

Business Valuations Online

Accountant Report for ABCD Group Limited (SAMPLE)

Accountants Business Diagnostic Report

ABCD GROUP LIMITED (SAMPLE)

As requested by First Name of ABCD Group Limited (SAMPLE)

Maximising the value of ABCD Group Limited (SAMPLE)

ABCD Group Limited (SAMPLE) is located in and it operates in the Sports in Australia industry. As a part of our valuation of the business we have undertaken analysis of the financial statements of the business and considered its performance relative to the industry average. This analysis is summarised in the business overview in the next section of this report.

Following our analysis of the ABCD Group Limited (SAMPLE) we determined that the most appropriate valuation methodology to apply was the Capitalisation of Future Maintainable Earnings method.

In order to maximise the value of ABCD Group Limited (SAMPLE) it needs to maximise its future maintainable earnings, whilst also reducing its risk profile relative to similar businesses.

The Future Maintainable Earnings

When valuing a business based upon its earnings, it is a no-brainer that maximising the earnings of the business will increase its value. In order to address the profitability of the business particular attention should be paid to the performance of the business relative to its industry peers. The business overview in the next section highlights where the cost structure of ABCD Group Limited (SAMPLE) differ from those of the average players in its industry.

The Capitalisation Rate or 'Multiple'

The capitalisation rate, or 'multiple' is a risk assessment of and for the business; it considers the industry, the turnover level, the relative financial performance of the business, insurance and credit risk, specific commercial risks, entity specific risks, reliance upon key employees, owners or key customers, geographic risks, competitor risks, and reliance upon key suppliers, amongst other things. The risk of investing in the business is then weighed against the government bond 10-year yield rate, which is accepted to be the risk-free rate of return. This means that an investor can expect a yield of 2% per annum (or thereabouts) without being subjected to any risk, so any investment of higher risk ought to offer commensurately higher returns.

In short, by reducing the risks associated with business as an investment its value to a potential purchaser is increased. To that end, I have provided you with a listing of known risks associated with ABCD Group Limited (SAMPLE) within this report so that you can assist the business owner in maximising the value of their business.

Our valuations seek to determine what a willing but not anxious buyer would pay in an arm's-length transaction from a willing but not anxious seller, assuming that they had access to the same information provided to us.

Overview of the Industry

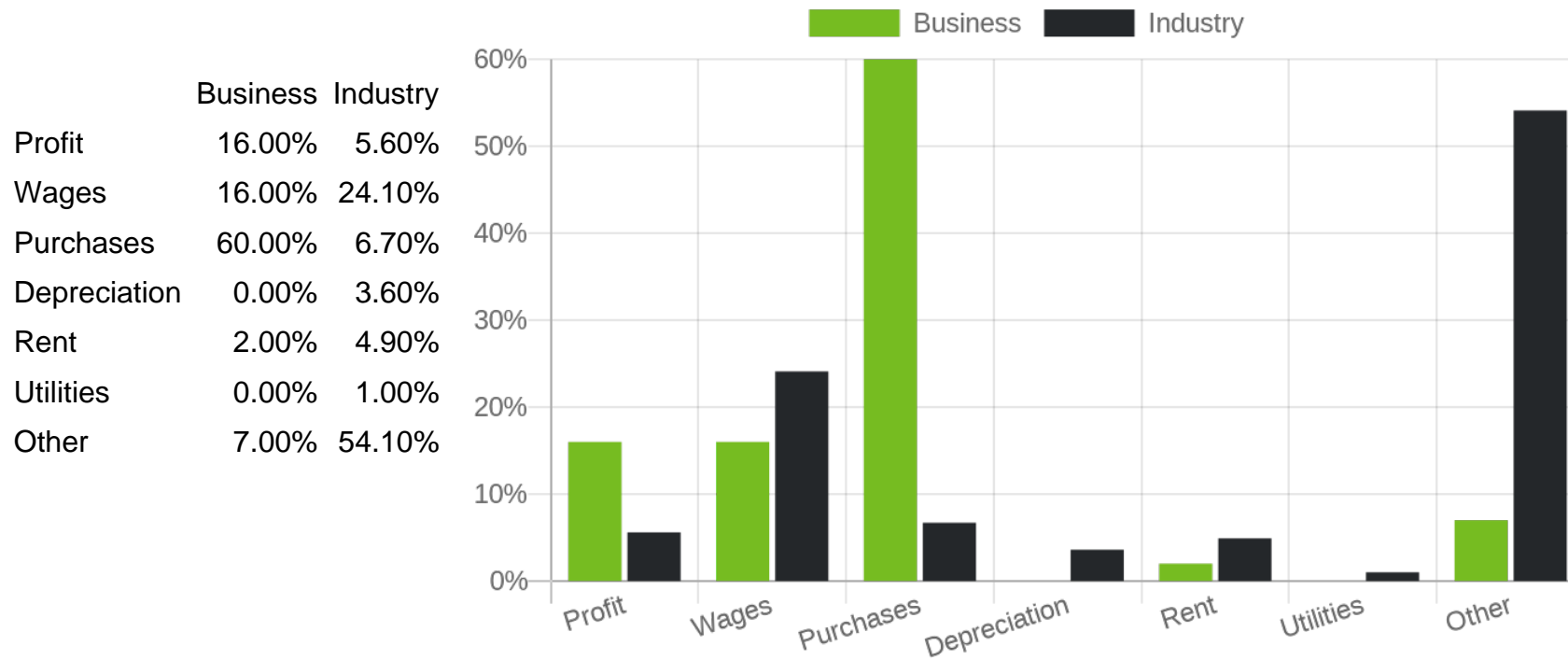
You have indicated that ABCD Group Limited (SAMPLE) operates in the Sports in Australia industry. An analysis of the Sports in Australia industry provides the following key industry insights:

Revenue \$12.10bn	Profit \$677.77m	Avg Turnover \$2.70m	
Businesses 4475	Avg # Employees 13.00	Avg Revenue / Employee \$210.00k	
Life Cycle Stage Growth	Revenue Volatility Increasing	Capital Intensity Medium	Technology Change Medium
Growth Risk Level Medium	Sensitivity Risk Level Low	Structural Risk Level Medium - Low	Overall Risk Level Medium - Low

Overview of Business

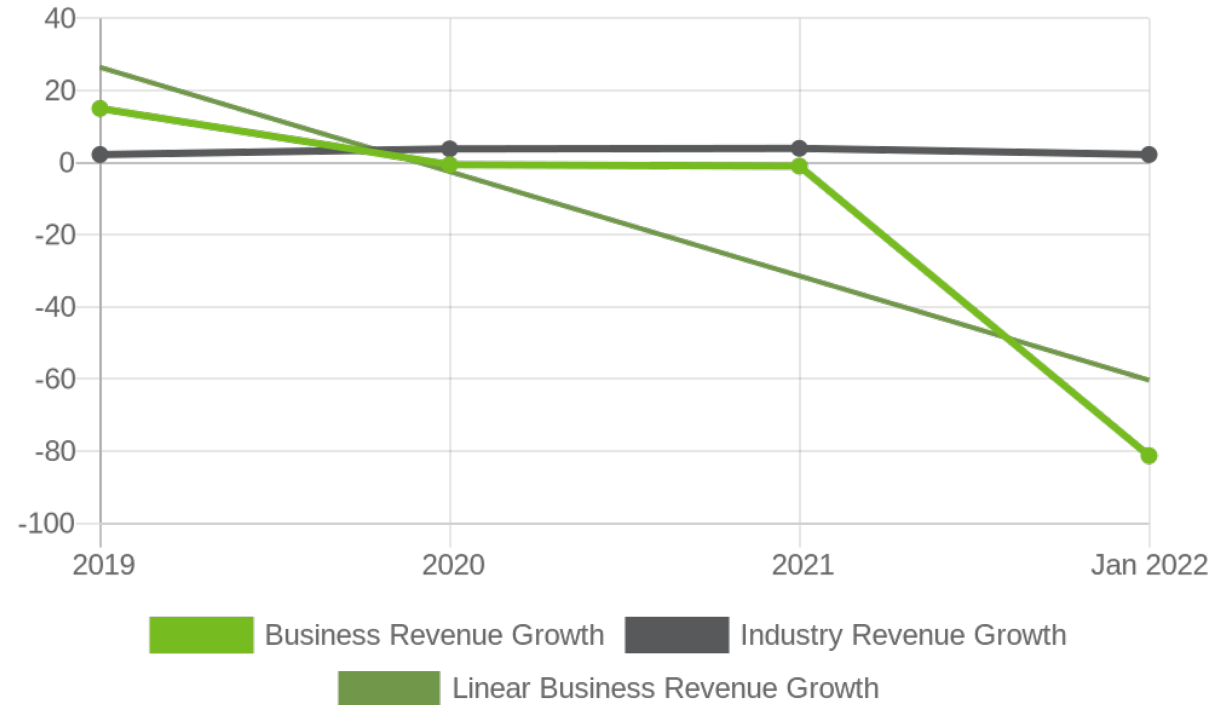
We have undertaken an assessment of ABCD Group Limited (SAMPLE) relative to the performance of the rest of the industry to allow us to consider the performance of ABCD Group Limited (SAMPLE) within the context of the rest of the industry.

Unadjusted Business Cost Structure Relative to Industry

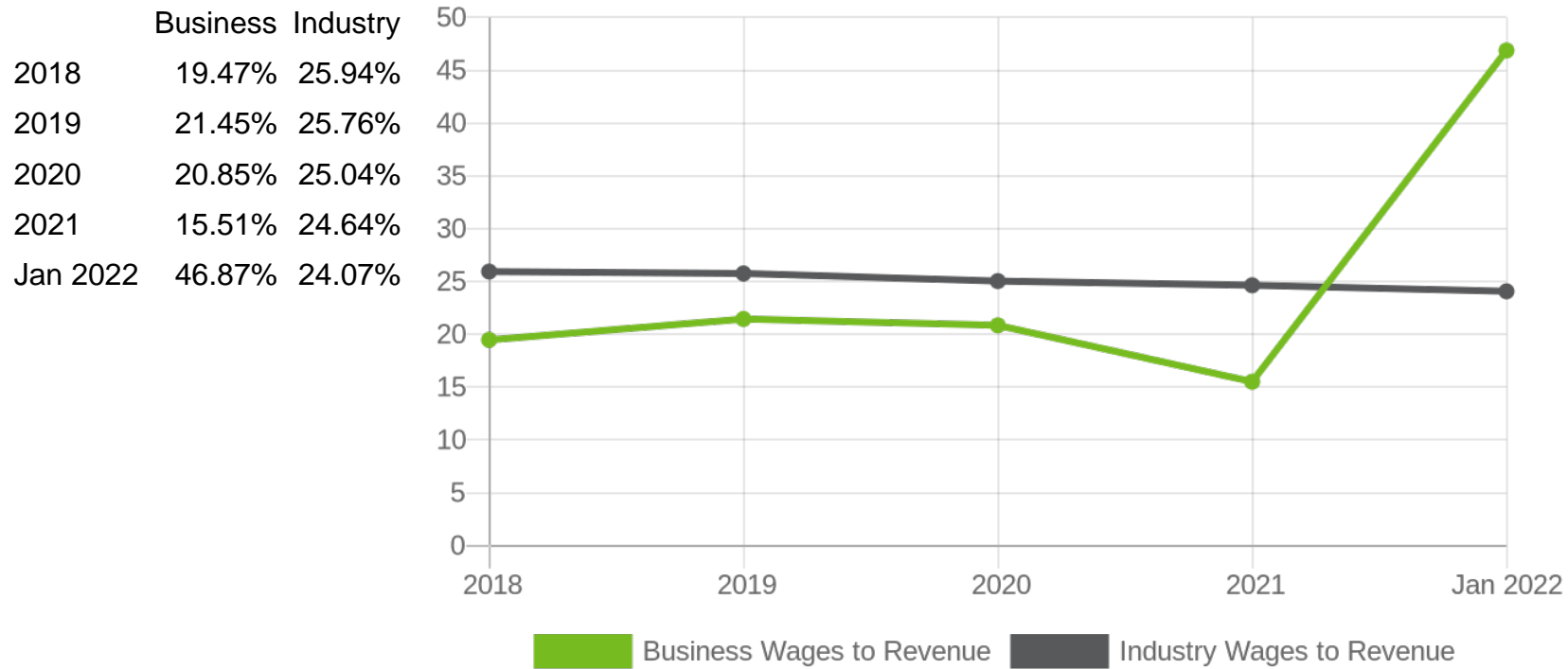


Business vs Industry Revenue Growth

	Business	Industry
2019	15.02%	2.25%
2020	-0.57%	3.82%
2021	-0.95%	3.97%
Jan 2022	-81.25%	2.25%







Business vs Industry Wages to Revenue



Financial Statement Assessments

An examination of the key financial ratios of the entity has been undertaken for the Profit & Loss for the year ended 2021 and the Balance Sheet as at 2022, with the following results:

Efficiency and solvency tests

Liquidity Ratio	Current Assets	\$667,112.28	
	Current Liabilities	\$123,302.18	
		5.41 : 1	
Quick Ratio	Quick Assets	\$134,757.10	
	Current Liabilities	\$123,302.18	
		1.09 : 1	
Net Asset Position	Total Assets	\$687,223.72	
	Total Liabilities	\$178,007.35	
		3.86 : 1	
Accounts Receivable Turnover Ratio	Current Accounts Receivable	\$124,548.58	
	Total Revenue	\$2,259,745.00	
		18.14 : 1	
EBIT Margin	Earnings Before Interest & Tax	\$362,276.00	
	Total Revenue	\$2,259,745.00	
		16.03%	

Return on Assets

Net Assets	\$509,216.37
Earnings Before Interest & Tax	\$362,276.00
	71.14%



Gross Margin

Gross Profit	\$660,116.00
Total Revenue	\$2,259,745.00
	29.21%

Operating Cash Flow to Current Liabilities

Operating Cash Flow	\$362,603.00
Current Liabilities	\$123,302.18
	2.94 : 1



Non-Financial Business Risks

Based upon the responses to our questionnaire during the report ordering process, ABCD Group Limited (SAMPLE) needs to develop the following so as to reduce their non-financial business risks and in so doing increase their FME capitalisation rate (multiple), and thus its overall value.

As a part of a business plan, the owners of the business should develop a succession plan. Understanding how the owners will exit from the business should not be left until the last year or two of operation. The smooth transition to new ownership and the exit of existing owners is critical to ensure that any goodwill held by the business is maximised and retained by the any future owners. A more detailed analysis of the importance and minimum requirements of a succession plan is shown later in this report.

Employee Risks - General

Employees are simultaneously one of the businesses greatest assets and one of its greatest risks. In order to mitigate the risks to the business posed by the staff members, the business should consider implementing the following:

- Selection procedures that increase the probability of finding the right staff for the business
- Ensuring that several people perform key tasks and provide backup in the event of illness or sudden departure
- Where possible employees should be rotated through various functions or departments to familiarise themselves with other areas of the business whilst also ensuring retention of skills should a key staff member leave
- Ensure that suitable OH&S policies are developed and implemented to minimise risks. For example, safe driver training and regular maintenance of vehicles and other equipment
- Ongoing training for staff consistent with the needs of the business (whilst also considering the personal development of the staff member)

Succession Planning

What would happen to the business if the owner or one of the partners died or became incapacitated? If there is no will or succession plan in place, would the business close, would it be inherited and run by someone inexperienced, or would it be sold?

If there is no plan to deal with the death or incapacity of the business's owner or one of the partners in a partnership, the business might have to close or be sold to a competitor to avoid putting undue pressure on the remaining owners or new owners. It is also likely that significant value will be lost from the business to the detriment of its new owners unless the transition is carefully managed. A succession plan is therefore critical to preserving the value of the business in this situation. However, a succession plan can also be just as critical to a business owner transitioning to retirement and maximising the value of the business as they exit.

To that end, the business needs to ensure that the following is implemented as a minimum standard of succession plan:

- ensuring that the business succession plan and the will of the owner align
- implementing appropriate insurance that provides income or a capital sum in the event of the death or incapacity of the owner or a key employee (key man insurance)
- where there are two or more unrelated owners in a business, consider a buy/sell agreement and funding agreement for the eventual transfer of the business
- documenting key processes and critical information so that other people can continue to run the business
- training employees so that more than one person knows how to perform each task

It is critical that the business succession plan aligns with the estate planning objectives of the owner, and that any wills in place are consistent with the succession plan. It is therefore important that any business advice provided to the business and owner incorporate estate planning to safeguard the interests of the owner and ensure that the business is handled in a manner consistent with the owners wishes in the event of their death or incapacity.

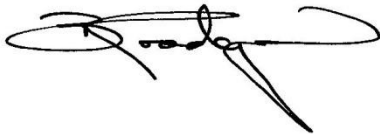
Whilst the business succession plan must address the worst-case scenario of the death or incapacity of the owner, it should also seek to provide a roadmap to retirement for the owner(s). It is often the case that business owners are reliant upon the value of their business to retire (comfortably), but it is also often the case that that owners have an unrealistic expectation of the value of their business. It is therefore the role of the trusted advisor to adjust their expectations, understand the current market, and provide options for the maximisation of extractable of capital from the business.

Thank You

Thank you for referring this matter to Business Valuations Online. I trust that the information contained within the Business/Entity Valuation Report, this Adviser's Analysis Report, as well as the Diagnostic Dashboard have provided insights into the value of ABCD Group Limited (SAMPLE), the underlying value drivers, and the specific risks associated with the business. Through the application of your professional skills and experience and the formulation and implementation of a strategic approach with the business owner(s), it is likely that you can assist in significantly increasing the profitability, reducing the risk, and maximising the value of ABCD Group Limited (SAMPLE).

Should you wish to discuss the content of any of the reports, please do not hesitate to contact me or one of the team on 1300 2VALUE (1300 282583).

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Brett Goodyer'.

Brett Goodyer
Director
FCPA B.Com MForAccy