

VALU.LINK

Business Appraisal Report



Broker Appraisal for:

EMEX Test Example

Date:

15 February 2021

By:

Tony Andrew

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Overview

Hello EMEX Exhibitor or Visitor,

The valu.LINK process is an essential tool in determining the go to market price. There will be many views on what constitutes value. Sellers will have one view, buyers another, accountants another, etc. There are multitudes of formulations, all of which produce different figures depending on who you're talking to.

It is important to recognise the price range your business is likely to sell in. If you're unrealistic it won't sell and you and likely buyers will become very frustrated. You could also be harming the prospects of a sale sometime in the future. If you're too low, then obviously you miss out or create suspicion.

Businesses sell in an open market; that is with a willing buyer and a willing seller. The market determines the price – the true value.

When we meet with an owner we gather detailed information and then develop a Market Appraisal. This provides the price range we expect the business to sell for on the open market. We trust you'll find this example of interest.



Historical Financial Data

	LAST YEAR	2 YEARS PRIOR	3 YEARS PRIOR
Financial years	2020	2019	2018
Revenue	5,000,000	4,500,000	4,000,000
Cost Of Goods	2,650,000	2,430,000	2,160,000
Gross Profit	2,350,000	2,070,000	1,840,000
Gross Profit Margin	47%	46%	46%
Operating Expenses	1,275,000	1,165,000	1,050,300
Pre-Tax Net Surplus	1,075,000	905,000	789,700
Depreciation Expense	38,000	42,000	54,000
Amortisation	0	0	0
Interest expense	12,500	13,000	13,500
Non-Recurring Expense:			
Executive recruitment	12,000	0	0
Total Non-Recurring Expenses	12,000	0	0
Discretionary Expenses:			
Entertainment 50%	2,500	2,000	1,500
Donations	1,000	750	500
Total Discretionary Expenses	3,500	2,750	2,000
Primary Working Owners Actual Salary	150,000	140,000	120,000
Primary Working Owners Market Salary	120,000	110,000	100,000
Other Working Owners Actual Salaries	0	0	0
Other Working Owners Market Salaries	0	0	0
Net Salary Adjustments	30,000	30,000	20,000
Assets Value	625,000		
Stock Value	50,000		
EBPITDA (SDE)	1,291,000	1,102,750	979,200
EBITDA	1,171,000	992,750	879,200
EBIT	1,133,000	950,750	825,200

Weighting Factors

What are the barriers to entry?

Would it be easy for a competitor to become established in this industry? (1 = Easy)

4

What is the risk profile of this business ?

eg. Relies on 1 or 2 clients, supplier contracts not in place, relies on owner etc.

4

Is this an established business?

less than 1 yr, 2 = 1 to 3 years, 3 = 3 to 10 years, 4 = 10 to 20 years, 5 = 20 years +

5

How unique is the business?

Does the business have a well-defined "niche"?

4

What is the risk profile of the industry?

Vulnerability of the industry as a whole (1 = High Risk)

4

Where is the business located?

1 = Remote, 2 = Rural, 3 = Provincial Town, 4 = City, 5 = Major City

5

What is the likely buyer demand?

Is this business likely to attract few or many buyers at the current time

5

Out of 35

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Appraisal Output

Earnings Based

Multiplier	Period	Normalised (\$)	Multiple	Appraised Value (\$)	ROI (%)
EBPITDA (SDE)	3 year avg.	1,124,317	3.87	4,356,061	
EBITDA	3 year avg.	1,014,317	4.56	4,620,909	22
EBIT	3 year avg.	969,650	4.58	4,443,182	22

Average Earnings Based Value: 4,473,384

Comments and Further Considerations

Revenue

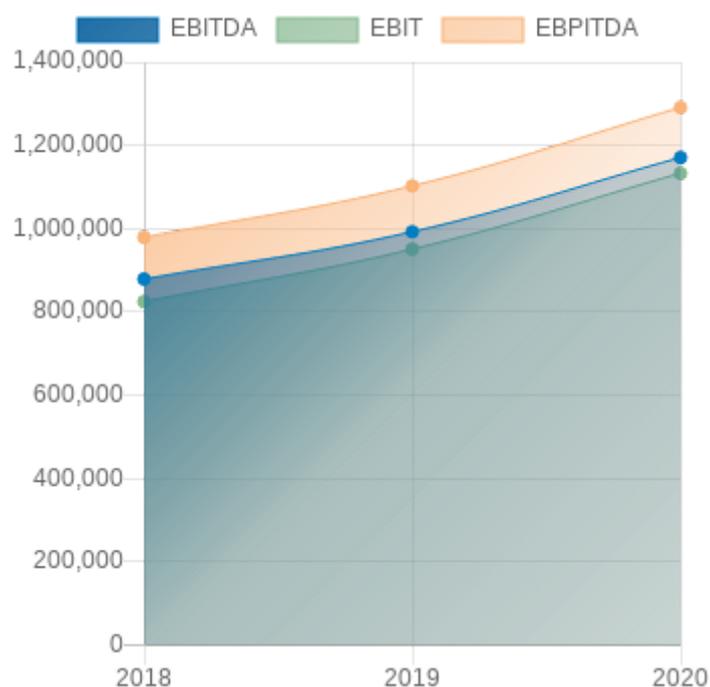
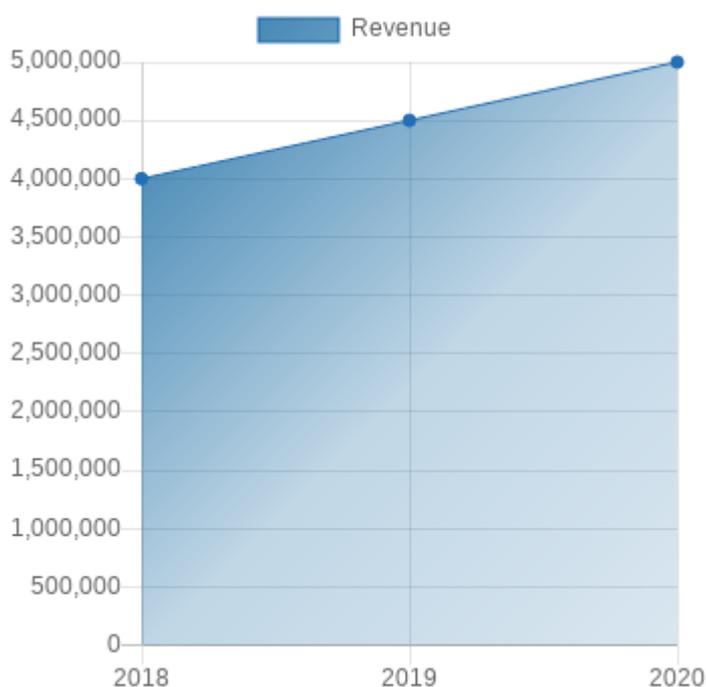
Revenue for this business is trending upwards

Profit

Normalised EBPITDA for this business is trending upwards

Add Backs account for less than 10% of Normalised EBPITDA, which is positive

Trends



Glossary of terms:

EBPITDA (SDE) EBPITDA / SDE is defined as net income before deducting the primary owner's compensation and benefits, other discretionary, non-operating, or non-recurring income or expense, depreciation, interest, and taxes. If there are additional owners working in the business, their compensation needs to be adjusted to market rates.

EBITDA Earnings before interest, depreciation, tax and amortisation after management costs.

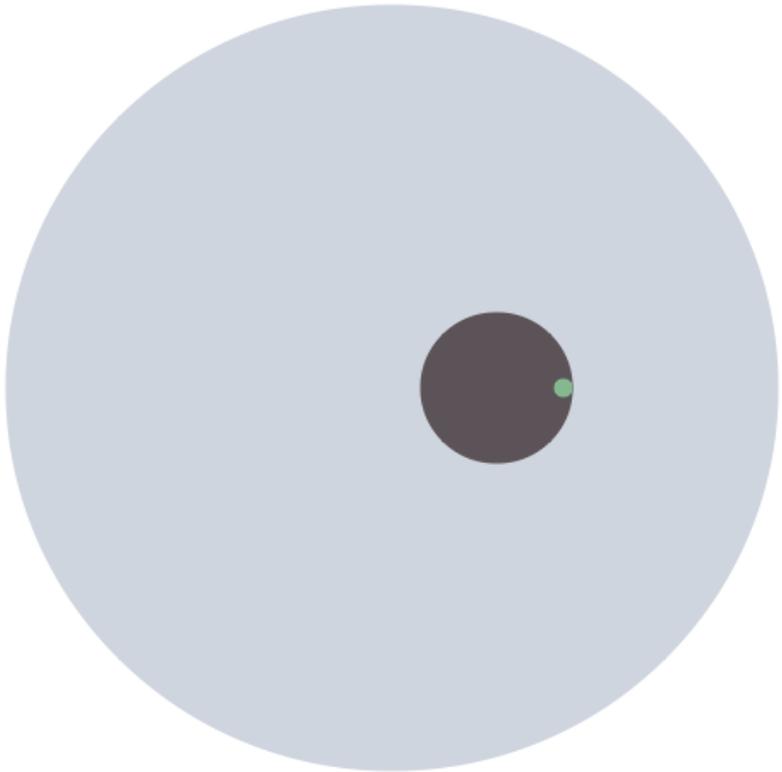
EBIT Earnings before interest and tax.

Normalisation The process of adjusting net profit to accurately reflect real expenses attributable to the operation of the business

Add-Backs Non-business expenses that are added to net profit as part of normalisation

Examples of Comparable Sales

- 46 Database of Engineering - Production
- 9 Acceptable Multiple Variance 20% (From 3.096 to 4.644)
- 1 Matching Comparables
- 1 Acceptable EBPITDA Variance 20% (From \$899,454 to \$1,349,180)



Revenue (\$)	EBPITDA (\$)	Multiple	Price (\$)
2,734,933	1,012,000	4.15	4,200,000

Important Notice

The results of this Appraisal are for the sole purpose of assisting a LINK broker in completing an Appraisal of the market value of the business for the business owner. Both the input of data into this form and interpretation of subsequent results require a trained LINK broker. This is not a registered valuation and does not purport to be such.

This tool and all data, algorithms, coefficients and formulas contained within it are the intellectual property and copyright of LINK Intellectual Property Limited



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- a. This report is an opinion on the appraised fair market value of **EMEX Test Example** on a going concern basis.
- b. The report is based on information provided by the Vendor and incorporates no warranty or guarantee as to the accuracy or otherwise of the information which the Vendor has provided.
- c. The report is not a site, structural or engineering survey of any property belonging to the business. It is not a valuation. It does not purport to provide any information available under S44A of the Local Government Official Information and Meetings Act 1987. It is not an opinion about the legal status of any property belonging to the business. It does not constitute an audit of the financial status of the business and contains no professional evaluation of the financial management of the business or any taxation implications arising from the business or its sale.
- d. Any information of the nature described in (c)(i) should be obtained from an appropriately qualified professional advisor.
- e. Any person who relies on any aspect of this report does so in all respects at their own risk.
- f. The attached contingencies, assumptions, and limiting conditions should be read in conjunction with this report

CONTINGENCIES, ASSUMPTIONS AND LIMITED CONDITIONS

1. This valuation was made and this Appraisal report has been prepared for the purpose stated herein. Neither the report nor the information it contains should be used for any other purpose, and they are invalid if so used.
2. This Appraisal is based upon information obtained from sources that, with exceptions, if any, as noted herein, the appraiser believes to be reliable. However, the appraiser has not made a specific effort to confirm the validity of any of the information, and accordingly, like a Chartered Accountant's compilation from financial statements, its accuracy or completeness cannot be guaranteed.
3. Had an examination of the underlying financial statement been performed by a Chartered Accountant in accordance with generally accepted auditing standards, and/or other procedures to independently confirm representations made to the appraiser, significant matters that would alter the amounts used in the determination of the final valuation might have come to the attention of the appraiser.
4. The appraiser assumes no responsibility for matters of a legal nature affecting the business appraised, nor is any opinion of title rendered. The Appraisal assumes a marketable title, with ownership in the highest form and the property has been appraised as though free and clear of liens and encumbrances except, if any as stated herein.
5. The distribution of total value among the various elements of the business applies only for the purpose or purposes stated herein, and any separate value estimated for individual elements of the business should not be used for any other purpose, and are invalid if so used.
6. Should values be assigned for individual assets, or groups of assets, said asset values are intended only to represent the appraised Fair Market Value. Nothing within this report is intended to represent the tax implications of the allocation of the assets; the estimation of Fair Market Values is an appraiser expertise, while the tax impact of the allocation is an expertise of a Tax Consultant. The value of Fixed Assets are as reported in the financial accounts and does not purport to be an independent valuation of those assets.
7. Neither this Appraisal nor any part of it shall be used in connection with any other Appraisal.
8. Appraiser is not required to give testimony in court or be in attendance during any hearings, or depositions with reference to the matters herein stated, directly or indirectly, unless prior satisfactory arrangements have been made with the appraiser.
9. Some assumptions inevitably may not materialise, and unanticipated events and circumstances may occur. Therefore, the actual performance in the areas forecasted/ projected will vary from the forecast/ projection, and the variations may be material. Therefore, LINK will not express any form of assurance on the likelihood of achieving the forecast/ projection or on the reasonableness of the used assumptions, representations and conclusions. Any such forecast/ projection is presented as part of the Appraisal and is not intended to be used separately.
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11. Unless stated otherwise herein, this report was prepared for the Client's eyes-only. While we have not been told of any intent to use this report other than for the purpose stated, should the Client later choose to provide any third party with a copy of this report, all such third parties may be assured that this report, while performed in the employ of the client, was materially prepared on non-advocacy basis. Any third persons, however, are also cautioned that LINK has no duty to any third parties, and therefore, no warranty is expressed or implied. Nothing in this report is intended to replace said third parties' independent sole judgment, due diligence, or decision to seek professional legal accounting tax, or valuation counsel.
12. The opinion of value expressed within this Appraisal report is applicable only to the type of value stated within the report, and then only based upon the referenced definition of that type of value. Should this Appraisal be based upon Fair Market Value, that value assumes a hypothetical sale, and unless stated otherwise, an all-cash sale. Any actual transaction may be concluded at a price that is higher or lower than that opinion of value, depending upon the circumstances of the actual transaction. Such circumstances could include, but not be limited to changes in the economy, leveraging, cost of capital, the parties' individual perception of risk, knowledge, motivation, negotiating skills, quality of counsel, and other individual or interrelated factors.
13. The fee for this report is for our expressed opinion of value, as of the date of this Appraisal, without warranties or guarantees as to the outcome at any future date, or any contrary opinions of value as of the same date.
14. All reference to the value of any intangible assets of the business are estimates of Fair Market Values, based upon the use of those assets as elements in the Going Concern. Comments regarding the condition and/or state of the art of any assets are based upon the layperson observations of the appraiser, the representations of management, or as may be specified within the report. LINK are business brokers and appraisers and claim no expertise as registered valuers.
15. This Appraisal report assumes no litigious, regulatory compliance, environmental hazard, or similar problems. Should applicable investigation be done regarding such matters, items that would materially affect our final valuation opinion could be discovered. Therefore, no representations or warranties, are expressed or implied, regarding such conditions and no consideration has been given, within the report, to the possible effects of any such conditions.
16. This report is further subject to any other contingencies, assumptions, and limiting conditions set out elsewhere within this report.
17. Should the client or any relevant party be incorporated, this Appraisal assumes there are no restrictions or other qualifications within the Articles of Incorporation, Bylaws, Constitution, Minutes, Buy-Sell Agreements or any other agreements that could materially affect the value of the business appraised, including but not limited to, its transferability.

