

Valuation and transactions

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Kenneth – KPMG – FIC Advisory

Kenneth

- ✓ Nykarleby/Jakobstad and worked in small family owned businesses, variety
- ✓ Lower degree in accounting
- ✓ Hanken Business school, Vasa, majoring in Finance, minor in Entrepreneurship and Accounting. Exchange California
- ✓ 5 years at UPM-Kymmene

Lives in Vasa, with wife. Son finalising studies in Åbo, daughter studying in US, no cats, dogs or rabbits – right now

- ✓ Cars, boats/sailing, skiing and travelling

→ Strong link to small businesses and Österbotten

Life at KPMG

- ✓ Joined April 1999
- ✓ Transaction Services = Due diligences
- ✓ Focus on Private Equity and large corporate deals, and IPOs
- ✓ Developed Finnish due diligence market
- ✓ Built the KPMG Private Equity group in Finland and then Nordics, as well as separate Nordic Infrastructure transactions team
- ✓ Involved in wide variety of services
- ✓ More than 1500 projects over 27 years

→ Transactions world-wide, both sell- and buy-side, from large (very large) to small (e.g. zero turnover, but big losses), and most industries

FIC Advisory

- ✓ Transaction and tax advisory focus, other CFO related services
- ✓ Outside Big4 regulations, limitations, and restrictions = no massive support and global cost structure
- ✓ FIC built from bottom up to deliver efficient and agile value add services in transactions
- ✓ Focus on the relevant – we can agree what is relevant and what we work on, not what international network or local requirements covers

→ Experience driven

→ AI driven

Why sell or buy a company?

SELL examples

Age or health
Nobody to continue
Profitability challenges
Investment needs
Market/customer
disappears

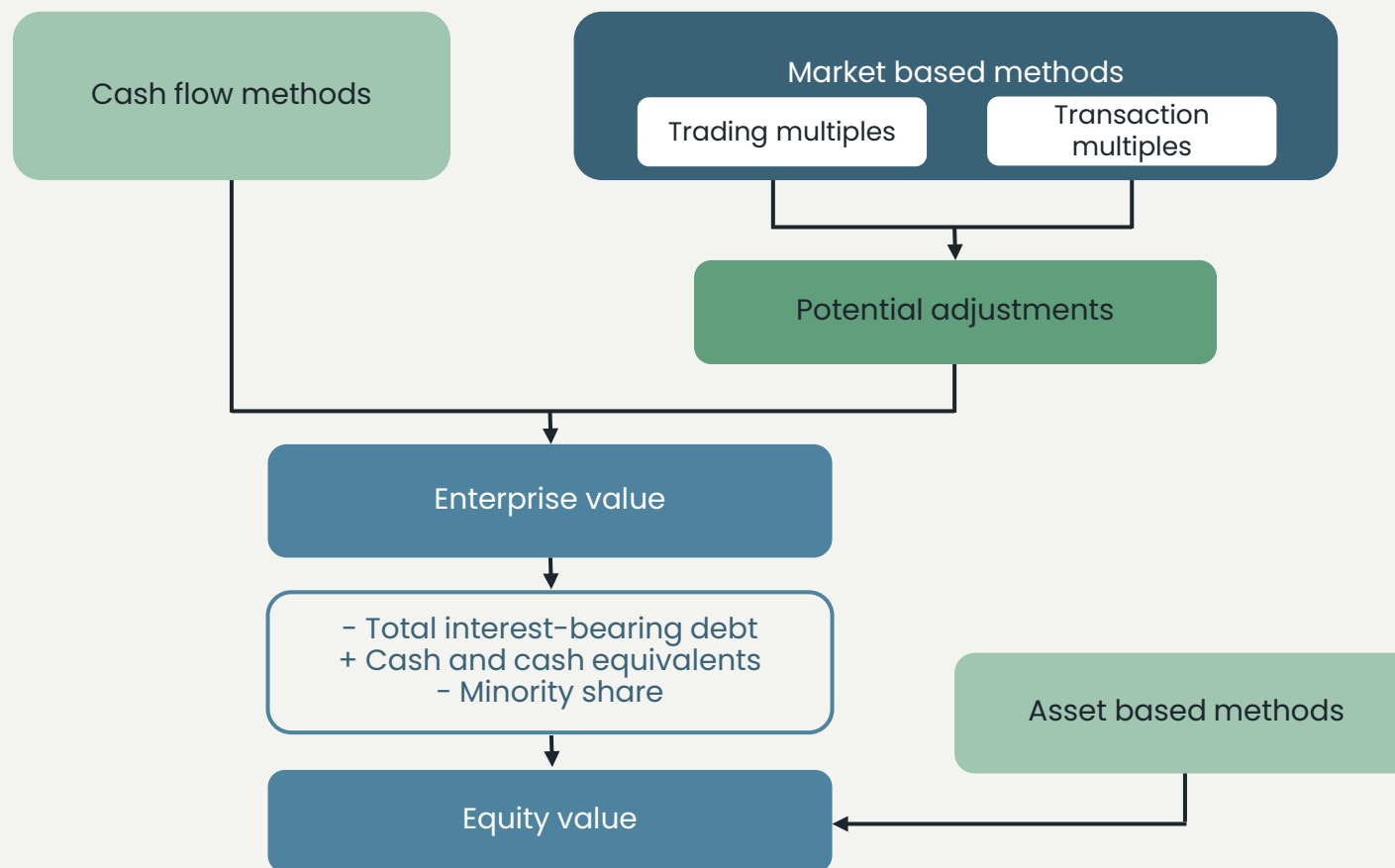
Buyer contact

BUY examples

Strategy decision
Want to grow
Need to grow
Scale in sales, production,
investments
Geographic expansion

Seller contact

Valuation methodologies



Selecting a suitable valuation methodology

Cash flow based method

- ✓ Theoretically sound method as it is analyzing forecasted cash flow expectations
 - ✓ Forecast assumptions are clear
 - ✓ Considers both the tangible and intangible value
 - ✗ Reliable forecasts are difficult to generate
 - ✗ Sensitive to assumptions
 - ✗ Forecasts are subjective and can be biased
- Good when cash flows of the company are predictable

Market based methods

- ✓ Fast valuation method
 - ✓ Considers both tangible and intangible value
 - ✓ Information is readily available
 - ✗ Directly comparable companies can be difficult to identify
 - ✗ Sensitive to fluctuations in market prices
 - ✗ Simplified method that may not consider cash flows
 - ✗ Does not consider company-specific risk
- Good for companies with relevant comparables
- Flexible – valuation can be tailored to different performance metrics

Asset based methods

- ✓ Direct valuation method
 - ✗ Estimating the value of asset items typically requires external experts
 - ✗ Does not consider the going concern premise
 - ✗ Does not consider the cash flow generating potential of the company
 - ✗ Typically, no significant consideration for intangible assets
- Liquidation situations
- Non-profit and Holding-companies
- Can be used for small deals –
Substanssiarvo = Minimum prise

Related parties – Tax valuation

Tuottoarvo

$$A = T/i$$

Missä

A = Tuottoarvo

T = Vuotuinen nettotulos (esim 3 vuoden keskiarvo)

I = Tuottovaatimus, voi olla 15%

Esim:

Yhtiön kolmen viimeisimmän tilinpäätöksen tilikauden tulokset ovat 65 000 euroa, 45 000 euroa ja 25 000 euroa.

Keskiarvo tilikausien tuloksista on 45 000 euroa

Tämä jaetaan tuottovaatimuksella 15 %

➤ Saadaan tuottoarvoksi 300 000 euroa.

Käypä arvo substanssi- ja tuottoarvon perusteella

- 1) Jos SUBSTANSSIARVO ON ISOMPI kuin tuottoarvo
 - Yrityksen käypä arvo on substanssiarvon
- 2) Jos SUBSTANSSIARVO ON PIENEMPI kuin tuottoarvo
 - Yrityksen käypä arvo on tuottoarvon ja substanssiarvon keskiarvon määrä.

Esim:

Tuottoarvo €300.000 ja substanssiarvo €100.000

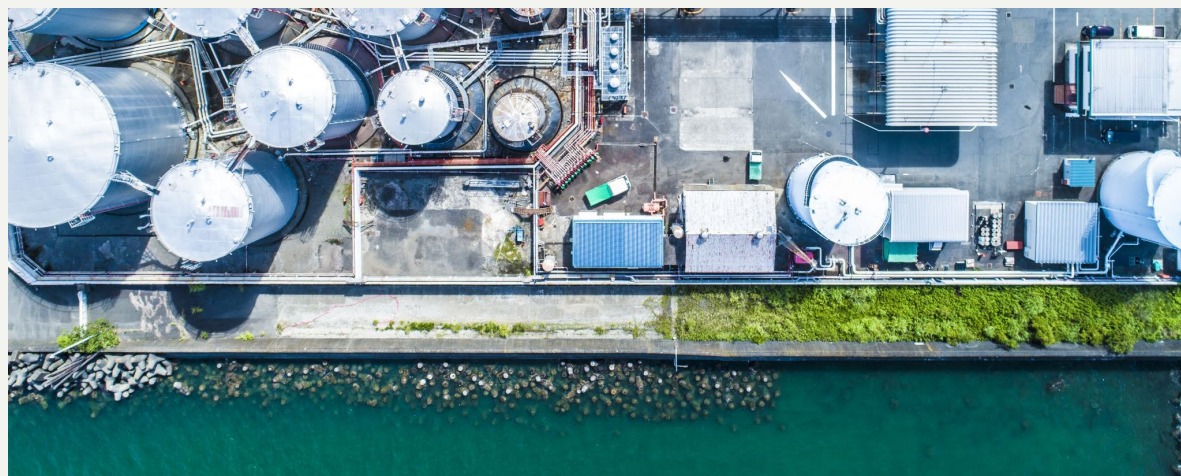
Yrityksen arvo on $(300.000+100.000) / 2 =$

➤ 200,000

Reality check

Are we selling? And what?

Do we have something that others WANT to buy?



What do others want to buy?

NOT buildings

NOT machinery

NOT just customers

MAYBE your brain

MAYBE employees

→ **but CASH FLOW is King**



Preparation

It takes time

Make preparations in advance, e.g.

- Separate real estate from the operative business
- Take out other non-operative assets
- Delegate

Prepare financials, company and presentations in advance!



Contact us



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