UEST NV

Fairness opinion on equity valuation at 31 October 2020
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Valuation UEST on 31 Oct 2020

In KEUR	Value	Weight
DCF valuation - management forecast basis	**878**	**50,0%**
Trading multiple valuation based on revenue	1.865	0,0%
Trading multiple valuation based on EBITDA	549	100,0%
Trading multiple valuation based on EBIT	650	0,0%
Weighted average trading multiple valuation	**549**	**50,0%**
Required additional funding for working capital needs	(200)	
Retained enterprise value (EV)	**514**	**100,0%**
Cash	23	
Belfius bank debt (long & short term)	(450)	
Loan Alychlo	(53)	
Intercompany loan Crescent	(743)	
Intragroup intercompany payables	(20)	
Other intragroup payables	(5)	
Required funding for capex upgrade (250 KEUR)	p.m.	
Cash loss funding between 31 Oct and closing	p.m.	
Adjusted net financial debt on 31 Oct 2020	**(1.248)**	
Retained equity value (EqV) (100% aandelen)	**(735)**	**100,0%**
Impact intercompany loan waiver	743	
Retained equity value (EqV) (100% aandelen) (after debt waiver)	**8**	**100,0%**

Implied multiple valuation of retained enterprise value

In KEUR	FY20	Implied multiple FY20	FY21B	Implied multiple FY21B	EV
Revenue	519	*0,99x*	603	*0,85x*	514
EBITDA	(335)	*N/A*	61	*8,4x*	514
EBIT	(347)	*N/A*	51	*10,0x*	514
Retained enterprise value (EV)					**514**

Conclusion on the valuation of UEST

- We assume 514 KEUR to be the best estimate in this valuation range. This valuation implies an enterprise value of 8,4x the FY21B EBITDA. The best estimate is based on underlying assumptions :
  - The DCF valuation method was weighted at 50%.
  - As the company had negative EBITDA in FY19 and FY20, the EBITDA trading multiple method (at 40% non-marketability discount) was applied on FY21B EBITDA, and weighted at 50%.
  - The short term working capital requirements amount to 200 KEUR, which are currently not in the business. As a result, this amount should be deducted to arrived the retained enterprise value.
- The cash losses of the company were financed partly through bank loans and partly through intercompany loans. The current intragroup balance payable to Crescent group amounts to 748 KEUR. Also additional capex investments are needed to support product development in the next 12 months (estimated at 250 KEUR).
- Taken into consideration the current net financial debt position, the equity value of the business does not sustain the repayment of intragroup loans. Adjusted for a intragroup debt waiver, the equity value of the business amounts to 8 KEUR.
- Any additional cash funding of EBITDA losses between 31 Oct 2020 and closing have not been taken into consideration.
- As a result of the above, we consider the fair value of the shares in UEST, after intragroup debt waiver, to be between 0 KEUR and 10 KEUR.

Balance sheet

In KEUR	31 Oct 2020
Intangible assets	1
Tangible assets	2
Fixed assets	**3**
Inventories	192
Trade receivables	90
Trade payables	(174)
Trade working capital	**109**
Other liabilities	(177)
Other receivables	129
Other working capital	**(48)**
Working capital	**61**
Total assets employed	**64**
Share capital	(8.084)
Other reserves	(918)
Retained earnings	10.031
Result of period	135
Equity	**1.164**
Belfius bank debt (long & short term)	(503)
Intercompany loan Crescent	(743)
Other receivables interco	(5)
Cash	23
Net financial debt	**(1.228)**
Total financing	**(64)**

Business plan

		FC	**Budget**		
In KEUR	FY19	FY20	FY21	FY22	FY23
Revenue	468	519	603	743	888
Cost of Sales	(76)	(249)	(249)	(310)	(376)
Gross margin	**392**	**271**	**354**	**433**	**512**
Gross margin (in % revenue)	*84%*	*52%*	*59%*	*58%*	*58%*
Services and other goods	(478)	(591)	(253)	(253)	(258)
Personnel costs	(54)	(16)	(40)	(41)	(41)
Other operating income and charges	-	1	-	-	-
Overhead	**(532)**	**(605)**	**(293)**	**(293)**	**(299)**
Overhead (in % revenue)	*(114)%*	*(117)%*	*(49)%*	*(39)%*	*(34)%*
EBITDA	**(140)**	**(335)**	**61**	**140**	**213**
EBITDA (in % revenue)	*(30)%*	*(64)%*	*10%*	*19%*	*24%*
Depreciation & amortisations	(206)	(12)	(10)	(25)	(25)
EBIT	**(346)**	**(347)**	**51**	**115**	**188**

Overview of valuation methods applied

Overview of valuation methods applied

- In order to assess the fairness of the equity valuation of UEST, Finvision has withheld the following valuation methods :
  1. Multiples of comparable listed companies : Valuation based on multiples of future operating results of publicly traded peer companies.
  2. Discounted Cash Flow method : An income approach based on the future expected cash flow generating potential of the business, based on management business plan.

Enterprise valuation to equity valuation & value per share

- On the basis of the above valuation methods (DCF or comparable listed companies) an enterprise value is obtained. This valuation represents the value of the company, free of any cash and debt.
- In order to come to the equity value of the company, the enterprise value is adjusted for the (adjusted) net financial debt position of the company.
- In order to come to the value per share, the equity value is adjusted for the number of outstanding shares.

Enterprise value ± Net financial debt (-) / cash (+) = Equity value

DCF methodology

- The income approach is based on the premise that the value of a business is dependent on the value of the cash flows that the business can be expected to generate in the future.
- The enterprise value is obtained by summing up the discounted future free cash flows generated by the operations (after adjusting for the necessary capital expenditures and changes in working capital requirements). These residual free operational cash flows can be used to reimburse the invested capital (both debt and equity capital). The cash flows expected to be generated by a business are discounted to their present value equivalent, using a rate of return that reflects the relative risk of the investment, as well as the time value of money.
- The free cash flows to the firm (FCFF) are the cash flows before debt servicing (repayment of principal and financial charges) but after taxation, as follows :

Free cash flow calculation	
EBITDA - Adjusted taxes - Change in working capital requirements - Capital expenditures	**NOPLAT** - Depreciations - Change in working capital requirements - Capital expenditures
= FCFF	**= FCFF**

- NOPLAT is defined as Net Operating result Less Adjusted Taxes, which reflects a tax expense based on the operating result before financing expenses.
- Depreciations and amortizations are added back to NOPLAT, because these expenses do not reflect a cash outflow.
- Changes in net working capital are factored into the cash flows.
- Capital expenditures diminish the free cash flow and are to be subtracted. The DCF approach uses following formula to compute the net present value:
- The free cash flows are discounted using the WACC (Weighted Average Cost of Capital) as follows :

$$DCF = \frac{CF_1}{(1+WACC)^1} + \frac{CF_2}{(1+WACC)^2} + \dots \frac{CF_n}{(1+WACC)^n}$$

- The WACC consists of the cost of equity capital and the cost of debt capital. The WACC critically depends on industry and company specific risks. The discount factor is based on the required return for both debt capital and equity capital employed.
- The main advantages of the DCF method are as follows : (1) The method is not dependent on financial markets; and (2) It captures the company's future growth prospects. The main difficulties involved relate to accurately predicting medium to long term cash flows and the method's highly dependency on certain model parameters (e.g. WACC).

Multiples of comparable listed companies methodology

- The valuation method is relative rather than absolute, but serves as a sanity-check to DCF. The main difficulty lies in the selection of listed peers with real comparability.

The valuation will be performed based on a combination of the multiples method (of comparable listed companies) and the DCF valuation method.

DCF valuation UEST

In KEUR	FY21	FY22	FY23	FY24	FY25	Terminal value
Revenue	603	743	888	888	888	888
Cost of Sales	(249)	(310)	(376)	(376)	(376)	(376)
Overhead	(293)	(293)	(299)	(299)	(299)	(299)
EBITDA	**61**	**140**	**213**	**213**	**213**	**213**
Depreciations	(10)	(25)	(25)	(25)	(25)	(25)
EBIT	**51**	**115**	**188**	**188**	**188**	**188**
Taxes	-	-	-	-	-	(59)
Depreciations	10	25	25	25	25	25
Capex	(250)	(25)	(25)	(25)	(25)	(25)
Movement in working cap	(14)	(21)	(22)	-	-	-
Free cash flow	**(202)**	**94**	**166**	**188**	**188**	**128**
Terminal value						**1.134**
Period	-	1,5	2,5	3,5	4,5	5,5
Discount factor	1,00	0,85	0,76	0,69	0,62	0,55
Discounted FCF	**(202)**	**80**	**127**	**129**	**116**	**628**
Enterprise value	**878**					

Sensitivity analysis - enterprise valuation UEST

		WACC				
		9,32%	*10,32%*	*11,32%*	*12,32%*	*13,32%*
LTGR	*-2,00%*	971	870	784	710	647
	-1,00%	1.038	923	827	746	676
	0,00%	1.120	987	**878**	787	710
	1,00%	1.221	1.065	939	836	749
	2,00%	1.350	1.161	1.013	894	795

WACC calculation - UEST

	WACC	Source
Cost of equity		
Risk free rate	0,10%	20y OLO at 30 Nov 2020 (De Tijd)
Beta adjusted (unlevered)	1,15	Median of selected comparable companies (1-year beta)
Beta (levered by calculation)	1,71	Based on target capital structure
Equity risk premium	6,12%	Belgium equity risk premium (Damodaran July 2020)
Size premium	3,39%	Small firm premium / illiquidity premium (Duff and Phelps 2019)
Turnaround premium	3,00%	Historic losses, strong reliance on budget
Cost of equity	**16,95%**	
Cost of debt		
Risk free rate	0,00%	5y OLO at 30 Nov 2020 (De Tijd) floored at 0%
Debt margin	3,67%	Debt spread Telecom equipment (Damodaran Jan 2020)
Pre-tax cost of debt capital	3,67%	
Tax rate	25,00%	Corporate income tax rate Belgium
Cost of debt after tax	**2,75%**	
Capital structure		
Equity	60%	Target capital structure based on comparable companies (peer avg)
Debt	40%	Companies in the industry (Infront/Factset)
Debt to equity ratio	*66%*	
WACC - post tax	**11,32%**	
	0,00%	**LTGR**

Listed comparable companies

		Market Cap	Net debt	EV	LTM revenue	LTM EBITDA	EBITDA margin	LTM EBIT	EBIT margin	EV/Net Sales		EV/EBITDA		EV/EBIT		Unlevered beta					Equity
Company	Country	(in MUSD)	(in MUSD)	(in MUSD)	(in MUSD)	(in MUSD)	(in % rev)	(in MUSD)	(in % rev)	LTM	NTM	LTM	NTM	LTM	NTM	1 year	2 year	3 year	4 year	5 year	ratio (in %)
Analog Devices Inc.	USA	50.897	(4.089)	54.986	5.605	2.309	41,2%	1.501	26,8%	9,81x	8,79x	23,8x	19,8x	36,6x	21,3x	0,97	0,99	0,96	0,97	0,98	56%
Texas Instruments Inc.	USA	145.944	(416)	146.360	13.730	6.505	47,4%	5.305	38,6%	10,66x	9,86x	22,5x	20,8x	27,6x	23,7x	0,83	0,85	0,88	0,87	0,90	49%
Maxim Integrated Products Inc.	USA	22.028	620	21.408	2.277	855	37,5%	731	32,1%	9,40x	8,48x	25,1x	21,4x	29,3x	23,2x	0,94	1,04	0,98	0,98	1,00	46%
Monolithic Power Systems Inc.	USA	14.798	456	14.342	778	170	21,8%	150	19,2%	18,43x	15,45x	84,5x	50,3x	95,9x	51,9x	1,38	1,32	1,28	1,29	1,27	81%
NXP Semiconductors NV	NLD	44.463	(6.801)	51.264	8.404	2.642	31,4%	2.826	33,6%	6,10x	5,35x	19,4x	15,3x	N/M	18,1x	1,11	1,11	1,07	1,01	0,95	52%
STMicroelectronics NV	NLD	35.413	470	34.943	10.400	2.029	19,5%	1.067	10,3%	3,36x	3,16x	17,2x	13,1x	32,8x	20,8x	1,49	1,56	1,62	1,62	1,54	56%
Infineon Technologies AG	DEU	46.061	(4.806)	50.867	10.235	2.187	21,4%	683	6,7%	4,97x	3,96x	23,3x	14,4x	74,5x	27,6x	1,20	1,24	1,27	1,25	1,20	46%
Silicon Laboratories Inc.	USA	5.048	358	4.690	864	100	11,6%	31	3,5%	5,43x	4,96x	46,8x	25,5x	153,5x	27,3x	1,20	1,20	1,18	1,18	1,20	67%
Skyworks Solutions Inc.	USA	22.614	975	21.639	3.355	1.222	36,4%	892	26,6%	6,45x	5,44x	17,7x	12,8x	24,3x	15,3x	1,21	1,21	1,11	1,14	1,24	82%
Micron Technology Inc.	USA	71.502	1.499	70.003	21.408	8.707	40,7%	3.131	14,6%	3,27x	2,88x	8,0x	6,4x	22,4x	15,0x	1,15	1,25	1,36	1,39	1,35	73%
ON Semiconductor Corp.	USA	11.782	(2.740)	14.522	5.205	1.013	19,5%	326	6,3%	2,79x	2,57x	14,3x	11,5x	44,5x	19,6x	1,21	1,22	1,20	1,22	1,23	39%
Cirrus Logic Inc.	USA	4.482	314	4.168	1.244	242	19,4%	167	13,5%	3,35x	3,01x	17,2x	12,5x	24,9x	13,7x	1,00	0,94	0,96	1,04	1,07	77%
Semtech Corp.	USA	4.492	108	4.384	556	102	18,4%	65	11,7%	7,89x	6,98x	42,9x	22,8x	67,6x	27,0x	1,14	1,34	1,29	1,27	1,28	64%
Intel Corporation	USA	194.450	(15.878)	210.328	78.189	37.030	47,4%	25.009	32,0%	2,69x	2,94x	5,7x	6,6x	8,4x	9,9x	0,89	0,91	0,90	0,90	0,90	57%
Selected peer medians		**29.014**	**211**	**28.291**	**5.405**	**1.626**	26,6%	**811**	16,9%	**5,77x**	**5,16x**	**21,0x**	**14,9x**	**32,8x**	**21,0x**	**1,15**	**1,21**	**1,15**	**1,16**	**1,20**	**56,6%**
Selected peer average		**48.141**	**(2.138)**	**50.279**	**11.589**	**4.651**	29,5%	**2.992**	19,7%	**6,76x**	**5,99x**	**26,3x**	**18,1x**	**49,4x**	**22,5x**	**1,12**	**1,16**	**1,15**	**1,15**	**1,15**	**60,4%**

Source : Infront / Factset; consulted on 30 Nov 2020

Valuation NTM based on market multiples

Mediaan multiples	*5,16x*	*14,9x*	*21,0x*
Non-marketability discount	*(40,0)%*	*(40,0)%*	*(40,0)%*
Retained multiple	***3,09x***	***8,9x***	***12,6x***
Revenue/EBITDA/EBIT in FY21B	603	61	51
Market multiple valuation	**1.865**	**549**	**650**