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# HEMPAZON

## Valuation Report of HAZN, Inc.

As of 2020-01-17

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# Company summary

## HAZN, Inc.

 United States

Industry: **Household Products**  
 Business Activity: **Other Household Products**

Founders: **1**  
 Employees: **1**  
 Started in: **2019**  
 Incorporated: **Yes**  
 Year of incorporation: **2019**  
 Committed capital: **\$5000**

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### Opportunity

Business model: **B2C**  
 Scalable Product: **Yes**  
 Exit strategy: **Multiple exit opportunities**



### Current Operations

Stage of development: **Development stage**  
 Employees (excluding founders, interns and freelancers): **1**  
 Profitability: **Not breakeven yet**



### Latest operating performance

01/2019 - 12/2019

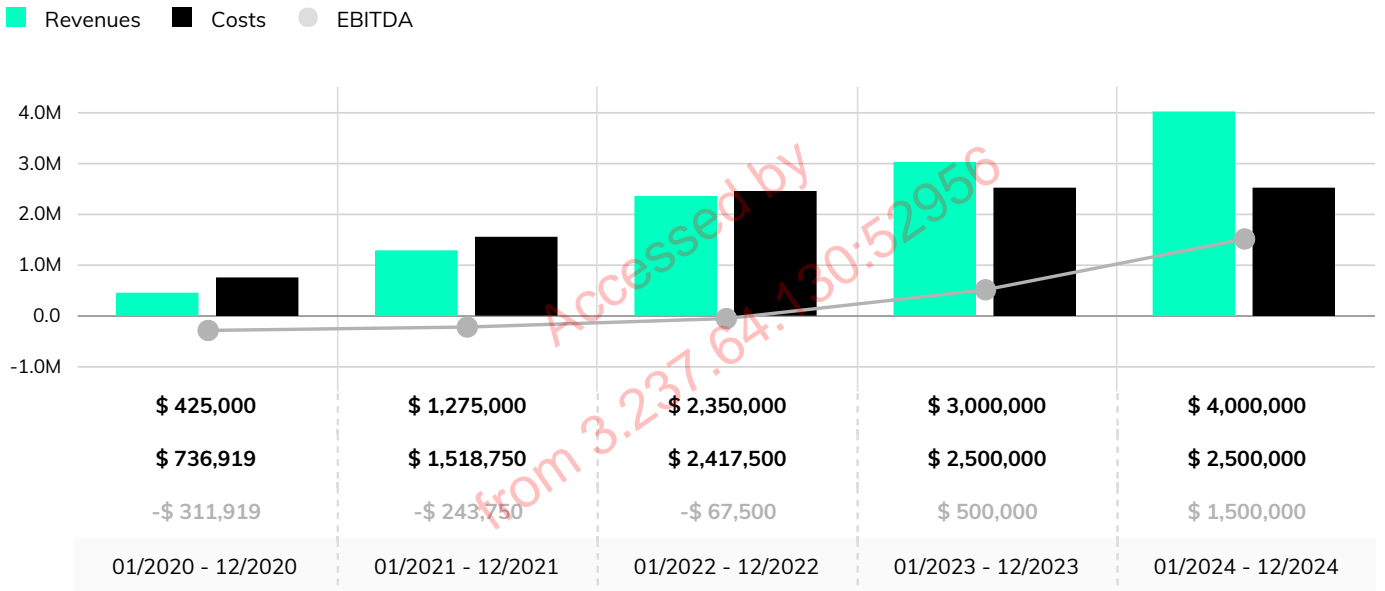
	01/2019 - 12/2019
Revenues	-
<hr/>	
EBITDA	-900
Ebitda margin	-
<hr/>	
EBIT	-900
Ebit margin	-
<hr/>	
Cash in hand	-

All numbers in \$

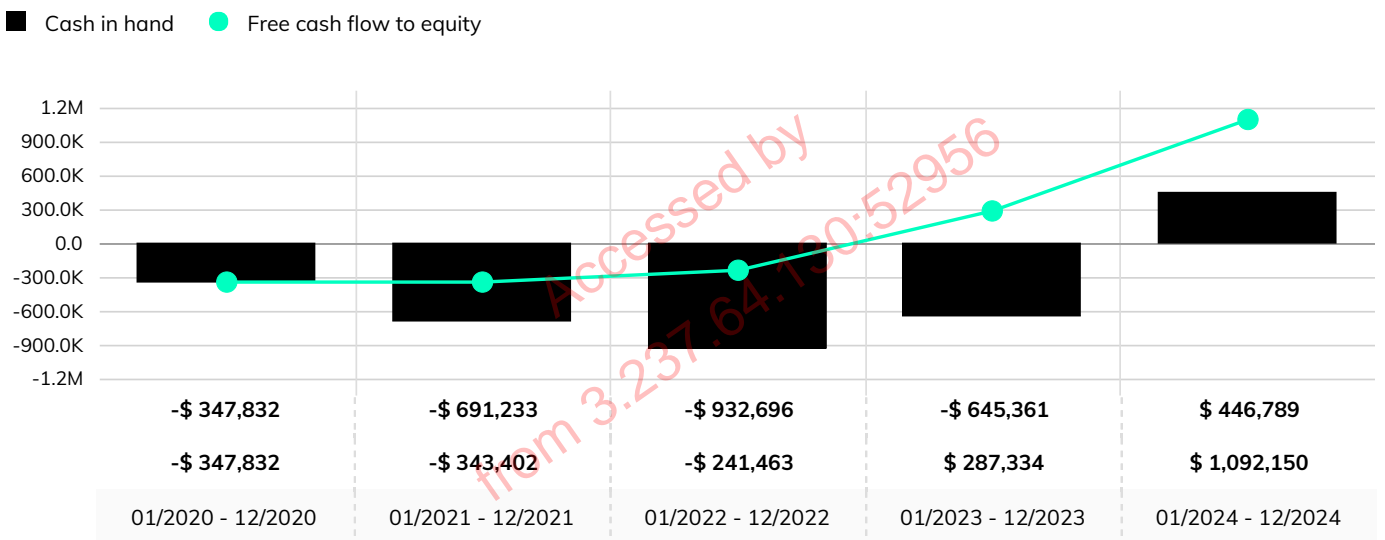
/// More information on the history, milestones, team, etc., (e.g. pitchdeck) can be requested to the company.

# Forecasts summary

## Future profitability



## Cash forecast



/// Full profit and loss and cash flow forecast at page 14.

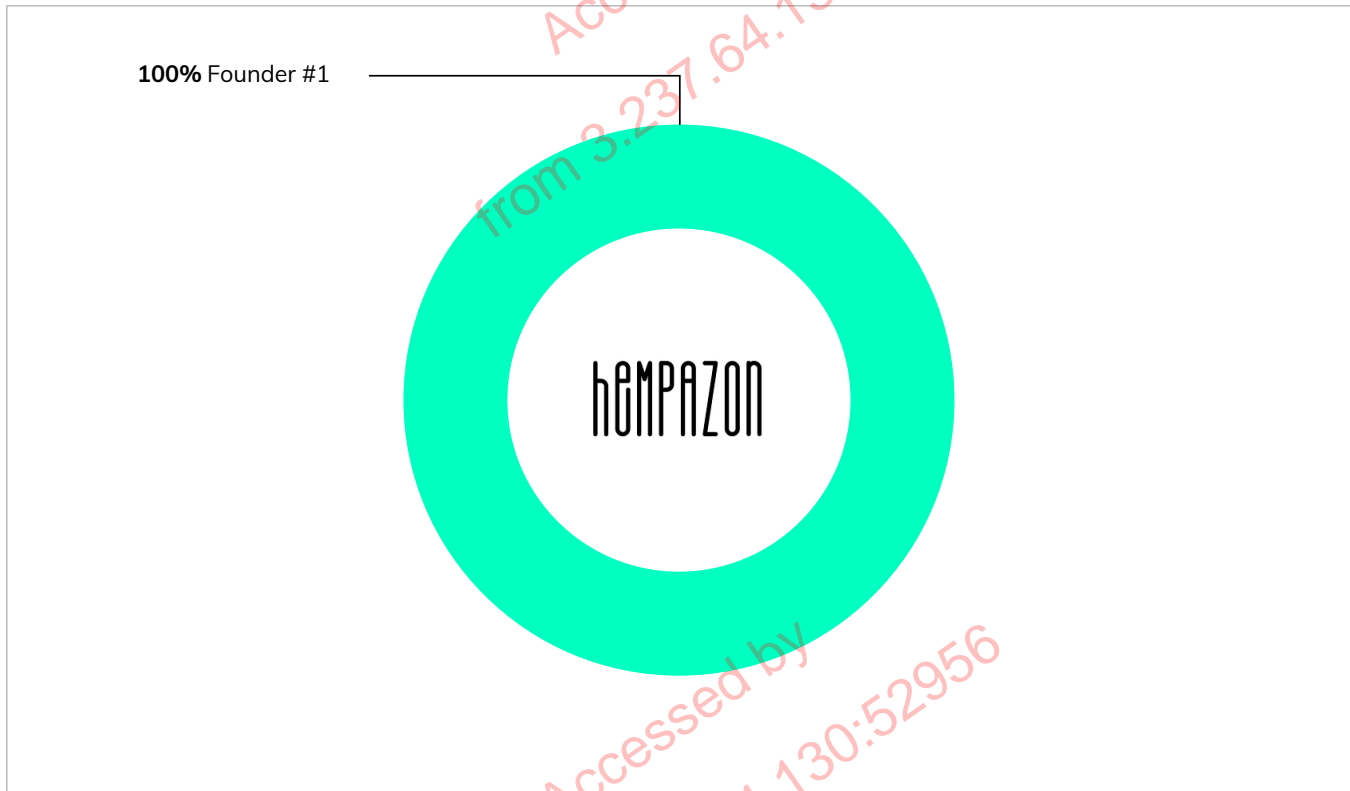
# Past funding rounds

Here is an overview of the past funding rounds and valuations of the company.

No funding rounds to date

# Current ownership

Here is an overview of the current shareholders in the company. More information on type of shares, unassigned shares, and in general a detailed cap table can be requested to the company in question.

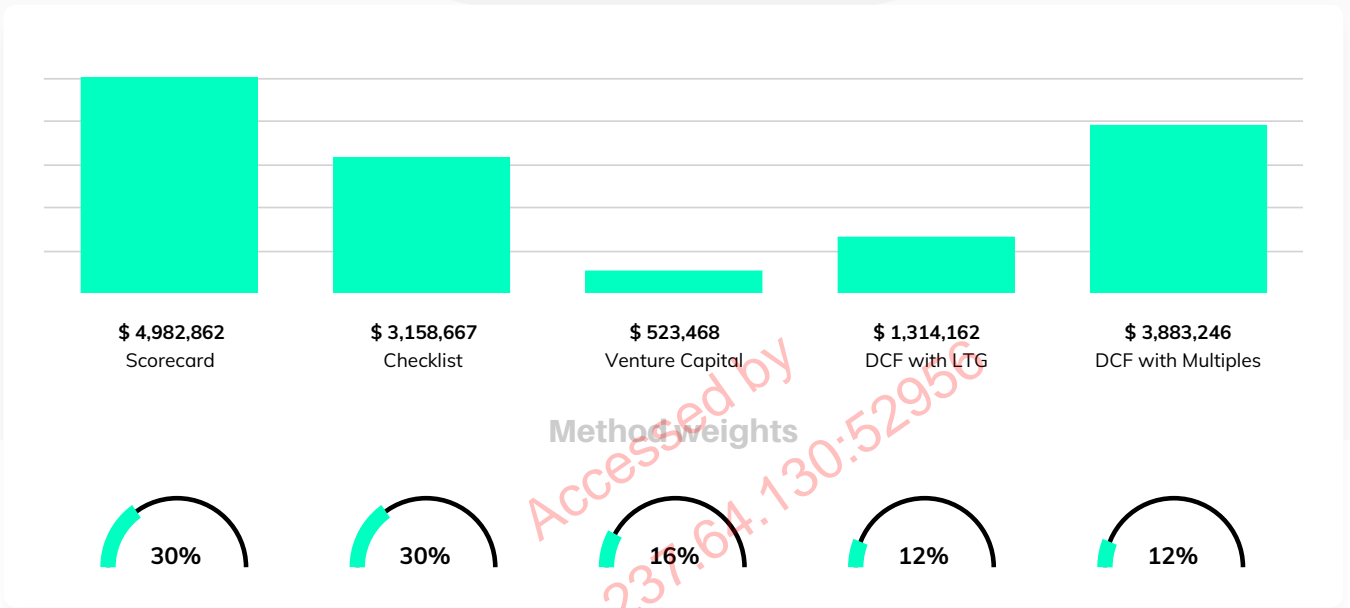


# Valuation

The pre-money valuation displayed below is the result of the weighted average of different methods. The use of several methods is a best practice in company valuation, as looking at the business from different perspectives results in a more comprehensive and reliable view.

These methods are compliant with IPEV (International Private Equity Valuation) Guidelines and each of them will be explained in more detail in the following pages of the report.

More information on the weights can be found in the Appendix.



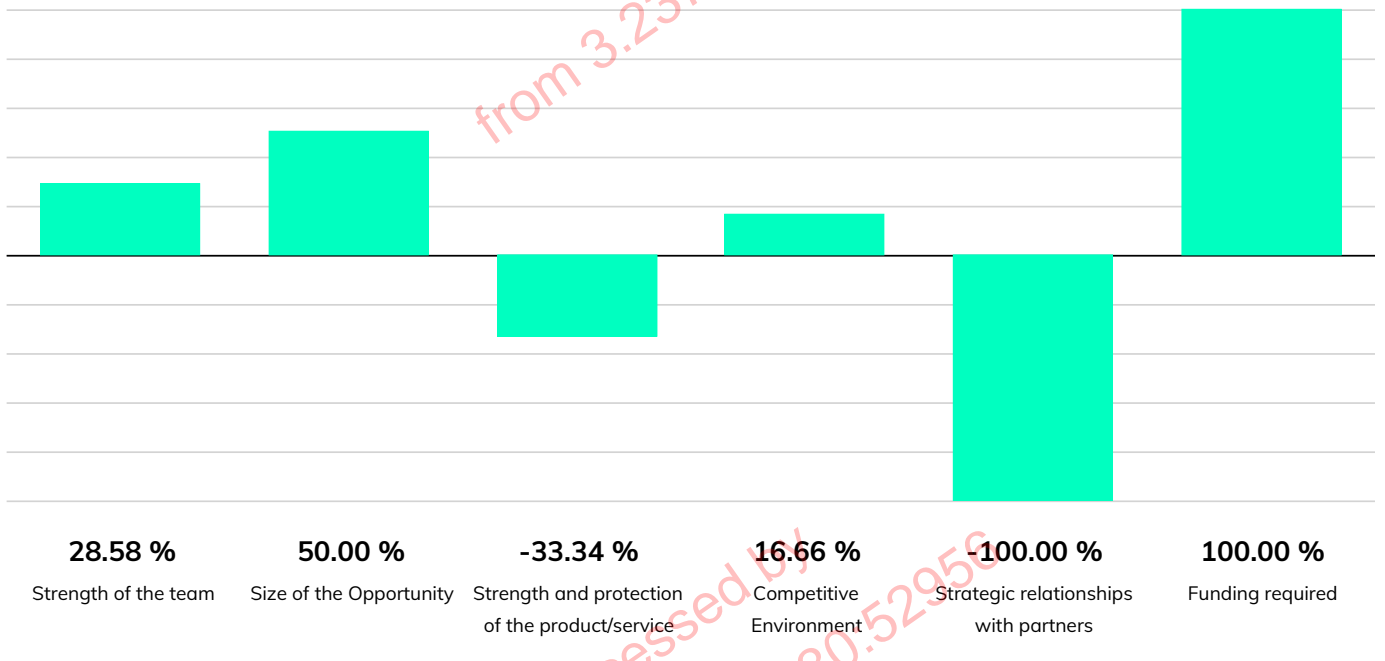
# Qualitative methods

## Scorecard Method: \$ 4,982,862

This method was conceived by William H. Payne of Ohio TechAngels group and endorsed by the Ewing Marion Kauffman Foundation. The valuation of the startup depends on how different this is from the assumed average of a set of comparable companies from the same region.

Startups' qualitative traits are divided in 6 criteria, compared with the assumed traits of the average company, and given a score according to whether it over- or under-performs the assumed average company. These scores are multiplied by weights that represent the impact of the criteria on the valuation. The sum of these weighted scores multiplied by the average valuation leads to the company's pre-money valuation.

### Normalized scores of the company for each criteria



### Parameters

Average valuation (United States): \$ 3,966,457

### Weights of the criteria

Strength of the team: 30%

Size of the Opportunity: 25%

Strength and protection of the product/service: 15%

Competitive Environment: 10%

Strategic relationships with partners: 10%

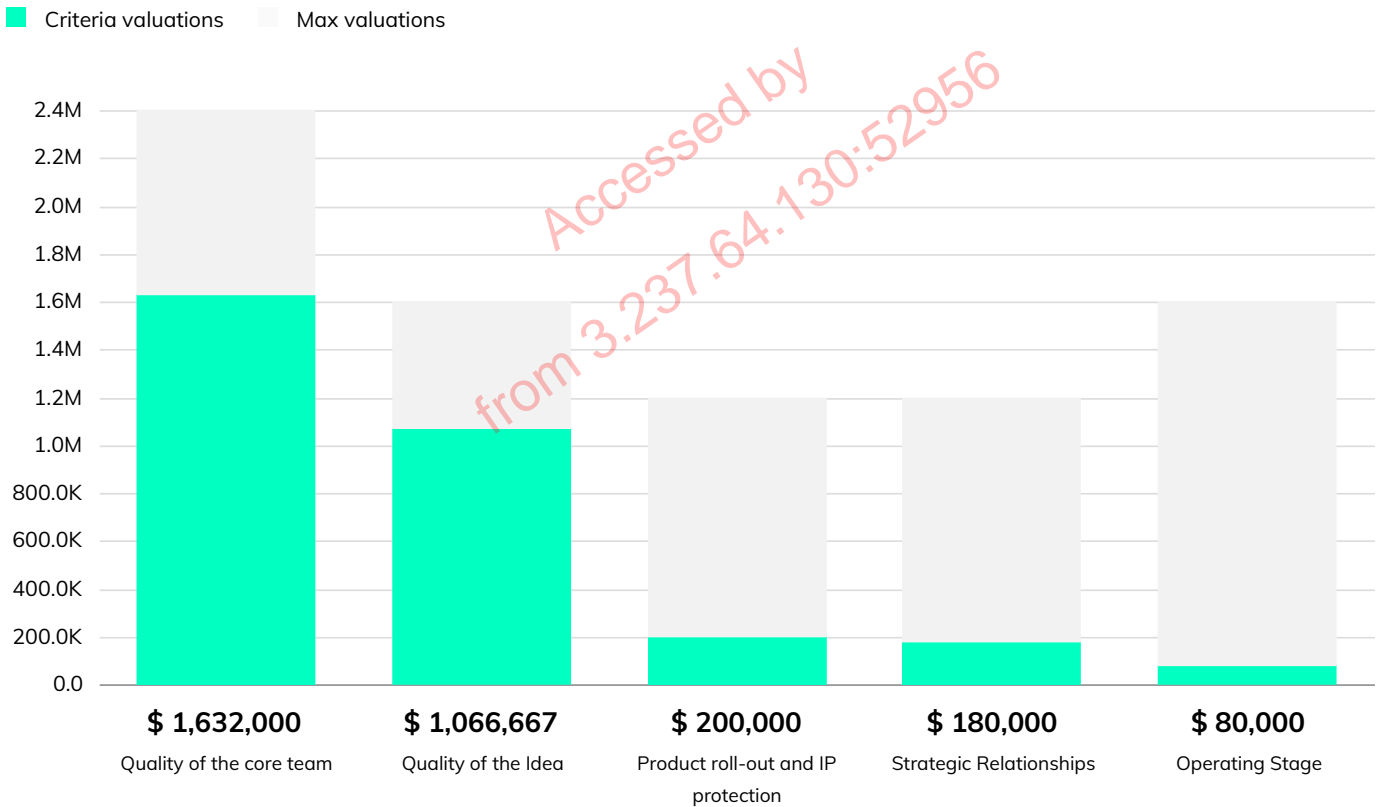
Funding required: 10%

/// Please see appendix for data sources, defaults, and breakdown of the traits

# Checklist Method: \$ 3,158,667

The creator of the method is Dave Berkus, one of the most prominent Californian angel investors. The valuation of the startup consists of intangible building blocks that sum up to the assumed maximum pre-money valuation.

The maximum pre-money valuation is split in 5 criteria according to their weight. The startup obtains portions of these maximum criteria valuations according to how close its qualitative traits are to the most desirable ones. Their sum is the startup pre-money valuation.



## Parameters

Maximum valuation (United States): \$ 8,000,000

### Criteria maximum valuations

Quality of the core team: \$ 2,400,000 (30%)

Quality of the Idea: \$ 1,600,000 (20%)

Product roll-out and IP protection: \$ 1,200,000 (15%)

Strategic Relationships: \$ 1,200,000 (15%)

Operating Stage: \$ 1,600,000 (20%)

/// Please see appendix for data sources, defaults, and breakdown of the traits



# Qualitative traits summary

Below a summary of the traits at the basis of the scores for the two qualitative methods. Please see appendix for detailed breakdown of which trait is used in which method.



## Team

### Founders

Time commitment: **Planning to commit full time**

Average age: **More than 45**

Founded other companies before: **Yes**

### Core team skills and expertise

Working together for: **More than 5 years**

Years of experience in the industry: **45**

Business and managerial background: **Top-tier management experience**

Technical skills: **Most technical skills inhouse**



## Network

Board of advisors: **Advisors not organized in a board**

Legal consultants: **Yes**

Current shareholders: **Friends and Family**



## Market

Total Addressable Market (TAM): **\$ 4,200,000,000**

Demand validated: **Yes**

Internationalization: **Active globally**



## Product

Product roll-out: **Minimum Viable Product**

Feedback received: **All positive**

Loyalty to the product/service: **Still to be tested or under testing**

Partners: **No partners contacted**



## Competition

Level of competition: **Many small players**

Competitive products are: **Good**

Differentiation from current solutions: **We innovate in terms of execution**

International competition: **Not yet developed**



## Protection

Barriers to entry of the market: **Modest**

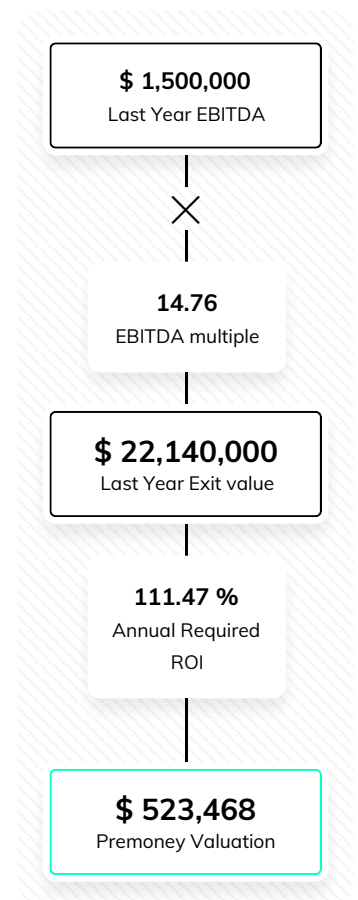
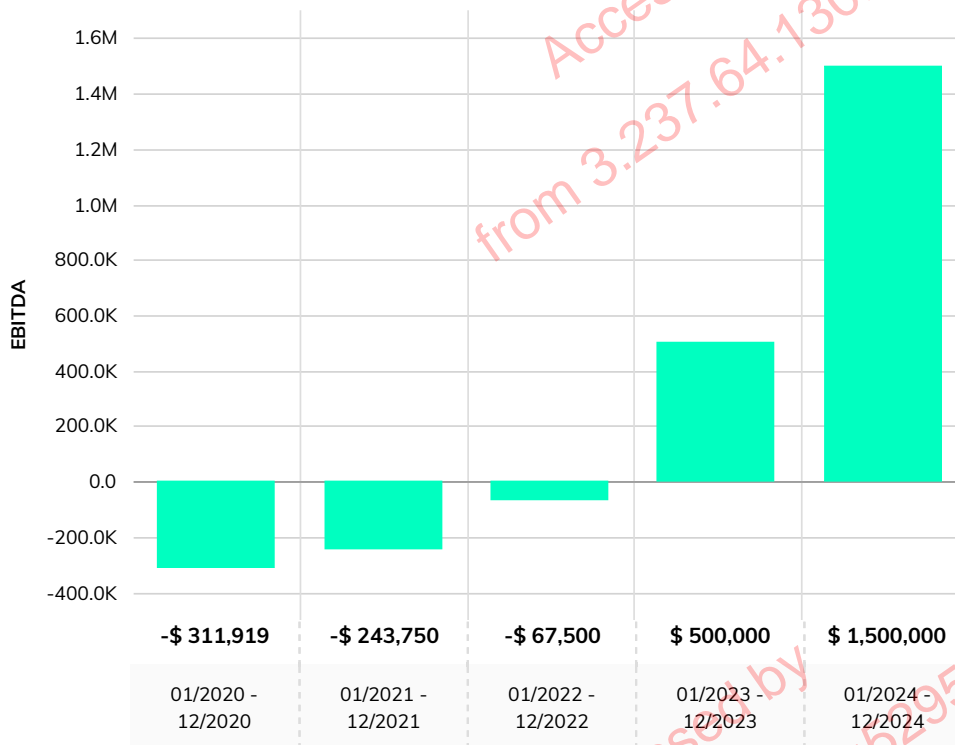
Applicable IP: **Trademark and/or domain names**

# VC Method

## Premoney Valuation: \$ 523,468

The VC (Venture Capital) method is one of most common approaches among financial practitioners in the private company market. The startup is given the valuation that will grant investors a predetermined return at the exit.

The potential exit value of the company is computed with an industry-based EBITDA multiple. The valuation is equal to this value discounted by a required ROI (Return On Investment). This depends on the startup's stage of development, higher for early stage riskier companies, lower for more mature ones. It is the minimum rate that will allow investors to have positive returns from portfolios where most companies fail and gains come from a selected few.



### Parameters

Industry Multiple: **14.76**

Annual Required ROI: **111.47 %**

/// Please see appendix for data sources and defaults

# DCF Methods

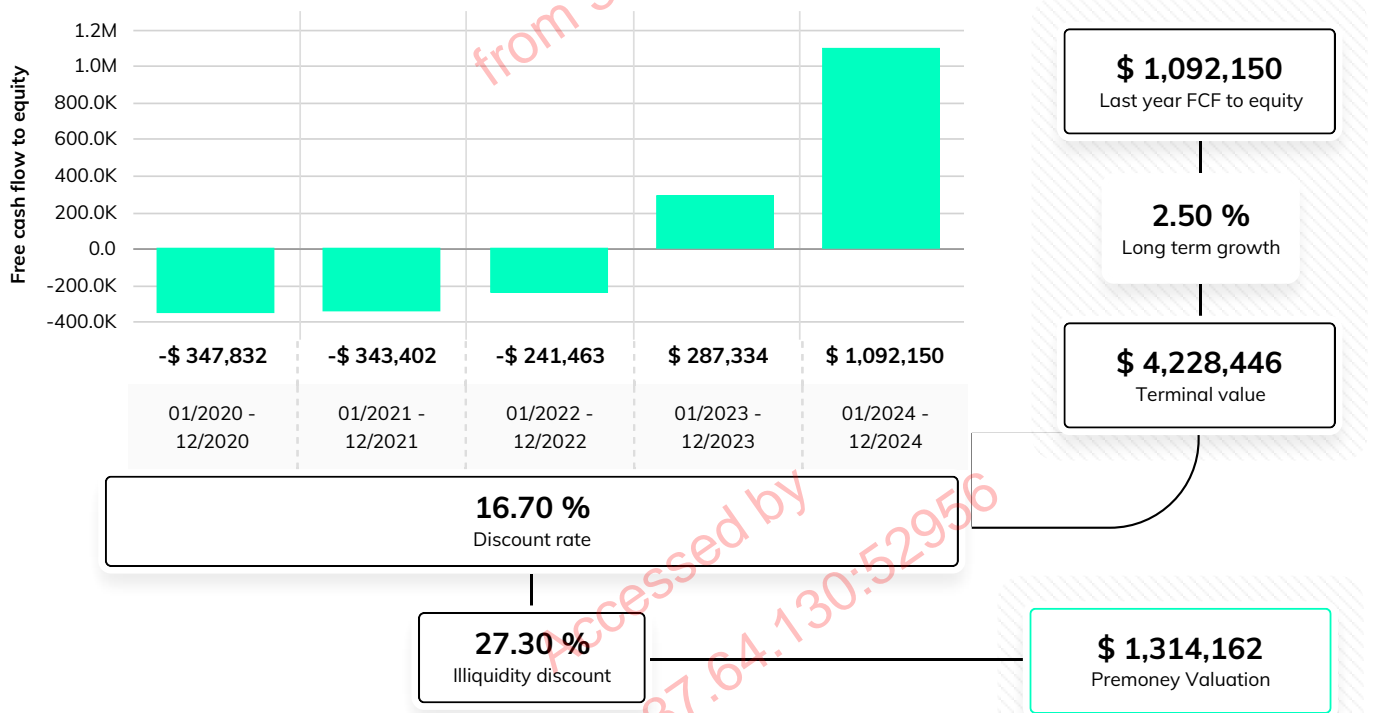
The DCF (Discounted Cash Flow) methods represent the most renowned approach to company valuation, recommended by academics and a daily tool for financial analysts. The valuation is the present value of all the free cash flows to equity the startup is going to generate in the future, discounted by its risk.

These methods weight the projected free cash flow to equity by the probability the startup will survive. Then, the flows are discounted to present by a rate that represents risks related to industry, size, development stage and profitability. Lastly, an illiquidity discount is applied to the sum of the discounted cash flows to compute the valuation.

The value of cash flows beyond the projected ones is represented by the TV (Terminal Value) and the way it is calculated is the difference between the following two methods.

## DCF with LTG: \$1,314,162

The DCF with LTG (Long Term Growth) assumes the cash flows beyond the projected ones will grow forever at a constant rate based on the industry and computes the TV accordingly.



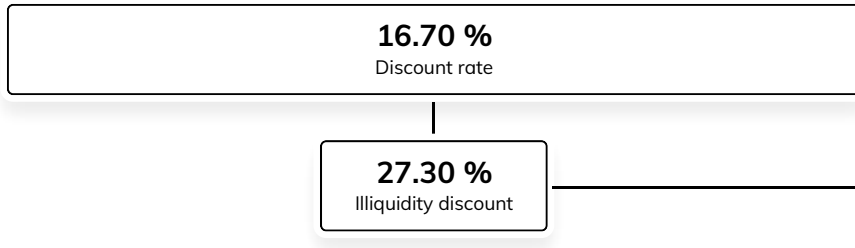
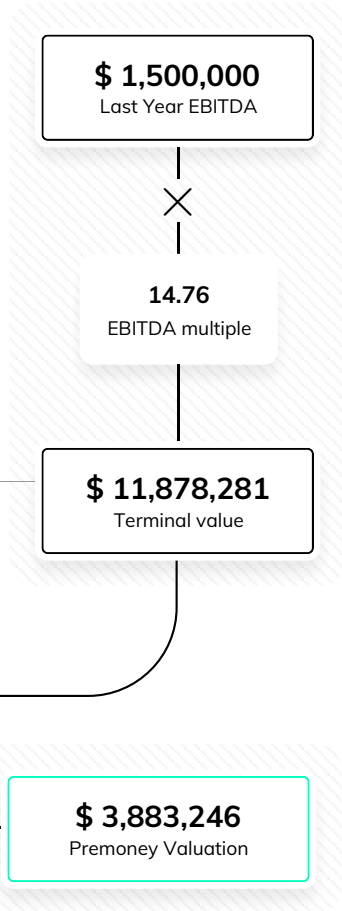
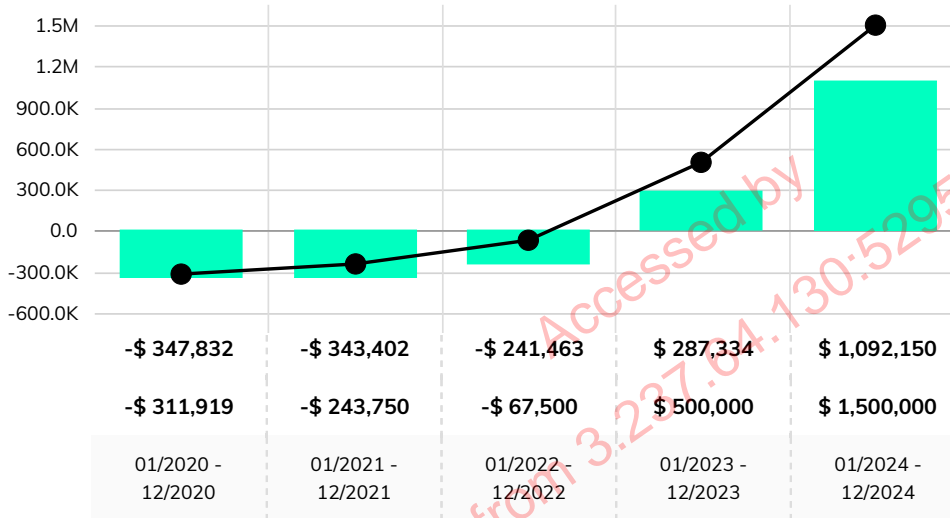
Parameters		Discount rate	Survival rates
Long term growth:	2.50 %	Risk free rate:	2.50 %
Illiquidity discount:	27.30 %	Beta:	2.38
		Market Risk Premium:	5.96 %
		Year 1:	79.60 %
		Year 2:	69.10 %
		Year 3:	61.60 %
		Year 4:	57.28 %
		Year 5:	53.65 %

/// Please see appendix for data sources and defaults

# DCF with Multiples: \$ 3,883,246

The DCF with Multiple assumes the TV (Terminal Value) is equal to the exit value of the company computed with an industry-based EBITDA multiple.

■ Free cash flow to equity ● EBITDA



Parameters		EBITDA multiple: 14.76	Discount rate	Survival rates	Year 4: 57.28 %
	Illiquidity discount: 27.30 %		Risk free rate: 2.50 %	Year 1: 79.60 %	Year 5: 53.65 %
			Beta: 2.38	Year 2: 69.10 %	
			Market Risk Premium: 5.96 %	Year 3: 61.60 %	

/// Please see appendix for data sources and defaults

# Financial Projections

## Profit & Loss

The profit & loss projections are displayed below. Data about revenues and operating costs are provided by the company. Depreciation and amortization, interest, and taxes are either provided by the company or estimated by Equidam. Please consult our methodology document for more details.

	01-2019 - 12-2019	01-2020 - 12-2020	01-2021 - 12-2021	01-2022 - 12-2022
Revenues	-	425,000	1,275,000 +3X	2,350,000 +84%
Cost of Goods Sold	900	736,919 >100	1,518,750 +2X	2,417,500 +59%
Salaries	-	-	-	-
Operating Expenses	-	-	-	-
<b>EBITDA</b>	<b>-900</b>	<b>-311,919 -3455</b>	<b>-243,750 +22%</b>	<b>-67,500 +72%</b>
Ebitda margin	-	-	-	-
D&A	-	18,332	54,995 +3X	101,363 +84%
<b>EBIT</b>	<b>-900</b>	<b>-330,251 -3659</b>	<b>-298,745 +10%</b>	<b>-168,863 +43%</b>
Ebit margin	-	-	-	-
Interest	-	-	27,827	83,125 +3X
<b>EBT</b>	<b>-</b>	<b>-330,251</b>	<b>-326,572 +1%</b>	<b>-251,988 +23%</b>
Taxes	-	-	-	-
Nominal tax rate	-	27 %	27 %	27 %
Effective tax payable	-	-89,168	-88,174	-68,037
Deferred tax assets	-	89,168	177,342	245,379
<b>Net profit</b>	<b>-900</b>	<b>-330,251 -3659</b>	<b>-326,571 +1%</b>	<b>-251,988 +23%</b>
Net profit margin	-	-	-	-

All numbers in \$



# Profit & Loss

	01-2023 - 12-2023	01-2024 - 12-2024
Revenues	3,000,000 +28%	4,000,000 +33%
Cost of Goods Sold	2,500,000 +3%	2,500,000 0%
Salaries	-	-
Operating Expenses	-	-
<hr/>		
<b>EBITDA</b>	<b>500,000 -</b>	<b>1,500,000 +3X</b>
Ebitda margin	16 %	37 %
D&A	129,399 +28%	172,532 +33%
<hr/>		
<b>EBIT</b>	<b>370,601 -</b>	<b>1,327,468 +4X</b>
Ebit margin	12 %	33 %
Interest	157,741 +90%	209,370 +33%
<hr/>		
<b>EBT</b>	<b>212,860 -</b>	<b>1,118,098 +5X</b>
Taxes	-	113,980
Nominal tax rate	27 %	27 %
Effective tax payable	57,472	301,887
Deferred tax assets	187,907	-
<hr/>		
<b>Net profit</b>	<b>212,860 -</b>	<b>1,004,118 +5X</b>
Net profit margin	7 %	25 %

All numbers in \$



# Cash Flow

The cash flow projections are displayed below. Capital expenditure, debt at the end of the year, and equity fundraising are provided by the company. Account payables, account receivables, inventory and D&A are either provided by the company or estimated by Equidam based on the average percentage of revenues for public companies in the company's industry.

	01/2019 - 12/2019	01/2020 - 12/2020	01/2021 - 12/2021	01/2022 - 12/2022
<b>Net profit</b>	-900	-330,251 -3659	-326,571 +1%	-251,988 +23%
<b>Change in Working Capital</b>	-	35,913	71,825	90,837
<b>Working capital</b>	-	35,913	107,738 +3X	198,575 +84%
Account Payables	-	65,917	197,752	364,485
Account Receivables	-	53,932	161,797	298,215
Inventory	-	47,897	143,692	264,845
D&A	-	18,332	54,995 +3X	101,363 +84%
Capital expenditures	-	-	-	-
Change in outstanding debt	-	-	-	-
Debt at the end of the year	-	-	-	-
<hr/>				
<b>Free cash flow to equity</b>	-	-347,832	-343,402 +1%	-241,463 +30%
Equity fundraising	-	-	-	-
<b>Free cash flow</b>	-	-347,832	-343,402 +1%	-241,463 +30%
<hr/>				
Beginning of the year cash	-	-	-347,832	-691,233 -99%
<hr/>				
<b>End of the year cash</b>	-	-347,832	-691,233	-932,696

All numbers in \$

# Cash Flow

	01/2023 - 12/2023	01/2024 - 12/2024
<b>Net profit</b>	212,860 -	1,004,118 +5X
<b>Change in Working Capital</b>	54,925	84,500
Working capital	253,500 +28%	338,000 +33%
Account Payables	465,299	620,400
Account Receivables	380,700	507,600
Inventory	338,100	450,800
<b>D&amp;A</b>	129,399 +28%	172,532 +33%
<b>Capital expenditures</b>	-	-
<b>Change in outstanding debt</b>	-	-
Debt at the end of the year	-	-
<hr/>		
<b>Free cash flow to equity</b>	287,334 -	1,092,150 +4X
<b>Equity fundraising</b>	-	-
<b>Free cash flow</b>	287,334 -	1,092,150 +4X
<hr/>		
<b>Beginning of the year cash</b>	-932,696 -35%	-645,361 +31%
<hr/>		
<b>End of the year cash</b>	-645,361	446,789

All numbers in \$



# Conclusion

## Legal Notes

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# Appendix

## Weights of the methods

The default weight of each method is determined by Equidam based on the stage of development, and they are shown below. They can be manually adjusted by the company.

### Default weights of the 5 methods

Stage of development	Checklist Method	Scorecard Method	VC Method	DCF with LTG	DCF with Multiples
Idea stage	38%	38%	16%	4%	4%
▶ Development stage	30%	30%	16%	12%	12%
Startup stage	15%	15%	16%	27%	27%
Expansion stage	6%	6%	16%	36%	36%

HAZN, Inc. stage of development: **Development stage**

These are determined according to the following principles:

- Qualitative information is more important in early stage companies, where performance uncertainty is extremely high, so qualitative methods are weighted in more
- The investors' view is equally important across all stages, so the weight of the VC method does not change
- Quantitative information is more reliable in later stages, when a company already has a proven financial track record. Therefore, it is possible to use the DCF methods more extensively as projected results get founded in past performance



# Qualitative methods

## Default average and maximum valuations data sources

**Dataset:** Pre-money market valuations from transactions in the last 30 months of company in all industries, all countries, and at seed funding stage

**Datasource:** Crunchbase

**Usage:** Computation of average and maximum (net of outliers) pre-money valuations in given geographic areas for the qualitative methods (Scorecard and Checklist respectively)

**Update:** Biannual

Average valuation (Scorecard Method) in United States: **\$ 3,966,457**

Maximum valuation (Checklist Method) in United States: **\$ 8,000,000**

## Scorecard Method

### Default weights of the criteria and breakdown in their traits

<b>Strength of the team</b> <b>30%</b> Time commitment of the founders Number of employees Team spirit and comradeship Years of industry experience of the core team Business and managerial background of the core team	<b>Size of the Opportunity</b> <b>25%</b> Estimated revenues in the third year according to the stage of the development Estimated size of the market in three years Geographical scope of the business
<b>Competitive Environment</b> <b>10%</b> Stage of the product/service roll-out Degree of loyalty of customers Type of IP protection applicable IP protection in place (if any)	<b>Strength and protection of the product/service</b> <b>15%</b> Level of competition in the market Quality of competitive products/services Competitive advantage over other products/services Barriers to entry of the market Threat of international competition
<b>Strategic relationships with partners</b> <b>10%</b> Strength of the relationships with key strategic partners	<b>Funding required</b> <b>10%</b> Capital required according to the stage of development

# Checklist Method

## Default weights of the criteria and breakdown in their traits

### Quality of the core team analyzes:

Average age of the founders  
 Presence in the team of serial, successful entrepreneurs  
 Time commitment of the founders  
 Team spirit and comradeship  
 Years of industry experience of the core team  
 Business and managerial background of the core team  
 Technical skills of the core team

30%

### Quality of the idea analyzes:

Validation of the demand for the product/service  
 Feedback received by early adopters/industry experts  
 Level of competition in the market  
 Competitive advantage over other products/services  
 Geographical scope of the business  
 Threat of international competition  
 Degree of loyalty of customers

20%

### Product roll-out and IP protection analyzes:

Stage of the product/service roll-out  
 Type of IP protection applicable  
 IP protection in place (if any)

15%

### Strategic relationships analyzes:

Presence of an advisory board and number of advisors  
 Presence and type of current shareholders  
 Relationship with legal counselors  
 Strength of the relationships with key strategic partners

15%

### Operating stage

Stage of development  
 Current profitability

20%



# VC method

Below the sources of the valuation parameters used in the VC Method: EBITDA Multiple and Annual Required ROI, and their default values provided by Equidam

## EBITDA multiple

Description: Enterprise value on EBITDA multiples computed over a dataset of global, publicly listed firms organized by industry

Datasource: Prof. A. Damodaran, NYU Stern School of Business

Update: Annual

Notes: We favor the use of EBITDA multiple, as we believe revenue multiples fail to capture the ability of startups to generate cash flow, i.e. the ultimate determinant of value.

HAZN, Inc. industry: **Other Household Products**

Other Household Products EBITDA multiple: **14.76**

## Annual Required ROI

The default annual required ROI rates are determined by Equidam based on the returns investors require for companies at different stage of development, and are shown below. They can be manually adjusted by the company.

Stage of development	Discount/Required ROI
Idea stage	135.93%
▶ Development stage	111.47%
Startup stage	89.12%
Expansion stage	48.60%

HAZN, Inc. stage of development: **Development stage**



# DCF Methods

Below the sources of the valuation parameters used in the DCF Methods: Discount Rate, Survival Rates and Illiquidity Discounts, and their default values provided by Equidam.

## Discount rate

### Risk Free Rate

Description: 10Y government rates

Datasource: Trading Economics (tradingeconomics.com), various public databases

Update: Bi-annual (but more frequent if macroeconomic conditions are more volatile)

Notes: For the Eurozone we apply the German 10Y Bond rate

HAZN, Inc. country: **United States**

United States risk free rate: **2.50%**

### Industry betas

Description: Industry beta computed over industry specific portfolios of global, public listed companies (same as in EBITDA multiple)

Datasource: Prof. A. Damodaran, NYU Stern School of Business

Update: Annual

HAZN, Inc. industry: **Other Household Products**

Other Household Products default beta: **2.38**

### Market Risk Premium

Description: Country based total equity risk premium as implied in the previous 12 trailing months.

Datasource: Prof. A. Damodaran, NYU Stern School of Business

Update: Biannual

HAZN, Inc. country: **United States**

United States default market risk premium: **5.96%**



## Survival Rate

Dataset: Country-level survival probabilities of the latest cohort of companies with three years of data available.

Datasource: European Office of Statistics (<http://ec.europa.eu/eurostat>), U.S. Bureau of Labor Statistics (<https://www.bls.gov/>), specific academic research and public offices of statistics for different countries.

Update: Annual

HAZN, Inc. year of incorporation: **2019**

Default survival rate Year 1: **79.60%**

Default survival rate Year 2: **69.10%**

Default survival rate Year 3: **61.60%**

Default survival rate Year 4: **57.28%**

Default survival rate Year 5: **53.65%**

Default survival rate Year 6: **50.69%**

Default survival rate Year 7: **48.18%**

Default survival rate Year 8: **46.01%**

Default survival rate Year 9: **44.10%**

Default survival rate Year 10: **42.39%**

## Illiquidity discount

The default illiquidity discount is assigned based on current profitability and projected revenues, according to the approach suggested by William L. Silber.

HAZN, Inc. illiquidity discount: **27.30%**

# DCF with LTG

## Long term growth

Dataset: Global, publicly listed companies organized by industry (same as in EBITDA multiple)

Datasource: Prof. A. Damodaran, NYU Stern School of Business

Update: Annual

Notes: The value is winsorized over a 0% - 2.5% range. We do not want the long term growth to be above world GDP growth expectations, as it would mean the company is going to overgrow world economy at some point in time

HAZN, Inc. industry: **Other Household Products**

Other Household Products default long term growth: **0.03**

# DCF with Multiples

## EBITDA multiple

Dataset: Global, publicly listed companies organized by industry

Datasource: Prof. A. Damodaran, NYU Stern School of Business

Update: Annual

Notes: We favor the use of EBITDA multiple, as we believe revenue multiples fail to capture the ability of startups to generate cash flow, the ultimate determinant of value.

HAZN, Inc. industry: **Other Household Products**

Other Household Products default EBITDA multiple: **2.38**



# Last Available Balance Sheet

Below the simplified, last available balance sheet of the company.

	01/2019 - 12/2019
Cash and equivalents	-
Tangible assets	-
Intangible assets	-
Financial assets	-
Deferred tax assets	-
<hr style="border-top: 1px dashed #ccc;"/>	
<b>Total Assets</b>	-
Debts due within one year time	-
Debt due beyond one year time	-
Equity	-
<hr style="border-top: 1px dashed #ccc;"/>	
<b>Total Liabilities and Shareholder's Equity</b>	-

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