Opinion of Value for Smart Concepts AG

December 2022

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Business Beyond Borders

Disclaimer

This report is an opinion of value and not a valuation or appraisal report. There are a number of significant differences between this opinion of value and an appraisal. This opinion of value is not nearly as rigorous as a formal appraisal and is designed to give a guideline or benchmark value rather than a formal determination of value. Specifically, and at a minimum, a valuation and/or appraisal analysis should include the following conditions to be considered an appraisal or formal valuation:

1. A full financial statement's analysis, including Income Statement, Balance Sheets and Cash Flows.
2. An in-depth understanding of the financial statements and the company to justify making appropriate adjustments to the Income Statements and Balance Sheets.
3. An assurance that all data is accurate and included in the final report.
4. A comparison of the valued company's financial statements to industry norms (RMA, trade, or other ratios/percentages) and using this data in building discount and capitalization rates.
5. A certifying cover letter with the evaluator's signature.
6. Should conform to IRS Revenue Ruling 59-60 or any related standard based on the geography and its regulations.

Opinion of Value– Summary

- Based upon the information provided by the Management of the Company, as presented below, our opinion of the **Fair Market Value of a 100% equity ownership interest in Smart Concepts AG on a going concern basis is in the range of €20.2M to €28.9M.**

Company Overview

- Smart Concepts AG ("the Company" or SC") is an innovative provider of smart solutions that enable manufacturer-independent control of all Smart Home / Smart Building devices.
- Established in 2020, the Company has BAFA-Invest approval granted and has developed its All-In-One "KONORhome" and "KONOR1" solutions
- SC has raised €840.000 funding till date.
- To assist the Management in arriving at a broad fair value range, a high level exercise was undertaken to ascertain the Enterprise Value of the company based on Income approach
- Below is the summary of the analysis:

Valuation Approach	Enterprise Value	Equity Value
€ Mn		
Income approach (DCF) Base Case	€20.2	€20.2
Income approach (DCF) Optimistic Case	€28.9	€28.9

*We are assuming that the Company has a Zero Net Debt position as on the date on valuation

Income Approach

- The income approach is based on the premise that the value of a security or asset is the present value of the future earning capacity that is available for distribution to the subject investors in the security or asset. A commonly used income approach to estimate the fair market value of securities or individual assets is a discounted cash flow analysis. A discounted cash flow analysis involves the determination of the net present value of the future cash flows, including the terminal value, of an asset or a business. The selected discount rate should consider the time value of money, inflation and the risk inherent in achieving the projected future cash flows. The enterprise value of the Company is computed using the following assumptions:

Estimated after-tax discretionary cash flow:

- We have reviewed the projected operating results, and related adjustments thereto, as prepared in consultation with the management of the Company. Our Opinion of Value has necessarily been based on projections, which, in turn, were based on certain assumptions
- Some assumptions will not materialize as unanticipated events and circumstances may occur subsequent to the date of this report. Management of the Company may also choose a different course of action for the Company during the projection period. Therefore, the actual results achieved during the projection period will vary from the projections and the variations may be material. We caution the reader in this regard
- We have summarized the estimated after-tax discretionary cash flow of the Company for the 5 years ended December 31, 2026 on the basis of Management's projected earnings after income taxes

Weighted average cost of capital:

- Using the DCF approach, cash flows are discounted using the weighted-average cost of capital ("WACC"). Based on our review of the operations of the Company, its relative risks and assuming a normal capital structure, the WACC was estimated to be 28.9%

Source: Management info

Basis for Discount Rate

- Venture capitalists typically use discount rates that are high compared to historical rates of return on common stock and other financial assets. The discount rates are in the range of 30-70 percent.
- During the startup stage of venture-capital financing, discount rates between 50 and 70 percent are common. The discount rate decreases from the first through fourth stage: from 60 to 30 percent.
- These rates of return are high compared to historical returns on common stocks or small stocks (12.1 and 17.8 percent, respectively).
- Such high discount rates cannot also be explained in the context of any existing asset pricing theory; that is, any reasonable risk-adjusted discount rates are not consistent with discount rates in the order of 30-60 percent.
- Discount rates considered for Year 1 is 60% and from Year 2 onwards, a deduction of 5% has been considered.
- The report* provides a rational economic explanation why venture capitalists (VC) use such high discount rates.

*Please refer this report for the VC Approach discounting

Assumptions – Base Case

Markets		D, A, CH	BENELUX	Other EU	USA/Canada	Emirates
Apartments		50,000,000	12,000,000	80,000,000	100,000,000	10,000,000
of which own property	Percent	40.0%	40.0%	70.0%	60.0%	60.0%
There of target group	Upper segment	10.0%	10.0%	10.0%	15.0%	15.0%
Purchase	Years	10	10	15	10	10
Market size	pc pa	200,000	48,000	373,333	900,000	90,000
Own market share (pc)		5%	5%	3%	2%	3%
Sales year 5	pc pa	10,000	2,500	10,000	20,000	2,500
Selling price		**938**	**938**	**938**	**938**	**938**
Turnover		**9,380,000**	**2,345,000**	**9,380,000**	**18,760,000**	**2,345,000**

For the Base case, the Selling price considered is **EUR 938**

Growth rates from market entry	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
		100%	50%	33%	25%	20%	15%	10%
Relative quantity	100,000	200,000	300,000	400,000	500,000	600,000	690,000	759,000
D, A,CH	2,000	4,000	6,000	8,000	10,000	12,000	13,800	15,180
BENELUX		500	1,000	1,500	2,000	2,500	3,000	3,450
Other EU			2,000	4,000	6,000	8,000	10,000	12,000
United States			4,000	8,000	12,000	16,000	20,000	24,000
Emirates				500	1,000	1,500	2,000	2,500

Source: Management info

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Income Statement- Base Case

Year ending December 31st (EUR)		2023	2024	2025	2026	2027	2028	2029	2030
Actual unit count		2,000	4,500	13,000	22,000	31,000	40,000	48,800	57,130
Sales(pc.)	0	2,000	4,500	13,000	22,000	31,000	40,000	48,800	57,130
Price from SC	0	938	938	938	938	938	938	938	938
Turnover	**-**	**1,876,000**	**4,221,000**	**12,194,000**	**20,636,000**	**29,078,000**	**37,520,000**	**45,774,400**	**53,587,940**
Product costs €/pc.	250	200	175	150	125	125	125	125	125
Cloud for 3 years	45	45	40	35	35	30	30	25	25
Variable handling €/pc.	60	60	40	30	20	20	20	20	20
Product costs	-	400,000	787,500	1,950,000	2,750,000	3,875,000	5,000,000	6,100,000	7,141,250
Cloud Costs	-	90,000	180,000	455,000	770,000	930,000	1,200,000	1,220,000	1,428,250
Variable handling costs	-	120,000	180,000	390,000	440,000	620,000	800,000	976,000	1,142,600
Warranty/Returns/Hotline	-	56,000	121,875	299,750	450,250	648,250	846,250	1,040,600	1,225,622
Total costs of sales	-	666,000	1,269,375	3,094,750	4,410,250	6,073,250	7,846,250	9,336,600	10,937,722
Total Market	**-**	**1,210,000**	**2,951,625**	**9,099,250**	**16,225,750**	**23,004,750**	**29,673,750**	**36,437,800**	**42,650,218**
Expenses									
Marketing	187,600	422,100	1,219,400	2,063,600	2,907,800	3,751,999	4,577,439	5,358,793	5,358,793
% of Total revenue	-	23%	29%	17%	14%	13%	12%	12%	10%
Var. Sales, SEO etc.	-	93,800	211,050	609,700	1,031,800	1,453,900	1,876,000	2,288,720	2,679,397
% of Total revenue	-	5%	5%	5%	5%	5%	5%	5%	5%
Fixed SGA	300,000	660,000	726,000	798,600	878,460	966,306	1,062,937	1,169,230	1,286,153
% of Total revenue	-	35%	17%	7%	4%	3%	3%	3%	2%
Variable GA	150,000	93,800	211,050	609,700	1,031,800	1,453,900	1,876,000	2,288,720	2,679,397
% of Total revenue	-	5%	5%	5%	5%	5%	5%	5%	5%
Total Expenses	637,600	1,175,900	2,156,450	3,471,900	4,818,060	6,172,205	7,516,376	8,816,743	9,324,343
EBITDA	**(637,600)**	**34,100**	**795,175**	**5,627,350**	**11,407,690**	**16,832,545**	**22,157,374**	**27,621,057**	**33,325,875**
EBITDA %		**2%**	**19%**	**46%**	**55%**	**58%**	**59%**	**60%**	**62%**

Income **Approach - DCF**

Base case		2023	2024	2025	2026	2027	2028	2029	2030	Terminal value
					For the year ending December 31,					
Total revenue		1,876,000	4,221,000	12,194,000	20,636,000	29,078,000	37,520,000	45,774,400	53,587,940	55,195,578
y-o-y % growth			125.0%	188.9%	69.2%	40.9%	29.0%	22.0%	17.1%	3.0%
Cost of goods sold		666,000	1,269,375	3,094,750	4,410,250	6,073,250	7,846,250	9,336,600	10,937,722	13,449,152
% Total revenue		35.5%	30.1%	25.4%	21.4%	20.9%	20.9%	20.4%	20.4%	24%
Gross profit		1,210,000	2,951,625	9,099,250	16,225,750	23,004,750	29,673,750	36,437,800	42,650,218	41,746,426
% Total revenue		64.5%	69.9%	74.6%	78.6%	79.1%	79.1%	79.6%	79.6%	75.6%
Operating expenses		1,175,900	2,156,450	3,471,900	4,818,060	6,172,205	7,516,376	8,816,743	9,324,343	16,800,886
% Total revenue		62.7%	51.1%	28.5%	23.3%	21.2%	20.0%	19.3%	17.4%	30%
EBITDA		34,100	795,175	5,627,350	11,407,690	16,832,545	22,157,374	27,621,057	33,325,875	24,945,540
% margin		1.8%	18.8%	46.1%	55.3%	57.9%	59.1%	60.3%	62.2%	45.2%
Less: Depreciation		-	-	-	-	-	-	-	-	-
EBIT		34,100	795,175	5,627,350	11,407,690	16,832,545	22,157,374	27,621,057	33,325,875	24,945,540
Taxes	16%	5,396	125,836	890,528	1,805,267	2,663,750	3,506,404	4,371,032	5,273,820	3,947,632
After tax cash flows		28,704	669,339	4,736,822	9,602,423	14,168,795	18,650,970	23,250,025	28,052,055	20,997,908
Cash flow adjustments										
Increase/(Decrease) in working capital		(876,610)	(744,281)	(584,844)	(737,359)	(1,073,749)	(1,019,798)	(966,085)	(1,166,587)	(1,328,981)
Terminal value working cap %										16%
Depreciation		-	-	-	-	-				-
Free cash flows		(847,906)	(74,943)	4,151,978	8,865,064	13,095,046	17,631,172	22,283,940	26,885,469	19,668,927
Terminal value	3%									115,519,902
VC Approach*										
Discount rate		**60%**	**55%**	**50%**	**45%**	**40%**	**35%**	**30%**	**25%**	**20%**
Present value factor @		0.79	0.51	0.34	0.23	0.17	0.12	0.10	0.08	0.08
Present value of cash flows (VC Approach)		**(670,868)**	**(38,220)**	**1,412,053**	**2,079,794**	**2,194,914**	**2,187,713**	**2,127,334**	**2,053,608**	**8,823,824**

*Please refer this report for the VC Approach discounting

Income Approach – **Base case**

Computation of enterprise value (EUR)	EUR
Present value of cash flows	11,346,328
Terminal value	8,823,824
Enterprise value	**20,170,152**
Less: Net Debt	-
Total Debt	-
Less: Cash	-
Equity value	**20,170,152**

Source:
https://www.wsj.com/market-data/quotes/bond/BX/TMBMKDE-10Y
https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/Betas.html
http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html
https://www.ceicdata.com/en/indicator/germany/bank-lending-rate
https://taxsummaries.pwc.com/germany/corporate/taxes-on-corporate-income#:~:text=Corporation%20tax%20is%20levied%20at,total%20tax%20rate%20of%2015.825%25.

WACC Calculation			
Particulars	Weight %	Cost	Value
Debt	10%	2.2%	0.2%
Equity	90%	22.0%	19.8%
WACC			**20%**
Cost of Equity			
10Yr T-Bill			1.9%
Unlevered Beta			1.27
Re levered Beta			1.39
Market Risk Premium			4.2%
Company Risk Premium			14.2%
Cost of Equity			**22.0%**
Cost of Capital			
Debt borrowing rate %			3%
Inc. tax rate			15.8%
After-tax Cost of debt			**2.2%**

The WACC rates are considered for calculating terminal value

Sensitivity Table (EUR)
Enterprise Value vs. Discounting Rate and Terminal Growth Rate

	3.0%	4.0%	5.0%
19.0%	20,720,731	21,404,637	22,186,059
20.0%	20,170,152	20,777,029	21,464,681
21.0%	19,680,658	20,223,144	20,833,328

Assumptions – Optimistic Case

Markets		D, A, CH	BENELUX	Other EU	USA/Canada	Emirates
Apartments		50,000,000	12,000,000	80,000,000	100,000,000	10,000,000
of which own property	Percent	40.0%	40.0%	70.0%	60.0%	60.0%
There of target group	Upper segment	10.0%	10.0%	10.0%	15.0%	15.0%
Purchase	Years	10	10	15	10	10
Market size	pc pa	200,000	48,000	373,333	900,000	90,000
Own market share (pc)		5%	5%	3%	2%	3%
Sales year 5	pc pa	10,000	2,500	10,000	20,000	2,500
Selling price		*1126*	*1126*	*1126*	*1126*	*1126*
Turnover		**11,256,000**	**2,814,000**	**11,256,000**	**22,512,000**	**2,814,000**

For the Optimistic case, the Selling price considered is **EUR 1126**

Growth rates from market entry	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
		100%	50%	33%	25%	20%	15%	10%
Relative quantity	100,000	200,000	300,000	400,000	500,000	600,000	690,000	759,000
D, A,CH	2,000	4,000	6,000	8,000	10,000	12,000	13,800	15,180
BENELUX		500	1,000	1,500	2,000	2,500	3,000	3,450
Other EU			2,000	4,000	6,000	8,000	10,000	12,000
United States			4,000	8,000	12,000	16,000	20,000	24,000
Emirates				500	1,000	1,500	2,000	2,500

Source: Management info

Income Statement- **Optimistic Case**

Year ending December 31st (EUR)		2023	2024	2025	2026	2027	2028	2029	2030
Actual unit count		2,000	4,500	13,000	22,000	31,000	40,000	48,800	57,130
Sales(pc.)	0	2,000	4,500	13,000	22,000	31,000	40,000	48,800	57,130
Price from SC	*0*	*1126*	*1126*	*1126*	*1126*	*1126*	*1126*	*1126*	*1126*
Turnover	**-**	**2,251,200**	**5,065,200**	**14,632,800**	**24,763,200**	**34,893,600**	**45,024,000**	**54,929,280**	**64,305,528**
Product costs €/pc.	*250*	*200*	*175*	*150*	*125*	*125*	*125*	*125*	*125*
Cloud for 3 years	*45*	*45*	*40*	*35*	*35*	*30*	*30*	*25*	*25*
Variable handling €/pc.	*60*	*60*	*40*	*30*	*20*	*20*	*20*	*20*	*20*
Product costs	-	400,000	787,500	1,950,000	2,750,000	3,875,000	5,000,000	6,100,000	7,141,250
Cloud Costs	-	90,000	180,000	455,000	770,000	930,000	1,200,000	1,220,000	1,428,250
Variable handling costs	-	120,000	180,000	390,000	440,000	620,000	800,000	976,000	1,142,600
Warranty/Returns/Hotline	-	56,000	121,875	299,750	450,250	648,250	846,250	1,040,600	1,225,622
Total costs of sales	**-**	**666,000**	**1,269,375**	**3,094,750**	**4,410,250**	**6,073,250**	**7,846,250**	**9,336,600**	**10,937,722**
Total Market	**-**	**1,585,200**	**3,795,825**	**11,538,050**	**20,352,950**	**28,820,350**	**37,177,750**	**45,592,680**	**53,367,806**
Expenses									
Marketing	187,600	422,100	1,219,400	2,063,600	2,907,800	3,751,999	4,577,439	5,358,793	5,358,793
% of Total revenue	-	*19%*	*24%*	*14%*	*12%*	*11%*	*10%*	*10%*	*8%*
Var. Sales, SEO etc.	-	93,800	211,050	609,700	1,031,800	1,453,900	1,876,000	2,288,720	2,679,397
% of Total revenue	-	*4%*	*4%*	*4%*	*4%*	*4%*	*4%*	*4%*	*4%*
Fixed SGA	300,000	660,000	726,000	798,600	878,460	966,306	1,062,937	1,169,230	1,286,153
% of Total revenue	-	*29%*	*14%*	*5%*	*4%*	*3%*	*2%*	*2%*	*2%*
Variable GA	150,000	93,800	211,050	609,700	1,031,800	1,453,900	1,876,000	2,288,720	2,679,397
% of Total revenue	-	*4%*	*4%*	*4%*	*4%*	*4%*	*4%*	*4%*	*4%*
Total Expenses	637,600	1,175,900	2,156,450	3,471,900	4,818,060	6,172,205	7,516,376	8,816,743	9,324,343
EBITDA	**(637,600)**	**409,300**	**1,639,375**	**8,066,150**	**15,534,890**	**22,648,145**	**29,661,374**	**36,775,937**	**44,043,463**
EBITDA %		*18%*	*32%*	*55%*	*63%*	*65%*	*66%*	*67%*	*68%*

Income **Approach - DCF**

Optimistic case		2023	2024	2025	2026	2027	2028	2029	2030	Terminal value
				For the year ending December 31,						
Total revenue		2,251,200	5,065,200	14,632,800	24,763,200	34,893,600	45,024,000	54,929,280	64,305,528	66,234,694
y-o-y % growth			125.0%	188.9%	69.2%	40.9%	29.0%	22.0%	17.1%	3.0%
Cost of goods sold		666,000	1,269,375	3,094,750	4,410,250	6,073,250	7,846,250	9,336,600	10,937,722	13,449,152
% Total revenue		29.6%	25.1%	21.1%	17.8%	17.4%	17.4%	17.0%	17.0%	20%
Gross profit		1,585,200	3,795,825	11,538,050	20,352,950	28,820,350	37,177,750	45,592,680	53,367,806	52,785,542
% Total revenue		70.4%	74.9%	78.9%	82.2%	82.6%	82.6%	83.0%	83.0%	79.7%
Operating expenses		1,175,900	2,156,450	3,471,900	4,818,060	6,172,205	7,516,376	8,816,743	9,324,343	16,800,886
% Total revenue		52.2%	42.6%	23.7%	19.5%	17.7%	16.7%	16.1%	14.5%	25%
EBITDA		409,300	1,639,375	8,066,150	15,534,890	22,648,145	29,661,374	36,775,937	44,043,463	35,984,656
% margin		18.2%	32.4%	55.1%	62.7%	64.9%	65.9%	67.0%	68.5%	54.3%
Less: Depreciation		-	-	-	-	-	-	-	-	-
EBIT		409,300	1,639,375	8,066,150	15,534,890	22,648,145	29,661,374	36,775,937	44,043,463	35,984,656
Taxes	16%	64,772	259,431	1,276,468	2,458,396	3,584,069	4,693,912	5,819,792	6,969,878	5,694,572
After tax cash flows		344,528	1,379,944	6,789,682	13,076,494	19,064,076	24,967,461	30,956,145	37,073,585	30,290,084
Cash flow adjustments										
Increase/(Decrease) in working capital		(1,118,532)	(893,138)	(701,812)	(884,831)	(1,288,499)	(1,223,757)	(1,159,302)	(1,399,904)	(1,594,777)
Terminal value working cap %										16%
Depreciation		-	-	-	-	-				-
Free cash flows		(774,004)	486,806	6,087,869	12,191,663	17,775,578	23,743,704	29,796,843	35,673,681	28,695,307
Terminal value	3%									168,533,797
VC Approach*										
Discount rate		**60%**	**55%**	**50%**	**45%**	**40%**	**35%**	**30%**	**25%**	**20%**
Present value factor @		0.79	0.51	0.34	0.23	0.17	0.12	0.10	0.08	0.08
Present value of cash flows (VC Approach)		**(612,396)**	**248,269**	**2,070,434**	**2,860,233**	**2,979,437**	**2,946,168**	**2,844,553**	**2,724,884**	**12,873,215**

*Please refer this report for the VC Approach discounting

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Income Approach – **Optimistic case**

Computation of enterprise value (EUR)	EUR
Present value of cash flows	16,061,582
Terminal value	12,873,215
Enterprise value	**28,934,797**
Less: Net Debt	-
Total Debt	-
Less: Cash	-
Equity value	**28,934,797**

Source:
https://www.wsj.com/market-data/quotes/bond/BX/TMBMKDE-10Y
https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/Betas.html
http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html
https://www.ceicdata.com/en/indicator/germany/bank-lending-rate
https://taxsummaries.pwc.com/germany/corporate/taxes-on-corporate-income#:~:text=Corporation%20tax%20is%20levied%20at,total%20tax%20rate%20of%2015.825%25.

WACC Calculation			
Particulars	Weight %	Cost	Value
Debt	10%	2.2%	0.2%
Equity	90%	22.0%	19.8%
WACC			**20%**
Cost of Equity			
10Yr T-Bill			1.9%
Unlevered Beta			1.27
Re levered Beta			1.39
Market Risk Premium			4.2%
Company Risk Premium			14.2%
Cost of Equity			**22.0%**
Cost of Capital			
Debt borrowing rate %			3%
Inc. tax rate			15.8%
After-tax Cost of debt			**2.2%**

The WACC rates are considered for calculating terminal value

Sensitivity Table (EUR)
Enterprise Value vs. Discounting Rate and Terminal Growth Rate

	3.0%	4.0%	5.0%
19.0%	29,738,046	30,745,392	31,896,375
20.0%	28,934,797	29,829,168	30,842,579
21.0%	28,220,667	29,020,568	29,920,291

Statement of Limiting Conditions

1. The conclusion of value arrived at herein is only an opinion of value and is valid only for internal management discussions
2. Financial statements and other related information provided by the Management of the Company or its representatives, during this engagement, have been accepted without any verification as fully and correctly reflecting the enterprise's business conditions and operating results for the respective periods, except as specifically noted herein. We express no audit opinion or any other form of assurance on this information
3. Public information and industry and statistical information have been obtained from sources we believe to be reliable. However, we make no representation as to the accuracy or completeness of such information and have performed no procedures to corroborate the information
4. We do not provide assurance on the achievability of the results forecasted by MyPhoto because events and circumstances frequently do not occur as expected; differences between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans, and assumptions of management
5. The conclusion of value arrived at herein assumes that the current level of management expertise and effectiveness would continue to be maintained, and that the character and integrity of the enterprise through any sale, reorganization, exchange, or diminution of the owners' participation would not be materially or significantly changed
6. Neither all nor any part of the contents of this report (especially the conclusion of value, the identity of any valuation specialist(s), or the firm with which such valuation specialists are connected or any reference to any of their professional designations) should be disseminated to the public through advertising media, public relations, news media, sales media, mail, direct transmittal, or any other means of communication without the prior written consent and approval of MyPhoto
7. We have not conducted interviews with the management of MyPhoto concerning the past, present, and prospective operating results of the Company. All the information has been obtained from BrandStar Inc.
8. Except as noted, we have relied on the representations of the owners, management, and other third parties concerning the value and useful condition of all equipment, real estate, investments used in the business, and any other assets or liabilities, except as specifically stated to the contrary in this report. We have not attempted to confirm whether all assets of the business are free and clear of liens and encumbrances or that the entity has good title to all assets

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