CPVS™

CUSTOM VALUATION ESTIMATE

MEDICAL FUNDING PROFESSIONALS

CPVS™ CUSTOM VALUATION ESTIMATE

The CPVS™ custom valuation estimate is a key feature of our capital planning process that helps lay the foundation for your Reg A+ offering. Our goal is to propose a "fair value" offering price for your Reg A+ offering that accurately reflects your company's revenue potential and financial prospects. Attempting to raise capital without considering how investors might value your company could set you back months, if not years, on your fundraising journey, and it's a mistake I've seen countless startups make when raising capital for the first time.

Establishing a fair valuation estimate will leave you better prepared for your capital raise and allow you to answer questions such as the following:

- **Can I raise my target level of funding and keep founders in control at a realistic valuation?**
- **How does the offering price affect my cap table structure and shareholder dilution?**
- **What kind of proceeds can selling shareholders expect to generate in my offering?**
- **Based on a fair offering price, what's the most I can raise if I want to keep founders in control?**

Valuation is as much an art as it is a science, and there are a variety of techniques that can be used to estimate a company's market value, some of which you can read about here: 4 Valuation Methods. Our valuation assessment utilizes the Venture Capital Method of business valuation, the preferred method of valuation used by venture capital firms to value startups and early-stage businesses with minimal cash flow.

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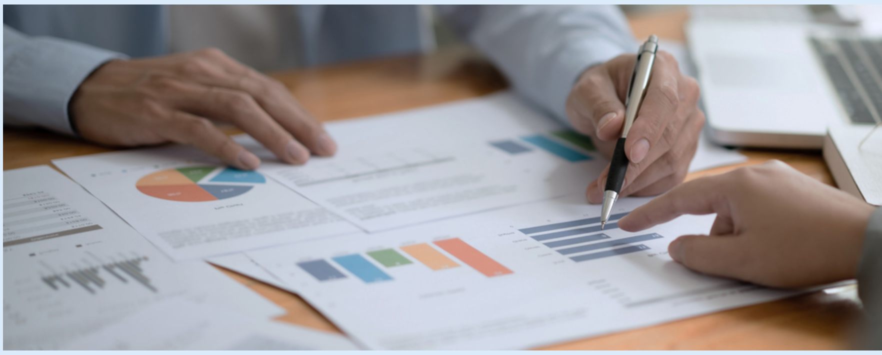
Startup valuations are notoriously difficult to estimate due to the lack of operating history and financial data needed to perform a market-based comps analysis. Early-stage medtech companies undergoing product development and clinical trials can go years without generating a profit or seeing a single dollar of revenue. Valuing these companies based on current metrics would make little sense – unless they were expected to remain startups indefinitely.

The Venture Capital method looks at a startup's valuation from the perspective of an investor and is concerned with **the expected return on investment at the time of exit** – typically three to eight years for most venture capital firms.



The idea is to determine, based on reasonable estimates of what a company might be worth in the future ("terminal value"), **what the company should be worth today in order to satisfy an investor's return requirement** over the hold period. The company's current financial status has no bearing on valuation – what matters is future output. By analyzing your TAM, revenue projections, and growth potential, we can "back into" a fair valuation for your company going into Reg A+.

The CPVS™ custom valuation estimate begins with a forecast of your company's financials (revenue, EBITDA, etc.) and an assumption for investor hold period (five years is standard). Using revenue and profit forecasts, terminal value is then computed using valuation multiples (Val/Rev, Val/EBITDA) from comparable exits (acquisitions, buyouts, IPOs) in the same or similar industries. This hypothetical exit value is discounted at the investor's required annual rate of return to arrive at a "present value" which represents the valuation of your company today at the time of investment. If the investor bought in at this valuation and sold his shares at the projected exit valuation, he'd achieve his return target.

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VALUATION

Infection prevention and pathogen control technology

Exit Assumptions		
Exit Year		Year 5
TAM (Combined US and Europe)		############
Annual Revenue at Exit		$99,000,000
Sales Volume Based on $6,000 Unit Price		16,500
Implied Market Share at Exit		2.30%
Exit Val/Revenue Multiple		3.38x
Exit Valuation		**$335,028,000**
% Dilution to Reg A+ Investors		0.0%
Reg A+ % Ownership at Exit		24.0%
Shares Outstanding at Exit		48,828,302
Exit Price per Share		$6.86
Reg A+ Multiple on Equity ($3.41)		**2.01x**

Implied Reg A+ Valuation		
Required Rate of Return	*Annual*	15.0%
Implied Post-Money Val		$166,568,000
Reg A+ Investment		$40,000,000
Pre-Money Valuation		**$126,568,000**
Reg A+ % Ownership		24.0%
Shares Outstanding Prior to Offering		37,102,568
Implied Price per Share		**$3.41**

Revenue Required to Meet Reg A+ Return Target			
Reg A+ Target Multiple on Equity	1.50x		
Implied Annual Return (t = 5)	8.4%		
Required Exit Valuation	$249,852,000	$5.12	Price per share
Required Exit Revenue	$73,830,733	1.72%	Market share
Required Sales Volume	12,305		

Market and Sales Assumptions (Source: Management Forecast)

Combined US TAM of $2.6 Billion		
Long-Term Care	65,600 facilities	https://www.crossrivertherapy.com/long-term-care
Medical/Hospitals	6,093 hospitals (920,531 beds	https://www.aha.org/statistics/fast-facts-us-hospitals
First Responders /	27,185 fire departments	https://apps.usfa.fema.gov/registry/summary
Public Service	15,766 police departments	https://polis.osce.org/country-profiles/united-states

2026 Target US Units	14,000			Unit Price	$6,000
2026 Target US Revenue	$84,000,000	3.2%	US market share ($2.6B TAM)		
2026 Target Europe Units	2,500				
2026 Target Europe Revenue	$15,000,000	0.9%	Europe mkt share ($1.7B TAM)		

Revenue and Implied Valuation		Year 1	#	Year 3	Year 4	Year 5
US						
US Units		0	#	4,000	9,000	14,000
US Revenue		$0	#	$24,000,000	$54,000,000	$84,000,000
Europe						
Europe Units		0	0	450	1,000	2,500
Europe Revenue		$0	#	$2,700,000	$6,000,000	$15,000,000
Total Revenue		**$0**	**#**	**$26,700,000**	**$60,000,000**	**$99,000,000**
Revenue Growth		--	--	345.0%	124.7%	65.0%
Market Share		0.0%	#	0.6%	1.4%	2.3%
Exit Valuation	3.38x	$0	#	$90,356,000	$203,047,000	$335,028,000
Discount Factor		*0.8696*	*#*	*0.6575*	*0.5718*	*0.4972*
PV of Exit Val (Reg A+ Post Val)		$0	#	$59,411,000	$116,093,000	$166,568,000
Reg A+ Pre-Money Valuation		$0	#	$19,411,000	$76,093,000	$126,568,000

We assume a 15% annual required rate of return to discount future value. The discount rate is the opportunity cost of capital – the rate of return Reg A+ investors would expect from a similar investment.

This return requirement takes several variables into account, including:

- **Risk-free rate:** what an investor could earn by investing in "risk-free" government bonds. The current yield on 5-year treasury bills is 3.93%.
- **Equity risk premium:** the additional return above the risk-free rate required to invest in equity securities. The average equity risk premium over the past 10 years is 5.6%.
- **Beta:** a measure of a company's volatility or systematic risk relative to the overall market. The historical beta for healthcare product manufacturers is 1.16 (returns for healthcare product companies are 16% more volatile than the market as a whole).
- **Startup risk premium:** an additional risk premium of 5% is used to account for startup risk.

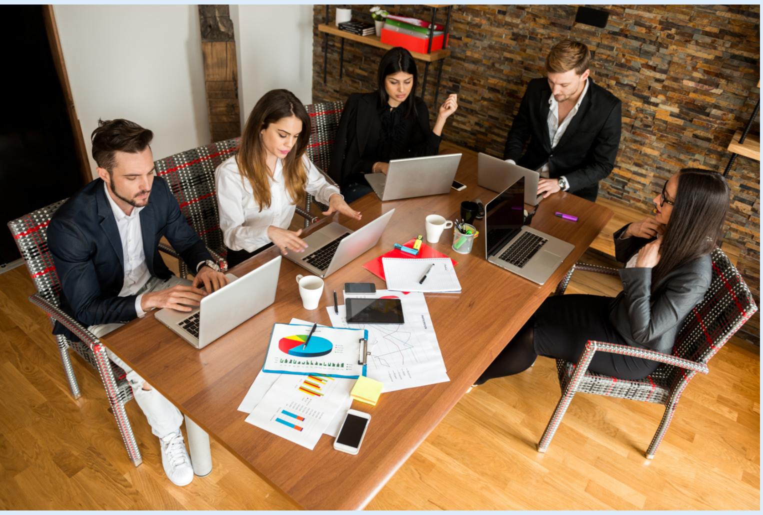
The formula is as follows:

Required return =
Risk-free rate + (Beta * Equity risk premium) + Startup risk premium

Which computes to approximately 15%. Given current financial market factors and the risk of investing in medtech startups, 15% is a reasonable and fair return target for a Reg A+ investor.

VCs and other institutional investors use higher discount rates to evaluate investment opportunities. 30-70% is the norm in the VC industry, and 50%+ returns are typically required in a company's earliest funding rounds. These discount rates should be used if you plan to target VCs, who can leverage their status as the main providers of early-stage capital to close deals at lower valuations. But for crowdfunding offerings targeting the average retail investor, 15% is appropriate.

The distinction here between VCs and retail investors is important. Whereas VCs focus primarily on expected returns (and maximizing profit on each investment), retail investors take other factors into account when making investment decisions, such as a company's mission, story, and impact it can have on the world. Many of these investors lack investment experience or the knowledge of how to value investments and are less concerned about paying the lowest price possible.



After we establish a **"fair" valuation** for your company we can then calculate the implied offering price per share for your Reg A+ offering based on the pro-forma cap table, taking into account all dilutive securities including stock options, warrants, and convertible notes. Any additional shares needed to keep founders and key executives in control will be considered as well.

Most Reg A+ platforms and advisors don't do any kind of forward-looking valuation analysis to prepare clients for their capital raise. In most cases an offering price is set arbitrarily, without any consideration as to what such a price would mean for the company's valuation and whether such a valuation could be justified in light of the company's financial prospects and growth potential. The result is that securities are often overpriced, which can negatively impact a company's ability to raise capital – especially when big money institutions, high-net-worth individuals, and more sophisticated investors are involved.

By determining a reasonable valuation and pricing your offering based on that valuation, we can increase your chances of a successful offering.

The CPVS™ valuation analysis also serves as a learning tool that allows you to gauge the impact of different revenue, growth, and investor return assumptions on your company's valuation and offering price. The valuation estimate is highly sensitive to these assumptions, so it's worth spending some time making sure your financial projections are realistic and achievable. You'll also be able to forecast, for a given Reg A+ price, the level of revenue you would need to generate in the future to meet an investor's return requirement.

If this revenue target seems too high or too low based on your knowledge of your company's TAM and market potential, you can adjust the revenue projections accordingly. Playing with the assumptions will give you a better understanding of the valuation process and how investors might analyze your Reg A+ offering.

To learn more about valuation estimate for your company, **Schedule a call,** and let's talk!

Schedule A Call

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