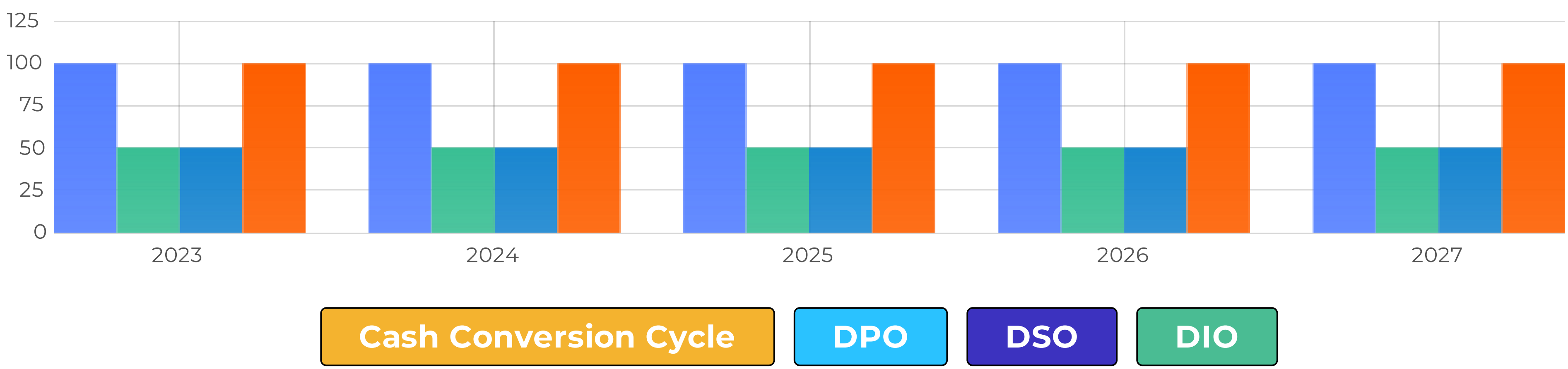


Projected Cash Flow Statement Analysis

Free cash flow (FCF) % of revenue

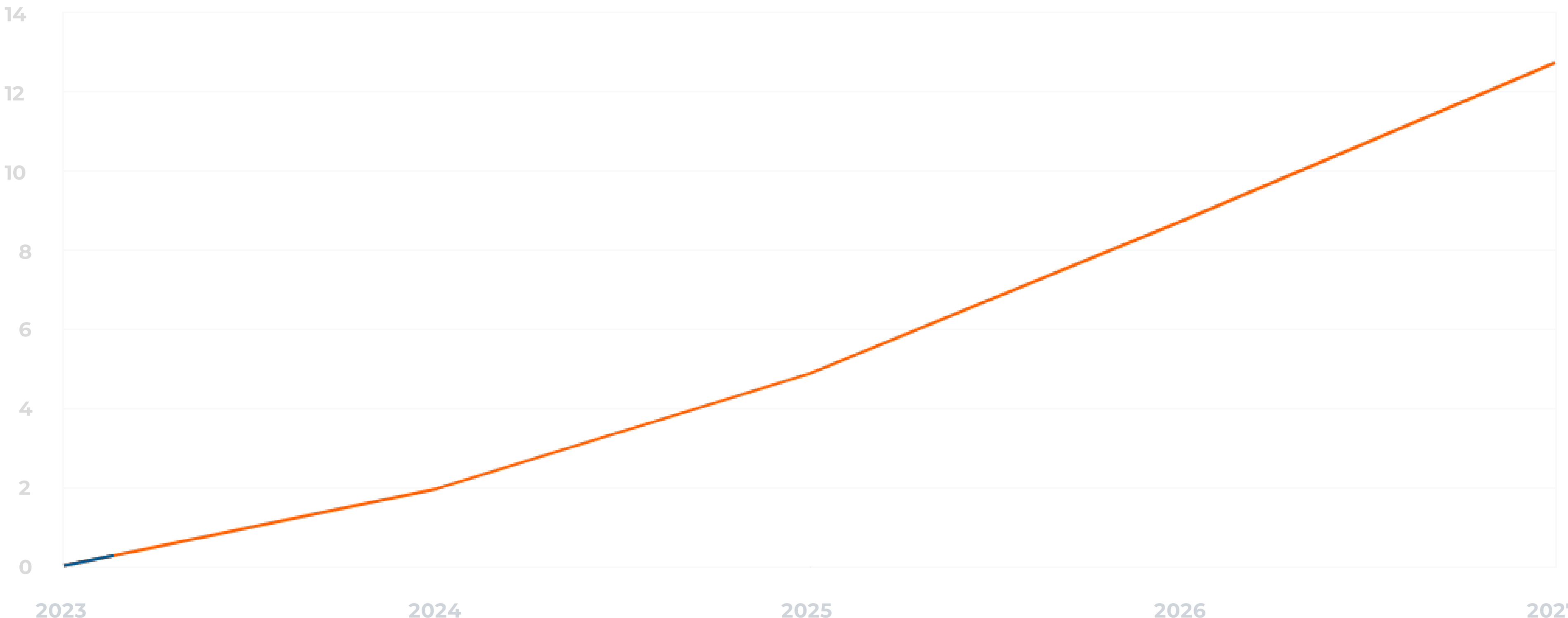


Cash conversion cycle (Working Capital)



Profitability Ratios

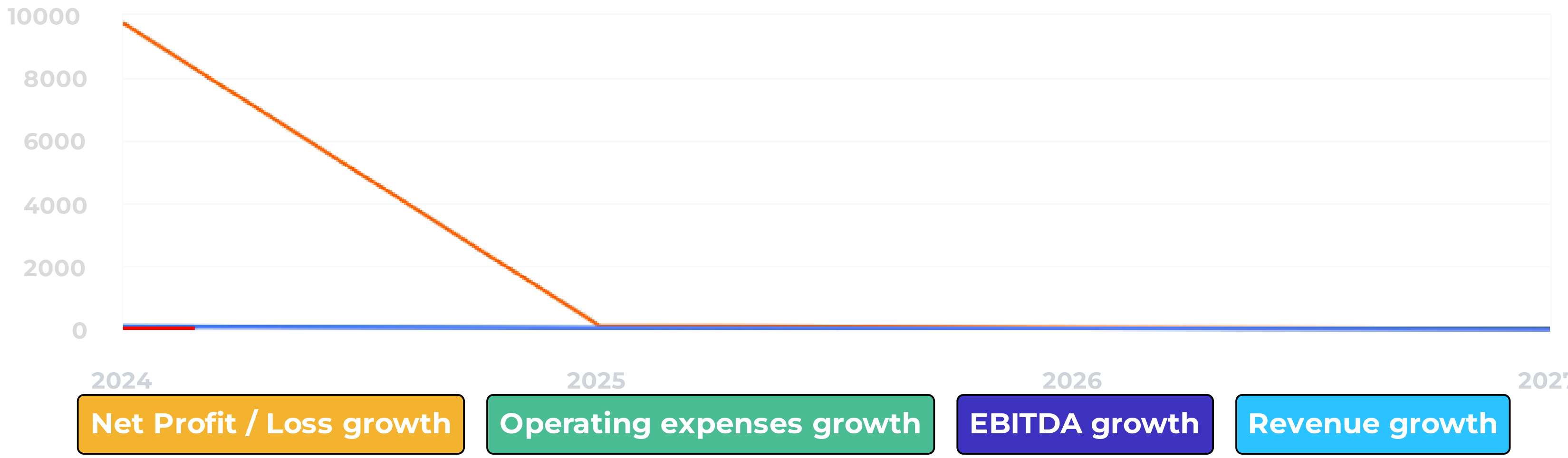
Projected return on equity / assets (%)



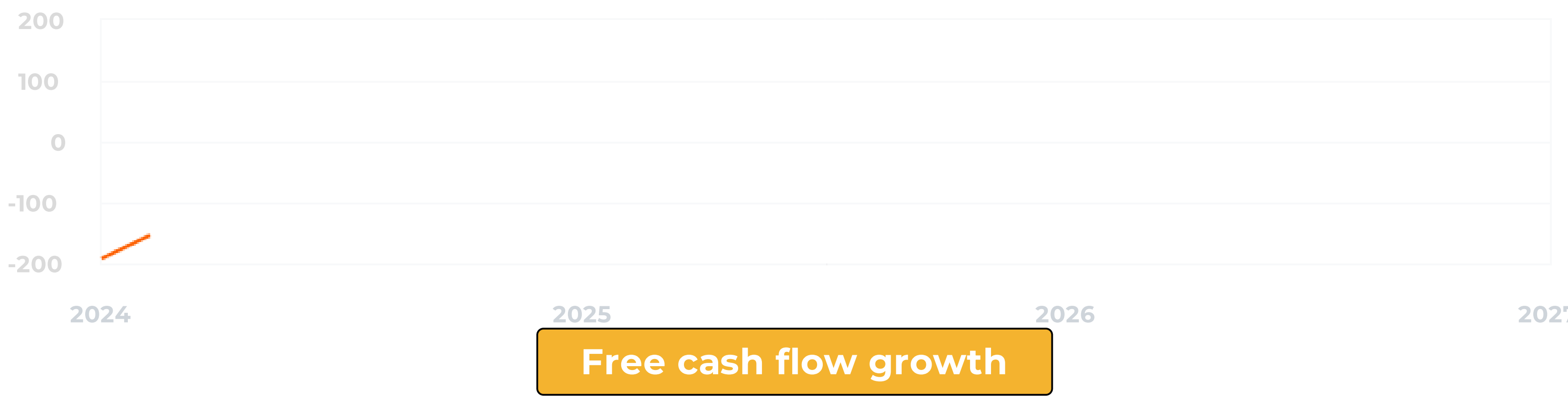
Return on Assets (ROA) | Return on Equity (ROE)

Growth Analysis

Projected income statement growth (%)

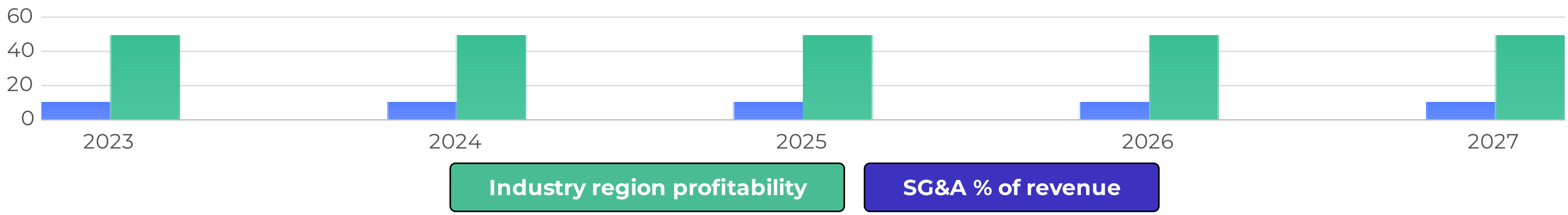


Projected Free Cash Flow Growth (%)

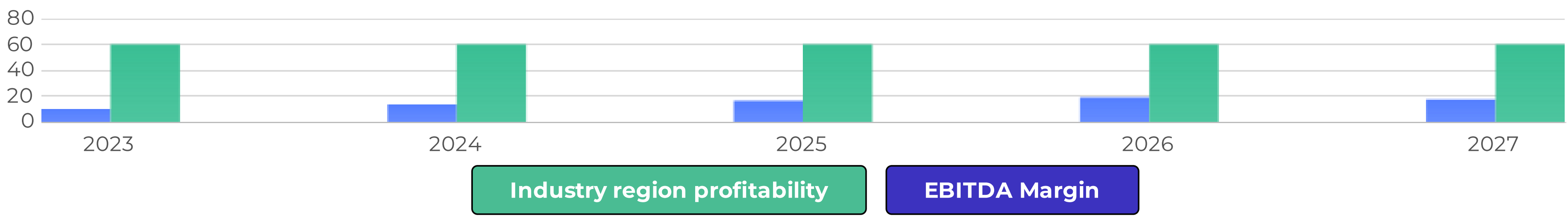


Profitability Ratios Industry Comparability

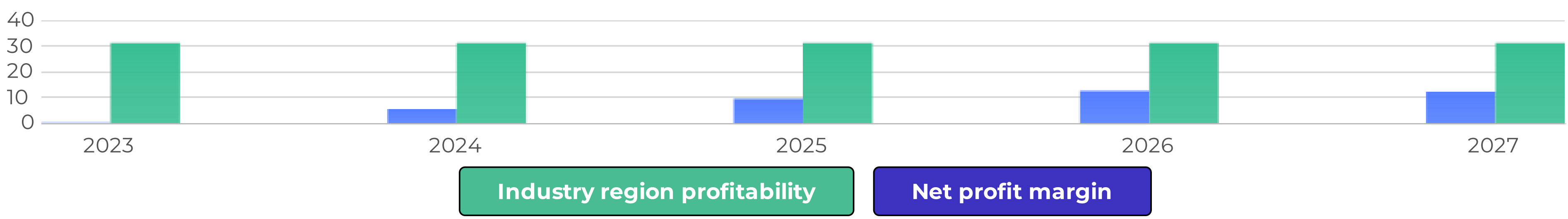
SG&A % of revenue



EBITDA margin



Net profit margin



Appendix (A): Projected Income Statement

Description	2022	2023	2024	2025	2026	2027
Average price per unit sold / service performed		110.00	120.00	130.00	140.00	150.00
Total number of units sold / services performed		2,000.00	3,000.00	4,000.00	5,000.00	7,000.00
Revenue		220,000.00	360,000.00	520,000.00	700,000.00	1,050,000.00
Cost of goods sold (COGS) / Direct expenses		22,000.00	36,000.00	52,000.00	70,000.00	105,000.00
COGS / Direct expenses % of revenue		10.00 %	10.00 %	10.00 %	10.00 %	10.00 %
Number of employees		4.00	6.00	8.00	10.00	10.00
Average monthly gross salary (incl. benefits)		2,000.00	3,000.00	4,000.00	5,000.00	5,500.00
Salaries		96,000.00	216,000.00	384,000.00	600,000.00	660,000.00
Salaries % of revenue		43.64 %	60.00 %	73.85 %	85.71 %	62.86 %
General and administrative (G&A)		11,000.00	18,000.00	26,000.00	35,000.00	52,500.00
G&A % of revenue		5.00 %	5.00 %	5.00 %	5.00 %	5.00 %

Appendix (A): Projected Income Statement

Selling and marketing (S&M)	11,000.00	18,000.00	26,000.00	35,000.00	52,500.00
S&M % of revenue	5.00 %	5.00 %	5.00 %	5.00 %	5.00 %
Pre-operating / Operating expenses	140,000.00	288,000.00	488,000.00	740,000.00	870,000.00
EBITDA	21,200.00	47,700.00	84,800.00	132,500.00	180,000.00
EBITDA margin	9.64 %	13.25 %	16.31 %	18.93 %	17.14 %
Depreciation	11,000.00	18,000.00	26,000.00	35,000.00	52,500.00
EBIT	10,200.00	29,700.00	58,800.00	97,500.00	127,500.00
EBIT margin	0.05 %	0.08 %	0.11 %	0.14 %	0.12 %
Interest expenses	0.00	0.00	0.00	0.00	0.00
EBT	10,200.00	29,700.00	58,800.00	97,500.00	127,500.00
Income tax	10,000.00	10,000.00	10,000.00	10,000.00	0.00
Income tax % of EBT	0.98 %	0.34 %	0.17 %	0.10 %	0.00 %
Net Profit / Loss	200.00	19,700.00	48,800.00	87,500.00	127,500.00
Net profit / loss margin	0.09 %	5.47 %	9.38 %	12.50 %	12.14 %

Appendix (B): Projected Cash Flow

The cash flow projections shown below indicates the company's projected net profit after depreciation, working capital (WC), capital expenditures (CAPEX) and debt payments.

Description	2023	2024	2025	2026	2027
Net profit / loss (before interest)	200.00	19,700.00	48,800.00	87,500.00	127,500.00
Depreciation	11,000.00	18,000.00	26,000.00	35,000.00	52,500.00
Net profit (after depreciation)	11,200.00	37,700.00	74,800.00	122,500.00	180,000.00
Accounts receivables	-30,898.00	-19,663.00	-22,472.00	-25,281.00	-49,157.00
Inventory	-3,013.00	-1,918.00	-2,192.00	-2,466.00	-4,794.00
Accounts payable	3,013.00	1,918.00	2,192.00	2,466.00	4,794.00
Change in working capital	-30,898.00	-19,663.00	-22,472.00	-25,281.00	-49,157.00
Operating cash flow	-19,698.00	18,037.00	52,328.00	97,219.00	130,843.00
Capital expenditure	0.00	0.00	0.00	0.00	0.00

Appendix (B): Projected Cash Flow

Debt payment	0.00	0.00	0.00	0.00	0.00
Debt acquired	0.00	0.00	0.00	0.00	0.00
Interest expense	0.00	0.00	0.00	0.00	0.00
Financing cash flow	0.00	0.00	0.00	0.00	0.00
Cash for the period	-19,698.00	18,037.00	52,328.00	97,219.00	130,843.00
Beginning cash balance	0	-19,698.00	-1,661.00	50,667.00	147,886.00
Ending cash balance	-19,698.00	-1,661.00	50,667.00	147,886.00	278,729.00

Abbreviations

Abbreviation	Description
CAPEX	Capital Expenditures
COGS	Cost of goods sold
DSO	Days sales on hand
DIO	Days inventory on hand
DPO	Days payable on hand
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes, depreciation and amortization
FCF	Free cash flow
G&A	General and administrative expenses
IRR	Internal rate of return
NPV	Net present value
RFR	Risk free rate
S&M	Selling and marketing expenses
SG&A	Selling, marketing, general and administrative expenses

Abbreviations

Beta

The beta measures how volatile an industry is relative to the market. In simple terms, if a beta is equal to one, that means that the industry is as risky as the average market risk. On the other hand, mean reversion adjusted beta takes into account that betas revert towards the mean value of one over time and is used only in our calculation of the terminal value.

Cash conversion cycle

The cash conversion cycle is a metric that expresses the time (measured in days) it takes for a company to convert its inventory into cash flows from sales. For example, if a company purchases supplies and pays the supplier 30 days after the purchase is made (Days payables on hand), then-after, the supplies stays in the inventory for 50 days before it is sold to a customer/client (Days inventory on hand) who pays the company in 40 days (Days sales on hand), in that sense the cash conversion cycle would be 60 days (40+50-30 days). In general, from a cash flow perspective, the lower the cash conversion cycle the better.

Company specific discount

Company specific discount refers to a discount applied to a company's valuation as a result of certain risks within the company that could potentially negatively affect the company going forward.

Abbreviations

Cost of equity

The cost of equity depicts the return that should be expected from an investor given the investment's risk. Cost of equity is calculated by taking various items into consideration, which includes the company's country of operations risk free return (explained below), the investment's sector as well as the market risk premium.

Depreciation

The monetary value of an asset decreases over time due to use, wear and tear or obsolescence. This decrease is measured as depreciation. Vehicles, buildings, machinery, IT software, IT hardware and equipment are examples of assets that are likely to depreciate over a specific period of time.

EBITDA / EBIT / Net profit margin

Profit margins are measures of profitability. It indicates how much EBITDA, EBIT or net profit is generated as a percentage of revenue.

Forward revenue

Forward revenue relates to the forecasted revenue during the next year (i.e. T+1).

Free cash flow

Free cash flow is the cash a company generates through its operations, minus the cash paid to purchase additional assets. (i.e. CAPEX) and plus/minus the debt collected/paid.

Abbreviations

Illiquidity discount

illiquidity discount refers to a discount applied to a company's valuation given that it cannot easily be sold without a loss / discount in value.

Implied multiple

Implied multiple refers to the equivalent of a value in relation to a certain multiple.

Market premium

The market premium is the difference between the expected return on an investment and the risk free rate in a specific country

Price volume mix analysis (revenue)

This analysis shows the effect of the increase/decrease of price and volume each year on the revenue.

Risk free rate

The risk-free rate of return is the rate of return of an investment with zero risk (in our current case, the return of a five/ ten year treasury bond generated in the company's country of operations). The risk-free rate represents the interest an investor would expect from an absolutely risk-free investment over a specified period of time, as such, the higher the investment's risk the higher return an investor would expect.

Abbreviations

Terminal value

Terminal value is the value of a company beyond the forecast period (in our case the five year forecast period) when future cash flows are estimated to increase by a stable growth rate.

Working Capital

The Working Capital computation stated in the free cash flow calculated by taking into consideration the accounts receivable days outstanding (the average number of days estimated to collect cash from credit customers/clients), inventory days on hand (the average number of days that a company takes to sell its inventory) and days payable outstanding (average number of days that a company takes to pay its suppliers). In simple terms, it is the difference between the net income stated in the income statement and the actual cash collected/paid, after adding depreciation expenses and excluding any debt repayments / collections and CAPEX payments.

Sources

The sources used in our calculations are as follows:

Revenue and EBITDA multiple / Industry Beta / Market Risk Premium

Source: Prof. A. Damodaran, NYU Stern School of Business and CI Capital Update: Annual Notes: EBITDA multiples is used for valuing mature companies, while, forward revenue multiples are used for start-up companies.

Risk free rate (5/10 year government bond rates)

Source: Tradingeconomics.com, International Monetary Fund (IMF), CBonds and various other finance websites Update: Semi- annually (Could be updated more frequently, depending on the market conditions)

Long term growth

Source: Tradingeconomics.com and International Monetary Fund (IMF) Update: Annual

Sources

The sources used in our calculations are as follows:

Illiquidity discount

Illiquidity discount is assigned in accordance to the development stage of the company and ranges between 10.0%-30.0%. Although, the range suggested by Prof. A. Damodaran ranges between 20.0%-30.0%, however, private mature companies shall be assigned a lower illiquidity discount of 10.0%, due to the fact that it is relatively easier to liquidate compared to start-up companies. Illiquidity discount does not apply to public companies. This discount is only applied in Valuation.

Company specific discounts

According to Front Figure’s research and analysis, the following company specific risks are applied and added to the cost of equity: Forecast risk, ranges between 0.0%-1.0%, depending on the level of conservatism of the forecasts used in the valuation applied Management risk, ranges between 0.0%-1.0%, , depending on the co-founders previous experience Start-up ranges between 0.0%-2.0%, , depending on the company’s current stage of development Legal risk, ranges between 0.0%-0.5%, depending on the legal status of the company (i.e. if there are any legal cases filed against the company) (Only used in Valuation)

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