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A unique concept
for company valuation.

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Revenue forecasting is essential for company valuation.

Predicting revenue development for company valuation in acquisition processes

The most important, and most uncertain, element of value determination during an acquisition project is the estimate of future revenues, and more in particular its volume part. This is especially difficult for commodity or highly cyclical businesses. Are you tired of the traditional sales manager with his "hockey stick" demand forecast? A growth of 1 % too high or too low can have a dramatic effect on the calculated value of a company.

Flostock supports venture capitalists, private equity, banks or principals in mergers and acquisitions by creating a reliable demand forecast of an acquisition candidate, starting from key economic indicators for their true end markets. The supply chain in between the end market and the acquisition candidate, which

modifies and buffers this demand and creates a variation for up to 10 %, is included in the model.

Accuracy levels above 90 % can be achieved with the Flostock tool, which has already proven its reliability and accuracy in a range of industries. In contrast to most other forecasting systems, Flostock's forecasting accuracy goes up when markets are volatile, because the effect of the volatility is embedded in the model. Flostock models also work well for cyclical, basic commodities that are normally difficult to forecast.

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How does it work?
The three factors behind Revenue

Revenue of a company is volume multiplied by price. Volume development is determined by three factors that are difficult to distinguish without Flostock's pioneering supply chain models. The first and strongest factor is the end market for that company. The second factor is inventory changes throughout the supply chain. The third factor is market penetration and market share.

The end market determines 80 to 90 % of revenue developments

Each supply chain is a closed system, like a tube: no product gets lost, and no product leaves the tube that was not put in. The products in the tube may get modified, reacted, cut into pieces, assembled, painted, packaged and sold, but each molecule that leaves the chain has at some point entered the chain. So when consumption in the end market increases by 1 %, supply at the beginning of the chain also grows 1 %. This first factor determines 80 % to 90 % of upstream demand.

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Changes in inventory determine 5 to 10 % of revenue development

Enterprises keep inventory proportional to their average sales volume. As a result, inventories in the whole supply chain go up and down with demand. This volatility is included in the Flostock models and adds 5 to 10 % to the accuracy of the forecast.

Market penetration determines 5 to 10 % of revenue development

All products go through a product life cycle, beginning small, growing and reaching a certain plateau at maturity, before eventually going down again. This factor also includes market share, although that is generally small compared to penetration and certainly in a five year valuation period. Penetration is the third factor that determines revenue development and it is included in Flostock's supply chain models, increasing the accuracy with an additional 5 to 10 %.

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Flostock

Flostock was founded in 2011 as a spin-off of a joint research project of Eindhoven University of Technology and Royal DSM, which resulted in a supply chain model based on system dynamics principles, explaining the industrial crisis that hit after the Lehman Brothers' bankruptcy and predicting its course.

While the knowledge about the impact of inventory on demand fluctuations in supply chains was subsequently included in the curriculum of Eindhoven University of Technology and US-based MIT and Wharton, Flostock commercialized the technology starting with an exclusive license for the break-through computer model.

Flostock's ideas have been published in a number of newspapers and journals, including the Financial Times, major Dutch newspapers such as NRC/Handelsblad and Het Financieele Dagblad, the European Coating Journal, JOM, Chemistry Today, Ink World, EVO Logistics, Value Chain Management, ICIS Chemical Business and www.mejudice.nl.
Presentations have been given at numerous conferences, including Logichem, CEPE, ECCA, SC Innovation Summit, Portorez, ESCF and EDPN. The Rabobank, Bank de France and the ECB quote Flostock's work. Customers include DSM, ASML and Evonik.

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Can we help you?

Flostock's breakthrough supply chain models are designed to support the revenue forecasting for firms with long supply chains, in production or distribution. In an M&A project, time is always scarce, so we endeavor to finish a project within a few weeks' time. To clarify whether a Flostock model is suitable for your acquisition candidate, invite us for a presentation or ask us for a demo project.

We predict what you purchase.

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