

Business Valuations Online

Accountant Report for XYZ ARCHITECTURE PTY LTD



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Accountants Business Diagnostic Report

XYZ ARCHITECTURE PTY LTD

As requested by A Ccountant of Accountantcy R Us

Maximising the value of XYZ ARCHITECTURE PTY LTD

XYZ ARCHITECTURE PTY LTD is located in Sydney, NSW 2000 and it operates in the Architectural 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 XYZ ARCHITECTURE PTY LTD 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 XYZ ARCHITECTURE PTY LTD 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 XYZ ARCHITECTURE PTY LTD 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 XYZ ARCHITECTURE PTY LTD 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

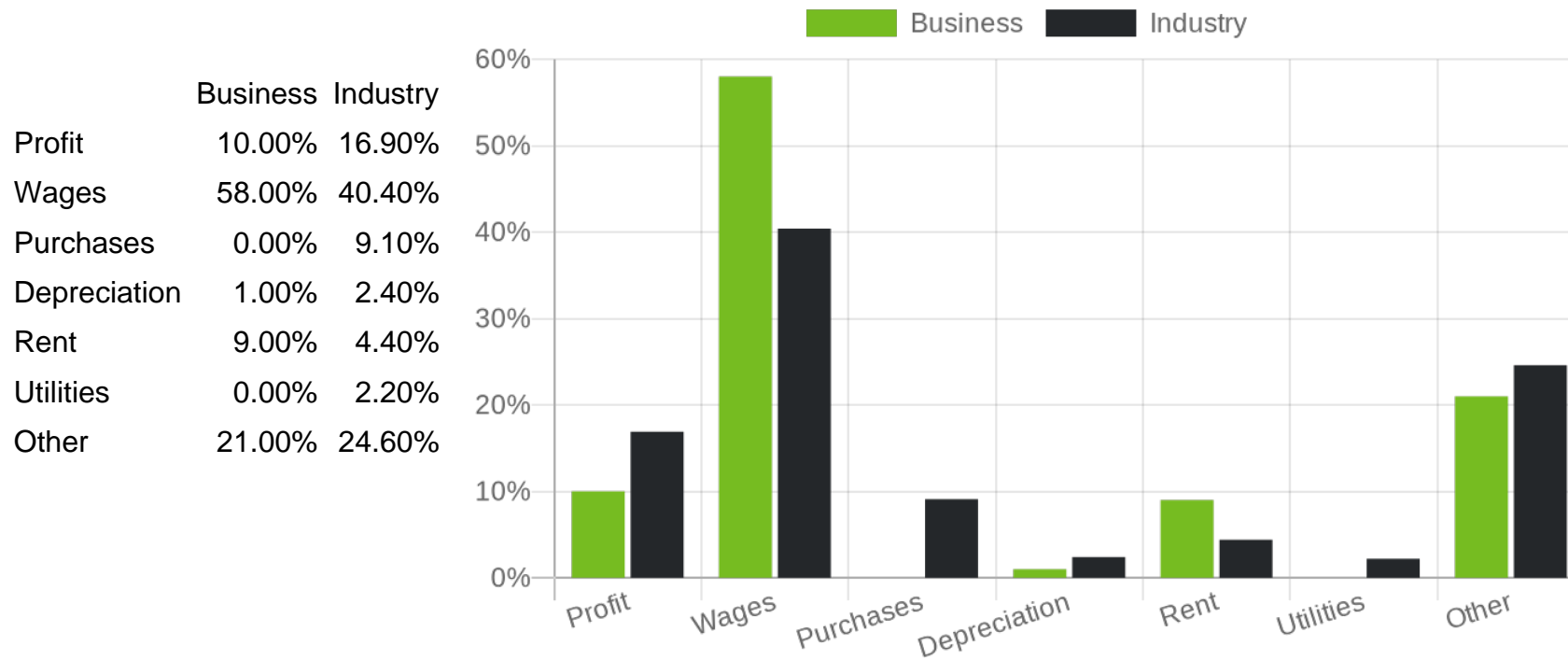
You have indicated that XYZ ARCHITECTURE PTY LTD operates in the Architectural Services in Australia industry. An analysis of the Architectural Services in Australia industry provides the following key industry insights:

| | | | |
|--|--|---|---|
| Revenue \$6.85bn | Profit \$1.16bn | Avg Turnover \$520.00k | |
| Businesses 13175.00 | Avg # Employees 3.25 | Avg Revenue / Employee \$160.00k | |
| Life Cycle Stage Mature | Revenue Volatility Steady | Capital Intensity Low | Technology Change Medium |
| Growth Risk Level Medium - High | Sensitivity Risk Level Medium | Structural Risk Level Medium | Overall Risk Level Medium - High |

Overview of Business

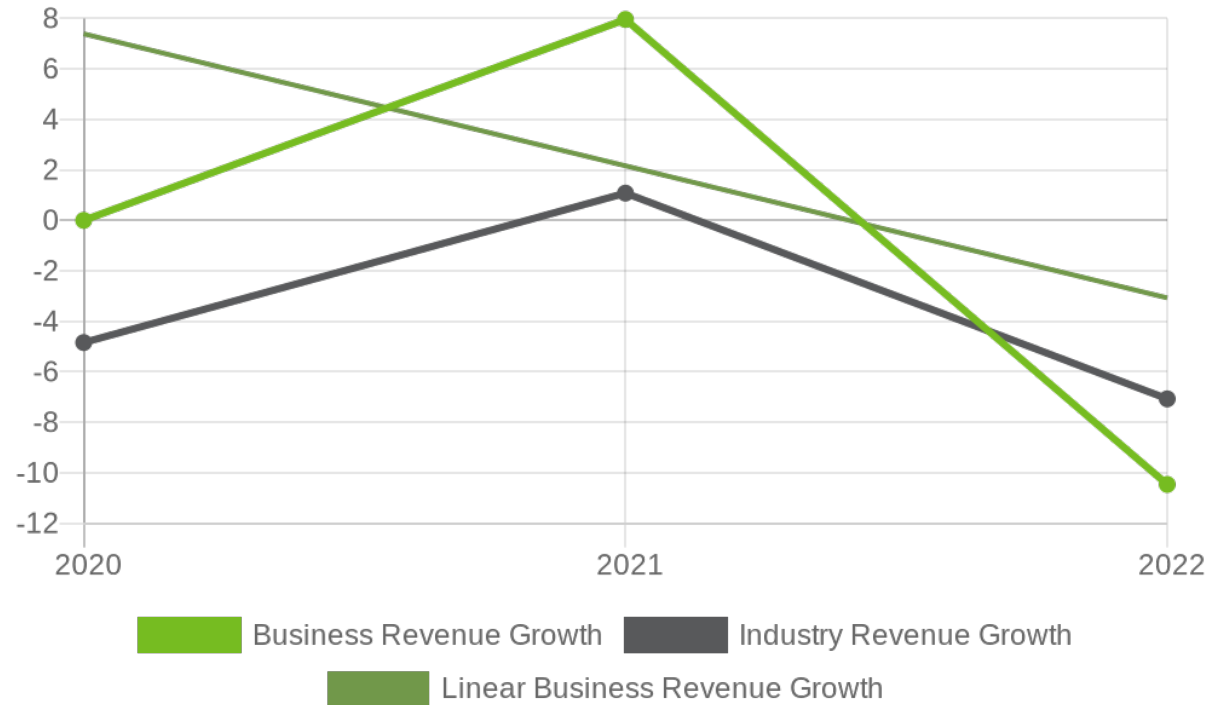
We have undertaken an assessment of XYZ ARCHITECTURE PTY LTD relative to the performance of the rest of the industry to allow us to consider the performance of XYZ ARCHITECTURE PTY LTD within the context of the rest of the industry.

Unadjusted Business Cost Structure Relative to Industry

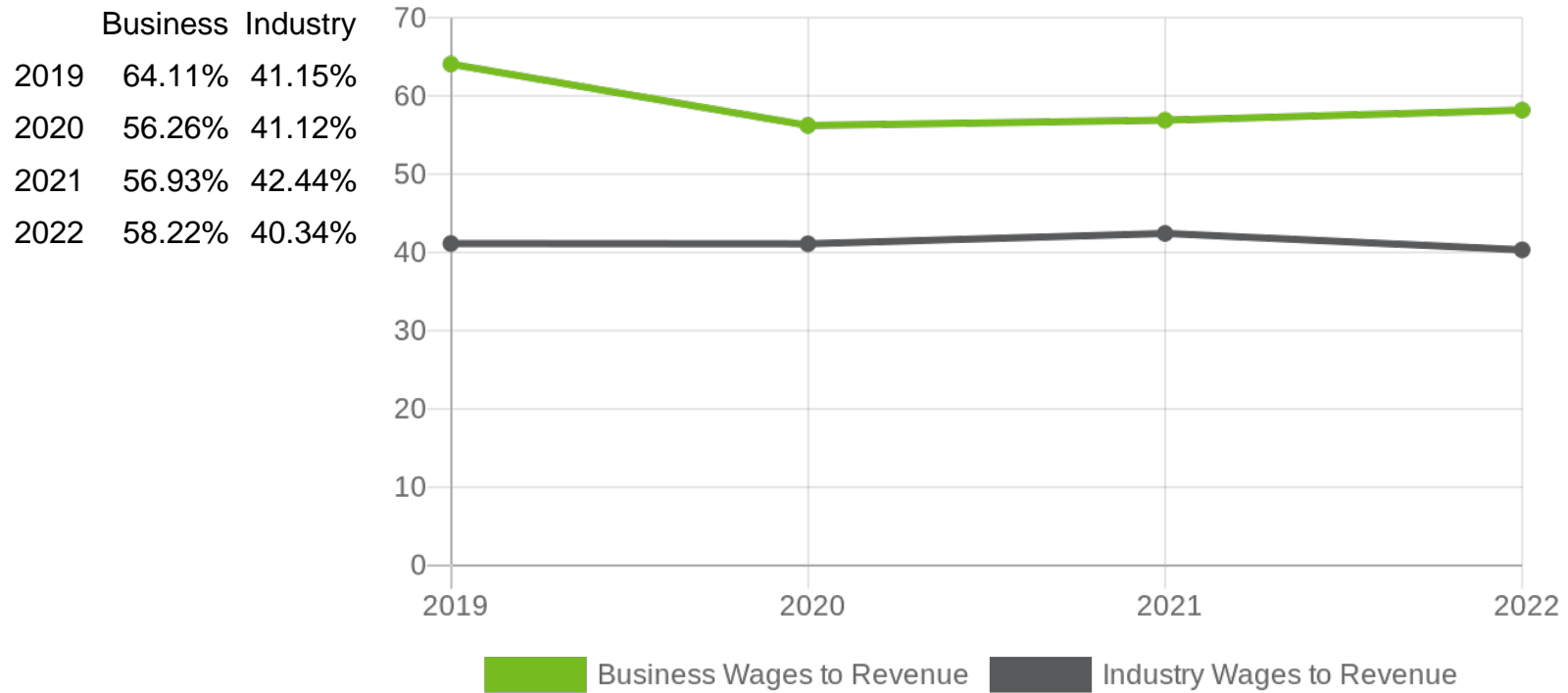


Business vs Industry Revenue Growth

| | Business | Industry |
|------|----------|----------|
| 2020 | 0.00% | -4.84% |
| 2021 | 7.96% | 1.08% |
| 2022 | -10.46% | -7.07% |






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 2022 and the Balance Sheet as at 2022, with the following results:

Efficiency and solvency tests

| | | | |
|---|--------------------------------|----------------|---|
| Liquidity Ratio | Current Assets | \$2,026,839.00 |  |
| | Current Liabilities | \$1,716,823.00 | |
| | | 1.18 : 1 | |
| Quick Ratio | Quick Assets | \$1,749,145.00 |  |
| | Current Liabilities | \$1,716,823.00 | |
| | | 1.02 : 1 | |
| Net Asset Position | Total Assets | \$5,588,566.00 |  |
| | Total Liabilities | \$1,744,417.00 | |
| | | 3.20 : 1 | |
| Accounts Receivable Turnover Ratio | Current Accounts Receivable | \$824,536.00 |  |
| | Total Revenue | \$6,387,813.00 | |
| | | 7.75 : 1 | |
| EBIT Margin | Earnings Before Interest & Tax | \$653,534.00 |  |
| | Total Revenue | \$6,387,813.00 | |
| | | 10.23% | |
| Return on Assets | Net Assets | \$3,844,149.00 |  |
| | Earnings Before Interest & Tax | \$653,534.00 | |
| | | 17.00% | |

| | | | |
|---|---------------------|----------------|---|
| Gross Margin | Gross Profit | \$6,390,089.00 | |
| | Total Revenue | \$6,387,813.00 | |
| | | | 100.00% |
| Operating Cash Flow to Current Liabilities | Operating Cash Flow | \$667,147.00 |  |
| | Current Liabilities | \$1,716,823.00 | |
| | | | |

Non-Financial Business Risks

Based upon the responses to our questionnaire during the report ordering process, XYZ ARCHITECTURE PTY LTD 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.

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:

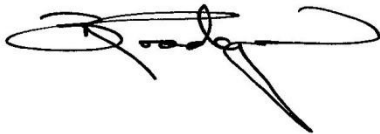
- Selection procedures that increase the probability of finding the right staff for the business
- Ensuring that several people perform key tasks and provide backup in the event of illness or sudden departure
- Where possible employees should be rotated through various functions or departments to familiarise 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)
- 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 the 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

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 XYZ ARCHITECTURE PTY LTD, 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 XYZ ARCHITECTURE PTY LTD.

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 large, sweeping flourish at the end.

Brett Goodyer
Director
FCPA B.Com MForAccy