

# Business Valuations Online

Accountant Report for Tech Start Up Co (SAMPLE)



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Accountants Business Diagnostic Report

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**TECH START UP CO (SAMPLE)**

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As requested by Chief Financial Officer of Tech Start Up Co (SAMPLE)

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## Maximising the value of Tech Start Up Co (SAMPLE)

Tech Start Up Co (SAMPLE) is located in Sydney, NSW 2000 and it operates in the Telecommunications Services 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 Tech Start Up Co (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 Tech Start Up Co (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 Tech Start Up Co (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 Tech Start Up Co (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

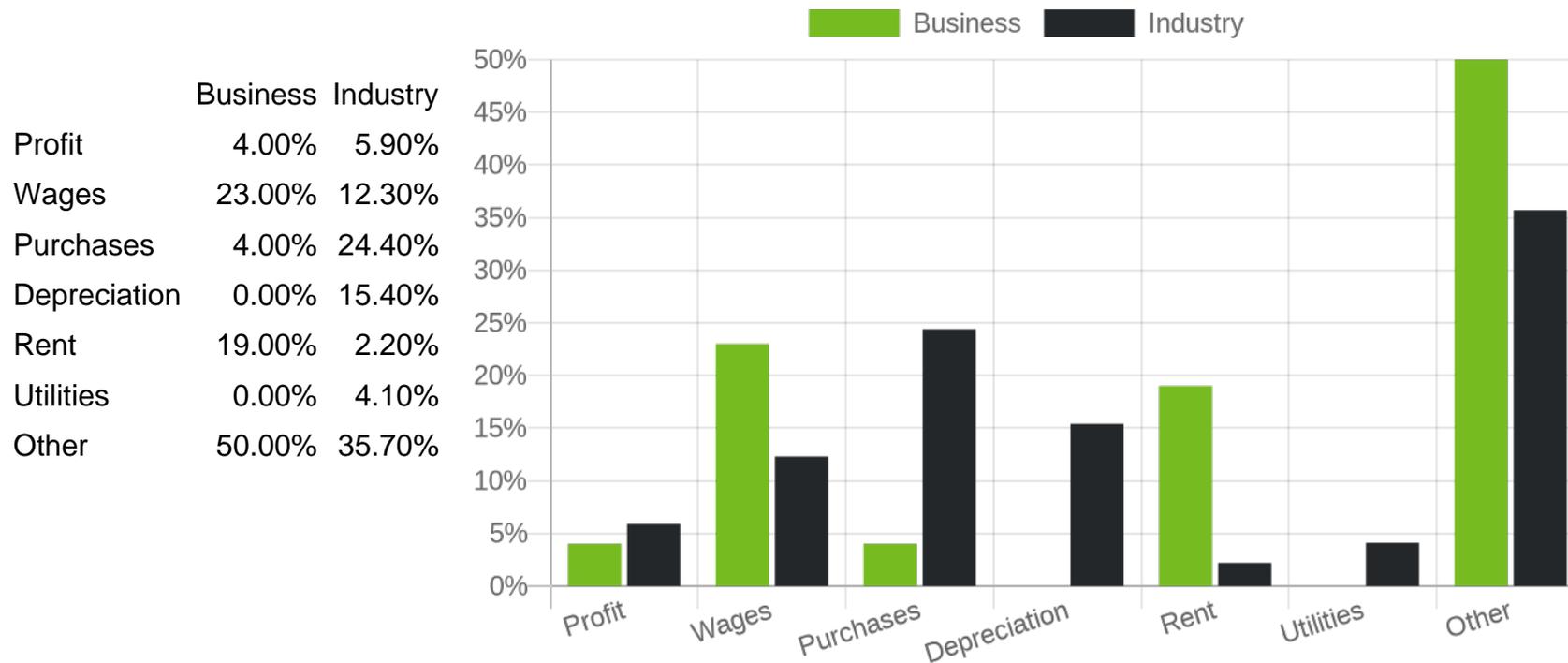
You have indicated that Tech Start Up Co (SAMPLE) operates in the Telecommunications Services in Australia industry. An analysis of the Telecommunications Services in Australia industry provides the following key industry insights:

<b>Revenue</b> <b>\$37.57bn</b>	<b>Profit</b> <b>\$2.22bn</b>	<b>Avg Turnover</b> <b>\$15.59m</b>	
<b>Businesses</b> <b>2410</b>	<b>Avg # Employees</b> <b>22.00</b>	<b>Avg Revenue / Employee</b> <b>\$710.00k</b>	
<b>Life Cycle Stage</b> <b>Decline</b>	<b>Revenue Volatility</b> <b>Steady</b>	<b>Capital Intensity</b> <b>High</b>	<b>Technology Change</b> <b>High</b>
<b>Growth Risk Level</b> <b>Medium</b>	<b>Sensitivity Risk Level</b> <b>Very Low</b>	<b>Structural Risk Level</b> <b>Low</b>	<b>Overall Risk Level</b> <b>Low</b>

## Overview of Business

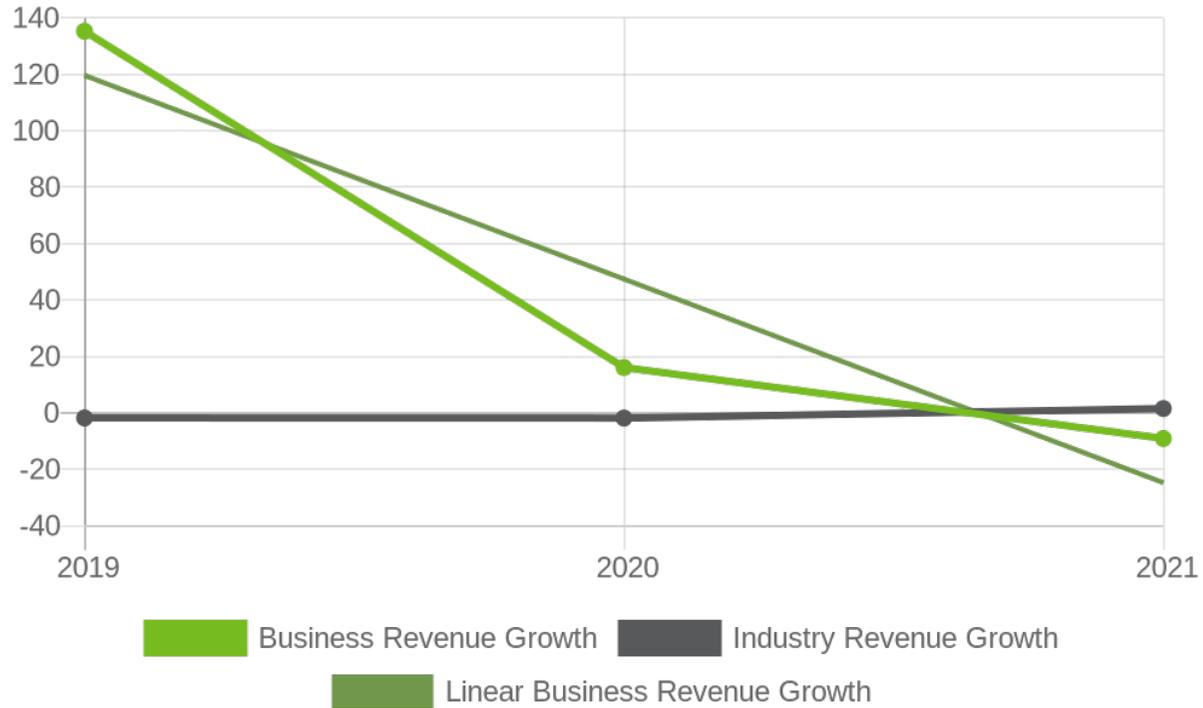
We have undertaken an assessment of Tech Start Up Co (SAMPLE) relative to the performance of the rest of the industry to allow us to consider the performance of Tech Start Up Co (SAMPLE) within the context of the rest of the industry.

### Unadjusted Business Cost Structure Relative to Industry



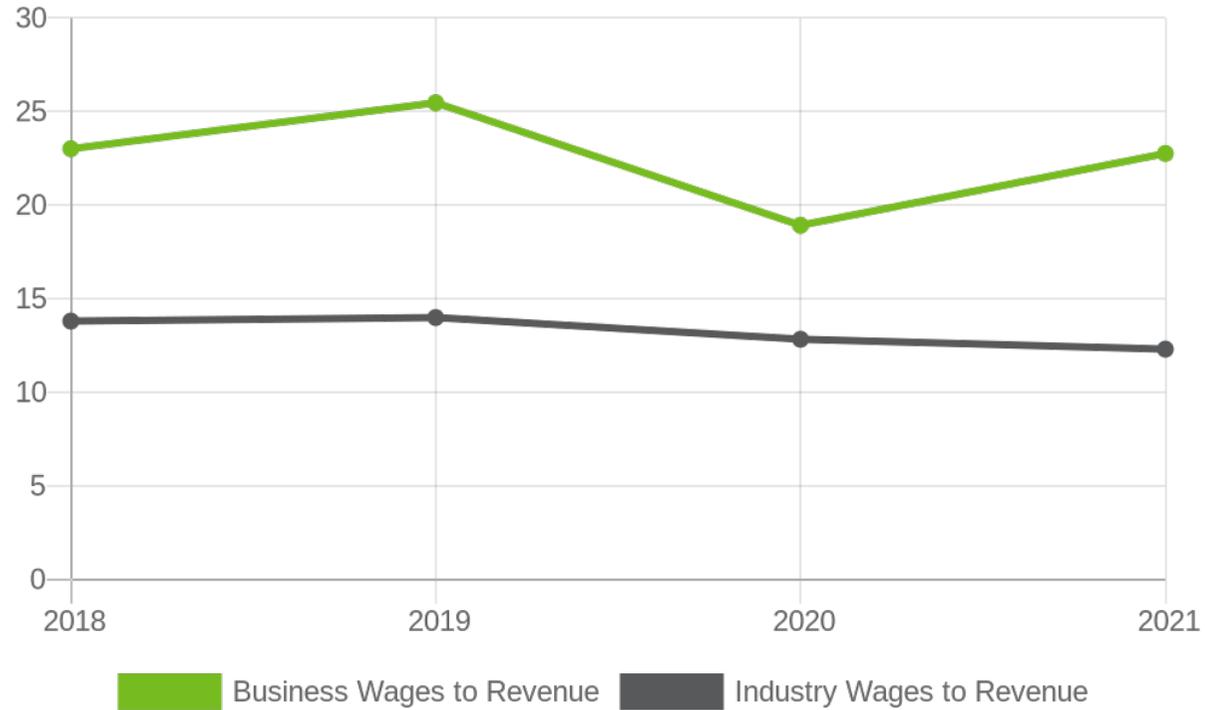
## Business vs Industry Revenue Growth

	Business	Industry
2019	135.31%	-1.78%
2020	16.10%	-1.82%
2021	-9.07%	1.56%



## Business vs Industry Wages to Revenue

	Business	Industry
2018	23.01%	13.80%
2019	25.47%	13.99%
2020	18.92%	12.83%
2021	22.76%	12.30%



## 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 2021, with the following results:

### Efficiency and solvency tests

<b>Liquidity Ratio</b>	Current Assets	\$790,632.22	
	Current Liabilities	\$30,312.76	
		26.08 : 1	
<b>Quick Ratio</b>	Quick Assets	\$790,632.22	
	Current Liabilities	\$30,312.76	
		26.08 : 1	
<b>Net Asset Position</b>	Total Assets	\$840,632.22	
	Total Liabilities	\$706,306.48	
		1.19 : 1	
<b>Accounts Receivable Turnover Ratio</b>	Current Accounts Receivable	\$20,613.78	
	Total Revenue	\$1,278,590.68	
		62.03 : 1	
<b>EBIT Margin</b>	Earnings Before Interest & Tax	\$49,687.93	
	Total Revenue	\$1,278,590.68	
		3.89%	

**Return on Assets**

Net Assets	\$134,325.74
Earnings Before Interest & Tax	\$49,687.93
	36.99%



**Gross Margin**

Gross Profit	\$1,225,837.60
Total Revenue	\$1,278,590.68
	95.87%

**Operating Cash Flow to Current Liabilities**

Operating Cash Flow	\$49,458.04
Current Liabilities	\$30,312.76
	1.63 : 1



## Non-Financial Business Risks

Based upon the responses to our questionnaire during the report ordering process, Tech Start Up Co (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.

Develop and implement annual budgets/forecasts, along with monitoring processes to allow timely strategic business decision making by management. The absence of these essential planning mechanisms indicate that the business is managed on a reasonably 'ad hoc' basis, and that little regard is had for future income streams and expenses.

Many of the smaller (but cumulative) business risks faced by a business can be mitigated either partially or entirely by instituting internal controls, systems and processes. They should be clearly documented, acknowledged, and followed by staff. Such internal controls and processes might include a detailed cash handling processes, re-ordering process of stock, customer complaint handling processes, stock rotation and stocktake guidelines. Internal controls ought to be tailored to the specific business and be designed to stop errors, identify losses (and/or fraudulent activity), streamline operations and increase efficiency. By documenting and implementing such internal controls any prospective purchaser would have a greater peace-of-mind that the business operations will continue as they are currently trading and that critical knowledge would not be lost when the existing owners depart.

If a business owner does not have accurate and up to date financial information available to them, they are effectively driving blind. It is impossible to make decisions about the allocation of the business resources without knowing the businesses current position and its forecast position for the immediate future. By striving to maintain accurate and up to date financial records a business owner is able to make better decisions, make plans for the future, and accurately forecast in future periods. It will also assist in knowing the current and future tax liability of the business (and owner), detect errors and anomalies and assist in adhering to debtor and creditor payment cycles.

Outstanding statutory obligations are often considered a red flag for a business or entity purchaser. Such liabilities (especially where they are not accurately reflected on the balance sheet of the business) are indicative that the business may not be able to pay its debts as and when they are due.

## 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
- A robust performance development and management system for communication of performance expectations and goals, monitoring performance and setting remuneration
- Ongoing training for staff consistent with the needs of the business (whilst also considering the personal development of the staff member)
- The value of the business is increased significantly once the owner can be removed without affecting the performance and viability of the business. A prospective purchaser would spend significantly more to purchase a business that they did not need to work in (or build their own management team) than one that they had to be involved in on a day-to-day basis. The business should therefore actively work toward implementing a senior management team that can work autonomously

## 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.

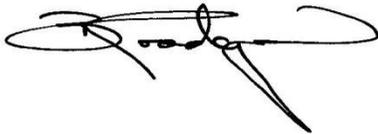
Whilst the business succession plan must address the worst-case scenario of the death or incapacity of the owner, it should also seek to provide a roadmap to retirement for the owner(s). It is often the case that business owners are reliant upon the value of their business to retire (comfortably), but 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 Tech Start Up Co (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 Tech Start Up Co (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', with a stylized flourish at the end.

Brett Goodyer  
Director  
FCPA B.Com MForAccy