winning

Scanning New Growth: Evaluating an Investment Opportunity

Case Study

Every business that requires a high level of trust needs to physically validate the user's identity - when any business requires trust in your identity, the process either starts or ends by physically needing to show your ID, Passport or Driving License, and this can create massive frustration. In addition to this, such friction is a major obstacle to fully digitalizing and connecting any regulated business to the Internet.

1 The Challenge

The challenge of identifying someone online has existed since the beginning of the Internet and Strong Digital Identity is the solution.

Winning's customer product was originally designed with the end user in mind and combines video transmission and IA for remotely and securely transforming people's analogical identity into their digital one.

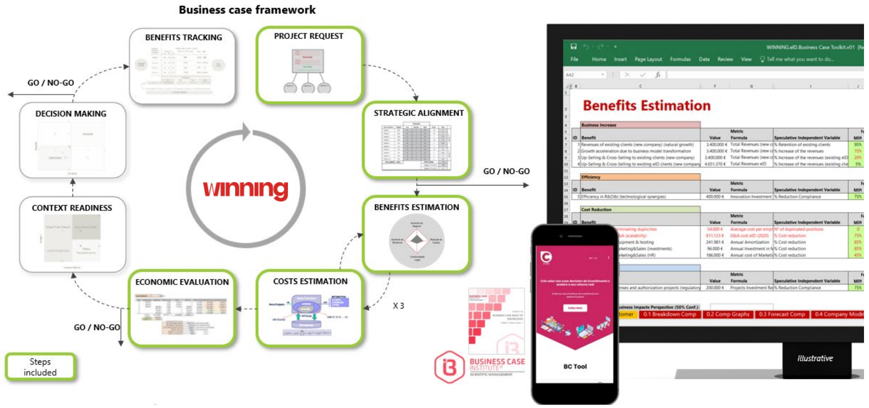
Digital Identity market, which was already growing in a fast pace, has accelerated due to the pandemic context. Not only are customers such as the ones in the financial and public sectors increasingly adopting such technology, but the regulatory context is also getting more suitable to it. Due to that fact, Winning's customer was looking forward to growing in a faster pace both organically and inorganically.

2 The Assessment

At our customer's request, Winning conducted the assessment of the opportunity of inorganic growth by means of the acquisition of a given market competitor, analyzing the strategic and operational benefits that this solution brings, with the associated costs, and finally presenting the economic evaluation.

For this purpose, we have applied the scientific Business Case Body of Knowledge methodology, through Winning proprietary's BCTool®, taking into consideration the business, operational and financial documentation available, as well as the given assumptions.

This is an innovative way that allows a rigorous analysis regarding investment initiatives.



We started with the Strategic Alignment process aiming to qualitatively assess the benefits that the acquisition of this competitor brings to our customer and how these benefits impact on the strategic objectives.

● strong ○ weak

Strategic alignment | Operational objectives

	Relevant benefits identified	Objectives: Increase international presence	Increase revenues and EBITDA	Increase company value	Implementation of new use cases
Business Increase	Direct increase in business volume	●	●	◕	◔
	Up-selling and cross-selling of eID products to existing competitor customers	◕	●	◕	◔
Efficiency	Efficiency in R&D+I (technological synergies)	◔	●	◕	◑
Cost Reduction	Cost reduction by eliminating duplicities	◔	●	◔	○

3 The Impact

We then proceed with the Benefits and Costs estimation. The most relevant benefits considered were the ones related to business increase, efficiency, and cost reduction.

On the other hand, the assumed costs were mainly acquisition and operational ones.

Relevant Benefits

Business increase

- Revenues of existing clients (new company) due to natural growth
- Up-Selling and cross-selling to existing clients (from the new company)

Efficiency

- Efficiency in R&D+I (technological synergies)

Cost Reduction

- Cost reduction by eliminating duplicities

Relevant Costs

Acquisition costs

- Acquisition value
- Associated cost (such as advisory, due diligences and communication)

Operational costs

- Consumptions and services
- Human resources
- Monitoring

The Benefits Modelling process aims to assess the overall quantitative impact of project benefits. The benefits are calculated through a robust process.

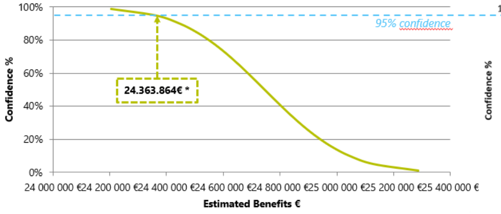
The Benefits Estimation process corrects and summarizes the benefits modelling values estimated throughout the years. The benefits modelled have associated costs that have been disaggregated and estimated.

According to the degree of confidence, the 3-year Business Case model presents S-curves, both for benefits and costs. We used 95% as the degree of confidence for the economic evaluation baseline, thus adopting a conservative approach.

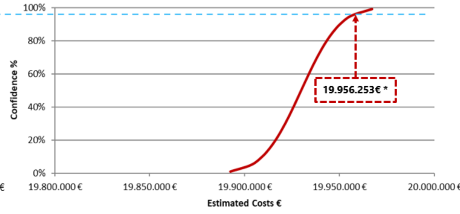
Confidence	Year 1	Year 2	Year 3
50%	5.079.533 €	8.953.418 €	10.713.013 €
95%	5.001.101 €	8.815.169 €	10.547.594 €
99%	4.968.605 €	8.815.169 €	10.479.058 €
1%	5.190.462 €	9.148.947 €	10.946.967 €

Confidence	Year 0	Year 1	Year 2	Year 3
50%	6.100.667 €	3.583.167 €	4.593.167 €	5.550.167 €
95%	6.109.891 €	2.019.529 €	2.588.781 €	9.238.052 €
99%	6.113.298 €	2.020.608 €	2.590.163 €	9.243.130 €
1%	6.090.035 €	2.013.245 €	2.580.725 €	9.208.462 €

Benefits S-curve



Costs S-curve



Based on the benefits and costs estimated, an Economic Evaluation has been calculated to analyze whether the initiative is economically interesting for Winning's customer, selecting a conservative scenario of 95% confidence.

Investment Indicators *(95% confidence)*	
NPV (Net Present Value)	**3.812.712 €**
BCR (Benefit Cost Ratio)	1,33 €
ROI (Return on Investment)	**32,7%**
IRR (Internal Rate of Return)	35,6%
ERR (External Rate of Return)	21,3%
NERR (Net External Rate of Return)	18,1%
Payback (interest included) (years)	**1,55**

Based on the benefits and costs estimated, an Economic Evaluation has been calculated to analyze whether the initiative is economically interesting for Winning's customer, selecting a conservative scenario of 95% confidence.

There are 4 key factors that affect the economic model

Key Factors

1. The company acquisition value (12, 16 and 20M€).

2. The payment model (50%/50% and 40%/60%).

3. The revenue forecasted by the acquired company (optimistic, conservative, and pessimistic).

4. Winning's customer capacity to achieve the proposed up-selling objective.

Therefore, a sensitivity analysis has been performed taking these four main assumptions into consideration.

NPV (€)		Acquisition Value (M€) (% Year 0 / % Year 3)		
Scenario	Estimated Revenue (M€)	**12 (50/50)**	16 (50/50)	20 (40/60)
Optimistic	4.7/6.7/8.1	4.470.309 €	2.521.027 €	2.440.955 €
Conservative	**4.7/6.7/7.4**	**3.812.712 €**	1.863.430 €	1.783.258 €
Pessimistic	4.7/6.7/6.7	3.156.010 €	1.206.727 €	1.126.556 €

ROI (%)		Acquisition Value (M€) (% Year 0 / % Year 3)		
Scenario	Estimated Revenue (M€)	**12 (50/50)**	16 (50/50)	20 (40/60)
Optimistic	4.7/6.7/8.1	38,3%	16,3%	12,6%
Conservative	**4.7/6.7/7.4**	**32,7%**	12,0%	9,2%
Pessimistic	4.7/6.7/6.7	27,1%	7,8%	5,8%

Payback* (years)		Acquisition Value (M€) (% Year 0 / % Year 3)		
Scenario	Estimated Revenue (M€)	**12 (50/50)**	16 (50/50)	20 (40/60)
Optimistic	4.7/6.7/8.1	1,55	1,73	1,74
Conservative	**4.7/6.7/7.4**	**1,55**	1,73	1,74
Pessimistic	4.7/6.7/6.7	1,55	1,73	1,74

Winning was able to scientifically an analytically state to the customer, that under a 95% degree of confidence baseline and in a conservative scenario, the business case model shows a ROI of 32,7% at the end of the third year and a payback of 1,55 years for an acquisition value of 12M€ (split between the first and third year in a 50%/50% model).

These results have confirmed this inorganic growth as a great opportunity for the fulfilment of the strategic objectives of Winning's customer.

We Inspire Action Through Science.

For further details, feel free to reach out to us. Simply click below to get in touch.

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