

Northwest Region

DATA	2003	2004	2005	2006	2007
sales per truck	\$48,000	\$49,920	\$51,917	\$53,983	\$56,163
average number of trucks per company [^]	5	5	5	5	5
Total Sales per company	\$240,000	\$249,600	\$259,584	\$269,967	\$280,766
North West Region	258	258	258	258	258
Moscow	431	431	431	431	431
Total # of companies	689	689	689	689	689

Assuming 4 % growth

Assuming the number of companies are not changing

Projected Income Statement

	2003	2004	2005	2006	2007
# of customers per year *	25	30	36	43	52
Total sales per year	\$6,000,000	\$7,488,000	\$9,343,024	\$11,662,590	\$14,554,912
% of sales that are on credit	\$3,400,000	\$3,744,000	\$4,782,512	\$5,831,295	\$7,277,456
% of credit sales that will be factored	\$2,400,000	\$2,995,200	\$3,738,010	\$4,665,036	\$5,821,965
Credit Terms **	\$600,000	\$748,800	\$934,502	\$1,166,259	\$1,455,491
0 - 30 days (25 %)	15.00%	15.00%	15.00%	11.50%	11.50%
Fee (decreasing after 3rd year)	\$1,200,000	\$1,497,600	\$1,869,005	\$2,332,518	\$2,910,982
31 - 45 days (50 %)	20.00%	20.00%	20.00%	16.50%	16.50%
Fee (decreasing after 3rd year)	\$600,000	\$748,800	\$934,502	\$1,166,259	\$1,455,491
46 - 60 days (25 %)	25.00%	25.00%	25.00%	21.50%	21.50%
Fee (decreasing after 3rd year)					

Assuming 50% of credit sales as arbitrary amount

3.50% Fee Reduction
Assuming constant ratio of 25:50:25 for credit

Assuming fee will reduce by 5 % after 3rd year and stay constant thereafter to account for increase in customers and repeated business

Revenues (from fee)

0 - 30 Days	\$90,000	\$112,320	\$140,175	\$134,120	\$167,381
31 - 45 Days	\$240,000	\$299,520	\$373,801	\$384,865	\$480,312
46 - 60 Days	\$150,000	\$187,200	\$233,626	\$250,746	\$312,931
Total Revenue from all credit periods	\$480,000	\$599,040	\$747,602	\$769,731	\$960,624

Costs

Bad Debts ***	\$144,000	\$179,712	\$149,520	\$115,460	\$144,094
Administrative Costs					
Salary	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
Employees ****	5	10	15	15	20
Total Salary	\$100,000	\$150,000	\$150,000	\$150,000	\$200,000

30% Bad Debts
20% After 2nd year
15% After 3rd year

Assuming growth of 5% per year constant
Assuming growth of 5% per year constant
Assuming growth of 5% per year constant
Assuming constant per year
Assuming growth of 10% per year

Total Costs (including bad debts)

	\$294,500	\$422,237	\$434,222	\$392,501	\$473,653
Operating Margin	\$185,500	\$176,803	\$313,380	\$377,230	\$486,972
Less Taxes	\$55,650	\$53,041	\$94,014	\$113,169	\$146,092
Net Income	\$129,850	\$123,762	\$219,366	\$264,061	\$340,880

30% Tax bracket we fall into

Assumptions

- NOTE: All Figures have been rounded to closest decimal point
[^] Assuming the number of trucks per company to be constant
^{*} Growth per year for customers is assumed to be 5 % for the first 3 years, and then 10 % thereafter
^{**} as of now, we are not willing to provide credit beyond 60 days
^{***} We assume total bad debts per year as 30%, decreasing after 2nd year to 20 % and 15% constant after 3rd year, as we perfect the process
^{****} We assume we have 5 employees the 1st year, 10 the 2nd, 15 the 3rd the 4th, and then 20 the 5th, constant thereafter
^{^^} First year costs include bribing and other start up expenses not pertaining directly to business
^{^^^} We will use only cell phones, 5 cell phones at 6000 \$ for the whole year, land lines are free. Internet charges are \$1000 per year
^{^^^} Entertainment also includes client services and other PR expenses

VALUATION OF APAAC INC.

Cash Flows = EBIT - Taxes + Depreciation - CAPEX - Changes in non-cash working capital

ASSUMPTIONS

1. Our CAPEX is going to be immaterial as it will consist only of office equipment and supplies
2. Depreciation will also be negligible as we have very few capital assets.
3. We will try to maintain constant working capital

Therefore, cash flows will approximately be equal to net income

COST OF CAPITAL

Risk free rate in Russia as of 3/25/03 is 12.00% Using MINFIN 30

In order to account for the following risks associated with the factoring business in Russia we believe that a 8 % risk premium is justifiable:

1. Collection and Contract Enforcement
2. Regulatory Risks
3. Fraudulent actions towards APAAC INC.

Therefore, we estimate that a discount rate of 20 % is justifiable for our firm, given the systematic risks incorporated in the risk free rate, and business risks incorporated in our risk premium

TOTAL PV OF CASH FLOWS

Terminal Growth Rat	10%	2	3	4	5	6	
Time Period	1	2	3	4	5	6	
Net Income	2003 129,850	2004 123,762	2005 219,366	2006 264,061	2007 340,880		Transportation DATA
Net Income	519,750	1,081,080	1,797,296	2,287,467	3,002,300		Purchase Order Financing DATA
Total CF	649,600	1,204,842	2,016,662	2,551,528	3,343,181		
Terminal Value							<u><u>36,774,987</u></u>
Present Value of CF	541,333	836,696	1,167,050	1,230,482	1,343,549	12,315,869	
Value of Firm							<u><u>17,434,979</u></u>

VALUATION OF APAAC INC.

SENSITIVITY ANALYSIS

	4%	6%	8%	10%	12%	14%	16%	18%
12%	28,513,337	36,417,547	52,225,968	99,651,230				
14%	21,945,478	26,286,336	33,521,099	47,990,627	91,399,208			
16%	17,640,551	20,293,437	24,272,767	30,904,983	44,169,414	83,962,710		
18%	14,620,283	16,359,967	18,795,526	22,448,863	28,537,760	40,715,552	77,248,928	
20%	12,396,669	13,596,267	15,195,730	17,434,979	20,793,852	26,391,975	37,588,219	71,176,952
22%	10,699,435	11,558,445	12,662,886	14,135,474	16,197,098	19,289,534	24,443,594	34,751,713
24%	9,367,043	10,000,590	10,792,524	11,810,725	13,168,326	15,068,967	17,919,929	22,671,532
26%	8,297,178	8,775,681	9,360,517	10,091,563	11,031,479	12,284,701	14,039,211	16,670,976
28%	7,421,997	7,790,555	8,232,825	8,773,377	9,449,067	10,317,812	11,476,137	13,097,793
30%	6,694,819	6,983,414	7,324,481	7,733,761	8,233,992	8,859,280	9,663,223	10,735,146

Discount Rate

The sensitivity analysis above shows the range of firm values depending on different growth rates and discount rates. We believe that the most reasonable range of values lies between the growth rates of 8-12% and discount rates of 18-24%. Based on this reasonable range the average expected value of the firm is **16,442,166**

MOST PROBABLE VALUE

Likelihood of event	Lower than expected		Expected	Higher than expected	
	25%	50%	50%	25%	25%
15%	18,795,526	22,448,863	28,537,760	20,793,852	
35%	15,195,730	17,434,979	20,793,852	16,197,098	
35%	12,662,886	14,135,474	16,197,098	13,168,326	
15%	10,792,524	11,810,725	13,168,326		
	704,832	1,683,665	1,070,166		
	1,329,626	3,051,121	1,819,462		
	1,108,003	2,473,708	1,417,246		
	404,720	885,804	493,812		
Expected value with prob. dist:					16,442,166

Cash Flows = EBIT - Taxes + Depreciation - CAPEX - Changes in NON cash working cap

Assumptions

1. Our Capex is going to be immaterial as it will consist only of office equipment and supplies
2. Depreciation will also be negligible as we have very few capital assets.
3. We will try to maintain constant working capital

Therefore, cash flows will approximately be equal to net income

COST OF CAPITAL

Risk free rate in Russia as of 3/25/03 is 12.00% Using MINFIN 30

In order to account for the following risks associated with the factoring business in Russia we believe that a 8 % risk premium is justifiable:

1. Collection and Contract Enforcement
2. Complications arising from corrupt practices of Govt. officials
3. Fraudulent actions towards APAAC INC.

Therefore, we estimate that a discount rate of 20 % is justifiable for our firm, given the systematic risks incorporated in the risk free rate, and business risks incorporated in our risk premium

Terminal Growth Rate	10%			Discount Rate		20%
Time Period	1	2	3	4	5	6
	2003	2004	2005	2006	2007	
Net Income	129,850.00	123,762.10	219,366.20	264,060.99	340,880.19	Transportation DATA
Net Income	519,750.00	1,081,080.00	1,797,295.50	2,287,467.00	3,002,300.44	Purchase Order Financing DATA
Total CF	649,600.00	1,204,842.10	2,016,661.70	2,551,527.99	3,343,180.63	
Terminal Value						36,774,986.90
Present Value of CF	541,333.33	836,695.90	1,167,049.60	1,230,482.25	1,343,549.31	12,315,868.71
Value of Firm	17,434,979.10					

Discount Rate	Growth Rate							
	4%	6%	8%	10%	12%	14%	16%	18%
12%	28,513,337	36,417,547	52,225,968	99,651,230				
14%	21,945,478	26,286,336	33,521,099	47,990,627	91,399,208			
16%	17,640,551	20,293,437	24,272,767	30,904,983	44,169,414	83,962,710		
18%	14,620,283	16,359,967	18,795,526	22,448,863	28,537,760	40,715,552	77,248,928	
20%	12,396,669	13,596,267	15,195,730	17,434,979	20,793,852	26,391,975	37,588,219	71,176,952
22%	10,699,435	11,558,445	12,662,886	14,135,474	16,197,098	19,289,534	24,443,594	34,751,713
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26%	8,297,178	8,775,681	9,360,517	10,091,563	11,031,479	12,284,701	14,039,211	16,670,976
28%	7,421,997	7,790,555	8,232,825	8,773,377	9,449,067	10,317,812	11,476,137	13,097,793
30%	6,694,819	6,983,414	7,324,481	7,733,761	8,233,992	8,859,280	9,663,223	10,735,146

The sensitivity analysis above shows the range of firm values depending on different growth rates and discount rates

	16,831,145	18,466,908	17,649,026	Lower than expected	Expected	Higher than expected
likelihood of event	25%		50%		25%	
15%	18,795,526	22,448,863	28,537,760			
35%	15,195,730	17,434,979	20,793,852			
35%	12,662,886	14,135,474	16,197,098			
15%	10,792,524	11,810,725	13,168,326			
	704,832.22	1,683,664.76	1,070,165.98			
	1,329,626.40	3,051,121.34	1,819,462.08			
	1,108,002.52	2,473,708.02	1,417,246.10			
	404,719.65	885,804.36	493,812.21			
Expected value with prob. dist.:	16,442,165.64					

Northwest and Central Regions in RF

	Income statement				
	2003	2004	2005	2006	2007
Average price of a 20t cargo	\$50,000	\$52,000	\$54,600	\$57,330	\$60,197
Average # of transactions per month per truck	4	4	4	4	4
Average number of trucks per company ^	5	5	5	5	5
Total Price of the cargo transported per month per company	\$1,000,000	\$1,040,000	\$1,092,000	\$1,146,600	\$1,203,930

4% Growth

Number of customers per year*	35	37	39	42	47
Total Price of the transported assets	\$35,000,000	\$38,220,000	\$42,137,550	\$48,668,870	\$56,212,545
Average number of transactions we can factor	5	10	15	20	25
Average Volume of factoring amount per year	\$5,000,000	\$10,400,000	\$16,380,000	\$22,932,000	\$30,098,250

Credit Terms **

0 - 30 days (25 %)	\$1,250,000	\$2,600,000	\$4,095,000	\$5,733,000	\$7,524,563
Fee (decreasing after 3rd year)	12.00%	12.00%	12.00%	10.00%	10.00%
31 - 45 days (50 %)	\$2,500,000	\$5,200,000	\$8,190,000	\$11,466,000	\$15,049,125
Fee (decreasing after 3rd year)	17.00%	17.00%	17.00%	15.00%	15.00%
46 - 60 days (25 %)	\$1,250,000	\$2,600,000	\$4,095,000	\$5,733,000	\$7,524,563
Fee	20.00%	20.00%	20.00%	20.00%	20.00%

25%

50%

25%

Revenues (from fee)

0 - 30 Days	\$150,000	\$312,000	\$491,400	\$573,300	\$752,456
31 - 45 Days	\$425,000	\$884,000	\$1,392,300	\$1,719,900	\$2,257,369
46 - 60 Days	\$250,000	\$520,000	\$819,000	\$1,146,600	\$1,504,913
Total Revenue from all credit periods	\$825,000	\$1,716,000	\$2,702,700	\$3,439,800	\$4,514,738

Costs

Bad Debts ***	\$82,500	\$171,600	\$135,135	\$171,990	\$225,737
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10% Bad Debts

5% After 2nd year

Administrative Costs

Please refer to the cost structure of Transportation business

Operating Margin	\$742,500.00	\$1,544,400.00	\$2,567,565.00	\$3,267,810.00	\$4,289,000.63
Less Taxes	\$222,750.00	\$463,320.00	\$770,269.50	\$980,343.00	\$1,286,700.19
Net Income	\$519,750	\$1,081,080	\$1,797,296	\$2,287,467	\$3,002,300

30% Tax rate

* Growth per year for customers is assumed to be 5 % for the first 3 years, and then 10 % thereafter

** as of now, we are not willing to provide credit beyond 60 days

*** We assume total bad debts per year as 10%, decreasing after 2nd year to 5%

