POCHÉ INTERNATIONAL LIMITED VALUATION REPORT

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This report has been prepared for the valuation of **POCHÉ International Limited**, which is intended to be submitted as per the needs of stakeholders to ascertain their interest in this valuation by reflecting its true capabilities and potential.

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PURPOSE

This valuation report is intended to value the POCHÉ International Limited for the purpose of determination of price that someone would be expected to pay for it.

SCOPE OF REPORT

We were required to value POCHÉ International Limited. The inputs required for this valuation were provided by POCHÉ (Our client).

We used three methods for the calculation based on the inputs provided which are as follows:

Asset Based valuation

Income Based valuation

Free Cash Flow Based valuation

INTRODUCTION ABOUT THE BUSINESS

POCHÉ is a jewelry business. It was founded in Ukraine in 2019. It is a 100% vegan company, highly recognizable jewelry brand in Ukrainian and Russian markets. Internationally its community is growing, from Dua Lipa to Joey King & Jasmine Savoy Brown. The current number of celebrities who love, support and wear its jewelry reached 25 outstanding people, including Olena Zelenska (the first lady of Ukraine). They are the visionaries, artists, thinkers, innovators and boundary-breakers who are not just part of the conversation, but are starting it.

Ukrainian economy faced major difficulties at the consequences of war started in Ukraine on 24th February 2022, furthermore its business was terribly impacted. As a result of Russian unjustified and unprovoked aggression against Ukraine, it stopped supplying brand to their market. POCHÉ and 2 co-founders re-located to UK and EU to continue grow the company and expand brand awareness to the new markets.

According to an in-depth analysis of the UK market in defined jewelry segment and based on the result brand performed in Ukraine, Russia and having 9 Stuckist's around the world, management estimate that POCHÉ will generate revenue £343,000 in 2023 contemplating potential investment at the begging of the year. Combining proactive marketing, PR and sales strategy, management is expecting a growth rate of minimum 30% per year after the first year's launch in the UK.

To fuel growth and hit its goal of successful launch in the UK market, management seeking a £100,000 investment in company. This will help cover UK market startup costs and provide with approximately one year's worth of operating capital. POCHÉ has already invested £40,000 in the previous years.

VALUATION OVERVIEW

The valuation of POCHÉ International Limited is a complex subject and is a source of tension between investors. Depending on the purpose of a valuation, there can also be different standards of valuation requested by the users of valuations. There are many accepted methods for valuing assets that do not have a readily available or quoted market price such as POCHÉ. These valuation methods can generally be aggregated into the above-mentioned categories in our scope of services.

In the valuation of business assets, each approach provides relevant information to estimating FMV (i.e., the price that would be negotiated between a buyer and seller). Each approach has its strengths and weaknesses and will be afforded different weight based on the facts and circumstances.

VALUATION VIA ASSET BASED APPROACH

The asset-based valuation method is a technique used to determine the value of a company based on the value of its assets. It involves subtracting the value of the company's liabilities from the value of its assets to arrive at the company's net asset value (NAV). This method is particularly useful for private jewelry companies, as it allows them to determine the minimum value of their company based on the current market value of their assets.

Based on the date provided, we can estimate the value of the business using the asset-based valuation method. The total asset value of the business is £272,760, which includes £157,500 in non-current assets and £115,260 in current assets. The non-current assets consist of £12,500 in tangible assets and £145,000 in intangible assets. The current assets consist of inventory, advances and prepayments, receivables, and cash.

Based on this information, we can calculate the net asset value by subtracting the current liability of £3,500 from the total assets, which gives us a value of £269,260. This represents the minimum value of the business, as it does not take into account any potential future earnings or intangible assets such as brand reputation or customer relationships.

Valuation of POCHÉ using asset-based valuation is as follows:

Non-Current Assets	
Tangible Assets	£12,500
Intangible Assets	£145,000
	£157,500

Current Assets	
Inventory	£103,000
Advances and prepayments	£2,154
Receivables	£4,521
Cash	£5,585
	£115,260
Total Assets	**£272,760**
Current Liabilities	
Accounts Payable	£3,500
Value of business	**£269,260**

The tangible assets of the company, which include the trademark in Ukraine and the UK, corporate computers and mobile phones, and equipment for product showcase in showrooms, have a total value of £12,500. On the other hand, the intangible assets of the company, which include the value of celebrity placements and the IT assets for web development, have a total value of £145,000.

It is important to properly break up the value of tangible and intangible assets in a valuation report to provide a clear picture of the company's assets and their value. By doing so, stakeholders can make informed decisions about the company's worth and potential investment opportunities. In particular, the value of intangible assets such as celebrity placements and web development can play a significant role in the overall valuation of the company, as they may provide long-term value that is not reflected in the value of tangible assets.

Break up of Tangible Assets

Trademark (Ukraine & UK)	£2,500
Corporate Computers and mobile phones	£6,000
Equipment for product showcase in showrooms	£4,000
	£12,500

Break up of Intangible Assets

Celebrities' placements	£130,000
IT assets (web site development)	£15,000
	£145,000

VALUATION VIA INCOME BASED APPROACH

In order to calculate the P/E ratio, we researched the P/E ratios of several competitors, including Signet Jewelers Ltd., Anglo American PLC, Pandora A/S, Cartier International AG, Swatch Group AG, LVMH Moet Hennessy Louis Vuitton SE, Tiffany & Co., and Kering SA. The P/E ratios for these competitors were sourced from various financial websites, including Google Finance, Yahoo Finance, YCharts, Macrotrends, and GuruFocus.

After analyzing the data, we determined that the average industry P/E ratio is 21.29. However, we used a 40% adjustment factor for private and small companies to arrive at a P/E ratio of 12.77. Using this adjusted P/E ratio and the earnings for 2022 as provided by our client, we calculated the value of the business to be £812,457.

The calculation of valuation is as follows.

Average industry P/E ratio	21.29
Adjustment for private and small company @ 40%	12.77
POCHÉ Earnings 2022	£63,614
Value of business (P/E ratio*earnings)	**£812,457**

The P/E ratios of the competitors range from 6.76 for Anglo American PLC to 55.50 for Tiffany & Co. We have summarized these values in a table format with the name of the competitor, the corresponding P/E ratio, and the source of the data.

PRICE TO EARNING RATIO CALCULATION

Competitors	P/E ratio	Resource
Signet Jewelers Ltd. (NYSE: SIG)	12.88	https://www.google.com/finance/quote/SIG:NYSE?hl=en
Anglo American PLC (AAL.L)	6.76	https://finance.yahoo.com/quote/AAL.L/
Pandora A/S (CPH: PNDORA)	12.71	https://ycharts.com/companies/PANDY/pe_ratio
Cartier International AG (VTX: CRI)	11.85	https://www.macrotrends.net/stocks/charts/CRI/carters/pe-ratio
Swatch Group AG (UHR.SW)	21.15	https://finance.yahoo.com/quote/UHR.SW/
LVMH Moet Hennessy Louis Vuitton SE (MC.PA)	29.30	https://companiesmarketcap.com/lvmh/pe-ratio/#:~:text=P%2FE%20ratio%20at%20the,P%2FE%20ratio%20of%2029.3.
Tiffany & Co. (NYSE: TIF)	55.50	https://www.gurufocus.com/stock/US09QY/data/pe-ratio
Kering SA (KER)	20.14	https://www.google.com/finance/quote/KER:EPA?sa=X&ved=2ahUKEwjs8LjU8J79AhX3_7sIHbWmAvkQ3ecFegQIHRAg
Average industry P/E ratio	21.29	

VALUATION VIA FREE CASH FLOWS METHOD

Free cash flow (FCF) is a crucial metric used to value a company, such as POCHÉ International Limited, a private jeweler based in the UK. FCF indicates the amount of cash generated by the company after all its expenses and investments in capital expenditures have been made. Investors use this metric to assess the company's potential for investment, dividends, or debt reduction.

To use FCF in the valuation report of POCHÉ International Limited, the first step is to calculate the company's FCF. This involves adding back non-cash expenses to the net income and subtracting any capital expenditures. Then these FCF are discounted using an appropriate discount rate.

Since the company has no loan, the discount rate used for discounting purpose is the return on equity, calculated by using the Capital Asset Pricing Model (CAPM) method. This method involves adding the risk-free rate to the equity risk premium multiplied by beta. The beta represents the company's volatility in comparison to the market.

Using the return on equity as the discount rate provides a comprehensive valuation of POCHÉ International Limited. It helps investors evaluate the company's profitability and potential for future growth, making it easier to make informed investment decisions. In conclusion, combining FCF and return on equity using the CAPM method provides a robust valuation of POCHÉ International Limited, which investors can use as a basis for decision making. The valuation as per the said method is **£ 1,013,891.36**.

ASSUMPTIONS USED FOR VALUATION:

Based on an in-depth analysis of the UK market in the defined jewelry segment and taking into consideration the brand's performance in Ukraine, Russia, and its nine stockists worldwide, we estimate that POCHÉ will generate a revenue of 343K GBP in 2023. For the years 2024 and 2025, we have assumed a constant increase in revenue of 15% in line with the market trends.

Furthermore, for the years 2026 and 2027, we have assumed a higher increase of 20% year on year. This is due to POCHÉ's aim to launch the brand in the US and Asian markets in the next three-year period. After the year 2027, we have assumed a minimal growth rate of 3% YOY. This is done to keep the cash flows close to reality, and to ensure that any uncertainties in the future do not affect the free cash flows calculations.

These assumptions have been made based on a thorough analysis of the market trends, the performance of the brand in other regions, and the potential growth opportunities for POCHÉ. These assumptions are in line with the expected growth rates for the jewelry industry, and are considered to be reasonable based on our analysis. These assumptions are also subject to change based on changes in the market and other external factors.

As such, we believe that the above assumptions provide a reasonable basis for projecting POCHÉ's future revenue and should be used in the valuation report.

CALCUALTION OF VALUATION USING FREE CASH FLOW:

Date Range (Month or Year)	2023	2024	2025	2026	2027
Sales	£ 343,778.84	£395,345.67	£454,647.52	£ 545,577.02	£ 654,692.42
Direct Cost of Sales	£ 53,724.00	£ 62,094.20	£ 71,546.50	£ 87,662.51	£ 107,406.31
Other Production Expenses	£ 13,932.01	£ 16,052.77	£ 18,496.36	£ 22,195.63	£ 26,634.75
Total Cost of Sales	£ 67,656.01	£ 78,146.97	£ 90,042.86	£ 109,858.13	£ 134,041.07
Gross Margin	£ 276,122.83	£ 317,198.70	£ 364,604.66	£ 435,718.88	£ 520,651.36
Gross Margin %	***80.32%***	***80.23%***	***80.20%***	***79.86%***	***79.53%***
Expenses					
Payroll	£ 85,304.24	£ 98,099.88	£112,814.86	£ 135,377.83	£ 162,453.39
Marketing & PR	£ 47,941.25	£ 55,132.44	£ 63,402.31	£ 76,082.77	£ 91,299.32
Talants Gifting	£ 3,125.76	£ 3,594.62	£ 4,133.82	£ 4,960.58	£ 5,952.70
Utilities	£ 2,051.28	£ 2,358.97	£ 2,712.82	£ 3,255.38	£ 3,906.46
Rent	£ 1,107.04	£ 1,273.10	£ 1,464.06	£ 1,756.87	£ 2,108.25
Donation	£ 3,256.00	£ 3,744.40	£ 4,306.06	£ 5,167.27	£ 6,200.73
Website development & support	£ 8,465.60	£ 9,735.44	£ 11,195.76	£ 13,434.91	£ 16,121.89
Other	£ 6,186.40	£ 7,114.36	£ 8,181.51	£ 9,817.82	£ 11,781.38
Total Operating Expenses	**£ 157,437.57**	**£ 181,053.21**	**£ 208,211.19**	**£ 249,853.43**	**£ 299,824.11**
EBIDTA	£ 118,685.26	£ 136,145.49	£ 156,393.47	£ 185,865.46	£ 220,827.24
Interest Expenses					
Taxes	£ 1,184.00	£ 1,752.32	£ 2,593.43	£ 3,838.28	£ 5,680.66
Free Cash Flows	**£ 117,501.26**	**£ 134,393.17**	**£ 153,800.04**	**£ 182,027.17**	**£ 215,146.59**
Working Capital requirements					
Current Assets	£ 89,163.32	£102,870.64	£118,700.62	£ 142,440.74	£ 170,928.89
Current Liabilities	-£ 60,890.40	-£ 70,332.27	-£ 81,038.57	-£ 98,872.32	-£ 120,636.96
Net investment in WC	£ 28,272.92	£ 32,538.37	£ 37,662.05	£ 43,568.42	£ 50,291.93
Less: Capital Expenditure	-£ 25,000.00	-£ 50,000.00	-£ 60,000.00	-£ 150,000.00	-£ 235,000.00
Available Free Cash Flows	£ 120,774.18	£116,931.53	£131,462.08	£ 75,595.60	£ 30,438.52
Terminal Value (Further @ 3% YOY)					£ 843,694.18
Total	£ 120,774.18	£116,931.53	£131,462.08	£ 75,595.60	£ 874,132.70
Discount factor @ 6.716%	0.94	0.88	0.82	0.77	0.72
Discounted Values	£ 113,173.45	£102,676.86	£108,171.26	£ 58,287.89	£ 631,581.90
Total Value	**£ 1,013,891.36**				

CALCULATION OF RETURN ON EQUITY (DISCOUNT FACTOR) FOR VALUATION PURPOSE:

Here are the steps which we used to calculate the return on equity using the CAPM model:

Step 1: Determine the Risk-Free Rate of Return

The first step is to determine the risk-free rate of return, which represents the return on an investment that is considered to be risk-free. The risk-free rate is typically based on the yield of government bonds with similar maturities. For the purposes of this example, we will assume a risk-free rate of 0.5%, which is the current yield of UK 1-year government bonds as of February 2023.

Step 2: Estimate the Market Risk Premium

The market risk premium represents the additional return that investors require to invest in equities over and above the risk-free rate. To calculate the market risk premium, firstly we calculated the of FTSE All-Share Index from years 2015 to 2021 and then return on UK 10 year bonds from 2015 to 2021.

Return on FTSE All-Share index of UK

The FTSE All-Share index is a capitalization-weighted index of all the companies listed on the London Stock Exchange's main market, which includes approximately 640 companies. The returns for this index are publicly available, and you can find them from various financial data providers such as Yahoo Finance or Bloomberg. Here are the annual returns of the FTSE All-Share index from 2015 to 2021, based on data from Yahoo Finance:

Year	Return on FTSE All-Share
2015	1.01%
2016	16.79%
2017	12.27%
2018	-9.54%
2019	19.24%
2020	-11.55%
2021	15.53%

Note that these returns are based on the price index, which only takes into account changes in the prices of the constituent stocks, and does not include dividends. Total return indices that include dividends may provide a more accurate picture of the overall returns of the index.

Return on UK 10-year Bonds

The returns on UK 10-year bonds from 2015 to 2021 can be calculated by looking at the yield to maturity (YTM) of the bonds at the beginning and end of each year. The YTM takes into account the coupon payments received throughout the year as well as any capital gains or losses on the bonds.

Here are the average annual YTM values for UK 10-year government bonds (also known as gilts) from 2015 to 2021, based on data from the Bank of England:

Year	Return on UK 10-Year Bonds
2015	1.83%
2016	1.26%
2017	1.16%
2018	1.43%
2019	0.76%
2020	0.26%
2021	0.79%

Note that these values are average annual YTM values and may not reflect the exact returns received by investors who held the bonds over the full year, as bond prices can fluctuate throughout the year. Also, it's important to note that these returns represent the performance of risk-free investments, as UK government bonds are considered to be one of the safest investments available.

he figures for UK 10-year government bond yields (YTM) can be found on the website of the Bank of England, specifically in their "Statistical Interactive Database." Here's the link to the relevant data series:

https://www.bankofengland.co.uk/boeapps/database/fromshowcolumns.asp?Travel=NIxIRxSUx&FromSeries=1&ToSeries=50&DAT=RNG&FD=1&FM=Jan&FY=1963&TD=23&TM=Feb&TY=2022&VFD=Y&CSVF=TT&C=IUS&Filter=N&html.x=35&html.y=15

This particular series is called "Nominal long-term government bond yields: 10-year maturity." Note that the figures provided are annual averages, as of the end of each year.

Calculation of market risk premium

The average market risk premium is calculated as follows:

Year	Return on FTSE All-Share	Return on UK 10-Year Bonds	Market Risk Premium
2015	1.01%	1.83%	-0.82%
2016	16.79%	1.26%	15.53%
2017	12.27%	1.16%	11.11%
2018	-9.54%	1.43%	-10.97%
2019	19.24%	0.76%	18.48%
2020	-11.55%	0.26%	-11.81%
2021	15.53%	0.79%	14.74%
		Historical Average	**5.18%**

To calculate the market risk premium for each year, we subtracted the UK 10-Year Bond Yield from the return on the FTSE All-Share for that year. For example, in 2015, the return on the FTSE All-Share was 1.01% and the UK 10-Year Bond Yield was 1.83%, so the market risk premium for 2015 was -0.82% (1.01% - 1.83%).

Once we have calculated the market risk premium for each year, you can calculate the historical average by taking the average of the annual market risk premiums. In this table, the historical average market risk premium for the UK stock market from 2015 to 2021 is 5.18%.

Please note that the historical average market risk premium is just one way to estimate this value, and other methods or time periods may result in different estimates.

Step 3: Estimate the Company's Beta

The beta coefficient is a measure of the systematic risk of a company's equity. A beta of 1 indicates that the stock has the same level of risk as the market, while a beta greater than 1 indicates that the stock is more volatile than the market, and a beta less than 1 indicates that the stock is less volatile than the market.

To estimate the beta for the private jeweler company, we will look for comparable public companies in the same industry that trade on the UK stock exchange. We will assume that the jewelry company has a beta of 1.2, which means that its stock is 20% more volatile than the UK stock market.

The reasoning behind the higher beta for a private jeweler operating in the UK and Ukraine market could be due to several factors, such as:

Industry Risk: The jewelry industry can be subject to higher levels of risk compared to the broader market, due to factors such as changes in consumer preferences, economic fluctuations, and volatile commodity prices.

Geographic Risk: Operating in multiple countries can expose a company to additional risk due to differences in political and economic environments, as well as varying legal and regulatory frameworks.

Financial Risk: A private jeweler may have a smaller size and lower diversification compared to larger companies in the market, which can increase the risk associated with its financial performance.

These factors can increase the systematic risk, or market risk, associated with the private jeweler, resulting in a higher beta. Therefore, assuming a beta of 1.2 for the private jeweler in this case would reflect the additional risks associated with the company's operations in the UK and Ukraine market.

Step 4: Calculate the Expected Return on Equity

Using the CAPM formula, we can now calculate the expected return on equity for the private jeweler company. The formula is:

$$rE = rf + \beta(E\ [rm - rf])$$

where:

rE = Expected return on equity

rf = Risk-free rate of return

β = Beta of the company's equity

(E [rm - rf]) = Expected market risk premium

Using the assumptions we made in the previous steps, the expected return on equity for the private jeweler company can be calculated as follows:

$$rE = 0.5\% + 1.2(5.18\%) = 6.716\%$$

Therefore, based on our assumptions, the expected return on equity for the private jeweler company operating in the UK is **6.716%.**

Assumptions made in this calculation include the risk-free rate, market risk premium, and beta. These assumptions are subject to change and may vary depending on the specific details of the company and the market conditions at the time of the calculation.

Please note that this calculation is for illustrative purposes only and should not be used as the sole basis for making investment decisions. It's important to conduct a comprehensive analysis of the company and the market conditions to arrive at a more accurate estimate of the return on equity.

CONCLUSION

In this valuation report, we have used three different valuation models to estimate the value of a private jewelry company registered in the UK. Each model provides a unique perspective on the company's value and can be useful depending on the situation.

The asset-based valuation method estimates the company's value based on its tangible and intangible assets. This approach assumes that the value of a business is equal to the sum of its parts, and is useful for companies with significant physical assets or intellectual property. In this case, the value of the company's assets is estimated to be £269,260.

The income-based approach, on the other hand, estimates the value of a company based on its ability to generate income in the future. This method uses financial projections and the company's historical financial data to determine its future earning potential. The value of the company using this method is estimated to be £812,457.

The free cash flow method is similar to the income-based approach but focuses on the company's cash flow instead of its earnings. This approach estimates the value of the company by discounting its expected future cash flows to their present value. In this case, the value of the company using this method is estimated to be £1,013,891.36.

To arrive at a single conclusion of value, we weighted the multiple valuation methods applied as follows:

Valuation Approach	Valuation method	Indication of value	Weight	Weighted Average
Cost Approach	Asset based	£269,260	5%	£13,463
Income Approach	Price to earnings ratio based	£812,457	10%	£81,246
Income Approach	Discounted cash flow method	£1,013,891.36	85%	£861,808
			100%	**£956,516**

In our opinion, based on the data provided by the management the value of POCHÉ as of 21 February 2023 is £ **956,516.**

It is important to note that each valuation model has its own set of assumptions and limitations, and no single approach can provide a definitive value for the company. Therefore, the results from each method should be considered in conjunction with one another and with the unique characteristics of the company to arrive at a more accurate and comprehensive valuation.

Ultimately, stakeholders must weigh the results of each method against their investment objectives, risk tolerance, and other factors to make informed decisions regarding the value of the company.