InteleK
CORPORATE FINANCE

# Sanitised Restricted Appraisal/Indicative Report - Company X, Inc.

## Key case facts about this report for reviewing purposes:

| | |
|---|---|
| **Standards & Report Type** | Appraisal reports are not written to APES225 or IVS standards and are shorter in length than compliant "Valuation Reports". Although Appraisals are designed for purposes not requiring compliance to standards, these reports do follow the base structure and include most of the standard's requirements.<br><br>Appraisal/Indicative reports take on various structures and designs, of which can be significantly shorter following the various templates of our clients, often commencing effectively from Item 'The Business' on page 7. |
| **End Client Case Information** | We valued 100% of the Business' assets for internal transaction planning purposes. The end Client (the business Owner) was progressively working themselves out of the business with a view of retiring in the years to come. Valuation Date: XX XX, 2019. Report Date: XX XX, 2020. |
| **InteleK's Client –** The Intermediary Who Issued The Report White Labelled = Using Their Branding | Our client for this project was a brokerage firm who was trying to facilitate a listing for a transaction. They use InteleK to produce reports like these, to provide an additional and more complete service through the transaction process. We provide value to them and they use us a) for our valuation expertise and b) so they can focus on their "core" business being procuring listings and executing transactions.<br><br>The report is largely as InteleK's general report template/structure, however incorporating specific language in parts as per the clients' requirements. |
| **Process** | This project followed a standard 'white label' process with InteleK.<br>1. This client uploaded the documentation into their project management portal, InteleK reviewed and provided initial questions back to the intermediary within 2 business days.<br>2. Upon clarification and secondary document submission InteleK completed a first draft in 5 business days.<br>3. A phone discussion with the intermediary took place to validate key assumptions and the overall valuation number. The valuation report was then submitted with a minor adjustment after the discussion. Total process was 7 business days. |
| **Pricing** | Under white labelling, our base fee for an appraisal is $700. As the nature of projects vary in size and scope, all projects are defined in terms of price and required scope during the initial review process so both parties are content. As an indication this appraisal report was billed at $800 |

**Andrew Mackson, CFA, ABV**

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# Appraisal of
# Company X Pty Ltd,

Valuation Date: XX XX, 2019. Report Date: XX XX, 2020.

## Table of Contents

## Valuation Parameters

### Purpose of Appraisal

The purpose of this report is to provide the owners of Company X Pty Ltd trading as Company X (here forth known as the "**Company**" or "**Company X**") with an Appraisal of 100% of the Operating Assets of their business as a going concern. The property & building in which the business operates on has **not** been included in this analysis. The owners require this Appraisal for the purpose of the potential sale of 100% of the Operating Assets of the business.

The Appraisal is an Appraisal of the **Asset Value** of the business as a going concern, with the Premise of Value as defined by the International Valuation Standards (**IVS**) 2017 being for the assets highest and best use.

*Asset Value is defined as the value of all stock/inventory, fixed assets and all intangible assets ONLY. It excludes all other short-term assets (i.e. cash and receivables), and all liabilities. If the asset valuation is for the purpose of sale, the vendee would operate from a newly formed legal entity.*

This report is an Appraisal Engagement (**Appraisal**) where I provide my opinion of value of the Company under valuation. An Appraisal by nature is limited by incomplete information in performing the opinion of value.

This Appraisal has been completed under limited scope due to incomplete information such as a site visit or in-depth industry analysis. The presence of this information or analysis could significantly alter the Appraisal.

As such, this Appraisal may not be compliant with APES 225 and IVS, unlike a Valuation Engagement, which is compliant.

If a Valuation Engagement had been performed considering different information, the Appraisal results may have differed.

### Instructions

The Instructing Party is comprised of Person X who is the majority shareholder of Company X, holding 80% of the shares issued. Person X is also sole Director and bears all financial risk for the business and the property on which it operates. The Appraisal is only for the use of The Instructing Party for the Assignment Purpose stated in this report.

### Information Relied On

This Appraisal of value is based on the financial and business information provided by the Instructing Party or their advisors and the summary and details of this information is stated throughout this document, as I understand it. I have not verified, checked or audited these statements and other supplied documentation in any way.

To assist in the preparation of this appraisal the Instructing Parties or advisors have provided us with the following, of which are the only items I have relied on in forming my opinion of value:

- Company Financial Statements for years 2017, 2018 & 2019;
- Company X - Annexure A - Staff and Hours of Work - XX XX, 2020;
- Company X - Business Profile Information Form – XX XX, 2020;
- Equipment Expenses Excel;
- Company X Appraisal Information Request Document; and
- Further responses to the Valuer’s follow up questions.

## Assumptions Made

I note that I have made a number of assumptions in preparing my Appraisal of value for this assignment. This report, and my opinion of value stated herein is based on but not limited to the following assumptions:

1. I have assumed that the Company’s operations are legal, that the Company holds appropriate licences for its activities, and that the Company is compliant with any relevant zoning regulations;
2. I assume that all wages, salaries, and conditions offered to employees of the Company are compliant with the relevant regulations;
3. This appraisal report has been prepared under current laws and regulations, and any changes to current laws and regulations may have an impact on the outcome of this Appraisal report;
4. I have assumed that all financial information issued to me by the client and their advisors is accurate;
5. I have included assumptions in this report with relation to fair market salaries, however, I am not a remuneration expert.
6. The property inclusive of the food production plant and the part of the house that is used by Company X has **not** been included in this Appraisal of value. If these assets were included, this could significantly change the valuation.
7. There is $XXX of Total Leasehold Improvements on the balance sheet at XX XX, 2019. This value is assumed a “once off” expense, with $XXX of its value attributable/attached to the business as they are portable items X that could be relocated/sold with the business. $XX has been assumed as the value of the tanks which cannot be moved and thus do not form part of the Company’s value.

## Disclaimer

This report has been prepared for and at the request of the Instructing Party and for the purposes detailed above. It is not intended for broader publication or circulation and is not to be reproduced or used for any other purpose without my prior written consent in each specific instance. No other party should use or rely on this report and (*InteleK/your company name)*, its partners and employees, specifically disclaim any liability to any other party who acts on or relies on this report. Accordingly, neither I nor any member or employee of our firm undertakes responsibility to any person, other than the instructing party, for any error or omission in the report, howsoever occurred.

In preparing this report I have relied on source information provided to us by the Instructing Party. This source information is detailed throughout this report. In preparing this report I have relied on this information being accurate and complete and I have no reason to believe that this is not the case. Nonetheless I have not sought to verify this or conducted such fuller examination of all of the information to satisfy this position. I have no reason to believe that any material facts have been withheld from us but do not warrant that our enquiries have revealed all matters and facts relevant to the Appraisal.

The Valuer has no present or contemplated future interest in the business which is the subject of this report.

This report has been prepared Independently. Any compensation to be paid to (*InteleK/your company name)*, for the report's preparation is not contingent on the conclusion, content or future use of the Appraisal report.

## Standards & Basis / Standard of Value

This Appraisal in general follows the guidelines and definitions as set out under APES 225 and the IVS 2017. That being said, as previously mentioned in this report under 'Purpose of Appraisal', it may not comply with all the requirements as per these standards to be compliant and thus, is issued independently.

The standard for this Appraisal is Market Value. Market Value is referenced by the Australian Tax Office (ATO) and defined by the International Valuation Standards Council as:

"the estimated amount for which an asset (or liability) should exchange on the Valuation Date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion."

## Appraisal Dates and Duration

This Appraisal report has the following applicable dates:

- Issue Date: **XX XX 2020**
- Valuation Date: **XX XX 2019**

This report is limited to a period of 30 days after the Issue Date on the condition that there is no material change to the business or the business environment that the business operates in during this time.

# The Business

## Introduction

Company X produce food products *(insert short paragraph about what the business does – removed for sanitising purposes).*

## Ownership Structure

| Ordinary Shares | Shares Issued | Issue Price |
|---|---|---|
| Shareholder 1 | X shares | $X per share |
| Shareholder 2 | X shares | $X per share |
| Shareholder 3 | X shares | $X per share |

As at date of Appraisal. Source: Company X Information Request Document.

## Business in Brief

Originally founded by XX in 20XX, (*insert description, 1 paragraph).*

Company X are (*insert company description/ products and services, approximately 2 paragraphs).*

## SWOT Analysis

| Strengths | Weaknesses |
|---|---|
| • High quality premium product<br>• Strong reputation and brand recognition<br>• Long standing distributor relationships<br>• Medium term established business<br>• Contracts with suppliers and distributors | • Key person risk of Owner X & Owner Y<br>• Average financial results<br>• Growing revenue not flowing through to profit |
| **Opportunities** | **Threats** |
| • Increase Sales & Marketing<br>• Increase production using existing facilities | • Losing XXX accreditation<br>• New external competitors entering the market. |

Source: Information provided in the Company X company financials and Information Request Document.

## Financial Performance of the Business

In forming my opinion of value of the Business I have analysed the Business' financial performance and position over the periods 1 July 2016 to 30 June 2017, 1 July 2017 to 30 June 2018 and 1 July 2018 to 30 June 2019.

I note that most businesses receive revenue and incur costs from time to time that could be considered to be:

- Non-recurring in nature;
- Non-cash in nature (that is, an expense or income is recorded but no cash is paid out or received), and/or;
- Non-commercial in nature (that is, they are not required for or derived from the business' usual activities, not at arms-length or market rates)

Based on the above, it is generally accepted that when undertaking the appraisal of a business those non-recurring, non-commercial and non-cash revenues or expenses are removed from the business' financial results, so the business can be assessed on what its true, commercial, cash profit or loss is. Hence, below I have undertaken a normalisation of the Business' Income Statement for each period of analysis, noted above where those expenses and/or revenues that in my opinion are non-recurring, non-cash and/or non-commercial are removed from the Business' calculation of profit. This normalisation helps calculates my opinion of the Business' value.

### Normalised Earnings

| | 2017 | % | 2018 | % | 2019 | % | 2020 (f) | % |
|---|---|---|---|---|---|---|---|---|
| Normalised Income | $1,119,295 | 100.0% | $1,348,870 | 100.0% | $1,341,742 | 100.0% | $1,513,371 | 100.0% |
| COGS | $355,390 | 31.8% | $525,515 | 39.0% | $511,054 | 38.1% | $521,275 | 34.4% |
| Gross Profit | $763,905 | 68.2% | $823,355 | 61.0% | $830,688 | 61.9% | $992,096 | 65.6% |
| Operating Expenses | $642,507 | 57.4% | $688,321 | 51.0% | $840,019 | 62.6% | $856,819 | 56.6% |
| Earnings Before Interest & Tax (EBIT) | $121,668 | 10.9% | $135,034 | 10.0% | $3,818 | 0.3% | $135,277 | 8.9% |
| Earnings Before Tax (EBT) | $121,398 | 10.8% | $135,034 | 10.0% | $(9,331) | -0.7% | $135,277 | 8.9% |
| | | | | | | | | |
| **Adjustments & Addbacks** | | | | | | | | |
| *Non-Cash Expenses* | | | | | | | | |
| Depreciated & Amortization | $42,214 | 3.8% | $19,899 | 1.5% | $41,713 | 3.1% | $41,713 | 2.8% |
| Bad Debts | $- | 0.0% | $287 | 0.0% | $- | 0.0% | $- | 0.0% |
| *Cash Expenses* | | | | | | | | |
| "1 off" Equipment Failure & Losses | $- | 0.0% | $- | 0.0% | $83,032 | 6.2% | $- | 0.0% |
| "1 off" Ecoli Losses | $- | 0.0% | $- | 0.0% | $120,739 | 9.0% | $- | 0.0% |
| Cooler Room Sustainable Capex | $(4,083) | -0.4% | $(4,166) | -0.3% | $(4,251) | -0.3% | $(4,336) | -0.3% |
| Discretionary Cooler Bags | $- | 0.0% | $16,157 | 1.2% | $- | 0.0% | $- | 0.0% |
| Donations | $500 | 0.0% | $153 | 0.0% | $330 | 0.0% | $337 | 0.0% |
| Entertainment | $2,489 | 0.2% | $720 | 0.1% | $364 | 0.0% | $371 | 0.0% |
| Fair Market Rent Adjustment | $(48,020) | -4.3% | $(49,000) | -3.6% | $(50,000) | -3.7% | $(51,000) | -3.4% |
| Gifts | $- | 0.0% | $3,671 | 0.3% | $163 | 0.0% | $166 | 0.0% |
| Interest Expense | $270 | 0.0% | $- | 0.0% | $13,149 | 1.0% | $13,412 | 0.9% |
| Repairs & Maintenance | $11,529 | 1.0% | $20,018 | 1.5% | $24,423 | 1.8% | $24,912 | 1.6% |
| Motor Vehicle Expenses | $7,876 | 0.7% | $17,267 | 1.3% | $11,988 | 0.9% | $12,228 | 0.8% |
| Travel & Accommodation | $22,211 | 2.0% | $34,773 | 2.6% | $35,987 | 2.7% | $36,707 | 2.4% |
| *Total Cash Adjustments* | $(7,227) | -0.6% | $39,593 | 2.9% | $235,924 | 17.6% | $32,796 | 2.2% |
| **Total Adjustments** | $34,987 | 3.1% | $59,779 | 4.4% | $277,637 | 20.7% | $74,509 | 4.9% |
| | | | | | | | | |
| **Adjusted EBITDA** | $156,385 | 14.0% | $194,813 | 14.4% | $268,306 | 20.0% | $209,786 | 13.9% |

As at date of appraisal. Source: Company Financials & Information Request Document.

**Adjustments & Addbacks:**

1. **Depreciation Expense:** By definition, EBITDA does not include depreciation expense. The full value of Depreciation Expense inclusive of Capital Works has been added back.
2. **Bad Debts:** Non-commercial in nature (that is, they are not required for or derived from the business' usual activities) and have been added-back.
3. **"1 off" Equipment Failure & Losses:** Incurred in 2018 and guided by management as a "once off" expense.
4. **"1 off" Ecoli Losses:** Incurred in 2018 and guided by management as a "once off" expense.
5. **Cooler Room Sustainable Capex:** As an approximation for future capex to maintain the cooler room (business asset), 2019 depreciation has been used and indexed at 2%.
6. **Discretionary Cooler Bags:** Discretionary and assumed non-commercial in nature (that is, they are not required for or derived from the business' usual activities) and have been added-back.
7. **Donations:** Non-commercial in nature (that is, they are not required for or derived from the business' usual activities) and have been added-back.
8. **Entertainment:** Non-commercial in nature (that is, they are not required for or derived from the business' usual activities) and have been added-back.
9. **Fair Market Rent Adjustment:** Adding in fair market rent as a non-related party would be required to pay rent for use of the building and property.
10. **Gifts:** Non-commercial in nature (that is, they are not required for or derived from the business' usual activities) and have been added-back.
11. **Interest Expense:** By definition, EBITDA does not include interest income or expenses.
12. **Repairs & Maintenance:** Adjusted to 60% of the historical income statement value as 40% of this maintenance is assumed attributable to the property/dairy/house or personal PPE, not included in this valuation.
13. **Motor Vehicle Expenses:** Assumed to be personal motor vehicle expenses, hence non-commercial in nature (that is, they are not required for or derived from the business' usual activities).
14. **Travel & Accommodation:** Has been added back as Management has guided a lot of this is personal travel associated with living in Melbourne and working remotely.
15. **NOT ADDED BACK:** Additional Ad/Marketing = $39,629.10 and Show Expenses = $38,603.12 have NOT been added back. It is assumed that some of this and travel & accommodation is necessary to generate both the business's historical financial results, or to drive any future growth and to support the FME. Hence Travel & Accommodation has been added back, while Ad/Marketing & Show Expenses have not.

**Financial Performance FY2017-2020(f)**


As at date of appraisal. Source: Company Financials & Information Request Document.

**Commentary of Historical Financial Data:**

- Revenue has been trending upwards over the past 3 years.
- Gross Profit margins have declined, from 68.2% in FY17 to 61.9% in FY19.
- Unadjusted EBIT (and associated margins) fluctuated between $135,034 in 2018, $3,818 in 2019, returning to $135,277 forecast in 2020.

## Commentary of 2020 Forecasts

- **Revenue:** has been forecast to grow by 13.8% in FY20 from FY19 levels. This is based on the forecasts provided by management. Although this is within the reasonable range of growth based on historical revenue performance, I believe this to be at the top of the range within a 1-year period.
- **Costs:** All costs have been indexed to increase by 2%.
- **Fair Market Rent:** I have applied fair market rent for the property and use of the buildings of $50,000 in 2019.
- **Future Capex:** There is expected capex to repair the food production floor in the next 12 months. Quote received in 2019 was for $48,000 + operational losses to shut down for a week to upgrade the floor. This has **not** been included in this analysis as it is assumed that as this valuation purpose is for the potential sale of the Company, to achieve the FME listed in this appraisal, it is expected that the core/operational assets are in good working order and fair condition. If these assets have deteriorated to the point where it impacts negatively/disrupts the operations of the business, this will affect the FME of the business and lower the valuation. I note the owners do **not** have plans to spend this capex prior to the sale. However, for this analysis, it is assumed the current owners have made sufficient capex (inclusive of this "once off" expense) to the business prior to its sale in order to achieve the FME of this appraisal under the Income Approach.
- **Leases:** I note leases for machinery of 1 forklift (leased) and 1 Hino truck (Chattel mortgage).
- **Depreciation:** Given the leased equipment and the substantial adjustment for fair market rent (that now appears on the adjusted income statement), all depreciation has been "added-back" as it is seen as immaterial (given rented building and leased equipment) and maintenance moving forward will be expensed through the income statement. As an approximation for

future capex to maintain the cooler room (business asset), 2019 depreciation has been used and indexed at 2%.

- **Property Lease:** A material assumption in the forecast numbers is that upon a sale, the Company will be able to lease the necessary property and building to continue their operation, as a going concern. Given the importance of the location to the business's operation, should this not be available, or should the lease be terminated at any point after a sale, this could significantly impact the valuation.

## Valuation Approaches and Methodologies

There are several valuation Approaches and Methodologies (as defined under the International Valuation Standards 2017) that can be applied to the valuation of a business. All are attempts by various parties to find a model that best estimates the value of a business.

Some valuation Approaches and Methods are more accepted with some industries and business types than others. On this basis, it is important that the valuation Approach and Method used is consistent with:

- What is generally accepted by the courts;
- What is generally accepted by the market, and;
- What is generally accepted by financial institutions.

**Income Approach:** The Income Approach using the Future Maintainable Earnings (FME) Methodology is one of the most commonly used valuation Methods for SMEs. Capitalisation of the FME Method makes an assessment of the value of a business through reviewing the expected, sustainable profits of a business in conjunction with relevant risk factors.

**Market Approach:** The Market Approach is another Approach that provides an indication of value by comparing the asset under valuation with identical or comparable (that is similar) assets for which price information is available.

We have used resources such as BVR's BizComps and ValuSource Market Comps to search for a selection of relevant historical private transactions that could be used to compare to the Company under valuation. A sufficient sample size of relevant comparables was not found, however we have used the data available as a sanity check and also as a guide for the applicable multiple used for the Income Approach.

Trading data from public comparable companies was considered, however given the size of the Company, this was determined to be inappropriate and not beneficial to the analysis.

**Cost Approach:** The Cost Approach (often referred to as Asset Approach) provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility (benefit). Generally, the Replacement Cost Method is the most commonly used Method for SMEs, under the Cost Approach as it identifies the cost someone would pay to replicate the utility (benefit) of the asset, not the exact physical properties of the asset. Usually replacement cost is adjusted for physical deterioration and all relevant forms of obsolescence. After such adjustments, this can be referred to as Depreciated Replacement Cost.

After considering the three Approaches highlighted above, small to medium size businesses are often valued at the higher value derived under the:

a) Cost Approach using the Replacement Cost Method; or
b) Income Approach (frequently Capitalisation of Future Maintainable Earnings Method) or
c) Market Approach is used.

## Valuation Approaches Considered

### Income Approach - Capitalisation of Future Maintainable Earnings Method

I have written my Appraisal and formed an opinion that the valuation conclusion formed under the Income Approach using the **Capitalisation of Future Maintainable Earnings (FME)** Method is most consistent with what I would anticipate for the Company in consideration of the basis/standard and premise of value applied in this engagement. The future Maintainable Earnings metric I have used is a **'Normalised EBITDA'** as identified in the Financial Performance section. EBITDA being the earnings before interest, tax, depreciation and amortisation.

As this is an Appraisal of the Asset Value of the business on a going concern premise, an earnings metric needs to be selected that is:

a) Reflective of what I believe is the most reasonable expectation of earnings in future; and
b) The earnings before any interest payments, as the choice of funding sources (debt or equity and their mix) should not affect the valuation of the core assets of a company.

| Year | Weighting | Adjusted EBITDA |
|---|---|---|
| 2018 | 1 | $194,813.22 |
| 2019 | 1 | $268,305.54 |
| 2020 (f) | 1 | $209,785.95 |
| **Weighted Average Adjusted EBITDA = FME** | | **$224,301.57** |

As at date of appraisal.

Considering the historical performance of the business and the probability of its future forecast performance, I have weighted FY2018, FY2019 and forecast FY2020 equally for **a FME of $229,521.** I have elected this combination of years as I do not believe using the 2020 forecast FME alone as the best reflection of the potential FME of the business, as I see an equal probability of the FME of the business being any of the historical FY2018, FY2019 or the forecast 2020 FME.

**Multiple (Discount Rate) Calculation**

The capitalization multiple to apply when valuing a company is a crucial decision within the entire process of valuation; it accounts for the performance and risk expectations associated with a particular investment decision.

The capitalization multiple may be affected by different factors in the market, both structural and circumstantial. Financial analysts often use the capitalization multiples of a specific industry to refer to the specific risks for that industry of which the subject company operates within, based on the premise that companies competing in the same markets face similar risks.

The valuation of SMEs requires further methodological analysis, as the comparability by industry may be reduced due to unique factors at a company level, mainly with regard to the size of the business but also in relation to other important aspects such as the life cycle of the business, the risks associated with the development of technical innovations, the challenges of brand positioning and a wide set of financial and operational characteristics that are typical of SMEs.

In recent years, significant progress has been made in the field of corporate finance, especially regarding the assessment of the specific risks of SMEs. As a result, empirical developments of risk assessment methodologies have been widely studied and disseminated in the industry, including a set of methods based on what are known as "balanced scorecards". Balanced scorecards essentially assign a risk rating to each of the critical areas of the business and determine a result for the company as a whole, weighting the individual results' of each criteria relative to its importance with respect to the other criteria. As a final product, a weighted risk measure is obtained for the company in question, represented by the multiple applied to the future maintainable earnings and or discount rate in the discounted cash flow methodology.

Considering the above, I have used InteleK's proprietary specific risk assessment model, which is based on the empirical evidence within the valuation market and calibrated with our depth of experience within the SME sector. This model determines the Company Specific Risk Premium (CSRP) for a particular company that combines qualitative and quantitative metrics, specifically relevant to the valuation of SMEs. Within the model, InteleK has selected a range of key variables/criteria, both at the quantitative level (liquidity, solvency, profitability, efficiency) and at the qualitative level (reputation, capacity of execution and operational risk). Additionally, understanding that SMEs operate as part of the broader macro economy, industry, and geography, these additional factors are also taken into account in determining the appropriate multiple.

Given this theoretical backdrop, in practice, we normally see small-medium enterprise EBITDA multiples between 1-5 times, while companies with revenues of <$3m are often being valued between 1-3 times.

In developing the capitalisation multiple, key observations include:

- Company X's FME is constructed from the EBITDA for the previous two years normalised earnings ($195k in 2018 and $268k in 2019) and the forecast one year ($210k in 2020). The volatility in EBITDA and only a marginal forecast increase in EBITDA between 2018 and forecast 2020, lowers the capitalisation multiple and the overall valuation.
- Revenues have been growing however the business has experienced volatility in their unadjusted EBIT profits and not been able to achieve margin expansion.
- There is significant personal goodwill attached to Owner X, similar to Owner Y, which has been rated "10/10" importance by the owners of the business. The personal goodwill attached to Owner X is high and given Owner Y is leaving the business, this increases the goodwill attached to Owner X. The assumption has been made that Owner X will stay in the business for a transitionary period, to the new owner, to ensure the transition of this "10/10" importance personal goodwill, to the new owner and/or the business. If Owner X were to leave with Owner Y without a significant transition period to the new owners, this could significantly negatively alter the valuation.

**Valuation using the FME & Multiple**

Based on the above commentary presented for Company X & the Future Maintainable Earnings Methodology, I have used **a multiple of 1.95 applied to the FME of Company X.** This has been selected considering the aforementioned risk assessment model and where possible, analysing comparable transactional data.

| Variable | | Amount |
|---|---|---|
| FME (1) | $ | 224,302 |
| Long Term Sustainable Growth Rate (2) | | 2.50% |
| Next Year's FME (3) = (1)*[1+(2)] | $ | 229,909 |
| Capitalization Multiple (4) | | 1.95 |
| Capitalization Rate (5) | | 51.37% |
| **Operating Asset Value = (3)/[(5)-(2)]** | **$** | **470,419** |

As at date of Appraisal. Source: Company Financials & Information Request Document.

## Cost Approach - Net Tangible Assets (NTA)

The Cost Approach provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility. Generally, the Replacement Cost Method is the most commonly used Method for SMEs under the Cost Approach.

Accordingly, I have used the net asset value (NAV) of the tangible assets on the balance sheet, as an estimation of the value of the Company under the Cost Approach. Under this, intangible assets or goodwill is ignored as it is assumed that either a) there is no active market for these assets, and/or b) they cannot be isolated and thus their replacement cost, cannot be estimated. The physical/fixed assets below have been assumed to be on the balance sheet at their fair market values.

| | | FY2018 | | FY2019 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Fixed Assets** | | | | |
| General Small Business Pool | $ | 32,280 | $ | 22,595 |
| Net Fixed Assets | $ | 110,084 | $ | 114,129 |
| **Total Fixed Assets** | **$** | **142,364** | **$** | **136,724** |

As at date of Appraisal. Source: Company X company financials.

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## Conclusion

Considering the two Approaches highlighted above, the Company will be valued at the higher value derived under either the:

a) Cost Approach using the Replacement Cost Method; or

b) Income Approach using the Capitalisation of FME.

| Valuation Methodology | Asset Value | Methodology Weighting | Weighted Value |
|---|---|---|---|
| **Cost Approach** | | | |
| Net Tangible Assets | $136,724 | 0% | N/A |
| **Income Approach** | | | |
| Capitalization of FME | $470,419 | 100% | $470,419 |
| **Weighted Conclusion of Asset Value** | | | **$470,419** |

Adding the value of any stock or inventory at the valuation date, we get the below valuation.

**Effective Valuation Allocation**

| Asset Value | 30-Jun-19 | Notes |
|---|---|---|
| Operating Asset Value (1) = (2) + (3) + (4) | $470,419 | 1 |
| Fixed Asset Value (2) | $136,724 | 2 |
| Intangible Asset Value (3) | $1,158 | 3 |
| Goodwill (4) | $332,537 | 4 |
| Stock (5) | $111,288 | 5 |
| **Appraisal Value = (1) + (5)** | **$581,707** | |

Figure 8: As at date of Appraisal.

Notes:

1) **Operating Asset Value:** As calculated using FME multiplied by the relevant multiple.
2) **Fixed Asset Value:** Estimated physical/fixed asset value as per the balance sheet.
3) **Intangible Asset Value:** Intangible Asset value as per the balance sheet.
4) **Goodwill:** Operating Asset Value – Fixed Asset Value – Intangible Asset Value.
5) **Stock/Inventory:** Stock/Inventory as per the balance sheet.

Therefore, based on the above, I conclude the **total Asset Value of the Company including stock/inventory is $581,707 AUD as at XX XX 2019.**

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## Appendix A: Glossary

**Within our Appraisal and Valuation Reports, we include the glossary which defines certain terms used in the International Valuation Standards (IVS) & relevant InteleK definitions.**