{your company name}

Company number : **{your company number}**

Company address**: {your company address}**

Shares and Assets Valuation
HM Revenue and Customs
BX9 1BJ
United Kingdom

EMI Valuation Application Report

1. BACKGROUND

1.1. **{your company name}**(the "Company") was incorporated on **{incorporation date}** with company registration number **{your company number}** and registered office at **{your company address}**

1.2. The Company commenced trading on **{commenced trading date}**

2. SHARE CAPITAL

2.1. The Company's fully diluted share capital, including the proposed EMI options, is summarised as follows:

Share Class	Share Status	Number of Shares	Fully-diluted %
Ordinary	Issued Shares	X	X
Ordinary (EMI)	Authorised Shares	X	X
Fully diluted total		X	X

3. PREVIOUS TRANSACTIONS IN THE SHARES OF THE COMPANY

3.1. Share subscriptions

There has been only one subscription event for shares in the Company so far. The table below lists the key characteristics of those Subscriptions:

Investment Date	Share Class	Number of Shares	Price per Share
XX	Ordinary	X	X

This subscription for shares in the Company took place on **{insert date}** at the registration of the Company on Companies House when a total of **X** Ordinary Shares were issued at **£X** to the single director of the Company. No other shares have been issued in the Company, and no other share classes exist to this day.

The shares to be issued upon exercise of options (the “Option Shares”) are Ordinary Shares. There has never been any market transaction in respect of the shares that are of the same class as the Option Shares.

3.2. Convertible bond transactions

The Company has so far raised a total of **£X** in convertible bond transactions from various investors, which can be summarised as follows:

Convertible Type	EIS Eligible	Total amount	Longstop Date	Conversion Terms	Valuation Cap
Simple Agreement for Future Equity	No	£X	None	Conversion into Preferred Shares with 1x liquidation preference at the next round valuation or cap	£X
Advance Subscription Agreement	Yes	£X	Yes	Conversion into Ordinary shares at the next round valuation or cap	£X

Simple Agreement for Future Equity: Over **X%** of the total capital raised has been facilitated via Simple Agreements for Future Equity (SAFE) which do not have a Longstop Date and simply convert at the next share subscription event at the lower of the valuation set in that round and the Valuation Cap of **£X** There are several factors which limit the ability of the SAFE Valuation Cap to be a good predictor of the Estimated Company Value as of today:

- It is not unlikely that the Company will be valued below the Valuation Cap at the next financing round. The Valuation Cap is rather an additional protection for the investors which guarantees them a minimum ownership of the Company post conversion in exchange for their risk.

- The SAFEs do not have a longstop date and will only at some undefined point in the future convert into shares. Even if the conversion happens at the Valuation Cap, it would only be an indicator of the Company Value at that point in time, and not today.

- The SAEFs will convert into Preferred Shares with a 1x liquidation preference, offering significant protection to the SAFE investors against the holders of Ordinary shares, which do not have a liquidation preference.

Advance Subscription Agreement: A smaller amount of just under **X%** of the total capital raised has been facilitated via Advance Subscription Agreements (ASA) which will convert into Ordinary shares at the next funding round or the Longstop Date (six months after investment), whatever happens earlier. There are several factors which limit the ability of the ASA Valuation Cap to be a good predictor of the Estimated Company Value:

- All of the Ordinary shares which the ASAs will convert into are expected to be approved by HMRC as eligible EIS shares. An EIS investor would be prepared to pay far more than a hypothetical third party purchaser of a minority shareholding because EIS investors are entitled to
    - substantial tax incentives including Income Tax relief,
    - the potential disposal of shares free from Capital Gains tax,
    - the offset of losses against taxable income and
    - the lack of inheritance tax to pay on shares bought through EIS.

  These are valuable incentives which are not available to a hypothetical third party purchaser. On the basis that a EIS investor would expect to receive as income tax relief 30% of their investment back, they would be prepared to pay a 43% higher price paid by a non EIS investor. On the basis that they would not be subject to the 20% capital gains tax on any net proceeds from their investment, they would be prepared to pay 25% more than what a non EIS investor would pay.

- The ASA investors are benefiting from the fact that over 80% of the total capital raised by the Company has been contributed by other investors, namely the SAFE investors, which invested at slightly different terms. Without the additional capital of **£X** invested by SAFE investors, the risk profile of the Company would be significantly higher for the EIS investors, as the Company would have to significantly reduce its team size and run out of money much faster.

- The Valuation Cap of **£X** was set by the initial SAFE investors, who invested without a Longstop Date, and not by the EIS investors, who invested later and did not have a say in the determination of what a fair valuation cap may be for a convertible security with a longstop date. Most of the EIS investors are not professional investors and followed the valuation cap set by the institutional SAFE investors. Also they are more concerned about getting EIS relief than optimising the valuation cap.

In addition, an investor would be prepared to pay more than a hypothetical third party purchaser for the shares underlying the SAFEs and ASAs. Investors will have access to information, including forecasts and management information, not generally available to a hypothetical third party purchaser. We need to differentiate between the primary issue of shares whereby the company and its management team have every incentive to share information with prospective investors and the secondary transfer of shares from a small minority shareholder to a prospective third party purchaser which will not provide any benefit to the Company other than making a selling shareholder happy and will rather force time consuming queries on the management team. Such information would therefore not generally be available to a hypothetical third party purchaser of a minority shareholding such as we are required to consider for the purpose of the current valuation, which will further reduce the price they are willing to pay.

Moreover, a subscription for new shares in a company capitalises the company by the subscription amount, giving the company additional funds for growth and development of the business but a sale between a willing buyer and seller, as is required to be considered for the purpose of the current valuation, there is no additional capital to the business.

3.3. For the above reasons, we consider that previous transactions in shares and convertible bonds offer limited insight for the purpose of the current valuation.

4. COMPANY'S FINANCIAL RESULTS

4.1. The Company has not yet published any results.

4.2. The Company's unaudited financial statements are attached to this form and can be summarised as follows:

Period	**Turnover**	**Gross Profit**	**EBITDA**
X	**£X**	**£X**	**£X**

5. VALUATION METHODOLOGY

5.1. Net assets basis - actual

We would normally suggest that the net realisable asset value could be viewed as the minimum value of the Company on the basis those funds be realised by shareholders by liquidation of the company.

The company has provided some balance sheet information including the latest net asset value:

Balance Sheet Date	**Accounts**	**Net Asset Value**
X	**X**	**X**

The net asset value is negative as the Company has raised most of its capital via convertible bonds which are still outstanding and do not contribute to net asset value.

5.2. Net assets basis – as-converted

We propose to consider the outstanding convertible bonds on an as-converted basis, in which case the net asset value of the Company equates to £**X**. The number of shares in the Company on an as-converted basis would depend on the assumed valuation at which a hypothetical future conversion event occurs and will likely range between £**X** and the Valuation Cap of £**X**.

On an as-converted basis, and according to the terms of the outstanding convertible bonds, the net asset value per share based on different conversion valuations are as follows:

Conversion Valuation	**Conversion Shares**	**As-converted Fully Diluted Shares**	**Net Asset Value**	**Net Asset Value per Share**
Average				**£X**

5.3. Earnings basis

We do not believe that the earnings method of valuating a company is relevant for the Company. The Company has never had a profit and is currently highly unprofitable.

5.4. Gross profit basis

We do not believe that the gross profit method of valuating a company is relevant for the Company. The Company has never had a gross profit and us currently highly unprofitable.

5.5. Dividend yield basis

We do not believe that the dividend yield method of valuating a company is relevant for the Company. The Company has paid any dividends on its shares and is not intending to do so in the near future.

5.6. Prior transactions in the same shares

The Option Shares to be issued upon exercise of the proposed options are Ordinary shares. There were no prior transactions in those shares in the past.

6. COMPANY VALUATION

6.1. Revisiting our various methodologies to value the Company, we show below a summary table listing the resulting company value depending on the methodology:

Methodology	**Company Value**	**Company Value per Share**
Net Assets Basis – actual	**£X**	**£X**
Net Assets Basis – as converted	**£X**	**£X**
Earnings Basis	-	-
Gross Profit Basis	-	-

Dividend Yield Basis	-	-

6.2. Our Estimated Company Value for the Company is therefore derived by the only relevant methodology applicable at the current stage, the as-converted Net Assets Basis, resulting in a value of **£X**.

Based on the Estimated Company Value, the fully diluted Economic Value per share of the Company is **£X.**

7. IMPACT OF OPTION RESTRICTIONS ON THE VALUE OF SHARES UNDER OPTION

7.1. Liquidation preference

SAFE investors are protected with a liquidation preference over their total investment of **£X** into the company. This means that if the Company was liquidated today, the entire remaining as-converted net assets of **£X** would belong to the SAFE investors, and nothing to the holders of Ordinary Shares. In order for Ordinary shares to take a share of the Company's net assets, its NAV would have to grow above the sum of **£X** and any future investments which are subject to a liquidation preference. This would only be the case if the Company i) becomes profitable, ii) gets acquired at a valuation which is higher than the total amount of investment subject to liquidation preference or iii) successfully lists on a stock exchange.

Due to the reduced economic rights of Option Shares because of the factors mentioned above, we propose a **discount of X%** to the fully diluted Economic Value per share.

8. MARKET VALUES

We therefore propose the current Actual Market Value (AMV) and current Unrestricted Market Value (UMV) of the shares over which options are to be granted be estimated as follows:

8.1. **Actual Market Value (AMV)**

We recommend that the AMV be no greater than **£X**, being the Economic Value per share, discounted for such share's reduced economic rights.

8.2. **Unrestricted Market Value (UMV)**

We recommend that the UMV be no greater than **£X**, the same as the AMV as there are no restrictions that would have to be ignored when assessing the UMV of the shares.