Business Valuations Online

Accountant Report for Vege Partnership

Accountants Business Diagnostic Report

VEGE PARTNERSHIP

As requested by Referrer Accountant of Accountants for the Client

Maximising the value of Vege Partnership

Vege Partnership is located in Adelaide Park, QLD 4703 and it operates in the Fruit and Vegetable Retailing 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 Vege Partnership we determined that the most appropriate valuation methodology to apply was the Capitalisation of Furture Maintanable Earnings method.

In order to maximise the value of Vege Partnership 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 Vege Partnership 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 Vege Partnership 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 Vege Partnership operates in the Fruit and Vegetable Retailing in Australia industry. An analysis of the Fruit and Vegetable Retailing in Australia industry provides the following key industry insights:

Revenue
$3.97bn

Profit
$174.71m

Avg Turnover
$1.56m

Businesses
2538

Avg # Employees
6.00

Avg Revenue / Employee
$260.00k

Life Cycle Stage
Not Available

Revenue Volatility
Steady

Capital Intensity
Low

Technology Change
Low

Growth Risk Level
Not Available

Sensitivity Risk Level
Not Available

Structural Risk Level
Not Available

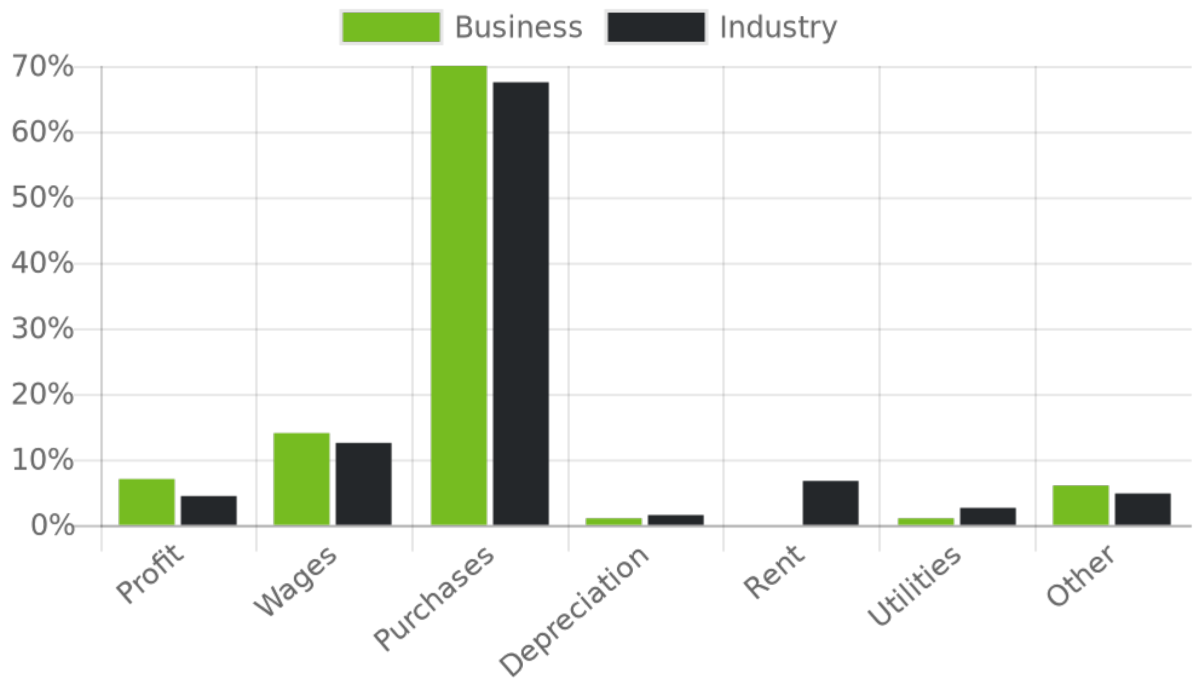
Overall Risk Level
Not Available

Overview of Business

We have undertaken an assessment of Vege Partnership relative to the performance of the rest of the industry to allow us to consider the performance of Vege Partnership within the context of the rest of the industry.

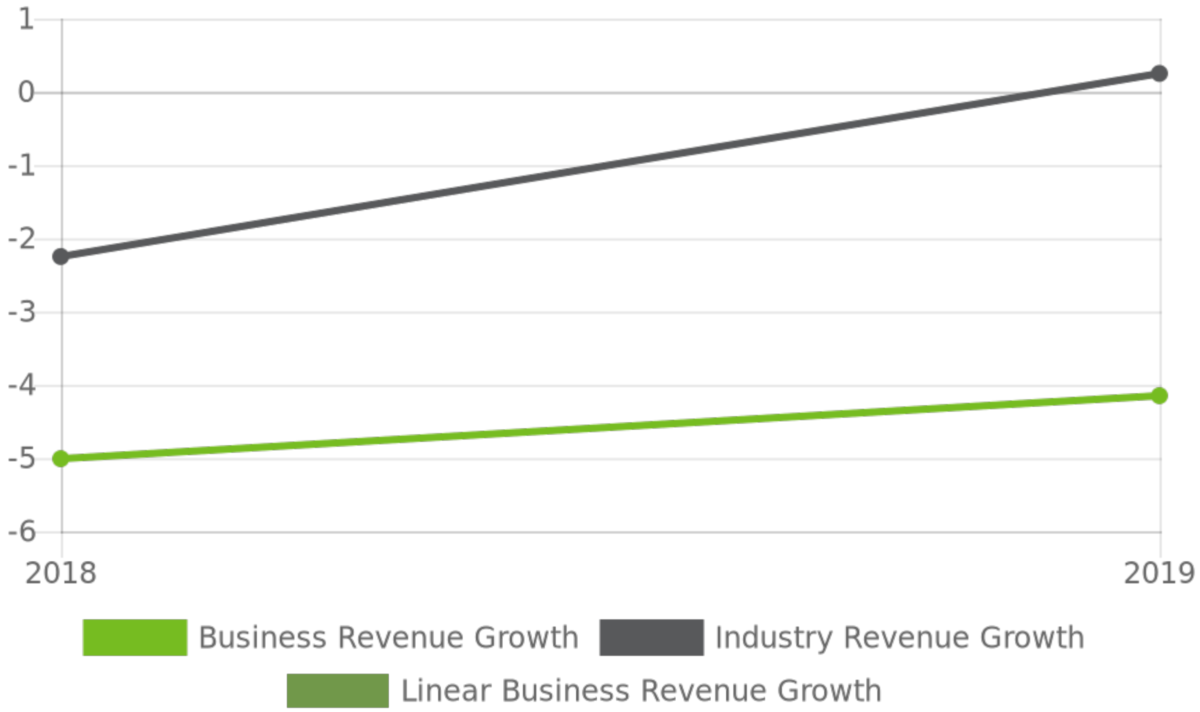
Unadjusted Business Cost Structure Relative to Industry

	Business	Industry
Profit	7.00%	4.40%
Wages	14.00%	12.50%
Purchases	70.00%	67.50%
Depreciation	1.00%	1.50%
Rent	0.00%	6.70%
Utilities	1.00%	2.60%
Other	6.00%	4.80%



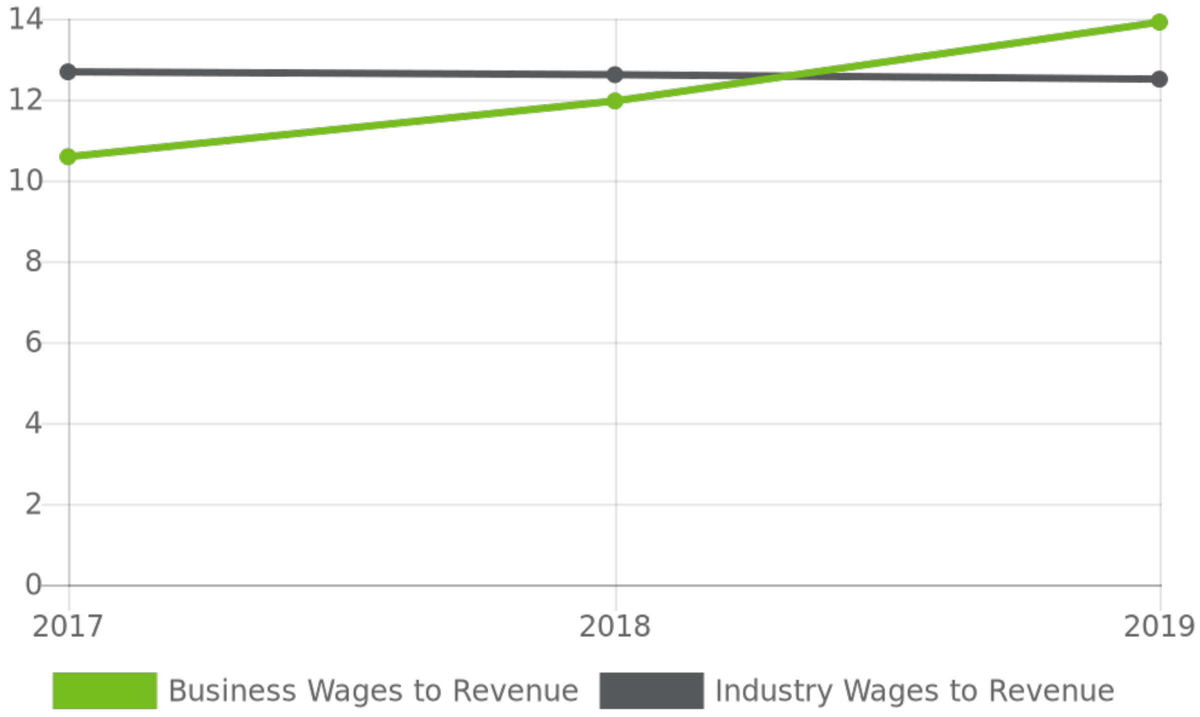
Business vs Industry Revenue Growth

	Business	Industry
2018	-5.01%	-2.25%
2019	-4.15%	0.25%



Business vs Industry Wages to Revenue

	Business	Industry
2017	10.58%	12.68%
2018	11.96%	12.61%
2019	13.91%	12.50%



Financial Statement Assessments

Efficiency and solvency tests

Liquidity Ratio	Current Assets	$6,102,719.13	
	Current Liabilities	$532,043.37	
		11.47 : 1	
Quick Ratio	Quick Assets	$610,116.66	
	Current Liabilities	$532,043.37	
		1.15 : 1	
Net Asset Position	Total Assets	$7,990,453.08	
	Total Liabilities	$671,005.81	
		11.91 : 1	
Accounts Receivable Turnover Ratio	Current Accounts Receivable	$212,558.15	
	Total Revenue	$10,304,398.16	
		48.48 : 1	
EBIT Margin	Earnings Before Interest & Tax	$767,960.37	
	Total Revenue	$10,304,398.16	
		7.45%	
Return on Assets	Net Assets	$7,319,447.27	
	Earnings Before Interest & Tax	$767,960.37	
		10.49%	

Gross Margin	Gross Profit	$3,116,297.76
	Net Revenue	$760,144.76
		30.24%
Operating Cash Flow to Current Liabilities	Operating Cash Flow	$1,001,342.10
	Current Liabilities	$532,043.37
		1.88 : 1

Non-Financial Business Risks

Based upon the responses to our questionnaire during the report ordering process, Vege Partnership 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.

By purchasing the underlying property, the business has already fully mitigated this risk and can provide any prospective purchasers with surety of a lengthy lease (or option to purchase).

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.

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
- Ensure employment contracts are up-to-date and include confidentiality agreements and / or reasonable restraint of trade agreements. At a minimum with key staff or where appropriate all staff
- 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 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

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 Vege Partnership, 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 Vege Partnership.

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,

Brett Goodyer
Director
FCPA B.Com MForAccy