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M&A Valuation: Art or Science?

ValuAsia Connect Webinar

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Table of Contents

	Contents	Page
1	Valuation in Deal Making and its Applications	3
2	Valuation Walkthrough in M&A	8
3	Case Study 1: Market Approach	10
4	M&A Valuation: Art or Science?	16
5	Case Study 2: Value Creation	18

1) Valuation in Deal Making and its Applications

Importance of communicating value to various stakeholders



Board of Directors



Targets / Controlling Shareholders



Offerors



Minority Shareholders



Regulators

Applications of Valuation



M&A: Buy and Sell Side Perspective

- As the financial adviser performing a trade sale or minority sale
- As a private equity fund or strategic looking to invest into a Company



Initial Public Offering (IPO)

- Pre-IPO and IPO Valuation



Financing and Reporting needs

- Valuation performed to obtain bank loans
- Revaluation of assets such as properties
- RNAV assessment



IFA: Delisting and Privatisations

- Valuation performed as an Independent Financial Advisor (“IFA”) to provide the fairness and reasonableness of the transaction

One of the Most Important Aspect of Valuation Applications → Exit Options: Trade Sale, Significant Minority Growth Capital and IPO

(i) Trade Sale

- Typically involves the sale of at least 51% equity
- Buyer gains control over decision-making, board composition, and strategic direction
- After acquisition, there will be active strategic management and value creation by the buyer

Exit Options



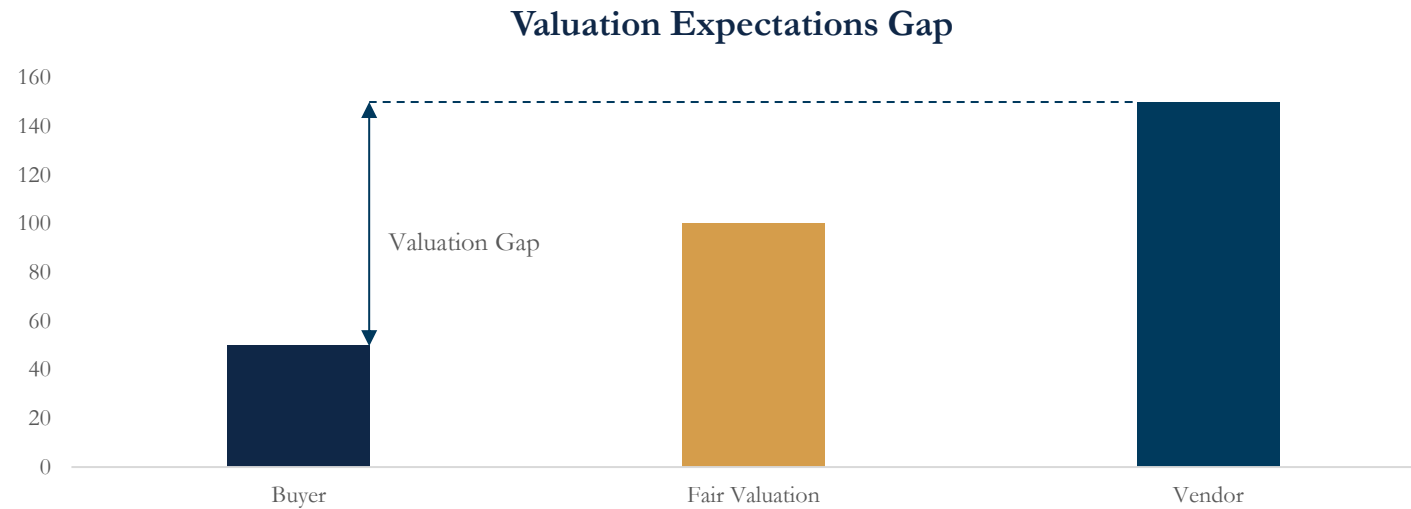
(ii) Significant Minority Growth Capital

- Typically involves the sale of 20% to 40% equity
- Minority rights and reserved matters
- Investor focus is usually on capital gains and strategic value-add, not control

(iii) IPO

- Typically involves the sale of minority stake in the form of new shares and vendor shares between 10% to 25%
- Company offers shares to the public on a stock exchange for the first time
- Brings in new shareholders (retail and institutional) with limited influence individually

Negotiations: Buyer vs Seller Expectations Gap



Buyers

Prefers

- Lowest possible valuation
- Buying up to maximum 75% stake for trade sale
- Lower upfront payment
- Earn-out terms, and in some cases profit guarantee
- Representations, warranties and restrictive covenants from vendor



Vendors

Prefers

- Highest possible valuation
- Selling 100% shares representing full exit for trade sale
- Maximum upfront payment
- Limited earn-out terms and no profit guarantee
- Minimal warranties, indemnities and restrictive covenants

2) Valuation Walkthrough in M&A based on the Market Approach

Valuation Walkthrough: With focus on Market Approach

Understanding the Business

Benchmarking against Industry Peers

Normalisation: Adjusting for one-off items

Control Premium

Valuation Sensitivity Analysis

Earn Out



3) Case Study 1: Market Approach

Case Study 1: Valuation of a leading K-12 Education Group

Understanding the Business



Company Overview

- Education Group with over 18 campuses spread across 9 countries
- Focuses on K-12 Education
- Through-train programme from kindergarten to pre-university based on internationally-accredited curriculum

Case Study 1: Valuation of a leading K-12 Education Group

Benchmarking against Industry Peers

Company Name	Listed On	Description	Market Cap (\$\$'mil)	Enterprise Value (\$\$'mil)	EV/ TTM EBITDA	TTM P/E	P / NAV
Company A	Bangkok	Company A provides educational services. The School offers various types of subjects such as language, sciences, social studies, and maths, as well as music, dance, art, and sports. Company A serves students in Thailand.	489	534	13.5x	18.2x	1.2x
Company B	US NASDAQ	Company B operates as a holding company. The Company, through its subsidiaries, provides private primary and secondary education services. Company B serves students in China.	240	260	10.6x	15.7x	1.3x
Company C	Hong Kong	Company C is a Chinese international school operator. The Company operates high schools, middle schools and elementary schools across various Chinese cities.	155	342	12.0x	17.9x	0.7x
Company D	Hong Kong	Company D is a K-12 private education company. The Company provides foreign exchange programs, mandates English to be taught and provides different schools with different focuses.	109	345	14.6x	18.0x	1.6x
Company E	Malaysia	Company E owns and operates two private independent schools in Malaysia that offer the international baccalaureate programs.	103	119	11.2x	16.7x	1.2x
Company F	Singapore	Company F operates as an elementary schools. The School offers early years curriculum and baccalaureate for children. Company F serves students in Singapore.	99	139	9.8x	15.5x	0.6x
Median					11.6x	17.3x	1.2x
Mean					12.0x	17.0x	1.1x
Min					9.8x	15.5x	0.6x
Max					14.6x	18.2x	1.6x

Case Study 1: Valuation of a leading K-12 Education Group

Adjusting for one-off items and Control Premium

$$[\text{Enterprise Valuation} = \text{Equity Valuation} + \text{Total Debt} - \text{Cash}]$$

Equity Valuation	S\$'m
Forecasted FY2026 TTM Adjusted EBITDA	20.0
<i>Mean EV / TTM EBITDA Multiple of comparable companies</i>	12.0x
Implied Enterprise Valuation	240.0
Net Cash	20.0
Implied Equity Valuation	260.0
Control Premium	10%
Implied Adjusted Equity Valuation	286.0

Adjusting One-off Items

Examples of Adjustments	S\$'m
Gain on Disposal	2.0
One-off Impairment losses	-1.0
Total	1.0

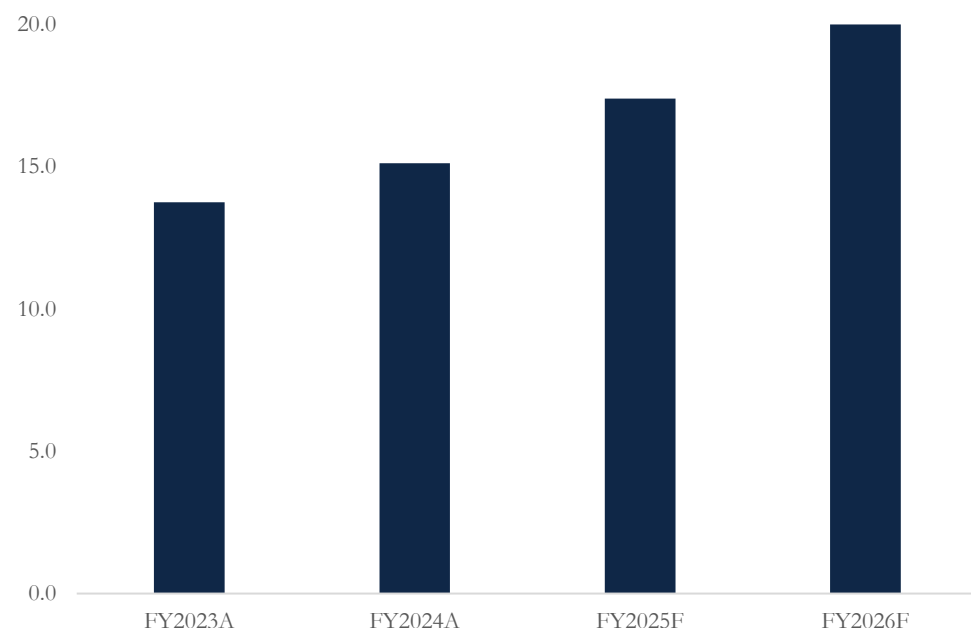
Net Cash Computation

Net Cash Components	S\$'m
Cash	30.0
Debt	10.0
Net Cash	20.0

Case Study 1: Valuation of a leading K-12 Education Group

Earn Out

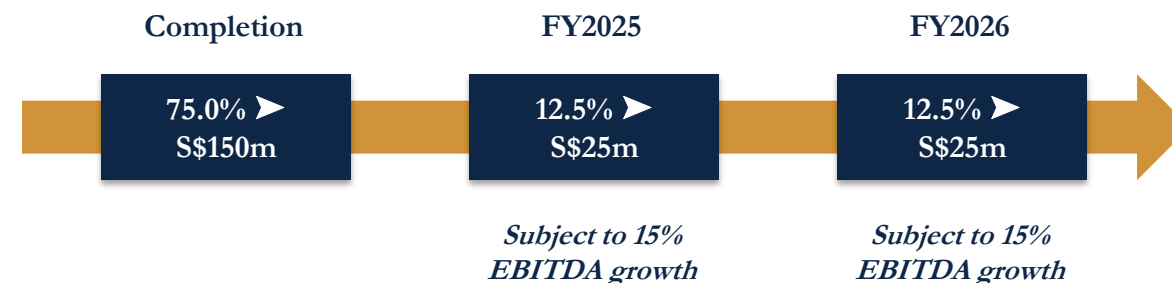
Financials (\$'m)



	FY2023A	FY2024A	FY2025F	FY2026F
EBITDA	13.7	15.1	17.4	20.0

Earn Out Structure

- With the Company priced at forward FY2026 EBITDA, an earn out structure is negotiated.
- Trade sale deal where the major shareholder sells 70% of the Company.
- The purchase consideration of **S\$200 million** (70% of S\$286 million) shall be paid out in the following tranches subject to the following:
 - 75.0% (S\$150m)** of the purchase consideration to be paid upon deal completion;
 - 12.5% (S\$25m)** of the purchase consideration to be paid in FY2025 subject to achieving audited FY2025 EBITDA of S\$17.4m (representing a 15.0% increase from FY2024 EBITDA);
 - 12.5% (S\$25m)** of the purchase consideration to be paid in FY2026 subject to achieving audited FY2026 EBITDA of S\$20.0m (representing a 15.0% increase from FY2025 EBITDA).



Case Study 1: Valuation of a leading K-12 Education Group

Valuation Sensitivity Analysis

Adjusted Equity Value (S\$m)		FY2025 and FY2026 EBITDA Growth (%)						
EV / EBITDA (x)		12%	13%	14%	15%	16%	17%	18%
	10.0x	231	234	238	242	246	250	254
	10.5x	241	245	249	253	257	261	265
	11.0x	252	256	260	264	268	272	277
	11.5x	262	266	271	275	279	284	288
	12.0x	272	277	281	286	291	295	300
	12.5x	283	288	292	297	302	307	312
	13.0x	293	298	303	308	313	318	323
	13.5x	304	309	314	319	324	329	335
	14.0x	314	319	325	330	335	341	346
	14.5x	325	330	335	341	347	352	358
	15.0x	335	341	346	352	358	364	369

4) M&A Valuation: Art or Science?

M&A Valuation: Art or Science?

Science

Structured Process, Data-Driven, Analytical Methods

Financial Models

Valuation Multiples

Industry Benchmarks
and Ratios



Art

Structured Process,
Competitive, Judgement,
Market Feel & Experience

Experience of the
Financial Advisor

Negotiations of
Valuation

Competitive Process /
Market Sentiments

M&A valuation is where Science anchors the value and Art commands the premium

5) Case Study 2: Value Creation

Case Study 2: Trade Sale of Target X



Combination of
Art and Science
Approach to
unlock
Shareholders'
Value

Transaction Overview

- Target X engages in the business of providing professional accounting, taxation and payroll services.
- Target X is 100% owned by the Promoter.
- The original appointed financial advisor secured a termsheet for Target X with an EV / EBITDA multiple of 7.0x.
- Promoter was unwilling to proceed on this valuation and terminated the mandate with the existing financial advisor.
- Promoter mandated a new financial advisor with very strong network of potential international investors that was able to enhance value creation significantly and led to deal closure.

Combination of Art and Science Approach

Combination of Art and
Science Approach

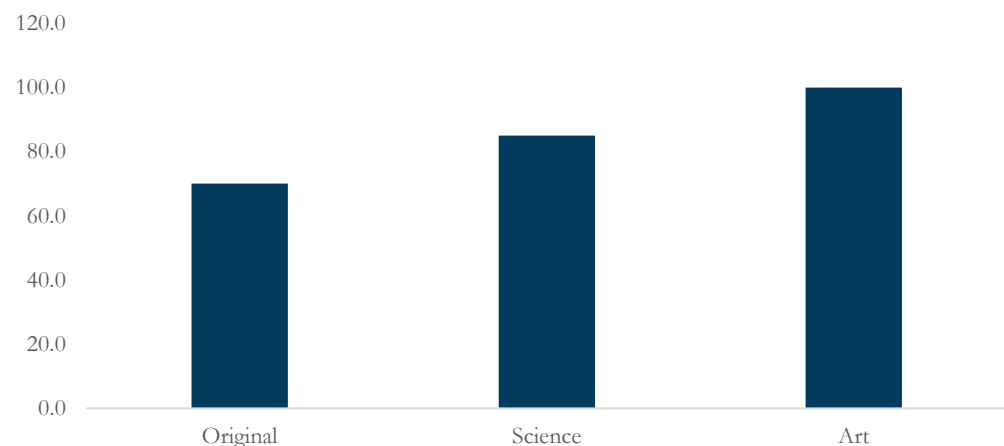


Maximizes Value Creation
and Deal Closure

Case Study 2: Trade Sale of Target X

- Original Termsheet received at 7.0x EV/EBITDA

Science and Art providing Significant Value-Add



	Original	Science	Art
EBITDA (S\$m)	10.0	10.0	10.0
EV / EBITDA	7.0x	8.5x*	10.0x*
Enterprise Valuation (S\$m)	70.0	85.0	100.0

Combination of Art and Science leads to additional value creation of S\$30.0 million.

Note*: Science – Enhancing the scientific technical approach enhances the valuation by 1.5x EV / EBITDA. Art – Competitive Auction process and negotiations enhanced the valuation by another 1.5x EV / EBITDA.

Highly Structured Process

Science

- Analysed the Company in detail: business segments, historical financials, growth plans, financial forecast and meetings with Management to arrive at a fair valuation of 8.5x EV/EBITDA (Science)
- 100 over pages Information Memorandum (“Info Memo”) with dataroom access that positions the Company and supports the valuation basis
- Info Memo provided targeted information that investors require and significantly reduces their work

Valued at 8.5x based on Science (primarily)

Art

- With termsheets on hand at 8.5x EV / EBITDA, a competitive auction process was held to further unlock shareholders’ value
- Highly targeted approach: knowing exactly to market the deal to leveraged buyout funds and new investors who want to enter this sector, or strategic investors
- After the competitive auction process, the final offer was raised to 10.0x EV / EBITDA amounting to a valuation of S\$100m (S\$30m Value Creation by having the right exclusive financial advisor)

Valuation increased to 10.0x EV / EBITDA via Art

*M&A valuation is where
Science anchors the value and
Art commands the premium*

- *Wayne Lee*



Mr Wayne Lee is the **Founder, Chairman and CEO of W Capital Markets** and the Founder and Chairman of WPE VCC. He holds over 22 years of experience in the investment banking & corporate finance industry advising on cross border M&As, leveraged buyouts, lead-managing IPOs on the Singapore Exchange and acting as Financial Adviser to SGX listed companies. Furthermore, he has completed many equity capital markets fund raising transactions, including Pre-IPO, placement of listed company shares, convertible bonds and preference shares. To-date, Mr Wayne Lee has completed more than 100 corporate finance transactions, including acting as the sell-side Financial Adviser for the trade sale of TES-AMM which won the **'Best PE Exit of the Year'** in 2013 awarded by the Singapore Venture Capital Association ("SVCA") and many other prominent deals.

Prior to founding W Capital Markets, Mr Wayne Lee was the CEO, Executive Director & Head of Corporate Finance at Tata Capital Markets (wholly-owned subsidiary of the Indian Tata Group) where he started and built its investment banking business over a span of 7 years in Singapore. With that background and experience, he was able to build deep relationships and network with over 400 international private equity funds, strategic investors and international family offices and has also established a strong network of and deep relationships with founders and top management of SGX-listed companies and entrepreneurs in the Asia Pacific region. Mr Wayne Lee also previously held several senior corporate finance positions at various established financial institutions, including AmFraser Securities, Hong Leong Finance, Daiwa Securities SMBC and UOB Asia.

Mr Wayne Lee holds a Masters of Science (MSc) in Financial Economics from Cardiff University and Bachelor of Business from Nanyang Technological University. He is also a Chartered Alternative Investment Analyst ("CAIA") and a Chartered Valuer & Appraiser ("CVA"). Mr Wayne Lee currently sits on the Advisory Board of the CAIA Singapore since 2019 and was on the Executive Committee as its Treasurer from 2012 to 2019. He also currently sits on the CMFAS Exams Industry Panel for Corporate Finance since February 2021 and is a 3-term appointed council member of the Institute of Valuers and Appraisers, Singapore ("IVAS") since June 2021.

In 2022, Mr Wayne Lee won the prestigious **EYA Entrepreneur of the Year - New Entrepreneur Category**.