

SUCCESSION+

Business Insights Report



Smith Engineering
May 2023



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Information Received

The results and analysis presented in this report are based on information received from Smith Engineering including:

Financial information

Financial Statements - year ended Dec 31, 2018

Financial Statements - year ended Dec 31, 2019

Financial Statements - year ended Dec 31, 2020

Financial Statements - year ended Dec 31, 2021

Benchmarking

Benchmarking questionnaire

Regulatory information

Other information

Non-Financial Questionnaire and Interview

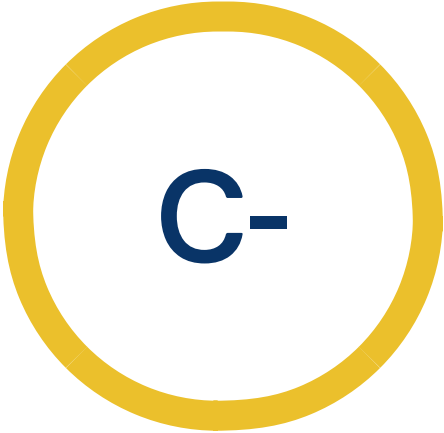
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Strategic Overview



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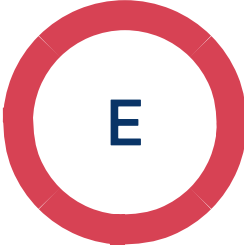
Strategic Overview



Business Insights



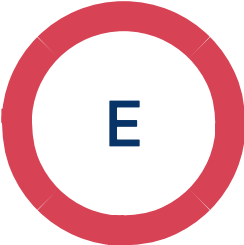
Financial



Foundation



Credit



Strategic Growth



Benchmark

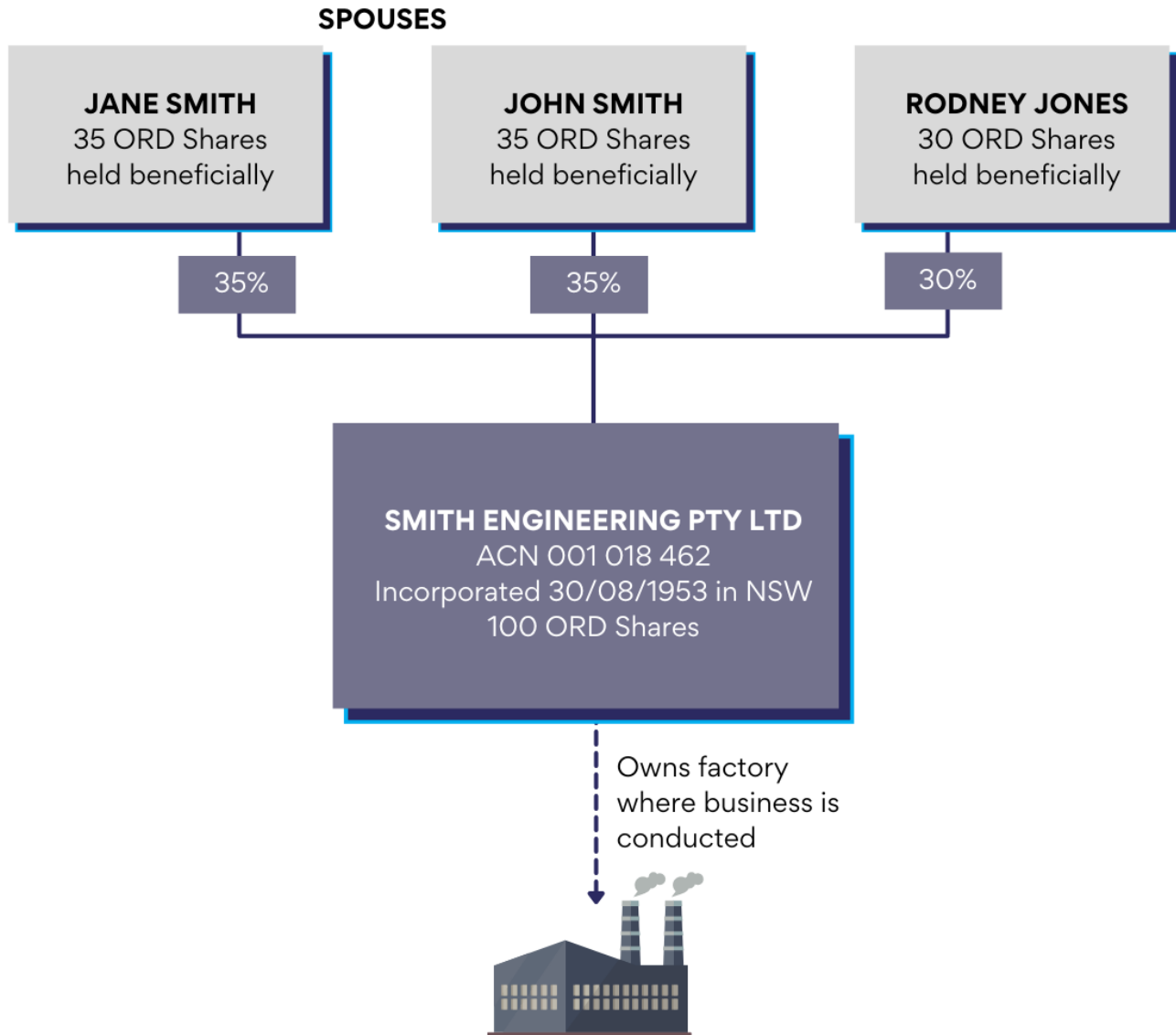
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Structure Review



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Company Structure



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Financial Analysis



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Original Financials

Profit & Loss

	2018	2019	2020	2021
Income	\$5,771,884	\$6,561,310	\$7,481,200	\$8,093,000
COGS Or COS	\$3,173,500	\$3,377,800	\$4,501,740	\$4,101,720
Gross Profit	\$2,598,384	\$3,183,510	\$2,979,460	\$3,991,280
Total Operating Expenses	\$1,888,038	\$2,019,032	\$2,230,881	\$2,622,516
Net Operating Profit	\$710,346	\$1,164,478	\$748,579	\$1,368,764
Other Income	-	-	-	-
Net Profit Before Tax	\$710,346	\$1,164,478	\$748,579	\$1,368,764
Tax Expenses (Actual)	\$195,345	\$320,231	\$205,859	\$355,878
Net Profit After Tax	\$515,001	\$844,247	\$542,720	\$1,012,886
Dividends Paid	-	\$579,173	\$328,000	\$674,501
Retained Earnings	\$515,001	\$265,074	\$214,720	\$338,385

Balance Sheet

Cash And Cash Equivalents	\$213,451	\$254,758	\$230,456	\$214,657
Current Assets	\$1,265,254	\$1,433,254	\$1,462,639	\$1,591,284
Non-Current Assets	\$117,664	\$24,065	\$208,446	\$222,408
Fixed Assets	\$2,294,612	\$2,386,495	\$2,447,714	\$2,545,600
Total Assets	\$3,890,981	\$4,098,572	\$4,349,255	\$4,573,949
Current Liabilities	\$578,035	\$608,034	\$743,500	\$733,636
Non-Current Liabilities	\$1,917,946	\$1,830,464	\$1,730,961	\$1,627,134
Total Liabilities	\$2,495,981	\$2,438,498	\$2,474,461	\$2,360,770
Net Assets	\$1,395,000	\$1,660,074	\$1,874,794	\$2,213,179
Retained Earnings	\$1,394,000	\$1,659,074	\$1,873,794	\$2,212,179
Other Equity	\$1,000	\$1,000	\$1,000	\$1,000
Total Equity	\$1,395,000	\$1,660,074	\$1,874,794	\$2,213,179

Addbacks

Addbacks

	2018	2019	2020	2021
(A) Original net profit before tax	\$710,346	\$1,164,478	\$748,579	\$1,368,764
(B) Add backs to profit				
Personal expenses paid for by company (nonbusiness related)	\$24,000	\$30,000	\$25,000	\$45,000
Donations	\$5,000	\$8,000	\$0	\$10,000
Entertainment	\$15,000	\$22,000	\$15,000	\$24,000
(C) Deductions from profit				
Total Market Remuneration for all Owners	\$120,000	\$125,000	\$130,000	\$135,000
Market Rent Adjustment	\$60,000	\$62,000	\$65,000	\$70,000
(D) Net add backs and deductions (B-C)	-\$136,000	-\$127,000	-\$155,000	-\$126,000
(E) Normalized net profit before tax (A+D)	\$574,346	\$1,037,478	\$593,579	\$1,242,764
(F1) Notionally imputed tax (E x effective tax rate)	\$157,945	\$285,306	\$163,234	\$323,119
(F2) Original tax expenses	\$195,345	\$320,231	\$205,859	\$355,878
(F) Net tax adjustment	-\$37,400	-\$34,925	-\$42,625	-\$32,759
(G) Total Adjustments to accounts (D-F)	-\$98,600	-\$92,075	-\$112,375	-\$93,241
(H) Normalized net profit after tax (E-F1)	\$416,401	\$752,172	\$430,345	\$919,645
(I) Net interest	\$117,937	\$135,717	\$121,536	\$117,691
(J) Normalized EBIT (E+I)	\$692,283	\$1,173,195	\$715,115	\$1,360,455

Normalised Profit & Loss

Revenue

	2018	2019	2020	2021
Sales	\$5,771,884	\$6,561,310	\$7,481,200	\$8,093,000

Cost Of Sales

COS Goods	\$3,173,500	\$3,377,800	\$4,501,740	\$4,101,720
COS Other	-	-	-	-
COS Fixed	-	-	-	-
Non-Cash COS	-	-	-	-
Gross Profit	\$2,598,384	\$3,183,510	\$2,979,460	\$3,991,280

Expenses

Fixed	\$394,469	\$420,488	\$460,782	\$535,240
Variable	\$1,282,171	\$1,351,177	\$1,558,792	\$1,841,025
Non-Cash Expenses	\$229,461	\$238,650	\$244,771	\$254,560
Total Expenses	\$1,906,101	\$2,010,315	\$2,264,345	\$2,630,825
Operating Income	\$692,283	\$1,173,195	\$715,115	\$1,360,455
Other Income	-	-	-	-
Earnings Before Interest & Tax	\$692,283	\$1,173,195	\$715,115	\$1,360,455

Interest

Interest Expense	\$117,937	\$135,717	\$121,536	\$117,691
Other Loan Interest	-	-	-	-
Interest Received (Excess Cash)	-	-	-	-
Net Interest	\$117,937	\$135,717	\$121,536	\$117,691
Tax Expense (Notional)	\$157,945	\$285,306	\$163,234	\$323,119
Net Operating Profit After Tax	\$534,338	\$887,889	\$551,881	\$1,037,336
Adjustments	-\$98,600	-\$92,075	-\$112,375	-\$93,241
Net Income	\$515,001	\$844,247	\$542,720	\$1,012,886
Dividends Paid	-	\$579,173	\$328,000	\$674,501
Retained Income	\$515,001	\$265,074	\$214,720	\$338,385
Adjustments To Retained Income	-	-	-	-

Finance Balance Sheet

Equity

	2018	2019	2020	2021
Share Capital	\$1,000	\$1,000	\$1,000	\$1,000
Accum. Retained Income	\$1,394,000	\$1,659,074	\$1,873,794	\$2,212,179
Reserves	-	-	-	-
Other Equity	-	-	-	-
Total Equity	\$1,395,000	\$1,660,074	\$1,874,794	\$2,213,179

Non-Current Liabilities (Ex Debt)

Deferred Tax	-	-	-	-
Dividends (Other Funding)	-	-	-	-
Other Non-Current Liabilities	\$1,917,946	\$1,830,464	\$1,730,961	\$1,627,134
Total Non-Current Liabilities (Ex Debt)	\$1,917,946	\$1,830,464	\$1,730,961	\$1,627,134

Debt

Short Term Debt	-	-	-	-
Long Term Debt	-	-	-	-
Other Loans	-	-	-	-
Excess Cash	-	-	-	-
Total Debt	-	-	-	-
Total Finance	\$3,312,946	\$3,490,538	\$3,605,755	\$3,840,313

Operations Balance Sheet

Current Assets

	2018	2019	2020	2021
Cash And Cash Equivalents	\$213,451	\$254,758	\$230,456	\$214,657
Accounts Receivable	\$474,401	\$539,286	\$922,340	\$665,178
Inventory	\$264,458	\$281,483	\$346,651	\$341,810
Other Current Assets	\$526,395	\$612,485	\$193,648	\$584,296
Total Current Assets	\$1,478,705	\$1,688,012	\$1,693,095	\$1,805,941

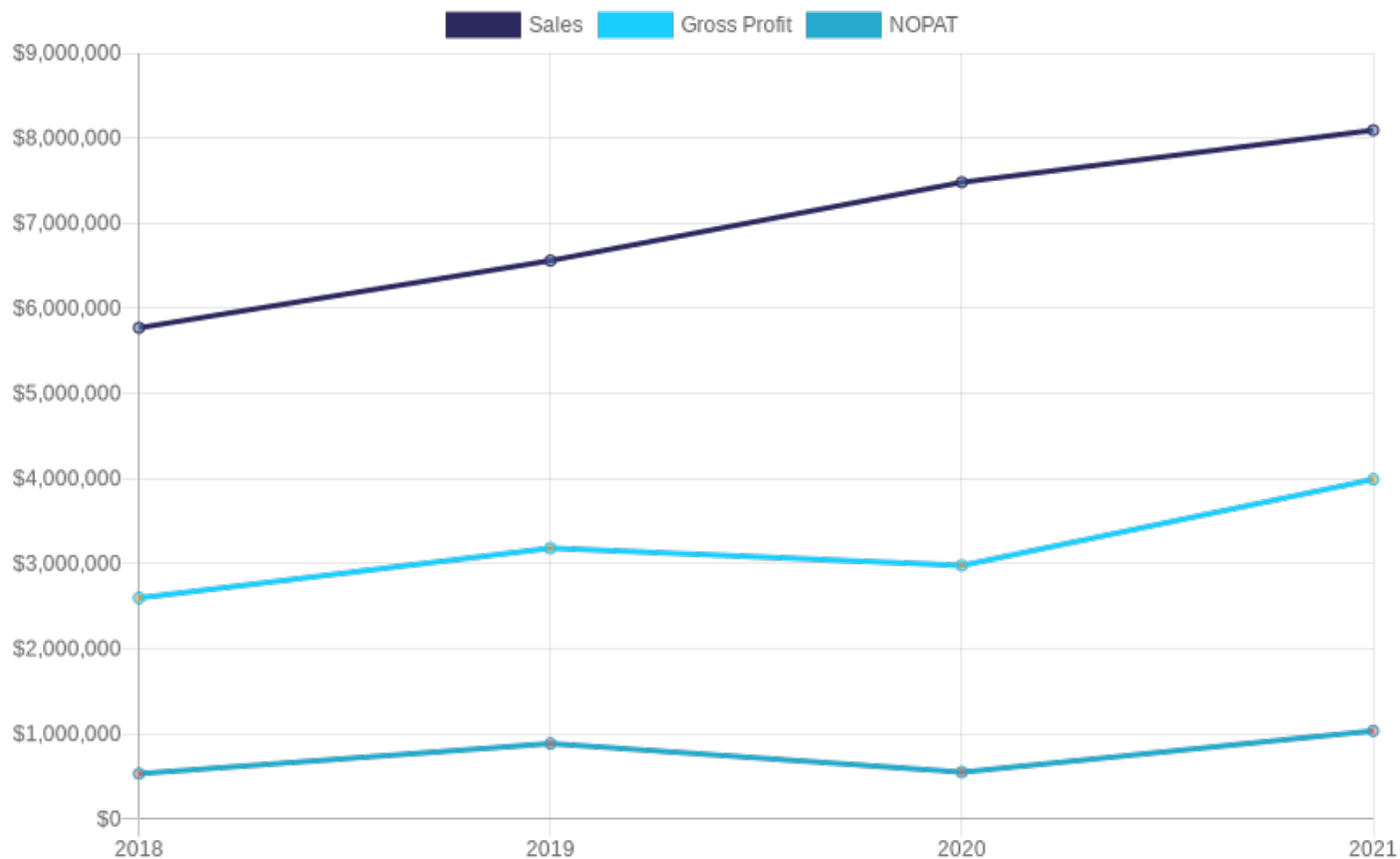
Current Liabilities

Accounts Payable	\$391,253	\$416,441	\$555,009	\$505,692
Tax Liability	\$23,818	\$29,183	\$27,311	\$36,587
Other Current Liabilities	\$162,964	\$162,410	\$161,180	\$191,357
Total Current Liabilities	\$578,035	\$608,034	\$743,500	\$733,636
Working Capital	\$900,670	\$1,079,978	\$949,595	\$1,072,305

Non-Current Assets

Fixed Assets	\$2,294,612	\$2,386,495	\$2,447,714	\$2,545,600
Intangibles	-	-	-	-
Other Non-Current Assets	\$117,664	\$24,065	\$208,446	\$222,408
Investments	-	-	-	-
Total Non-Current Assets	\$2,412,276	\$2,410,560	\$2,656,160	\$2,768,008
Total Operations	\$3,312,946	\$3,490,538	\$3,605,755	\$3,840,313

Trend Analysis



	2018	2019	2020	2021
● Sales	\$5,771,884	\$6,561,310	\$7,481,200	\$8,093,000
● Gross Profit	\$2,598,384	\$3,183,510	\$2,979,460	\$3,991,280
● NOPAT	\$534,338	\$887,889	\$551,881	\$1,037,336

NOPAT = Net Operating Profit After Tax

Financial Scorecard

Liquidity

2 out of 2

✓	Current Ratio
✓	Quick Ratio

Working Capital

2 out of 3

✓	Account Receivable Days
✓	Account Payable Days
✗	Inventory (WIP) Days

Profitability Ratios

3 out of 3

✓	Gross Profit Margin
✓	Profitability %
✓	NOPAT %

Efficiency Ratios

4 out of 4

✓	Return On Equity
✓	Return On Total Assets
✓	Return On Capital Employed
✓	ECROCE

Asset Usage

2 out of 4

✗	Activity Ratio
✗	Asset Turnover Ratio
✓	GM Return on Inventory
✓	Working Capital Absorption Rate

Gearing

2 out of 2

✓	Interest Coverage Ratio
✓	Debt to Equity Ratio

Other

4 out of 4

✓	Sustainable Growth Rate
✓	Marginal Cash
✓	Earnings per Share
✓	Free Cash Flow

Financial Ratios

Liquidity

	Value	Target	Result
Current Ratio	2.46:1	2.00:1	✓
Quick Ratio	1.20:1	1.00:1	✓

Working Capital

	Value	Target	Result
Account Receivable Days	30.0 days	45.0 days	✓
Account Payable Days	45.0 days	55.0 days	✓
Inventory (WIP) Days	30.4 days	25.0 days	✗

Profitability Ratios

	Value	Target	Result
Gross Profit Margin	49.32%	45.00%	✓
Profitability %	16.81%	15.00%	✓
NOPAT %	12.82%	10.00%	✓

Efficiency Ratios

	Value	Target	Result
Return On Equity	54.03%	30.00%	✓
Return On Total Assets	29.74%	25.00%	✓
Return On Capital Employed	35.43%	25.00%	✓
ECROCE	27.01%	20.00%	✓

Asset Usage

	Value	Target	Result
Activity Ratio	2.11 times	2.50 times	✗
Asset Turnover Ratio	1.77 times	2.00 times	✗
GM Return on Inventory	1,159.48%	1,000.00%	✓
Working Capital Absorption Rate	6.19%	35.00%	✓

Gearing

	Value	Target	Result
Interest Coverage Ratio	11.56 times	3.00 times	✓
Debt to Equity Ratio	0.00:1	1.00:1	✓

Other

	Value	Target	Result
Sustainable Growth Rate	18.05%	10.00%	✓
Marginal Cash	20.38%	0.00%	✓
Earnings per Share	\$10,128.86	\$0	✓
Free Cash Flow	\$802,778.36	\$0	✓

Breakeven Analysis



Variable costs

COS Goods	\$4,101,720
COS Other	\$0
Variable Expenses	\$1,841,025
TOTAL Variable Costs	\$5,942,745

Fixed costs

COS Fixed	\$0
Non-Cash	\$0
Fixed Expenses	\$535,240
Non-Cash Expenses	\$254,560
TOTAL Fixed Costs	\$789,800

Total Sales \$8,093,000

Variable Cost % 73.43%

Breakeven \$2,972,602

Safety Margin 63.27%

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Cash Flow Analysis



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Revenue to Cash Analysis

Revenue		\$8,093,000
Change in Receivables	less	-\$257,162
Cash from Sales		\$8,350,162

Cost of Sales		\$4,101,720
Change in Inventory	add	-\$4,841
Change in Payables	less	-\$49,317
Cash Cost of Production		\$4,146,196
Cash Gross Profit		\$4,203,966

Variable Expenses	less	\$1,841,025
Fixed Expenses	less	\$535,240
Other Income	add	\$0
Operating Cash Profit Before tax		\$1,827,701

Cash Tax Paid (notional)	less	\$323,119
Changes in Tax Payable	add	\$9,276
Operating Cash Profit After Tax		\$1,513,858

Interest	less	\$117,691
Dividends Paid	less	\$674,501
Adjustments	less	-\$93,241
Normalised Cash Profit		\$814,907

Change in Other CA/CL	less	\$344,672
Change in NCAs (ex Deprn & Amort)	less	\$366,408
Changes in Equity (ex Ret Inc)	add	\$0
Changes to Non-Current Liabilities (ex Debt)	add	-\$103,827
NET CASH FLOW		\$0

Total Debt Beginning of Period	\$0
Total Debt End of Period	\$0
NET CASH FLOW	\$0

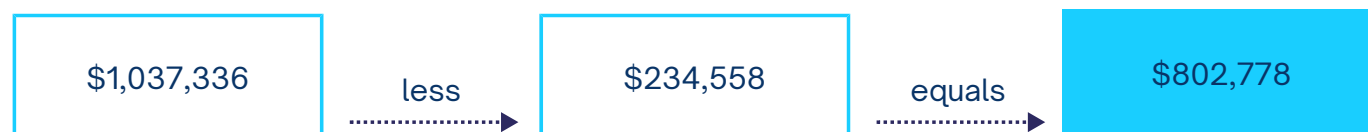
Changes in Retained Earnings	\$338,385
Changes in Total Finance	\$234,558

Free Cash Flow

NOPAT

Change in Total
Finance / Operations

Free Cash Flow



Change in Total Operations	Opening	Closing		Change
Accounts Receivable	\$922,340	\$665,178	▼	-\$257,162
Inventory	\$346,651	\$341,810	▼	-\$4,841
Other Current Assets (incl. cash)	\$424,104	\$798,953	▲	\$374,849
Accounts Payable	\$555,009	\$505,692	▼	-\$49,317
Tax Liabilities	\$27,311	\$36,587	▲	\$9,276
Other Current Liabilities (net of debt)	\$161,180	\$191,357	▲	\$30,177
Fixed Assets	\$2,447,714	\$2,545,600	▲	\$97,886
Intangibles	\$0	\$0		\$0
Other Non-Current Assets	\$208,446	\$222,408	▲	\$13,962
Investments	\$0	\$0		\$0
Total Operations	\$3,605,755	\$3,840,313	▲	\$234,558

■ Positive Effect on Free Cash Flow

■ Negative Effect on Free Cash Flow

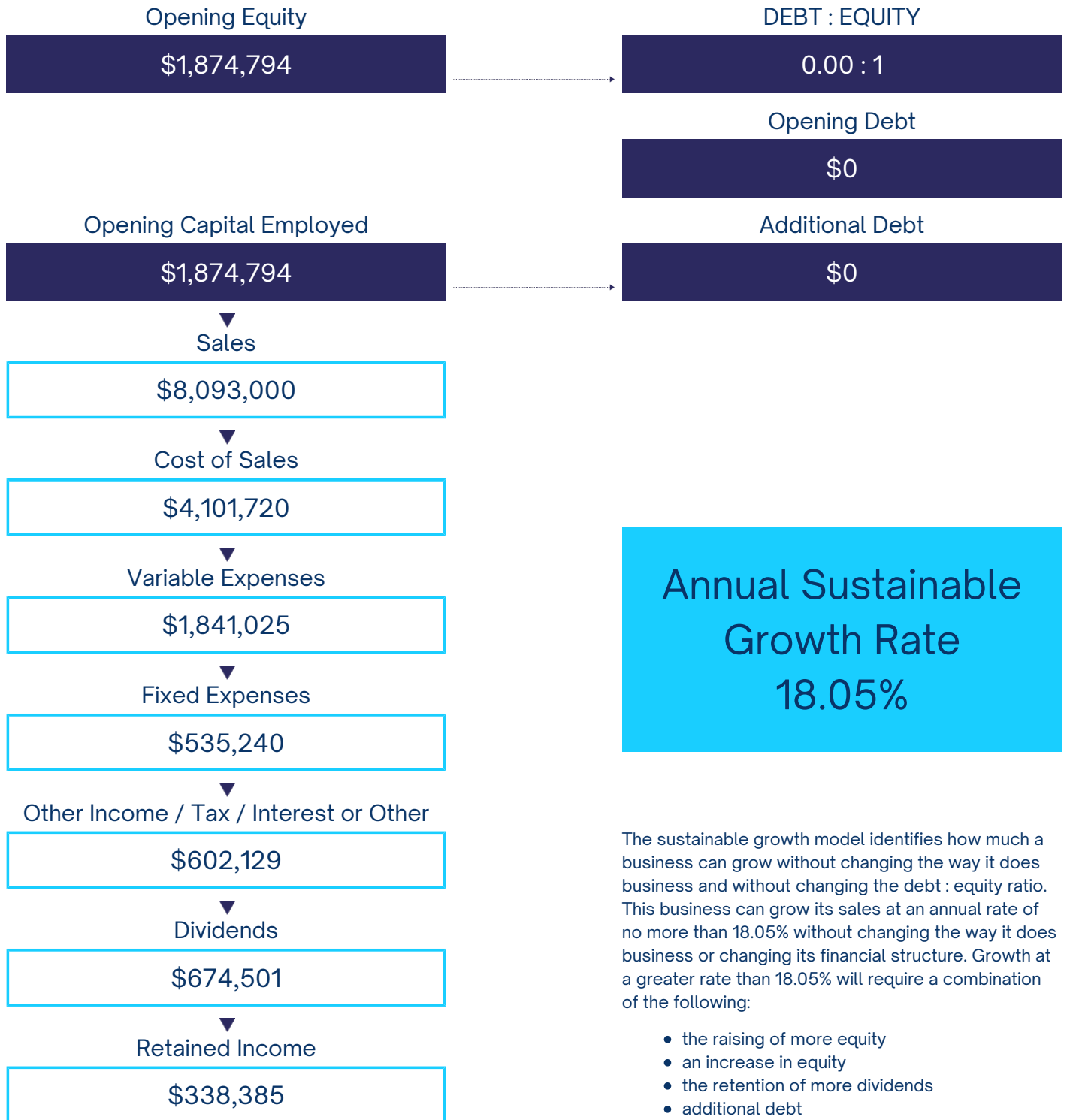
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Sustainable Growth



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Sustainable Growth



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Credit Assessment



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Credit Risk Scorecard

Primary Exit

2 out of 2

✓	Debt Payback (yrs)
✓	Interest Times Cover

Secondary Exit

3 out of 3

✓	Debt to Equity Ratio
✓	Debt to Total Assets
✓	Estimated Recoverable Value

Debt Servicing

3 out of 3

✓	Debt Facilities / EBITDA
✓	Debt Service Cover
✓	Notional Debt Service (yrs)

Credit Risk Ratios

Primary Exit

	Value	Target	Result
Debt Payback (yrs)	0.00 yrs	8.00 yrs	✓
Interest Times Cover	11.56 times	3.00 times	✓

Secondary Exit

	Value	Target	Result
Debt to Equity Ratio	0.00:1	1.00:1	✓
Debt to Total Assets	0.00%	50.00%	✓
Estimated Recoverable Value	\$2,499,985	\$0	✓

Debt Servicing

	Value	Target	Result
Debt Facilities / EBITDA	0.00	2.50	✓
Debt Service Cover	10.61 times	1.10 times	✓
Notional Debt Service (yrs)	0.00 yrs	7.00 yrs	✓

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Benchmarking Analysis



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Industry at a Glance

[M6923] Engineering Design and Engineering Consulting Services

Key Statistics



Key External Drivers

- 1.26%**
Demand from manufacturing
- 0.02%**
Private non-residential construction capital expenditure
- 3.71%**
Private capital expenditure on machinery and equipment
- 3.77%**
Capital expenditure by the public sector
- 2%**
Actual capital expenditure on mining

Industry Structure

- Positive Impact**
- Revenue Volatility Low
- Capital Intensity Low
- Concentration Low
- Mixed Impact**
- Life Cycle Mature
- Technology Change Medium
- Barriers to Entry Medium
- Globalization Medium
- Negative Impact**
- Industry Assistance Low
- Regulation Heavy
- Competition High

Benchmarking Firms

Cost Structure Benchmarks	Smith Engineering (2021)	IBISWorld (Engineering Consulting)
Revenue	\$8,093,000	-
Revenue	100.0%	100.0%
Cost of Sales	49.7%	47.2%
Gross Margin	50.3%	52.9%
Occupancy costs	1.4%	1.6%
Depreciation	3.2%	2.1%
Repairs & maintenance	0.9%	0.4%
Total employment costs	21.1%	25.0%
All other costs	8.7%	9.8%
Total expenses	35.3%	38.9%
Profit Margin (before tax)	15.0%	14.0%

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Profit Gap Analysis



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Profit Gap Analysis

Your Profit Gaps Relative to the Most Profitable Firms

	The Business	Benchmark Firms	Profit Gap
Average benchmark COGS		47.15%	
Your business revenue	\$8,093,000		
COGS benchmark		\$3,815,850	
Your COGS	\$4,019,686		
% of Revenue	49.67%		
Profit Gap			\$203,837
Average benchmark Employment costs		25.00%	No Profit Gap
Your business revenue	\$8,093,000		
Employment costs benchmark		\$2,023,250	
Your Employment costs	\$1,706,907		
% of Revenue	21.09%		
Profit Gap			
Average benchmark Other overhead costs		13.90%	No Profit Gap
Your business revenue	\$8,093,000		
Other overhead costs benchmark		\$1,124,927	
Your Other overhead costs	\$1,044,254		
% of Revenue	12.90%		
Profit Gap			

Your Total Profit Gap

Relative to Benchmark Firms

Reducing your cost of sales purchases could yield	\$203,837
Bringing your personnel numbers back could yield	-
Reducing non-wages & salary overheads could yield	-
Total Profit Gap	\$203,837
Which equates to the following % of your current Profit	14.98%

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Non-Financial KPI Results



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Foundation Scorecard

Business Model 0 out of 5

✗	Boutique vs Scale
✗	Competition and Barrier to entry
✗	Business plan
✗	Market Share
✗	Scorecard/Dashboard KPI's

Financial Management 0 out of 5

✗	External advisers
✗	Budgets & Cashflows
✗	Strategic financials
✗	Benchmarking
✗	Reporting package

Compliance 1 out of 5

✓	OHS / WHS
✗	Licences / trademarks / registrations
✗	Compliance - financial
✗	Compliance - non-financial
✗	Risk analysis

People 1 out of 5

✓	Base - Job Descriptions, KPI's
✗	Performance Management
✗	Remuneration strategy
✗	Core Values, Vision
✗	Ladder to Equity

Management team 1 out of 5

✗	Management team
✗	Functional Management
✗	Ownership Mindset
✗	Analytics / technology
✓	Senior management stability

Foundation Ratios

Business Model

	Value	Target	Result
Boutique vs Scale	0	75	✗
Competition and Barrier to entry	50	75	✗
Business plan	0	75	✗
Market Share	0	75	✗
Scorecard/Dashboard KPI's	0	75	✗

Financial Management

	Value	Target	Result
External advisers	50	75	✗
Budgets & Cashflows	0	75	✗
Strategic financials	0	75	✗
Benchmarking	0	75	✗
Reporting package	0	75	✗

Compliance

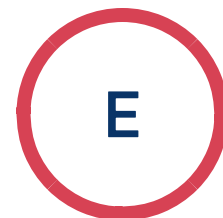
	Value	Target	Result
OHS / WHS	100	75	✓
Licences / trademarks / registrations	0	75	✗
Compliance - financial	0	75	✗
Compliance - non-financial	0	75	✗
Risk analysis	0	75	✗

People

	Value	Target	Result
Base - Job Descriptions, KPI's	100	75	✓
Performance Management	0	75	✗
Remuneration strategy	0	75	✗
Core Values, Vision	0	75	✗
Ladder to Equity	15	75	✗

Management team

	Value	Target	Result
Management team	0	75	✗
Functional Management	20	75	✗
Ownership Mindset	0	75	✗
Analytics / technology	0	75	✗
Senior management stability	100	75	✓



Strategic Growth Scorecard

Corporate Governance

3 out of 5

✓	Board
✓	Independent director/chair
✗	Board systems
✓	Reporting pack
✗	Shareholders agreement

Risk management

0 out of 5

✗	Policies & Procedures
✗	Business Continuity Plan
✗	Key person risk
✗	Business Insurance cover
✗	Cyber risk

Revenue / Sales

0 out of 5

✗	Owners sales reliance
✗	Client concentration & satisfaction
✗	Digital marketing
✗	Diversification
✗	CRM & Sales processes

Growth Model

0 out of 5

✗	Sustainable growth rate
✗	Strategic IP
✗	Export potential
✗	Growth strategy
✗	Intangible Assets

Succession & Exit plan

0 out of 5

✗	Ownership Succession - exit plan
✗	Management Succession
✗	Due Diligence documents
✗	Information memorandum
✗	Marketability of Equity

Strategic Growth Ratios

Corporate Governance

	Value	Target	Result
Board	100	75	✓
Independent director/chair	100	75	✓
Board systems	39	75	✗
Reporting pack	100	75	✓
Shareholders agreement	0	75	✗

Risk management

	Value	Target	Result
Policies & Procedures	0	75	✗
Business Continuity Plan	0	75	✗
Key person risk	30	75	✗
Business Insurance cover	0	75	✗
Cyber risk	0	75	✗

Revenue / Sales

	Value	Target	Result
Owners sales reliance	0	75	✗
Client concentration & satisfaction	25	75	✗
Digital marketing	0	75	✗
Diversification	0	75	✗
CRM & Sales processes	0	75	✗

Growth Model

	Value	Target	Result
Sustainable growth rate	8	75	✗
Strategic IP	0	75	✗
Export potential	0	75	✗
Growth strategy	0	75	✗
Intangible Assets	0	75	✗

Succession & Exit plan

	Value	Target	Result
Ownership Succession - exit plan	16	75	✗
Management Succession	0	75	✗
Due Diligence documents	0	75	✗
Information memorandum	0	75	✗
Marketability of Equity	0	75	✗

SUCCESSION+

Non-Financial KPI Commentary



Smith Engineering
May 2023

Foundation

When assessing the valuation of any business, there are some foundational items that buyers, investors and lenders would expect to see in a mid-market company. This scorecard measures these essential items and assesses the overall risk score of the business based on the results.

Business Model

Boutique vs Scale

All businesses sit along the scale of boutique (think Ferrari) and scale (think Toyota). If you want to maximize the value of your business and exit successfully, then your business model needs to be either boutique or scale, and every part of the business needs to match this model. If it's a mix of both, you're in 'no man's land', and your ability to maximize business value decreases substantially.

Competition and Barrier to entry

Competition exists in nearly any industry and for every business, but not all competition is equal. The Barrier to entry (for example, licenses and qualifications the owner might need before they can operate the business or a register of expensive machinery and equipment required to commence business) can create a level of protection from the competition—some businesses (think real estate agents, for example, are highly competitive. As a general rule, the harder it is for new entrants to challenge incumbents, the better.

Business plan

As the saying goes, if you fail to plan, you plan to fail. The purpose of the Strategic Business Plan is not only to illustrate the feasibility of your business idea but also to serve as a communication document to your key stakeholders, investors and employees. The plan should map critical milestones, risks and opportunities for value acceleration.

Market share

There are advantages and disadvantages to controlling more significant percentages of a business's market, but monitoring that level over time provides management with a powerful instrument in guiding the business's strategy in the long term. For example, firms with a substantial market share are often less susceptible to pricing competition.

Scorecard/Dashboard KPIs

Knowledge is power. Technology has advanced to a point where businesses can monitor, in near-real-time, the performance of critical activities their companies undertake (pipeline, HR, financial metrics and CRM.) While this was once the realm of the best-performing businesses, adopting these technological and data-driven approaches to daily decision-making is critical to business performance.

Financial management

External advisors

External advisers are an excellent source of new ideas. They can provide an outsider's perspective on issues that may be difficult to resolve internally and add specific experience and expertise that business owners cannot hold.

Budgets & Cashflows

The business direction will likely suffer if adequate tools are not in place to illustrate its financial position and where it expects and aims to be in the future. Projecting budgets and cashflows will guide performance, and a review of actual performance vs these goals holds stakeholders accountable for performance.

Strategic financials

Long-term strategic forecasts are a critical ingredient in long-term strategic planning. The strategic financial goals must match the business's long-term (exit) plan.

Benchmarking

Benchmarking can be a helpful exercise in determining the business' competitiveness and can be used to inform or support the objectives set out in the Strategic Business Plan. Comparison with competitors and industry averages can highlight over or underperformance.

Reporting package

A monthly reporting pack should include everything the board or leadership team needs to make informed decisions. It should contain a mixture of financial, non-financial and leading KPIs to measure and monitor business performance to match the business and financial plans.

Compliance

OH&S / WH&S - Occupational Health & Safety / Workplace Health & Safety

If your workplace is unsafe, none of its other qualities will be relevant because it is at the highest possible level of risk. However, having a robust OH&S system helps to ensure your workplace is safe. Ideally, your workplace's health & safety system protects your workforce and other stakeholders and encourages best-in-class performance.

Licenses / trademarks / registrations

Certain business types must hold licenses, registration and compliance requirements to operate. This is a barrier to entry (preventing those without the required license from operating the business) and must be carefully monitored to ensure compliance.

Compliance - Financial

Businesses that actively manage their financial affairs and ensure they are current with all financial requirements also demonstrate structure and discipline and are therefore of lower risk.

Compliance - non-financial

Businesses must also comply with various non-financial requirements across multiple areas, implying structure, discipline, and lower risk.

Risk analysis

A responsible risk mitigation culture at a business, as manifested in strong identification, measure and control measures put in place, has many and varied benefits, including but not limited to sound operational processes, a pleasant workplace experience for employees and attractiveness to buyers, investors and lenders.

People

Base - Job Descriptions, KPIs

A position description is valuable for communicating objectives and roles to staff. Great position descriptions stimulate employee engagement and should clearly describe roles, responsibilities, and KPIs.

Performance management

Performance reviews are an opportunity to align your employees' interests with the goals and objectives of the business. Many businesses overlook formal performance reviews and informal performance feedback to increase employee engagement and monitor performance.

Remuneration strategy

A remuneration strategy that aligns reward with crucial business outcomes will encourage performance and produce a close alignment between behavioural results and business outcomes.

Core Values, Vision

If your business is clear on its values - why it is in business and how it wants to behave worldwide - customers, employees, and suppliers are much more likely to be aligned. Alignment is critical to business success.

Ladder to Equity

There is a sequential order in which to use remuneration to bring out the best in a business's talent. In an ideal world, an employee would graduate up the ladder sequentially, beginning with Income (e.g. a base salary), then Income (e.g. a commission structure), then a profit share, then equity (or partial ownership itself) and lastly, control (e.g. Directorship).

Management team

Management team

Leadership is doing the right things; management is doing things right. Your company will have a much better chance of success if your managers work well together, with clear roles and productive meetings and can run the business without owner involvement.

Functional Management

Organizing roles and functions around a central managerial philosophy creates rhythm in a business, keeping role overlap, duplication, confusion and gaps to a minimum.

Ownership Mindset

The very best businesses communicate information about financial performance to their staff in a responsible manner, so they know how their day-to-day actions impact it, but also supply them with a structure that enables those same staff to influence the performance of the business positively. Ownership mindset is about employees thinking and acting like business owners.

Analytics/technology

The businesses best positioned to take advantage of rapidly changing conditions are those with a strong command of internal and external data and can use it to make decisions. This should occur in every area of operation within the business.

Senior management stability

Longevity of tenure among managerial staff is a classic hallmark of a well-run business. Senior experienced team who have been with the business for an extended period will drive culture and performance.

SUCCESSION+

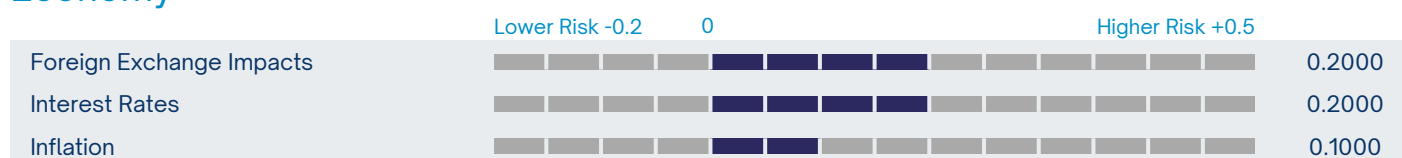
Valuation Summary



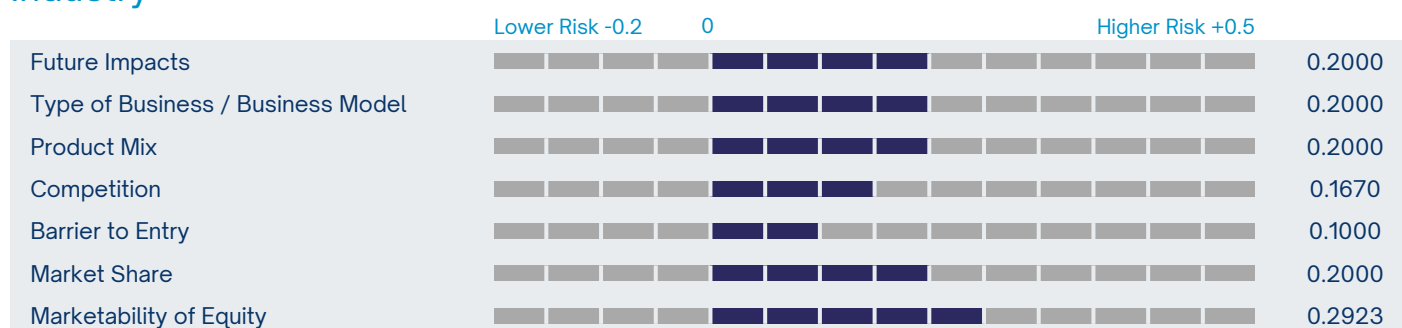
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Beta Factor Scorecards

Economy



Industry



Business



3.4505

Market Leveraging

Average Market Leveraging	Market Asset Beta	Net Adjustment	Asset Beta
40.00%	0.80	3.45	4.25

Weighted Average Cost of Capital (WACC)

Cost of Debt

Marginal Interest Rate	4.89%
Marginal Corporate Tax Rate	26.00%
Cost of Borrowing Funds	3.62%

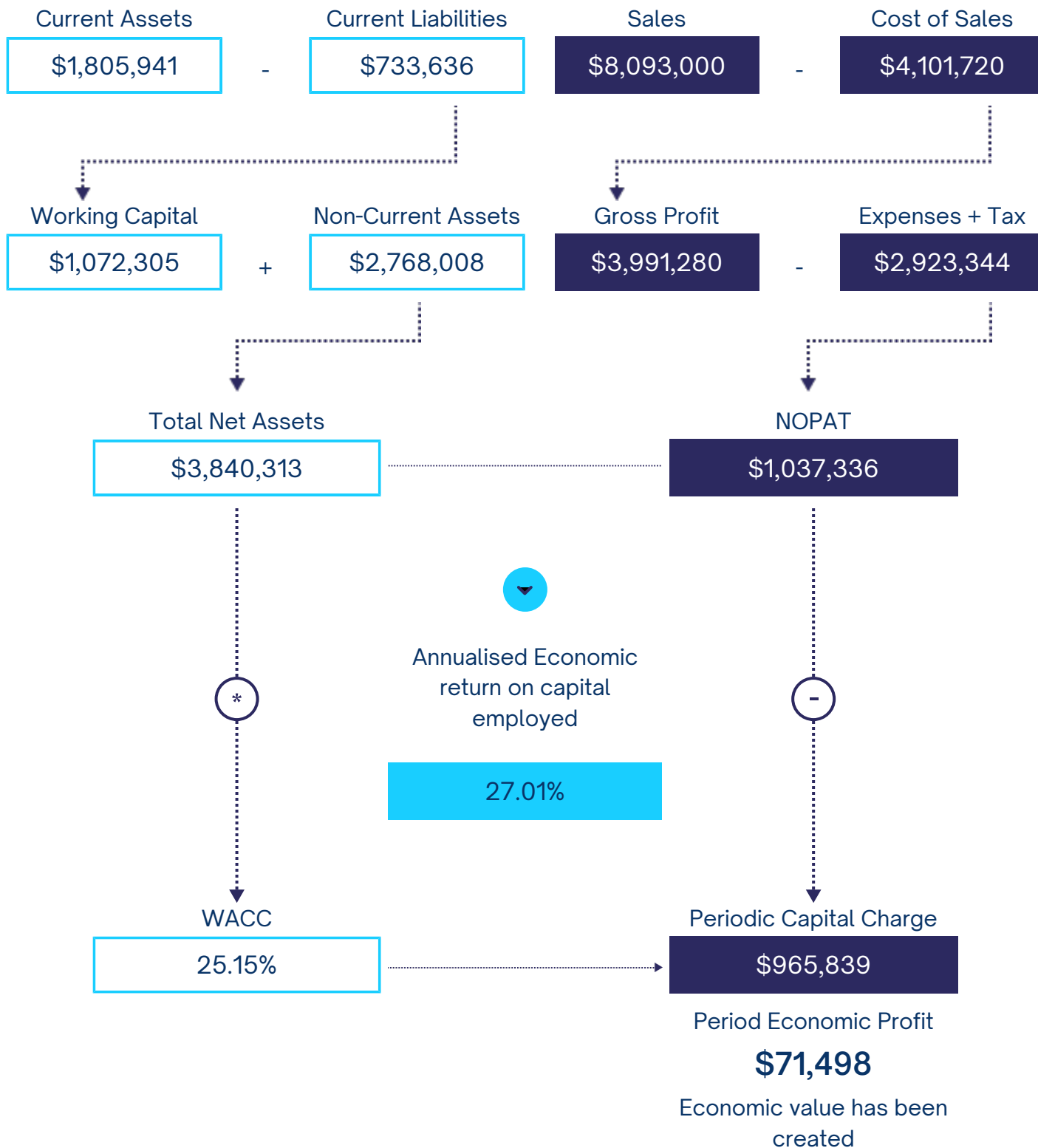
Cost of Equity

Risk Free Rate of Return	1.70%
Market Risk Premium	6.00%
Asset Beta	4.25
Market Value Debt	43.50%
Leveraged Beta	6.67
Cost of Equity Funds	41.73%

Weighted Average Cost of Capital

Before-Tax WACC	After-Tax WACC
33.99%	25.15%

Economic Profit Analysis



Business Valuation

	2018	2019	2020	2021	2022 Forecast	
Revenue	\$5,771,884	\$6,561,310	\$7,481,200	\$8,093,000		
EBIT	\$692,283	\$1,173,195	\$715,115	\$1,360,455		
Op Tax	\$157,945	\$285,306	\$163,234	\$323,119		
NOPAT	\$534,338	\$887,889	\$551,881	\$1,037,336	\$1,550,000	
Growth Rate		66%	-38%	88%	49%	
Weighting		10.00%	20.00%	40.00%	30.00%	
Weighted Average of Earnings						\$1,079,100

Enterprise Valuation

Cost of Capital					25.15%
Growth Rate					5.00%
Capitalisation Multiple (intrinsic)					4.96
Enterprise Value (Capitalisation of Earnings Method)					\$5,355,333

Business Valuation

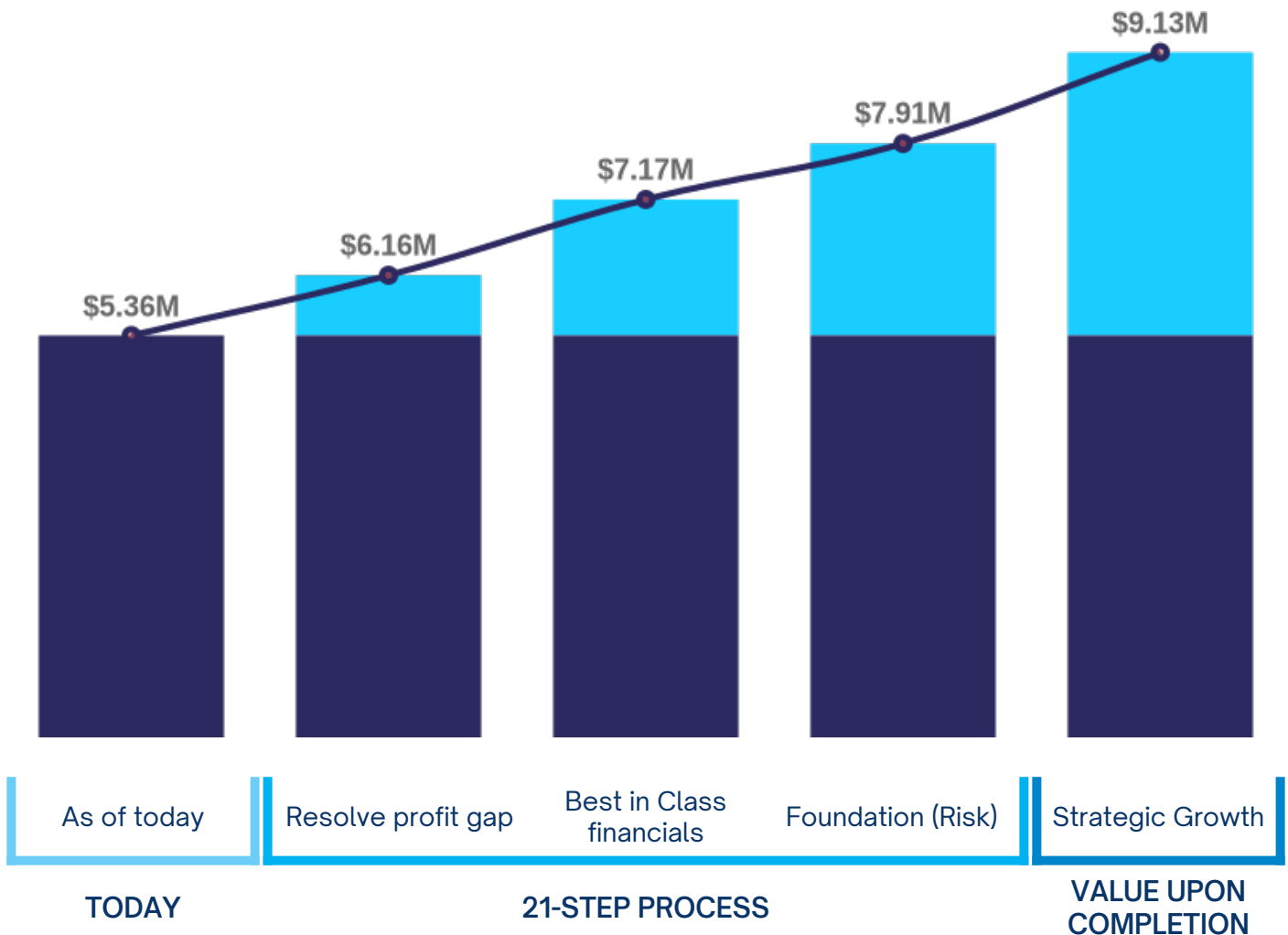
Equity Valuation

Enterprise Value (Capitalisation of Earnings Method)	\$5,355,333
Add: Cash & Cash Equivalents	\$214,657
Add: Loans to directors / related parties	\$584,300
Equity Value (Capitalisation of Earnings Method)	\$6,154,290
Number of Shares Issued	100
Owner's Value per Share	\$61,542.90

Value Potential

	As of today	Resolve profit gap	Best in Class financials	Foundation (Risk)	Strategic Growth
Revenue	\$8,093,000	\$8,093,000	\$8,093,000	\$8,093,000	\$8,093,000
EBITDA	\$1,615,015	\$1,818,852	\$2,075,485	\$2,075,485	\$2,075,485
NOPAT	\$1,037,336	\$1,192,760	\$1,388,441	\$1,388,441	\$1,388,441
EBITDA Multiple	3.32	3.32	3.32	3.81	4.40
NOPAT Multiple	5.16	5.16	5.16	5.70	6.58
Valuation	\$5.36M	\$6.16M	\$7.17M	\$7.91M	\$9.13M

Current Valuation
 Potential Valuation



Forecast Profit and Value Potential

In our 12-year experience, value maximization for privately-held businesses frequently focuses on the wrong areas. Column 1 shows the valuation of the business today, columns 2 & 3 show the potential value increase based on financial improvements using profit gap (benchmarking) and columns 4 & 5 show the potential increase based on a strategic exit strategy.

VPI™ – Value Potential Index

Our index is based on over 700 business valuations collected over a twelve-year period, allowing us to track the key metrics that drive valuations and project potential value over time by implementing the recommendations from our Capitaliz Business Insights Report.

The index includes economic, industry, and business-based risk scores to determine the appropriate multiple. Gaps identified in the report including profit gap, benchmarking, exit readiness, and attractiveness to determine value potential.

The index is recalculated each time a new valuation is completed and updated regularly with any changes in economic factors, industry trends or business sentiment.

The use of our proprietary index allows us to accurately assess the value potential for each business and determine the most appropriate actions to take in the order of priority that will most affect the valuation.

The use of Capitaliz on a monthly basis to track actions and dynamically revalue the business each quarter (with updated financials) enables the process to be monitored and measured, and all stakeholders to be held accountable for agreed-upon actions.

