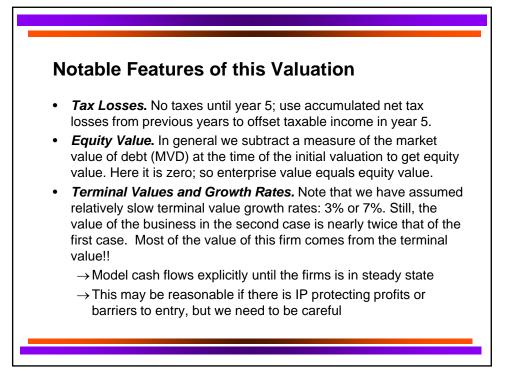
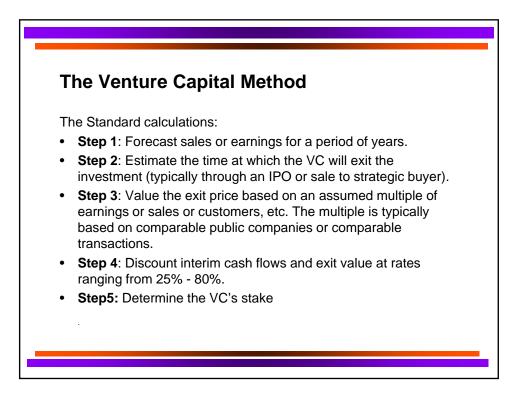
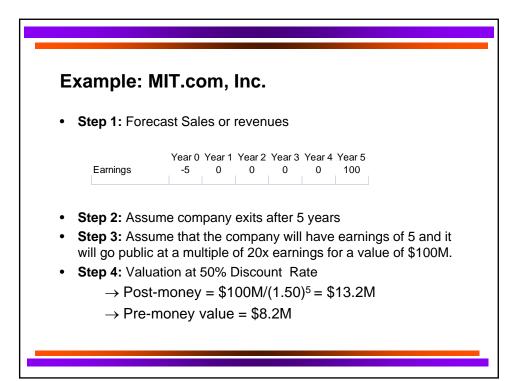
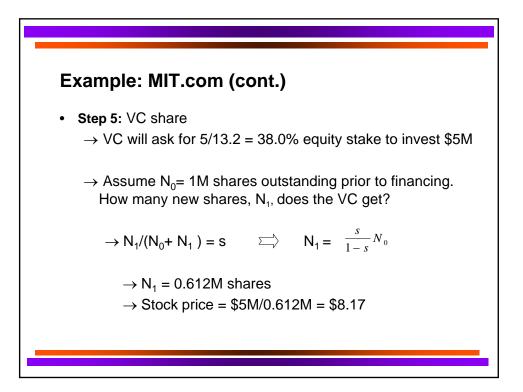


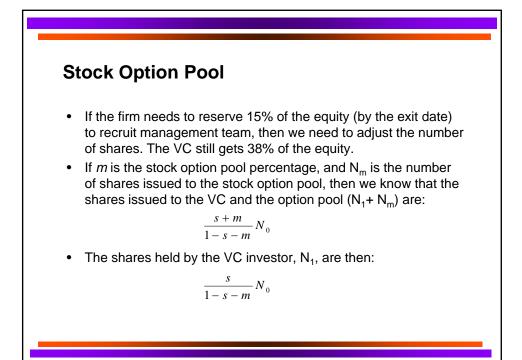
PV Exam	ala: M	Indica	I Diad	inacti	ice In	~
AF V Examp		ieuica	ι Dia	ງກາວຈະເ	c 5, m	.
	"Medical Dia	agnostics, Inc"				
	(\$000)					
	2002	2003	2004	2005	2006	
Revenue	734	6,475	22,445	55,960	110,402	
Cost of Goods Sold	318	2,406	7,175	16,723	32,564	
R&D	1,191	1,343	1,665	3,555	8,630	
Sales and Marketing	2,517	4,908	8,805	16,815	25,745	
Regulatory and Clinical	704	904	1,199	1,345	1,595	
Other Expense	2,137	3,397	4,733	6,740	9,394	
Total SG&A	6,549	10,552	16,402	28,455	45,364	
EBITDA	(6,133)	(6,483)	(1,132)	10,782	32,474	
Depreciation	184	334	544	579	723	
EBIT	(6,317)	(6,817)	(1,676)	10,203	31,751	
Taxes	0	0	0	0	10,858	
Depreciation Addback	184	334	544	579	723	
Capital Expenditures	543	567	742	880	959	
NWC	(364)	1,410	6,416	16,316	32,315	
Ch. In NWC	(364)	1,774	5,006	9,900	15,999	
Free Cash Flow	(6,312)	(8,824)	(6,880)	2	4,658	
Discount Rate	13%	Growth	3%	7%		
PVFCF			(14,735)	(14,735)		
TVFCF			18,410	17,870		
TV			184,096	297,826		
PVTV			99,920	161,648		
Value			85,185	146,913		

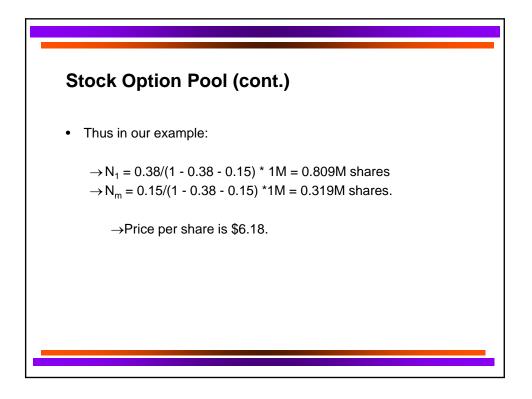




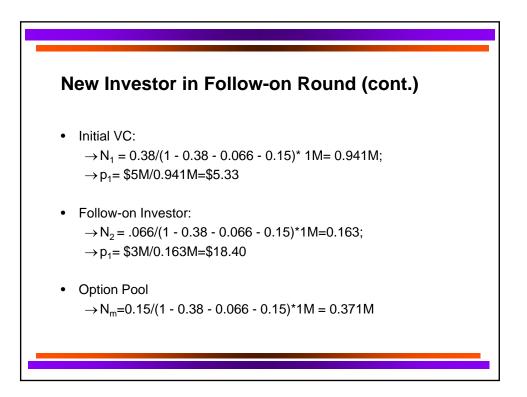












New Investor (cont.)

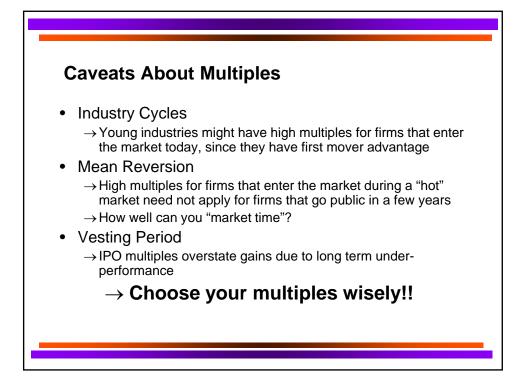
- Note that the first round VC investor starts off with a 40.7% equity stake, which then gets diluted to 38% ownership when the second round VC investor comes on board.
- If development time slips by two years then the second round investors require 11.1% equity share, since their valuation at this point is \$26.9M = 100/1.3⁵. If we still have to give 15% in option pool, this implies that:

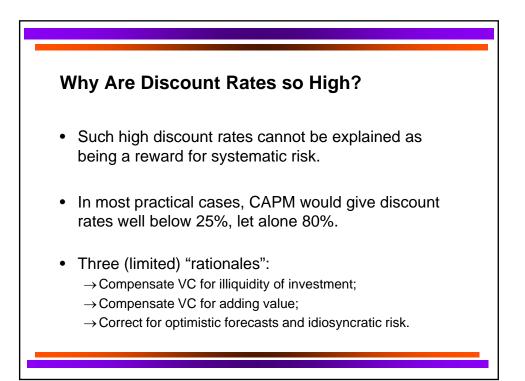
$$N_2 = \frac{s_2}{1 - s_2 - m} (N_0 + N_1)$$

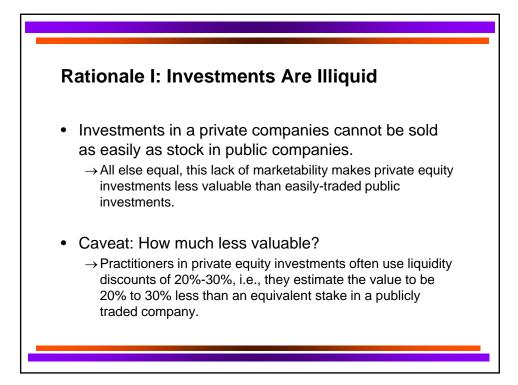
which is (0.111/(1 - 0.111 - 0.15))*1.940M = 0.291M shares.

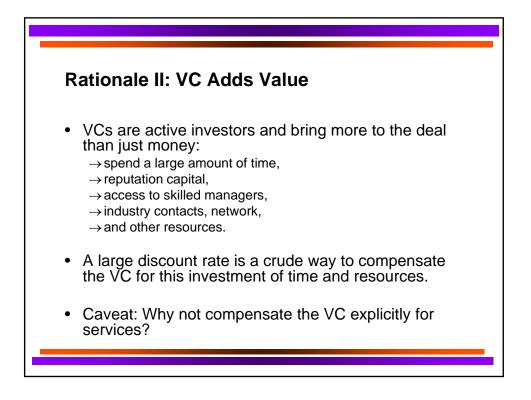
• The first-round VC ends up with only 35.8% of the shares at the exit date and the IRR on the investment falls to 32.5% from 50%.

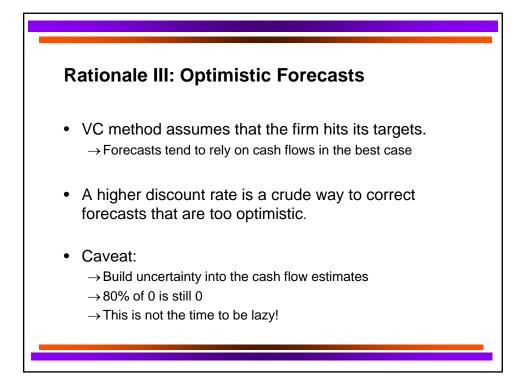


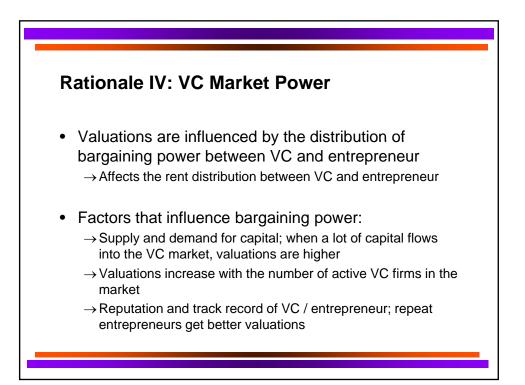


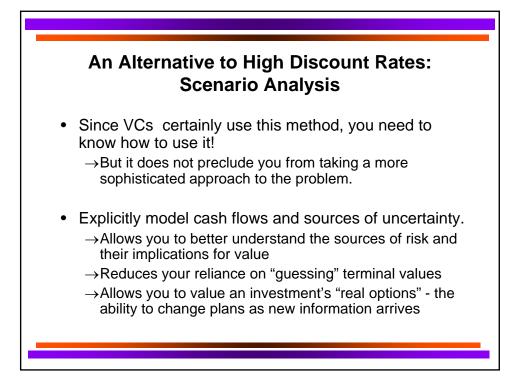




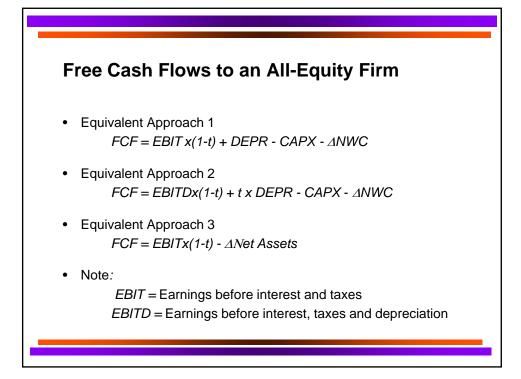




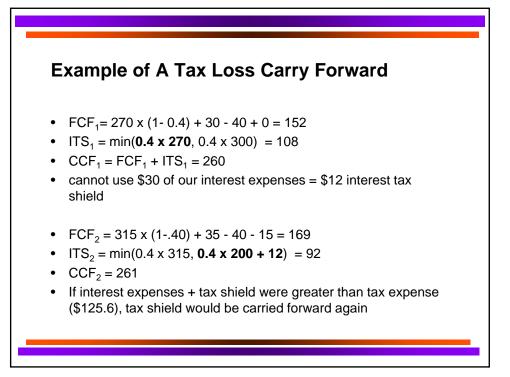








Example of Free C	ash Flow	Calculat	tion (2000
	('99)	('00)	
Sales	1000	1200	
Cost of Goods Sold	700	850	
Depreciation	30	35	
Interest Expense	300	200	
Capital Expenditures	40	40	
Accounts Receivable	50	60	
Inventories	50	60	
Accounts Payable	20	25	
tax rate=40%			
FCF = EBIT(1-t) + Depr	CAPX - Ch. N	IWC	
→ EBIT = 1200 - 850 - 35	5 = 315		
→ Ch. NWC = (60+60-25) - (50+50-20) = 15	
\rightarrow FCF = 315 (140) + 35	5 - 40 - 15 = 1	69	



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