HYBRID Software proposed acquisition

Explainer: Global Graphics PLC valuation
Updated: 31 December 2020

In response to questions about the valuation of Global Graphics PLC shares (the "**Shares**") for the purposes of determining the number of Shares to be issued and allotted to Congra Software S.à r.l. ("**Congra**") for the proposed acquisition of HYBRID Software Group S.à r.l ("**HYBRID**"), the independent directors of the Company (the "**Independent Directors**") have produced this explainer to explain the method used.

Global Graphics PLC ("**Global Graphics**") is a company registered in England & Wales. The transaction is therefore principally governed by English company law. Under English company law, where a company (the "**buyer**") acquires the entire issued share capital of another company (the "**target**") in exchange for the issue of shares in the buyer to the target's shareholders, there is no requirement for the shares of the buyer (i.e. Global Graphics PLC in this instance) to be independently valued[1]. Accordingly, under English company law, it was up to the Independent Directors to determine the fair value of the Shares to be issued and allotted to Congra.

As Global Graphics is a public company, listed on a regulated market, the Independent Directors formed the view that the fair value of the Shares should be determined by the market. In England, it is customary for significant weight to be placed on the market price for a listed company's shares. The reason for this is that the fair value of an asset is often considered to be arrived at when the asset is put on the open market and sold in a bargain between a willing buyer and a willing seller. The Independent Directors consider it correct to assume that the regulated market of Euronext Brussels is operating effectively so as to determine a fair price for the Company's shares.

To take into account recent news and to offset market volatility and various factors outside of the Company's control (e.g. COVID-19 and Brexit), the Independent Directors felt it was appropriate to use a 30-day volume weighted average share price as a fair method to value the Shares. The resulting calculation gives rise to a value of €3.80 per Share. This value was then used to

[1] If the proposed acquisition would be governed by Belgian law, an independent valuation would be required, but only because the buyer and seller are related parties.

calculate the number of Shares that would be issued and allotted to Congra as the consideration for the proposed acquisition.

The Independent Directors have also reviewed other data and information to consider if the aforementioned calculation reflected a fair value of the Shares.

The most recent news that had a significant impact on the Share price was the publication of the interim financial statements on 4 August 2020. On that day, the Share price closed at €3.40 per Share, an increase of almost 31% on the previous day's closing. The volume weighted closing Share price from that date until the closing day before signing of the acquisition agreement results in a value per Share of €3.68.

The Independent Directors also considered previously published documentation in respect of the value of the Shares. Notably, this was the Global Graphics Takeover Bid prospectus[2] (the"**Prospectus**") that was published on 23 January 2019.

The Prospectus, which included an independent equitableness opinion, considered many different, market-accepted, valuation methodologies and subsequently valued the Shares at €4.25 per Share, giving Global Graphics an enterprise value ("**EV**") of €47 million. Since then, Global Graphics has made one acquisition (Xitron) and one divestment (URW), and a worldwide pandemic has caused unprecedented economic uncertainty.

By adjusting the EV for the acquisition and divestment consideration values and not considering any potential impact on future trading or profitability due to the pandemic, the resulting value per Share can be calculated as follows:

Takeover bid EV:	€47.0 million
Add Xitron acquisition:	€4.2 million
Subtract URW divestment:	€7.5 million
Adjusted EV:	€43.7 million
Issued share capital:	11,835,707
EV per Share:	€3.69

[2] https://investor.globalgraphics.com/application/files/8815/9859/6650/2019-01-23_prospectus_full_en.pdf

It is acknowledged that this is a simplistic approach and does not consider any debt incurred, cash paid, cash received or present value of any future cashflows resulting from the acquisition or divestment.

It should be noted that simply doubling the Company's results for the 6 months ending 30 June 2020 and comparing that to information in the Prospectus is not representative of the potential full-year results, for a number of reasons including:

- Only one quarter of revenue was unaffected by COVID-19;
- URW was divested from the Group in May; and
- Significant non-recurring revenue was recognised as per Note 4 to the Condensed Consolidated Interim Financial Statements for the 6 months ending 30 June 2020[3]

Subsequently, the Independent Directors have reviewed traditional discounted cash flow ("**DCF**") calculations over a future 5-year period from 1 January 2021 to 31 December 2025, which include a terminal value with a perpetual growth rate.

As with all forecasts there is an important degree of uncertainty, so a sensitivity analysis was carried out on the major elements of the forecasts and DCF calculations to determine a range of outcomes.

The company's 2021 budgets prepared by the business unit Managing Directors during November 2020 were used as the base starting point for the DCF. The detailed budgets are prepared by using a bottom-up method, using all historical and forward-looking information available to the Managing Director.

The free cash flow ("**FCF**") was calculated using these budgets as:

- Earnings before interest, depreciation, tax, amortisation and capitalisation of R&D
- Add: future cash receipts resulting from significant contract revenue already recognised
- Less: Capital expenditure
- Less: Tax

[3] https://investor.globalgraphics.com/download_file/view/110/198

The FCF and terminal value was discounted using the weighted average cost of capital ("**WACC**") of 9.80% as used in the independent valuation of HYBRID Software.

Three forecast scenarios were then modelled from this base level. The following table summarises the key elements and assumptions made:

Scenario:	**Low**	**Medium**	**High**
WACC	9.80%	9.80%	9.80%
Perpetual growth rate	1.00%	2.00%	3.00%
Revenue growth per annum	2.50%	5.00%	7.50%
Significant contract renewals	0%	50%	100%
Expenses inflation	1.00%	1.00%	1.50%
Staff cost inflation	2.00%[4]	2.00%[4]	3.50%[5]
Cash and debt[6]	As at 30/11/2020		

Additional sensitivity analysis was conducted on the WACC and perpetual growth rate, using a range of 9.30% to 10.55% for the WACC and 0.00% to 4.00% for the perpetual growth rate. The results of the modelling and sensitivity analysis were:

- In the Low scenario, all results indicated that the applied share price of €3.80 is not too low;
- In the Medium scenario, nearly all combinations indicated that the applied share price of €3.80 is not too low, with a very limited number of scenarios indicating a value slightly higher than €3.80 per share;
- In the High scenario about two thirds of the combinations indicated that a share price of €3.80 per share is not too low; and
- Out of all 162 scenario/sensitivity combinations, 87% of the combinations indicated that the applied share price of €3.80 is not too low.

Taking into account the variety of methods and resulting values reviewed, the Independent Directors consider that a fair value has been used for calculating the number of Shares to be issued to Congra in respect of the proposed acquisition.

[4] Assumption: cost of living increases only

[5] Assumption: cost of living increase and additional staff

[6] Includes future contingent consideration payable for acquisitions plus deferred consideration receivable from divestments