EXIT VALUE ADVISERS

Valuation Report

Pipe Plumbing Pty Ltd

As At 31st December 2017

Client(s):	John Doe – Managing Director
Project No.	Pr016
Date Issued:	23rd February 2018
Prepared By:	Mike Williams
	CEO – Exit Value Advisers Pty Ltd

CONTENTS

1. EXECUTIVE SUMMARY

THE BUSINESS

Pipe Plumbing Pty Ltd (PP) operates a commercial plumbing business predominantly servicing high-end residential constructions and multi-story apartment buildings. They provide plumbing services primarily for major renovation or construction projects.

All projects are based on fixed-price tendering or quoting, with most apartment projects 30 – 50 apartments in size. All projects are a minimum of $50k in size, with no residential maintenance undertaken.

THE BRIEF

We have been instructed by the director of PP to value 100% of the equity of entity, for the purposes of restructuring the ownership of the entity. We also consider the value of a 35% minority shareholding in the company.

SUMMARY OF KEY FEATURES

The valuation of PP has been based on the following key features of the enterprise:

- Estimated 27% CAGR growth in revenue to FY18
- Maintenance of 8% EBITDA margin based on well established procedures and cost reporting.
- Secure market position with builders (clients) with a high level of repeat work.
- Documented procedures and systems in place reducing reliance on key staff.

SUMMARY OF VALUATION RANGE

A summary of the value range calculated by each method is shown in the table below:

Equity Value Summary	Low ($m)	High ($m)	Midpoint ($m)
FME Method	1640	1783	1712
Comparable Earnings Method	1034	2061	1547

Based on the FME method as the primary valuation method, our assessment of the market value of 100% of the equity of Pipe Plumbing Pty Ltd as at 31st December 2017 is $1.64m – $1.78m, with a midpoint value of $1.71m.

In addition our view of a 35% minority shareholding is $0.45m - $0.48m, with a midpoint of $0.465m

We are also of the view that:

- The ongoing performance of the business will not materially change our assessment of the value.
- That the outcomes of this valuation report shall remain relevant and accurate in the short term (next 3-6 months), whilst there is no material change in the financial estimates used in this report.

(Refer Section 4 – Short Term Change in Valuation)

SUMMARY OF VALUATION ASSESSMENT

We have based on the valuation on the analysis contained in this report and summarized in the table below:

Reported Performance	FY2014	FY2015	FY2016	FY2017	FY2018
Reported Revenue	$ 1,280,225	$ 2,278,848	$ 2,886,860	$ 4,614,139	$ 4,151,936
Other Income	$ 1,500	$ 4,020	$ 1,780	$ 10,232	$ 4,546
Reported EBITDA	$ 24,339	$ 33,687	$ 53,463	$ 361,621	$ 342,563
Adjustments	$ 250	$ 5,470	$ 8,789	$ 15,072	$ 1,171
Normalised EBITDA	**$ 24,589**	**$ 39,157**	**$ 62,252**	**$ 376,692**	**$ 343,734**

- **Revenue is expected to grow further with $3.9m of projects secured still to be claimed in current and future years.**
- **Expect project management and pre-order processes to maintain Gross Profit Margin.**

Assumptions

10% revenue growth based on historic CAGR 27%
50% Gross Profit margin ongoing
Overhead costs increased by 2% pa

Projected Performance	FY2018	FY2019	FY2020	FY2021
Revenue	$ 4,151,936	$ 4,567,130	$ 5,023,843	$ 5,526,227
% Growth		10%	10%	10%
EBITDA	$ 342,563	$ 512,710	$ 702,590	$ 914,229
Adjustments	$ 1,171	$ 1,171	$ 1,171	$ 1,171
Normalised EBITDA	**$ 343,734**	**$ 513,881**	**$ 703,760**	**$ 915,400**
Future EBITDA Weighting %	100%	85%	75%	65%
Weighted EBITDA	$ 343,734	$ 436,799	$ 527,820	$ 595,010
Average EBITDA Over Next 4 Years	**$ 475,841**			

	Low	High	Midpoint
Future EV / EBITDA Multiple	**3.3**	**3.6**	
Enterprise Value	**$ 1,570,274**	**$ 1,713,026**	**$ 1,641,650**
Less Net Debt	-$ 70,000	-$ 70,000	-$ 70,000
Equity Value	**$ 1,640,274**	**$ 1,783,026**	**$ 1,711,650**

Further details on the analysis can be found in the relevant sections of the report.

2. INSTRUCTIONS AND SCOPE

We have been instructed by the director of the company to value the entity based on the key valuation parameters are detailed in the table below.

Valuation Parameters	
Asset Valued	100% of the equity of Pipe Plumbing Pty Ltd and in particular a 35% minority interest.
Purpose of Valuation	Support discussions relating to: • A restructure of the ownership of the company.
Standard of Value	Market Value
Basis of Value	Going concern
Valuation Date	31st December 2017
Primary Valuation Method	Future Maintainable Earnings
Cross Check Method(s)	Comparable Transactions

INFORMATION RELIED UPON

The following information has been relied upon in completing this valuation.

Information	Source
Financial statements (Profit & Loss and Balance Sheet reports) forFY14 to FY17	Pipe Plumbing Pty Ltd management.
Year to date management reports for FY18 to 31st December 2017	Pipe Plumbing Pty Ltd management.
Operational and business strategy information	Interview with Client on 6th February 2018 and subsequent conversations. Site websites: www.Pipeplumbing.com.au
Industry analysis:	IBISWorld
EBIT multiples	www.valuemybusiness.com.au

The above information, and further detailed information has been documented in Section 3, which details our understanding of the operations, management and strategy of the business and its broad financial performance.

Appendix 3 details the historic comparative financial information that this valuation has used. An analysis of revenue and cost trends is detailed in Appendix 4. An assessment of industry trends and other external factors that may impact the business have been detailed in Appendix 5.

PROJECT METHODOLOGY

The process followed in this valuation is shown in the diagram below. Appendix 1 details a glossary of abbreviations used in this report, the valuers' experience, and a disclaimer. This report has been based on the valuation theory outlined in Appendix 2.

The basis, scope and specific methodology that this valuation has adopted is detailed in Section 4.

Document brief from client noting key points relevant to valuation.

- Meeting and interviews with client representatives.
- Discussion with relevant industry experts.

Collate financial and relevant business information.

Typical information used includes:

- Financial statements and other reports:
  - Profit & Loss
  - Balance Sheet
  - Sales and cost data.
  - Operational information
- Relevant industry and market information:
  - Industry trends and statistics.
  - Competitor information.
  - Interviews with relevant staff and other stakeholders.

Conduct valuation analysis using relevant methods.

- Analysis of financial and business data.
- Adjustment of cash flows to represent normalised ongoing operations.
- Development of cash flow projections.
- Use of methods include:
  - Earnings Multiple Valuation.
  - Discounted Cash Flow Valuation.

Complete draft valuation for discussion with client

- Discussions with client representatives to:
  - Present initial analysis.
  - Confirm acceptance of assumptions.
  - Confirm reasonableness of projections and analysis.

Update / modify valuation based on new or updated information.

Finalise valuation report and present to client.

- Meeting with client representatives to:
  - Present final report.
  - Discuss implications of findings.

3. BUSINESS DESCRIPTION

BACKGROUND AND LEGAL STRUCTURE

Pipe Plumbing Pty Ltd (CP) operates a commercial plumbing business predominantly servicing high-end residential constructions and multi-story apartment buildings. They provide plumbing services primarily for major renovation or construction projects.

All projects are based on fixed-price tendering or quoting, with most apartment projects 30 – 50 apartments in size. All projects are a minimum of $50k in size, with no residential maintenance undertaken.

Further details regarding the business are shown in the table below.

Business Background	
Business Names & Website	• Pipe Plumbing • www.Pipeplumbing.com.au
History	• Business commenced / formed: 10 years ago by current owner. • Started as sole trader and changed to company in 2010.
Entities	• Pipe Plumbing Pty Ltd
Shareholders	• Sole shareholder, own shares personally
Directors	• Sole director

Financial results reported for the past four years to 30 June 2017 are shown in the table below, along with estimated financial results for FY18.

Reported Performance	FY2014	FY2015	FY2016	FY2017	Est FY 2017 / 2018
Reported Revenue	$ 1,280,225	$ 2,278,848	$ 2,886,860	$ 4,614,139	$ 4,151,936
Other Income	$ 1,500	$ 4,020	$ 1,780	$ 10,232	$ 4,546
Reported EBITDA	$ 24,339	$ 33,687	$ 53,463	$ 361,621	$ 342,563

Source: Management information

BUSINESS DETAILS

The key business and market strategies are detailed in the table below. A more detailed analysis of market and revenue performance is shown in Appendix 4 (Revenue Analysis).

Business Strategy	
Vision / Goals	• Increase the profitability of the business to sustain increased • Next five years – keep in niche / high end projects / good reputation • Make life easier – improve project management – work more on the business
Growth and Marketing Strategies	• Growth will be focused on increasing market share of existing client base. • Staff training will be used to maintain project delivery and quality. • Expecting to achieve 5% - 10% revenue growth and sustain current EBITDA margins. • Key marketing strategies will be ongoing relationship management of client base (Elite Builders) to secure increased referrals. • Promotion is word of mouth through elite builders • No print or media advertising other than signs on project sites.
Cost / Efficiency Improvement Strategies	○
Competitive Advantage	• Communication with builders • Projects done on time, quality finish • Good attitude

	• Sort out all the work – get in and get it done in a block of time • Minimal in & outs • Work with the builder to avoid screwing each other

Source: Management information

The key operational details of the business are shown in the table below, with further analysis in Appendix 4 (Business Analysis).

Operational Details	
Location(s) / Regions	• Office and operations base sub-let from Collingwood office/warehouse. • Projects based in CBD and within 20 km radius, predominatly on the Eastern side of city.
Operating Hours	• 5 days / week with 6th day if required • Office staff – 10 hours • Others – 9 hr days
Staff	• CEO • Project Manager • Accounts / Finance Officer • Estimator outsourced at present • 18 staff as plumbers & apprentices

Key Operations Stages / Activities	• Enquiry documents received from builder to complete a Request For Tender
	• Quote job and submit tender
	• Follow up any questions or requirements with builder
	• If appointed – scope job to specified contract
	• Implement contract
	  ○ Appoint project manager & foreman
	  ○ All staff in house
	  ○ Liaise with builder on timing and requirements
	• Fit off and finish

Key Assets	• Seven vehicles • 2 excavators (8 tonne & 3.5 tonne) • Office equipment • Tools (B-press * 7 @ , roll groove machines(8k), fusion welders (5k), rehab tool, pipe lasers) - $100 - $150k • Office equipment – computers * 4 • 2 Offices

Source: Management information

The business has a medium level of business systems and processes established, with an overall ranking of management and IT systems summarised in the table below.

The business has well established and documented Operations processes and procedures, with detailed processes for Sales and Financial Management.

This level of systems and processes reduces the reliance on the owner and contributes to the competitive advantage of the business which is based on successful project management and customer relationship management.

Areas for improvement include:

- Increased documentation of processes and procedures across the business.
- More defined processes for targeting and marketing to new clients and formalising the communication with existing clients.

Ratings: 1 - None At All; 3 - Average level 5 - Completely	Documentation	Automated / Electronic?	Decentralised	Total Score (% of Max Score)	Key Systems and Processes In Place
Sales Systems	2	4	3	60%	List of clients and details in CRM Use SIMPro to manage accounts and interface with Xero Email contact with clients Multiple CP contacts with clients
Marketing	1	1	3	33%	Website and CRM used for marketing
Operations	4	4	4	80%	Use Dropbox for communications with teams – access all project documents, SWIMS, Dial Before You Dig, Project Plans,Site diaries and other job related information and project markups done live Job Descriptions documented
Human Resources	3	2	3	53%	Employee list maintained Master Plumbers code compliant OHS / Workcover compliant Recruitment procedures in place to manage labour hire
Financial Management	3	4	4	73%	Budgets in place by project and monthly Project reports / Monthly reports ATO compliant Purchase Orders / Pre-order system in place
Management Reporting	3	3	3	60%	Project timelines reported regularly
Average Score				60%	

Source: Exit Value Advisers analysis

OVERALL FINANCIAL PERFORMANCE

A broad summary of the profit and loss results for the business for the past four years and the current year to date results is shown in the tables below, with more detailed comparative statements shown in Appendix 3.

Profit & Loss Performance	FY2014	FY2015	FY2016	FY2017	Est FY 2017 / 2018
Revenue	$ 1,280,225	$ 2,278,848	$ 2,886,860	$ 4,614,139	$ 4,151,936
% Growth		78.0%	26.7%	59.8%	-10.0%
Gross Profit	$ 664,627	$ 895,088	$ 1,184,255	$ 2,356,890	$ 2,041,198
Gross Profit Margin	51.9%	39.3%	41.0%	51.1%	49.2%
Fixed Expenses	$ 640,288	$ 861,401	$ 1,130,792	$ 1,995,270	$ 1,698,635
% Change			31.3%	76.4%	-14.9%
Operating EBITDA (*)	$ 24,339	$ 33,687	$ 53,463	$ 361,621	$ 342,563
% Growth		38.4%	58.7%	576.4%	-5.3%
(*) : Earnings Before Interest Tax Depreciation and Amortisation					
% EBITDA Margin	1.9%	1.5%	1.9%	7.8%	8.3%

Source: Management information

Key features of the Profit & Loss information are:

- 60% increase in revenue in FY17, combined with a more than 570% growth in EBITDA.
- Estimated revenue has declined in FY18 associated with longer projects yet to be completed.
- Revenue has increased due to increased relationships with key builders and a greater number of high value projects completed in FY17.
- Significant increase in Gross Profit Margin has resulted from improved pre-ordering processes that have reduced unplanned project purchases (which necessarily are purchased at increased prices) and take advantage of trade-volume pricing.
- Fixed expenses and project resources (subcontractors) have increased commensurately with revenue.

A broad summary of the balance sheet results for the business for the past three years and the current year to date results is shown in the tables below, with more detailed comparative statements shown in Appendix 3.

Summary Balance Sheet	FY2014	FY2015	FY2016	FY2017	@ 31 Dec 17
Current Assets	$ 349,533	$ 474,344	$ 570,202	$ 857,995	$ 833,765
Non-Current Assets	$ 66,507	$ 47,518	$ 72,244	$ 376,499	$ 377,711
Total Assets	$ 416,040	$ 521,862	$ 642,446	$ 1,234,494	$ 1,211,476
Current Liabilities	$ 258,264	$ 368,853	$ 453,321	$ 534,003	$ 421,264
Non-Current Liabilities	$ 62,552	$ 45,356	$ 69,744	$ 43,242	-$ 40,590
Total Liabilities	$ 320,816	$ 414,209	$ 523,065	$ 577,245	$ 380,674
Net Assets	$ 95,224	$ 107,653	$ 119,381	$ 657,249	$ 830,802

Source: Management information

Key features of the Balance Sheet results are:

- Current Assets primarily is made up of Accounts Receivable ($686k) and Cash ($141k) whilst Non-Current Assets includes Plant and Equipment ($185k) and Motor Vehicles ($84k).
- Current Liabilities primarily is made up of Accounts Payable ($380k) and Payroll and Leave Liabilities ($58k) whilst Non-Current Liabilities primarily includes loans associated with excavators and motor vehicles ($160k).
- Both assets and liabilities appear to have increased in line with revenue and profits.

FINANCIAL RATIO ANALYSIS

A review of the key financial ratios is shown in the following table, with key comments included below.

Financial Ratios	2014 / 2015	2014 / 2015	2015 / 2016	2016 / 2017	2017 / 2018
Profitability					
Gross Profit Margin	51.9%	39.3%	41.0%	51.1%	49.2%
Expenses Ratio	50.0%	37.8%	39.2%	43.2%	40.9%
EBITDA Margin	1.9%	1.5%	1.9%	7.8%	8.3%
Net Profit Margin	1.3%	0.6%	1.4%	7.5%	8.3%
Return on Assets	3.2%	2.7%	4.9%	21.0%	28.7%
Return on Equity	14.0%	13.3%	26.6%	39.4%	41.8%
Risk					
Current Ratio	1.4	1.3	1.3	1.6	2.0
Quick Ratio	1.3	1.2	1.1	1.6	2.0
Efficiency					
Asset Turnover (times)	3.1	4.4	4.5	3.7	3.4
Collection Period (days outstanding)	62.1	12.3	45.1	58.6	60.3
Payment Period (days outstanding)	63.5	66.2	59.9	43.5	37.0
Break Even Point	$ 1,233,342	$ 2,193,083	$ 2,756,533	$ 3,906,186	$ 3,455,140
% Safety Margin Above BE Point	-48%	-36%	5%	15%	17%

Key points from this analysis are:

Financial Area	
Profitability	• Gross Profit Margin has been maintained between 39% and 52% over the past six years, with the last two years averaging 50%, in line with improved purchasing procedures and controls. • Fixed costs have increased in-line with revenue. • EBITDA Margin has increased in FY17 with a greater proportion of high-value projects and improved project delivery and control.
Risk	• Key financial risks are from Accounts Payable and Payroll and Leave Liabilities, with current assets exceeding current liabilities by a factor of two. • Long term debt has been kept to a minimum with a low level of financial risk.
Efficiency	• The Collection period increased marginally since FY16, but is maintained within typical industry expectations. This increase reflects a greater proportion of large high value projects that have longer duration. • The business operates approx. 17% above breakeven point. • Any implications for cash flow?
Changes in Working Capital	• Non-cash working capital has been maintained at approx. 20% - 25% of net assets over the past two years.

Based on this information it is our view that the company has improved its cash flow management and with further improvements in profitability the company is likely to improve its cash position further.

Should these assumptions or conditions change then my opinion of the risk of the company may change.

4. VALUATION ANALYSIS

BASIS AND STANDARD OF VALUATION

The basis of the valuation is shown in the table below.

Valuation Parameters	
Asset Valued	100% of the equity of Pipe Plumbing Pty Ltd and in particular a 35% minority interest.
Purpose of Valuation	Support discussions relating to: • A restructure of the ownership of the company.
Standard of Value	Market Value
Basis of Value	Going concern
Valuation Date	31st December 2017
Primary Valuation Method	Future Maintainable Earnings
Cross Check Method(s)	Comparable Transactions

Other valuation methods that were considered, but not used in this report, are:

- Discounted Cash Flow
  - This method considers a cash flow projection to assess future free cash flows and capitalises the cash flows at a weighted average cost of capital commensurate with the returns generated by other companies within the industry.
  - The business does not have a reliable indication of future cash flow past the current financial year and we do not have an adequate source of comparable information to assess the cost of capital.
  - As a result this method was considered unreliable in assessing the value of the business.

- Net Asset Value:
  - The net assets of the business do not represent the market value of the cash flows of the business as a going concern.
  - The business is being valued as a going concern and is not in any liquidation circumstance.

SUMMARY OF RELEVANT CASH FLOWS AND ASSETS

In assessing the future maintainable earnings of the business we have made the following observations based on the information provided by management and our analysis:

- The business has demonstrated consistent revenue growth of 27% pa for trhe past five years.
- EBITDA margin has increased to 8% in FY17 as a result of improved purchasing procedures and a greater volume of high value projects.
- The business has well established management procedures to reduce the reliance on the owner, with multiple contacts for client relationships.
- The business is expected to maintain growth at 10% pa for the short term future.

On the basis that the business continues to generate increased revenue and EBITDA results, we are of the view that the income approach remains the most appropriate method for valuation.

We have considered ongoing cash flow based on the following assumptions in arriving at a future maintainable earnings level:

- 10% revenue growth.
- 50% Gross Profit Margin (inc duties and GST).
- 2% increase in overhead costs.

The estimates are summarised below.

Profit & Loss Performance	FY2019	FY2020	FY2021
Revenue	$ 4,567,130	$ 5,023,843	$ 5,526,227
% Growth		10.0%	10.0%
Gross Profit	$ 2,245,318	$ 2,469,850	$ 2,716,835
% Gross Profit Margin	49.2%	49.2%	49.2%
Fixed Expenses	$ 1,732,608	$ 1,767,260	$ 1,802,605
EBITDA (*)	$ 512,710	$ 702,590	$ 914,229
% Growth		37.0%	30.1%
(*) : Earnings Before Interest Tax Depreciation and Amortisation			
% EBITDA Margin	11.2%	14.0%	16.5%

Adjustments to historic EBITDA are shown below:

Operational Adjustments		Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	% of Current Year	Est. Full Financial Year
Profit & Loss Account	Category	FY2014	FY2015	FY2016	FY2017	YTD @ 31 Dec 17		YTD @ 31 Dec 17
Personal Property Improvements	Administration				$ 15,000			$ -
Gift/Donations	Administration				$ 72	$ 585	50%	$ 1,171
Fines & Penalties	Administration		$ 554	$ 1,228				$ -
Donations & Gifts	Administration	$ 250	$ 4,916	$ 7,561				$ -
								$ -
Total		**$ 250**	**$ 5,470**	**$ 8,789**	**$ 15,072**	**$ 585**		**$ 1,171**

No ongoing adjustments have been included in forward projections.

EARNINGS MULTIPLE METHOD

The variables used to determine the value of the business using the Earnings Multiple method are:

1. A selected Earnings Multiple.
2. An adjusted future maintainable EBITDA.

The selection of the Earnings Multiple was based on information provided by The BizExchange Index (www.valuemybusiness.com.au_), which collates details of the sale of privately held businesses within Australia. The information is reported by industry category and revenue range.

We adopt a 2 stage assessment process for arriving at appropriate earnings multiple:

1. Selection of a broad multiple range that adequately represents similar business transactions (shown in the table below).
2. Detailed assessment of the business to determine an expected earnings multiple within the broad range selected (shown in Appendix 7).

The index most suited to the PP business is Construction.

The results are shown in the table below.

Reported Historic EBIT Multiples (www.valuemybusiness.com.au)

Industry Category	Revenue Range	Period	Low EBIT Multiple	Most Common Result	High EBIT Multiple
Construction	$1.0m - $5.0m	Mar-15	0.0	0.0	0.0
Construction	$0.5m - $1.0m	Jun-16	0.8	1.9	3.9
Construction	$0.5m - $1.0m	Mar-15	1.1	1.7	4.9
Other Services	$1.0m - $5.0m	Jun-16	1.3	2.3	3.2
Broad EBIT Multiple Range Adopted			2.5		4.5

The business is assessed against the factors shown in Appendix 7 to arrive at an expected historic EBIT multiple. The expected historic EBIT multiple is then adjusted to a future-based EBITDA multiple range based on:

- A 5% variation (plus or minus) from expected historic EBIT multiple.
- Industry level depreciation of 5%.
- A low level of perceived industry risk (5% discount on historic results).

The key factors taken into account in this assessment are:

- Estimated 27% CAGR growth in revenue to FY18
- Maintenance of 8% EBITDA margin based on well established procedures and cost reporting.
- Secure market position with builders (clients) with a high level of repeat work.
- Documented procedures and systems in place reducing reliance on key staff.

Broad EBIT Multiple Range Adopted	2.5	4.5
Broad EBIT Multiple Range Midpoint	**3.5**	
Assessed Deviation From Earnings Range Midpoint	28%	
Expected Historic EBIT Multiple	**3.8**	
Spread of uncertainty about expected EBIT Multiple	5%	
Depreciation as % EBIT	5%	
	Low	**High**
Expected Historical EBIT Multiple Range	3.6	4.0
Expected Historical EBITDA Multiple Range	**3.4**	**3.8**
Level of forward projection risk (Low, Medium, High)	5%	
Expected Future EBITDA Multiple Range	**3.3**	**3.6**

The resulting EBITDA Earnings Multiple range we have used in our valuation is 3.3x – 3.6x EBITDA.

The Earnings Multiple calculations to arrive at an enterprise value are shown below.

	Future Maintainable Earnings (FME)			
	2018	**Projected FY2019**	**Projected FY2020**	**Projected FY2021**
Use Year In Calculations? (Y)	Y	Y	Y	Y
Revenue	$ 4,151,936	$ 4,567,130	$ 5,023,843	$ 5,526,227
Cost of Sales	$ 2,110,738	$ 2,321,812	$ 2,553,993	$ 2,809,392
Overhead Expenses	$ 1,698,635	$ 1,732,608	$ 1,767,260	$ 1,802,605
Reported EBITDA	$ 342,563	$ 512,710	$ 702,590	$ 914,229
Cost Adjustments	$ 1,171	$ 1,171	$ 1,171	$ 1,171
Adjusted EBITDA	$ 343,734	$ 513,881	$ 703,760	$ 915,400
Earnings Used For Valuation	$ 343,734	$ 513,881	$ 703,760	$ 915,400
Weighting %	**100%**	**85%**	**75%**	**65%**
Weighted Earnings For Valuation	$ 343,734	$ 436,799	$ 527,820	$ 595,010

Average FME	**Used in Valuation**	
2018		$ 343,734
2018 - Projected FY2019		$ 390,266
2018 - Projected FY2020		$ 436,118
2018 - Projected FY2021	Y	$ 475,841

Normalised EBITDA			**$ 475,841**
	Low	**High**	**Midpoint**
Future EV / EBITDA Multiple	**3.3**	**3.6**	
Enterprise Value	**$ 1,570,274**	**$ 1,713,026**	**$ 1,641,650**

Based on the Earnings Multiple (FME) method, the expected value range of the business is $1.6m - $1.7m, with a midpoint of $1.6m.

COMPARABLE SALES METHOD

A review of the sale of similar businesses was based on searching available transaction databases and other publicly available information. Whilst no direct comparison was available, a number of similar businesses were identified, and are considered similar based on the following reasons:

- Each company has a revenue size similar to CP.
- Each company is active within a similar industry sector.
- Each company involves management and delivery of commercial plumbing products and services.

A summary of this information is shown in Appendix 8, with financial information shown in the table below:

Location	Revenue ($ / Year)	Indicated EBITDA	Price Exc Stock	Less Price Uncertainty of Future Sale	Stock Level	Implied Enterprise Value	Indicative EBITDA Multiple
Gold Coast Plumbing Business	$ 1,400,000	$ 300,000	$ 675,000	10%	$ -	$ 607,500	2.0x
Plumbing NSW	$ 2,800,000	$ 325,000	$ 1,600,000	15%		$ 1,360,000	4.2x
Fabrication & Plumbing Mildura	$ 4,000,000	$ 300,000	$ 800,000	10%	$150,000	$ 870,000	2.9x

The valuation calculations for PP using the above information are shown below:

	Minimum EBITDA Multiple			Maximum EBITDA Multiple
	2.0x			4.2x
Future Maintainable Earnings	$ 475,841			$ 475,841
Enterprise Value	**$ 963,577**			**$ 1,991,210**

Whilst the enterprise valuation range using comparable transactions is a wide range, this reflects the nature of the businesses being sold. There are limited plumbing businesses of the size or standard of CP. Based on the valuation obtained using the primary method, we make the following observations:

- The primary valuation range is contained within the cross-check range.
- The upper limit of the comparable transaction valuation range provides some support for the primary valuation method.

We consider the enterprise valuation range of $1.0m – $2.0m to provide broad support for the valuation range determined by the primary valuation method of $1.6m – $1.7m.

NET DEBT AND EQUITY VALUE

The above methods have calculated the value of the enterprise, which consists of the minimum assets required to be purchased that allow the ongoing operations of the business. It includes such items as:

- Current assets such as inventory, accounts receivable and assets
- Non-current assets including intangible assets.
- Current liabilities such as accounts payable, short term loans or liabilities associated with employees.

The enterprise value does not include:

- Cash.
- Long term interest bearing debt (excluding director or related party loans of a non-commercial nature).
- Items relating to the entity (such as provision for income tax

The equity value is therefore:

- Equity Value = Enterprise Value – Net Debt

Net debt is calculated as:

- Long term liabilities – Cash.

Past Net Debt results are shown in the table below.

		YTD @ 31 Dec 17
Long Term Liabilities	$	71,581
Cash	$	140,916
Calculated Net Debt	**-$**	**69,335**

Net Debt Used For Valuation	-$	70,000

Our assessment of the equity valuation range using the FME method is shown in the table below.

	Low ($'000)	High ($'000)	Midpoint ($'000)
Enterprise Value	1570	1713	1642
Less Net Debt	-70	-70	-70
Equity Value	1640	1783	1712

This valuation represents 100% of the equity of CP.

Based on this assessment, our view of the market value range of 100% of the equity of Pipe Plumbing Pty Ltd is $1.64m - $1.78m, with a midpoint value of $1.71m.

MINORITY SHAREHOLDING

We have been advised that a 35% minority shareholding is to be sold to an existing senior management employee. We have not been advised on the conditions of this shareholding, but have made the following assumptions:

- The shareholding cannot be sold to an external party before first being offered to existing shareholders.
- The shares constitute voting rights at meetings of shareholders.
- The existing owner shall have a casting vote in the event of any deadlock in resolutions.

For this reason we consider that this minority shareholding has a discount to market value on the basis that:

- It has reduced marketability due to the conditions above.
- It does not constitute a controlling interest in the company.

For these reasons we consider the proposed shareholding has a 20 - 25% discount to full market value.

Our calculation of the market value of the 35% minority shareholding is based on:

Minority Shareholding Value	20% Discount	25% Discount	Midpoint ($'000)
Market Value of 100% Equity ($'000)	1640	1783	1712
Proportional Value of 35% Equity ($'000)			599
Discount Applied	120	150	
Equity Value of Minority Shareholding	479	449	464

SHORT TERM CHANGE IN VALUATION

We have made this assessment of value of Client based on information to 31st December 2017 and subsequent enquiries regarding the ongoing performance and risk of the business and the industry. We are not aware of any material events or results that may change the view and outcome of this valuation.

We also are of the view that the outcomes of this valuation report shall remain relevant and accurate in the short term (next 3-6 months), whilst there is no material change in the financial estimates used in this report.

5. CONCLUSIONS

SUMMARY OF KEY VALUATION FEATURES

The valuation of PP has been based on the following key features of the enterprise:

- Estimated 27% CAGR growth in revenue to FY18
- Maintenance of 8% EBITDA margin based on well established procedures and cost reporting.
- Secure market position with builders (clients) with a high level of repeat work.
- Documented procedures and systems in place reducing reliance on key staff.

SUMMARY OF VALUATION RANGE

A summary of the value range calculated by each method is shown in the table below:

Equity Value Summary	Low ($m)	High ($m)	Midpoint ($m)
FME Method	1640	1783	1712
Comparable Earnings Method	1034	2061	1547

Based on the FME method as the primary valuation method, our assessment of the market value of 100% of the equity of Pipe Plumbing Pty Ltd as at 31st Decermber 2017 is $1.64m – $1.78m, with a midpoint value of $1.71m.

In addition our view of a 35% minority shareholding is $0.45m - $0.48m, with a midpoint of $0.465m.

We are also of the view that:

- The ongoing performance of the business will not materially change our assessment of the value.
- That the outcomes of this valuation report shall remain relevant and accurate in the short term (next 3-6 months), whilst there is no material change in the financial estimates used in this report.

(Refer Section 4 – Short Term Change in Valuation)

6. APPENDIX 1 – VALUATION PROCESS AND COMPLIANCE

GLOSSARY

Term	Definition
APES 225	Australian Professional Ethical Standard 225 – Valuation Services
ATO	Australian Taxation Office
Capitalisation of Future Maintainable Earnings	A valuation method that uses estimated future annual recurring earnings to calculate the value of the business.
Capitalisation Rate	The rate at which a value is calculated from recurring earnings.
COGS or COS	Cost of Goods Sold or Cost of Sales
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Entity	A person, company, partnership, trust, joint venture or any other legal structure which can own assets for itself or others.
EV	Enterprise value
FME	Future maintainable earnings that are assumed to be recurring based on historical evidence and future assumptions
FYx (eg FY16)	Financial year ended 30 June x (eg 30 June 2016)
Goodwill	The excess value of a business over the identifiable net tangible assets.
IP	Intellectual Property
Management	Directors and senior management of The Client
NPAT & NPBT	Net Profit After Tax & Net Profit Before Tax
Required Rate of Return	The rate that the investor requires to compensate them for the level of risk in the investment.
WACC	Weighted Average Cost of Capital
Working Capital	Amounts of stock, trade receivables, trade creditors, plant & equipment necessary for the ordinary operation of the business. Unless otherwise indicated, calculated as Current Assets less Current Liabilities

GENERAL ASSUMPTIONS

This valuation has been based upon assumptions which are set out below and throughout this report.

Should these assumptions individually or collectively not be the case then our assessment of value may significantly change (all other factors remaining constant).

1. All operating businesses are solvent and assessed on a going concern basis, and assumed to operate indefinitely.
2. No contingent liabilities or assets exist (other than as mentioned in our report). This includes any potential tax liabilities and or employee entitlements (if any) not reflected in the financial statements.
3. Employees are not in breach of any regulatory obligations and do not face any contingent liabilities.
4. The operating business and or premises from which it operates are free from any potential contamination or environmental issues.
5. All permits and licences required to operate the business are, and remain in place. In addition, we assume there will be no material changes to the statutory, legal or regulatory environment, which may be detrimental to the business.
6. The business continues to operate from existing locations and premises.
7. No material events have occurred since ???, which would have an impact on the business performance or considerations relevant to our assessment, (other than as mentioned in our report).
8. No changes in the government regulatory environment including current income tax legislation.
9. Continuity of the staff at the business.
10. The subject business makes considerable use of information technologies or systems. Failures of such technologies and systems could have a material adverse effect on the operations and financial performance of the business. For the purposes of this report we assume all information technology and systems remain operating and effective.
11. Capital expenditure and depreciation rates. Given the nature of the subject business, we assume that capital expenditure requirements post ??? are negligible. In addition, we assume surplus or idle assets do not exist.

DISCLAIMER

Every reasonable effort has been made by the author to ensure information and data contained within this document and conveyed to interested parties is factual and correct at the time of printing.

Compilation and preparation of this document involved making judgements which may be affected by unforeseen future events including wars, economic disruption, dislocations, business cycles, industrial relations, labour difficulties, political action, changes of government and other factors, the effects of which are not capable of precise assessment. In many cases, value judgments must be made based on material compiled by government agencies, scientific organisations, research organisations, industrial, commercial and professional organisations and others.

It may have been necessary to rely on data received from third parties or to use data which is not able to be substantiated by publicly available information or sources when compiling the Information Memorandum. The author will not be liable for any loss or damage caused to interested parties, or any other third party as a result of any errors in data which is either supplied by the author or supplied by a third party to the author, or which the author is required to estimate, because the nature of the data is such that it is generally unavailable to the public.

All surveys, forecasts, projections and recommendations contained or made in relation to or associated with this document are made in good faith and on the basis of information supplied to the author at the date of preparation. Achievement of the projections and budgets set out in this document will depend, among other things, on the actions of others over which the author has no control.

The author is not an expert in the field of law and any suggestions made herein on this topic must be referred by the client for further consideration and advice to an expert in law before being acted upon. The author shall not be liable for any loss, damages or penalties which may result from any failure to obtain independent legal advice concerning any contemplated transaction or any related transaction.

It is the responsibility of interested parties to ensure that all assumptions and supporting data provided to in this document are supportable by fact or reputable opinion.

Signed by:

Mike Williams – Principal, Maxell Consulting

7. APPENDIX 2 – VALUATION THEORY

BASIS AND TYPES OF VALUE

The valuation of a business or entity is made with consideration to the basis of value and the types of value that are relevant to the circumstances causing the valuation to arise.

The basis of value that is considered is typically where the enterprise or entity is a:

- Going concern.
  - This relates to an ongoing, established business operation, which is assumed to be solvent and will continue to operate.
- Liquidated state.
  - This state is typically when an asset does not meet "going concern" conditions and requires some form of transfer or realisation.
    - An orderly liquidation assumes that a reasonable period of time is allowed to obtain the highest price for the assets being liquidated. An orderly liquidation must also consider the costs incurred over this reasonable time.
    - A forced liquidation assumes that the assets will be sold immediately or within a time frame that realises any price. This is also referred to as a "fire sale."

The type of business value that will be assessed will also depend on the circumstances surrounding the valuation and is typically based on three types:

Market Value:

- Market Value is generally defined as the price which would be negotiated at the valuation date in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm's length.
- Market Value excludes specific purchasers (including the notional existing owner and or industry participant) and does not include a premium which a specific purchaser may be prepared to pay for reasons such as strategic benefits.
- Market value takes into account that higher returns are expected to compensate for higher risk. In turn, higher risk means lower value (all other factors remaining constant). It should be noted that Market Value considers risk from the perspective of the hypothetical willing purchaser (as opposed to the existing owner and or an industry participant).

Investment Value or Strategic Value

- The value of a business that a particular investor or strategic buyer is willing to pay as a result of opportunities to achieve a significantly increased return on investment.

Liquidation Value

- The value of the tangible and intangible assets that can be sold as either individual items or as a single entity where the business is unable to continue operation as a going concern in its current circumstances.
- This value is often the "fire sale" value where assets of the business are sold under "distressed" conditions, in an "as is where is" state.

In line with APES 225 (May 2012) – Valuation Services and ASIC regulations (Reg 111 and 112):

- In most circumstances the value of a business asset will be provided as a range, within which an interested party will reach agreement on the final value. The valuation processes employed must determine an acceptable range that is sufficiently narrow and that any value conclusions are not considered meaningless.
- The assessment of value must also take into account the liquidity and level of the relevant shareholding interest. The value must take into account whether the shareholding interest is:
  - A controlling interest, which considers the value of the enterprise as a whole.
  - A freely traded minority interest, where the value of the minority interest is impacted by a lack of control but can be freely traded to a number of willing buyers.
  - A non-marketable minority interest, where the value of the minority interest is adjusted for a lack of control and a lack of market liquidity.

VALUATION APPROACHES

There are a number of approaches that are generally accepted for valuing businesses. Most of these valuation methods typically fall within the following categories:

- Market Based.
- Earnings Based.
- Asset Based.
- Cost Based.

The ATO has a preference to the above hierarchy when selecting valuation methods, providing suitable information is available to arrive at a credible and reasonable valuation range. For example, where information is available on a suitable and recent market transaction, it considers this to be the market value. In the absence of a suitable transaction or information, it then considers the earnings methods to be next preferred method, provided the method is appropriate for the circumstances.

ASIC have also provided guidance on the methods used for valuing a business in RG 111.69:

It is generally appropriate for an expert to consider using the following methodologies:

- the discounted cash flow method and the estimated realisable value of any surplus assets;
- the application of earnings multiples (appropriate to the business or industry in which the entity operates) to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets;
- the amount that would be available for distribution to security holders on an orderly realisation of assets;
- the quoted price for listed securities, when there is a liquid and active market and allowing for the fact that the quoted price may not reflect their value, should 100% of the securities be available for sale; and
- any recent genuine offers received by the target for the entire business, or any business units or assets as a basis for valuation of those business units or assets.

ASIC does not suggest that this list is exhaustive or that the expert should use all of the methods of valuation listed above.

EARNINGS MULTIPLE METHODS

This conventionally accepted method capitalises the historic earnings or future maintainable earnings ('FME') of an asset / business by an appropriate capitalisation or investment rate. The rate is based on market expectations after giving consideration to all conditions relevant at that time, including the economy in general and the business and industry of that entity in particular.

Surplus, unproductive or unrelated assets are valued separately and added to the value derived by capitalising the future maintainable earnings.

The Earnings Multiple methods are of a generic formula, where:

Enterprise Value = Capitalisation Multiple * Adjusted Earnings

- The Adjusted Earnings is typically some proxy for cash flow that has been adjusted for non-operational items, one-off items or agreed adjustments to revenue or costs that reflect the standard of value being assessed.
- Depending on the circumstances of the valuation, the proxy used for cash flow will be historic EBIT or EBITDA or a forward-looking measure such as future maintainable earnings (FME), also represented by EBIT or EBITDA.

The capitalisation of FME approach is appropriate where:

- The earnings of the business is sufficient to justify a value exceeding the value of the underlying assets.
- Where a relatively stable historical earnings pattern is demonstrated.
- The business operations are expected to continue indefinitely.

EBIT and EBITDA multiples (the inverse of the capitalisation rate) are commonly used in valuing businesses as a whole. Where an equity value is required, it is necessary to then deduct the value of interest bearing debt net of cash.

The benefit of this method is the ease of calculation and simplicity in deriving an indicative valuation. However this also contributes to the method's disadvantages, which include:

- The method's assumption that the risk level of a business' earnings remains constant over time. In almost all business cases, cash flows in future years are always subject to significantly higher risk than cash flows in the following year.

- Significant variation of previous profits makes it difficult to select an appropriate indication of value moving forward. This disadvantage can be exacerbated by variations in accounting policy framework used to construct the EBITDA result. The key here is to ensure that EBITDA represents an "everyday ongoing" operational profit result, and does not include one-off cost or revenue items.

- The selection of a multiple should ideally be based on accurate comparison with other similar businesses, usually in the same region. However this information is not always readily available for SMEs.

DISCOUNTED CASH FLOW METHOD

This values the asset/ business by discounting net future cash inflows and outflows by an appropriate cost of capital.

This method requires:

- Forecasting of cash flows over a period of at least five years (explicit projection period).
- An assessment of the cost of capital (discount rate).
- An assessment of the residual value of the asset remaining at the end of the explicit projection period.

This valuation method is generally more appropriate assets with a finite life or businesses that are forecasting significant growth or experience 'lumpy' volatile cash flows.

The DCF value calculation evaluates the current value after tax cash flows associated with an explicit projection period (ATCF) and the current value of a terminal cash flow component (associated with ongoing operations of the business pas the explicit projection period). The basic formula is:

$$\text{Value} = \sum \frac{(ATCF_i)}{(1+k)^i} + \frac{TCF}{(1+k)^n}$$

Where:

- $ATCF_i$: After tax cash flow for year i
- n: Final cash flow projection year
- k: Weighted average cost of capital
- TCF: Terminal cash flow

$$\text{Terminal Cash Flow (TCF)} = \frac{ATCF_n \text{ X } (1+GR_L)}{(WACC - GR_L)}$$

Where:

- $ATCF_n$: After Tax Cash Flow for Year n
- GR_L: Long Term Growth Rate of $ATCF_n$
- WACC: Weighted Average Cost of Capital

The terminal cash flow term is based on a "stable growth model" which makes an important assumption:

- Cash flows in future years will be based on the last year projected and will grow at a steady rate that will not exceed the WACC.

DCF valuations tend to result in higher valuations than other methods due to the nature of projecting cash flows into the future and the impact of the ongoing cash flows on the overall value.

The key limitations of this method, specifically relating to privately held businesses include:

- Difficulty in arriving at a reasonable representation of future cash flow, especially in the absence of detailed budgets and knowledge of the underlying assumptions in the business.
- Selecting an appropriate cost of capital for the privately held entity.

MARKET BASED METHODS

This approach considers the amount at which a business can be sold i.e. the highest value that someone is prepared to pay in an open market on a willing buyer and willing seller basis. It compares the value of a past or proposed transaction where the business transacted has some similarity with the business being valued. Adjustments to the transaction are made to take into account key differences in circumstances or conditions of sale.

This method is usually based on comparable transactions of similar assets that are bought and sold in recent market transactions. Where reliable information is available, this method may form the basis of the primary valuation method.

In the privately held market, there is often a lack of detailed information publically available on the purchase price, underlying terms and conditions of the transaction. In these circumstances assumptions are often made to arrive at a valuation range, and as such this method is often used as a cross check to the primary method.

ASSET BASED METHODS

This method considers an adjusted value of the assets and liabilities held by the associated entities to be representative of market value. The asset based valuation methods commonly used are:

- **Orderly realisation of assets:**
    - Under this method the asset is valued on the basis of its estimated realisable value after making due allowance for expected realization expenses and after all liabilities are extinguished.

- **Going concern basis**
    - Unlike the previous method, this method assumes that the assets and liabilities of the business are transferred on a going concern basis. Therefore, no allowance is made for the costs of realizing the assets or extinguishing the liabilities.

The use of asset based methods is appropriate where the:

- Enterprise is merely in a 'holding' situation and is not trading.
- Enterprise or business entity generates little or no income, so as not to be an attractive investment proposition from the willing buyer's point of view.
- When compared to the investment in operating infrastructure, the business does not generate sufficient earnings to justify goodwill.
- Nature of the operations is such that it is not possible to make an estimate of maintainable earnings.

COST BASED METHODS

Cost based methods are used to determine the cost the business would incur if it was deprived of the current assets and had to replace them in some way.

These methods consider the costs associated with creating (accumulated costs expended to date) or replacing the business (i.e. the cost to be incurred to replace the asset). They do not reflect future economic benefit.

These methods are typically used to reflect the value of assets that are not attracting sufficient profits to infer an appropriate value.

8. APPENDIX 3 – HISTORIC FINANCIAL INFORMATION

COMPARITIVE FINANCIAL STATEMENTS

	Fiscal Year FY2014	Fiscal Year FY2015	Fiscal Year FY2016	Fiscal Year FY2017	YTD @ 31 Dec 17	% of Current Year	Est Fiscal Year FY2018
Revenue							
Sales	$ 1,280,225	$ 2,278,848	$ 2,886,860	$ 4,614,139	$ 2,075,968	50%	$ 4,151,936
Total Revenue	**$ 1,280,225**	**$ 2,278,848**	**$ 2,886,860**	**$ 4,614,139**	**$ 2,075,968**	**50%**	**$ 4,151,936**
Cost of Sales							
COGS	$ 615,598	$ 1,383,760	$ 1,702,605	$ 2,257,249	$ 1,055,369	50%	$ 2,110,738
	$ -	$ -	$ -	$ -	$ -		$ -
Total COGS	**$ 615,598**	**$ 1,383,760**	**$ 1,702,605**	**$ 2,257,249**	**$ 1,055,369**		**$ 2,110,738**
Gross Profit	**$ 664,627**	**$ 895,088**	**$ 1,184,255**	**$ 2,356,890**	**$ 1,020,599**		**$ 2,041,198**
Gross Profit Margin	51.9%	39.3%	41.0%	51.1%	49.2%		49.2%
Fixed Expenses / Overheads							
Administration	$ 9,474	$ 14,276	$ 21,032	$ 57,029	$ 16,064	50%	$ 32,127
Marketing	$ 3,994	$ 3,710	$ 7,849	$ 6,470	$ 4,894	50%	$ 9,788
Office Costs	$ 13,514	$ 15,084	$ 21,552	$ 22,677	$ 13,437	50%	$ 26,875
Operations	$ 139,117	$ 131,938	$ 130,668	$ 105,968	$ 31,127	50%	$ 62,254
Staff Costs	$ 474,189	$ 696,393	$ 949,691	$ 1,803,125	$ 783,796	50%	$ 1,567,591
Total Fixed Expenses	$ 640,288	$ 861,401	$ 1,130,792	$ 1,995,270	$ 849,318	50%	$ 1,698,635
EBITDA (*)	**$ 24,339**	**$ 33,687**	**$ 53,463**	**$ 361,621**	**$ 171,281**		**$ 342,563**
(*) Earnings Before Interest Tax Depreciation & Amortisation	2%	1%	2%	8%	8%		8%
Depreciation	$ 6,554	$ 15,786	$ 10,282	$ -	$ -	50%	$ -
Amortisation	$ -	$ -	$ -	$ -	$ -	50%	$ -
Interest	$ 1,384	$ 3,613	$ 1,578	$ 15,832	$ -	50%	$ -
Net Profit Before Tax	**$ 16,401**	**$ 14,288**	**$ 41,603**	**$ 345,788**	**$ 171,281**	**50%**	**$ 342,563**
Net Profit Before Tax Margin %	1%	1%	1%	7%	8%		8%

DETAILED COSTS – COST OF SALES

Cost of Sales Profit & Loss Account	Category	Fiscal Year FY2014	Fiscal Year FY2015	Fiscal Year FY2016	Fiscal Year FY2017	Fiscal Year YTD @ 31 Dec 17
Cost of Goods Sold	COGS				$ 2,255,542	$ 1,055,369
Cartage	COGS				$ 1,707	
Materials	COGS	$ 498,404	$ 1,070,491	$ 1,336,859		
Subcontractors	COGS	$ 117,194	$ 313,269	$ 365,746		
Total		**$ 615,598**	**$ 1,383,760**	**$ 1,702,605**	**$ 2,257,249**	**$ 1,055,369**

DETAILED COSTS – OVERHEADS

Overheads / Expenses		Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year
Profit & Loss Account	**Category**	**FY2014**	**FY2015**	**FY2016**	**FY2017**	**YTD @ 31 Dec 17**
Insurance: Workers compensation	Administration				$ 22,990	$ 11,562
Consulting & Accounting	Administration	$ 346			$ 5,244	$ 1,636
Fees and Permits	Administration	$ 236	$ 243		$ 1,605	$ 1,058
Gift/Donations	Administration				$ 72	$ 585
Insurance	Administration	$ 2,763	$ 3,620	$ 6,716	$ 2,764	$ 552
Bank Fees	Administration	$ 775	$ 936	$ 975	$ 570	$ 337
Company Compliance	Administration				$ 249	$ 302
Registration Fee	Administration				$ 8,785	$ 30
Accommodation	Administration				$ 2,377	
Accountancy Fees	Administration	$ 1,930	$ 2,370	$ 3,239		
Borrowing Costs	Administration	$ 41	$ 160	$ 480		
Cleaning	Administration				$ 5,071	
Donations & Gifts	Administration	$ 250	$ 4,916	$ 7,561		
Fines & Penalties	Administration		$ 554	$ 1,228		
Insurance: Plant & Equipment	Administration				$ 1,460	
Insurance: Plumbing Warranty and Liability	Administration				$ 5,032	
Subscriptions	Administration	$ 3,133	$ 1,477	$ 833	$ 810	
Depreciation	Depreciation	$ 6,554	$ 15,786	$ 10,282		
Interest Expense	Interest	$ 1,384	$ 3,613	$ 1,578	$ 12,218	
Interest expense: Finance charge	Interest				$ 133	
Interest expense: Hire purchase charge	Interest				$ 3,481	
Entertainment	Marketing	$ 2,724	$ 3,710	$ 6,699	$ 4,360	$ 3,524
Advertising	Marketing	$ 1,270		$ 1,150	$ 2,110	$ 1,370
Rent	Office Costs	$ 9,091	$ 9,091	$ 9,091	$ 9,091	$ 4,545
Printing & Stationery	Office Costs	$ 904	$ 873	$ 305	$ 2,909	$ 4,164
Software Expenses	Office Costs				$ 4,408	$ 2,231
Rates	Office Costs				$ 6,101	$ 1,767
General Expenses	Office Costs				$ 168	$ 731
Computer Expenses	Office Costs	$ 1,334	$ 2,601	$ 10,064		
Office Supplies	Office Costs	$ 2,185	$ 2,519	$ 2,092		
Motor Vehicle Expenses	Operations	$ 23,198	$ 31,995	$ 36,436	$ 21,631	$ 9,150
Freight & Courier	Operations				$ 5,076	$ 5,235
Motor Vehicle - Fuel Card	Operations				$ 20,354	$ 4,930
CityLink	Operations				$ 5,219	$ 3,382
Motor Vehicle Expenses - 1BW1GH Insurance & Rego	Operations					$ 1,546
Motor Vehicle Expenses - 1JC4MC Insurance & Rego	Operations					$ 1,095
Hire of plant and equipment	Operations	$ 78,806	$ 59,460	$ 68,814	$ 34,203	$ 927
Telephone & Internet	Operations	$ 3,658	$ 3,587	$ 8,207	$ 5,652	$ 811
Motor vehicle expense: Parking	Operations				$ 206	$ 676
Motor Vehicle Expenses - 1GR2ZS Insurance & Rego	Operations				$ 777	$ 663
Motor Vehicle Expenses - WFN327 Insurance & Rego	Operations				$ 749	$ 552
Motor Vehicle Expenses- 1BX3MS Repairs Insurance & Reg	Operations				$ 1,065	$ 537
Motor vehicle expense: Car wash	Operations				$ 1,050	$ 533
Motor Vehicle Expenses - UUU194 Insurance & Rego	Operations				$ 1,386	$ 457
Motor Vehicle Expenses - 1GR2ZZT Insurance & Rego	Operations				$ 670	$ 442
Repairs and Maintenance	Operations	$ 1,039	$ 616	$ 466	$ 135	$ 190
Excavator: Petrol & oil 1,298.74	Operations	$ 1,417	$ 2,528	$ 3,197	$ 1,299	
Excavator: Repairs & Maintenance 1,291.73	Operations				$ 1,292	
Plans & Permits	Operations	$ 22,066	$ 14,869	$ 4,446		
Tools and Equipment	Operations	$ 6,398	$ 15,721	$ 5,388	$ 5,205	
Travelling Expenses	Operations	$ 2,535	$ 3,162	$ 3,714		
Wages and Salaries	Staff Costs	$ 415,761	$ 618,044	$ 819,613	$ 1,322,913	$ 674,637
Superannuation	Staff Costs	$ 35,959	$ 53,637	$ 69,435	$ 110,738	$ 57,857
Sub Contractors	Staff Costs				$ 347,534	$ 44,228
Long Service Leave	Staff Costs	$ 4,716	$ 6,868	$ 9,938	$ 9,702	$ 4,610
Employee amenities	Staff Costs				$ 5,877	$ 1,321
Medical Expense	Staff Costs	$ 75	$ 227	$ 90	$ 1,156	$ 1,182
Staff Work ware (	Staff Costs				$ 5,206	-$ 40
Payroll Tax	Staff Costs			$ 22,986		
Protective Clothing	Staff Costs	$ 4,209	$ 5,917	$ 6,488		
Staff Training & Welfare	Staff Costs	$ 4,865	$ 340	$ 1,722		
Workcover	Staff Costs	$ 8,604	$ 11,360	$ 19,419		
Total		**$ 648,226**	**$ 880,800**	**$ 1,142,652**	**$ 2,011,102**	**$ 849,318**

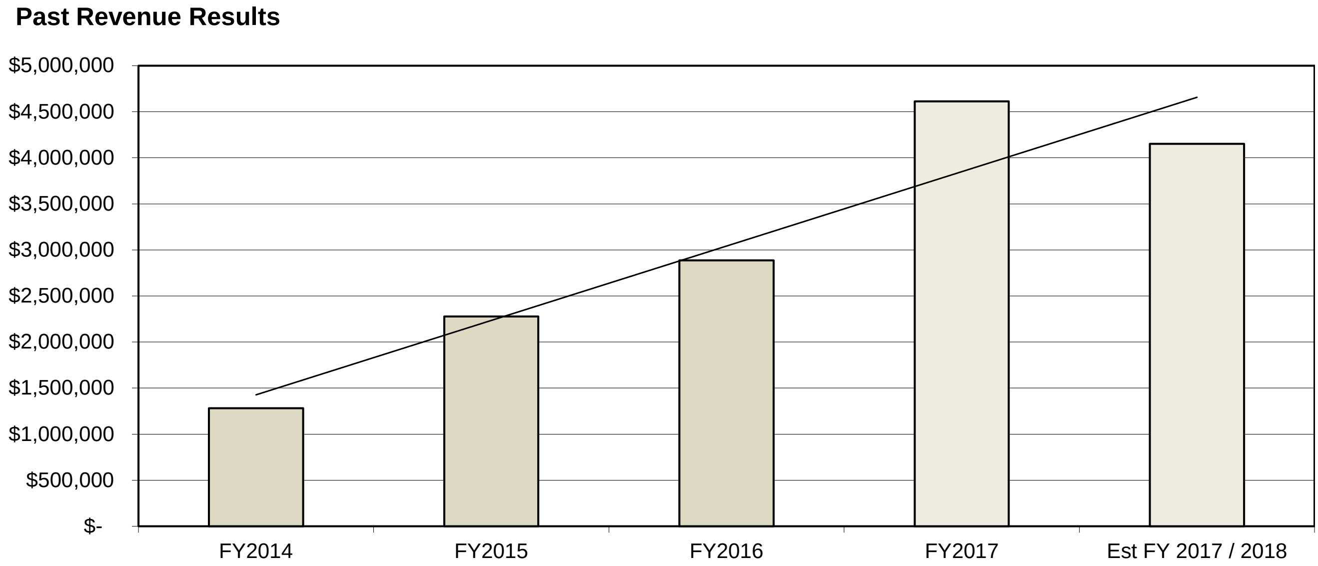
BALANCE SHEET

Assets	Fiscal Year FY2014	Fiscal Year FY2015	Fiscal Year FY2016	Fiscal Year FY2017	YTD @ 31 Dec 17
Current Assets					
Cash	$ 113,866	$ 354,888	$ 144,169	$ 110,389	$ 140,916
Accounts Receivable	$ 217,974	$ 77,066	$ 356,508	$ 741,224	$ 686,467
Prepayments	$ -	$ -	$ -	$ 5,196	$ 5,196
Deferred Tax Asset	$ -	$ 21,949	$ 10,256	$ -	$ -
Other Current Assets	$ 17,693	$ 20,441	$ 59,269	$ 1,186	$ 1,186
Total	**$ 349,533**	**$ 474,344**	**$ 570,202**	**$ 857,995**	**$ 833,765**
Fixed Assets					
Plant & Equipment	$ 39,082	$ 23,449	$ 14,044	$ 184,790	$ 184,790
Motor Vehicles	$ 27,425	$ 20,569	$ 55,577	$ 84,236	$ 84,236
Office Equipment	$ -	$ 3,500	$ 2,623	$ 5,973	$ 7,185
Non-Depreciating Fixed Assets	$ -	$ -	$ -	$ 101,500	$ 101,500
Total	**$ 66,507**	**$ 47,518**	**$ 72,244**	**$ 376,499**	**$ 377,711**
Total Assets	**$ 416,040**	**$ 521,862**	**$ 642,446**	**$ 1,234,494**	**$ 1,211,476**
Liabilities					
Current Liabilities					
Credit Cards	$ 12,964	$ 10,909	$ 15,000	$ 6,612	$ 5,081
Accounts Payable	$ 226,952	$ 318,503	$ 379,721	$ 519,185	$ 379,605
Payroll & Leave Liabilities	$ 10,494	$ 17,712	$ 23,000	$ 52,690	$ 57,902
Tax Liability	$ 7,854	$ 21,729	$ 35,600	-$ 75,180	-$ 20,906
Other Current Liabilities	$ -	$ -	$ -	$ 30,696	-$ 418
Total	**$ 258,264**	**$ 368,853**	**$ 453,321**	**$ 534,003**	**$ 421,264**
Non-Current Liabilities					
Long Term Loans	$ 62,552	$ 45,356	$ 69,744	$ 184,051	$ 160,219
Related Party Loans	$ -	$ -	$ -	-$ 52,171	-$ 112,171
Other Non-Current Liabilities	$ -	$ -	$ -	-$ 88,638	-$ 88,638
Total	**$ 62,552**	**$ 45,356**	**$ 69,744**	**$ 43,242**	**-$ 40,590**
Total Liabilities	**$ 320,816**	**$ 414,209**	**$ 523,065**	**$ 577,245**	**$ 380,674**
Net Assets	**$ 95,224**	**$ 107,653**	**$ 119,381**	**$ 657,249**	**$ 830,802**

9. APPENDIX 4 – BUSINESS ANALYSIS

REVENUE ANALYSIS

The overall revenue trend for the business is shown in the diagram below.



The business has exhibited consistent growth over the five year period at a CAGR of 27% per year.

Revenue Growth Trends	FY2014 - FY2015	FY2015 - FY2016	FY2016 - FY2017	FY2017 - Est. FY2018
Yearly Revenue Growth ($)	$ 998,623	$ 608,012	$ 1,727,279	-$ 462,203
Yearly Revenue Growth (% prev year)	78%	27%	60%	-10%
% Growth Over Most Recent 3 Years				43.8%
% Growth Over Most Recent 5 Years				224.3%
CAGR (*) Last 3 Years				13%
CAGR (*) Last 5 Years				27%

(*) Compound Annual Growth Rate

The 10% fall in estimated revenue for FY18 is related to projects that will extend longer than the current 12 month period. Growth for the business is expected to continue at 10% pa as a minimum. Current project value as at 1st February 2018 is $5.7m, with $3.9m of value still to be completed and claimed.

The owner has resourced the business to be capable of servicing $5m - $6m revenue, with additional office resources required as the business expands further.

PP only deals with elite building companies within Melbourne, creating relationships based on delivery and performance standards.

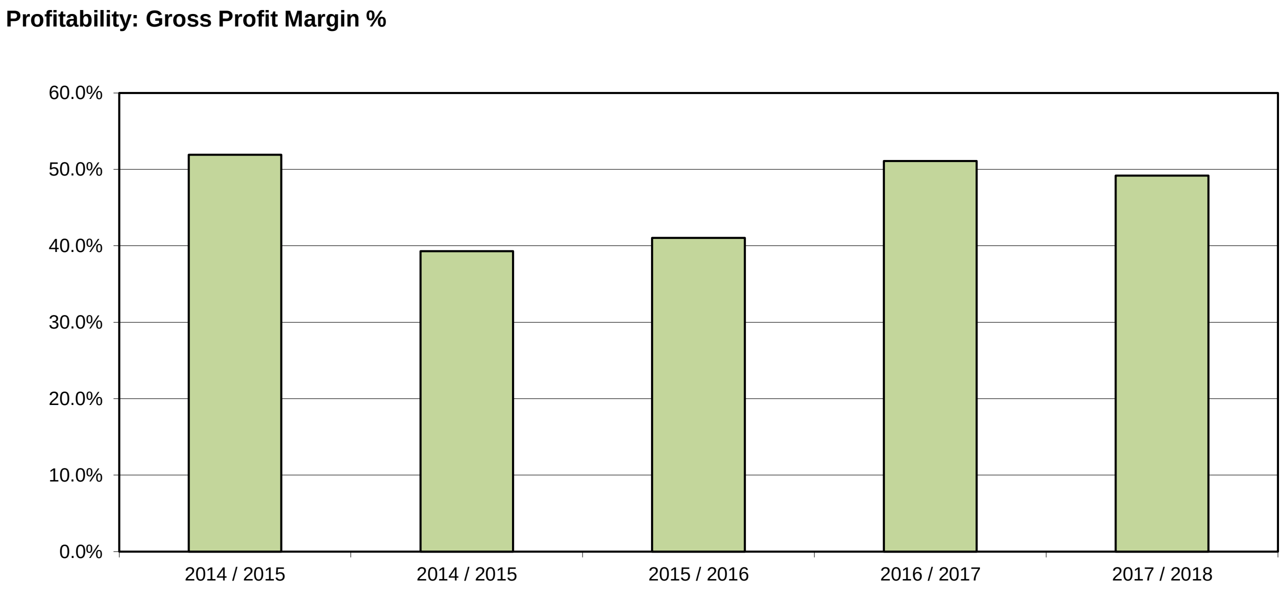
Business Feature	
Key Customer groups or segments	• Multi-storey apartments 30 -50 units • High value renovation and residential construction
Nature of client or customer relationships?	• 90% of all customers are repeat, based on established relationships.
Promotional activities	• Website • Word of mouth • Sources of referrals

Growth Strategies	• Expected growth rate: current revenue is sweet spot
	  ○ Could double growth if employees available and structures in place
	• Strategies:
	  ○ Continue organic growth

Competitive Advantage	• Projects done on time, quality finish • Good attitude • Sort out all the work – get in and get it done in a block of time • Minimal in & outs • Work with the builder to avoid screwing each other

GROSS PROFIT ANALYSIS

Gross profit margin has averaged 50% over the past two years, with this level expected to continue in the future.



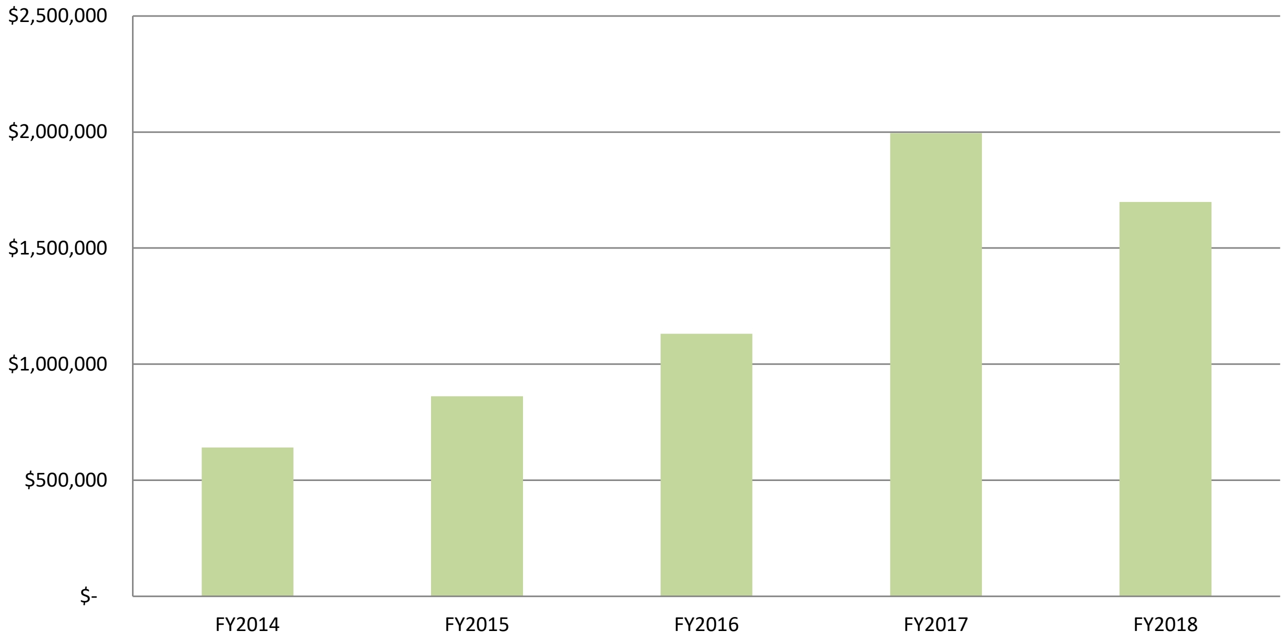
Cost of sales includes subcontractors and purchased materials. Improved pre-ordering processes have decreased the cost of purchases and resulted in an increased Gross Profit Margin.

For the purposes of the valuation, gross profit margin has been maintained at a conservative 50% for the projection period.

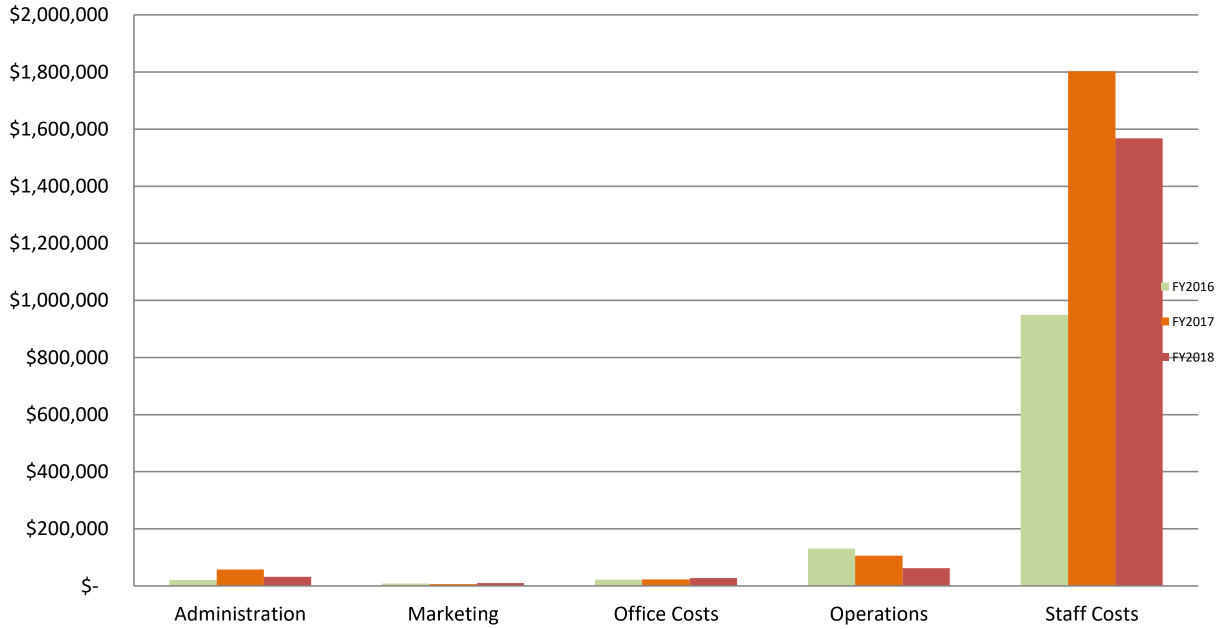
OVERHEADS ANALYSIS

Trends in overheads for previous years are shown in the chart below, with a breakdown into key cost categories.

Trend in Total Overhead Expenses



Overhead Expenses By Major Category



Key features of the cost trends are:

- Increases in overheads are related to increased staff costs associated with increased sales volume. Current staff levels will support revenue growth for next 2 years, with further increases in revenue requiring expanded trades staff.
- It is expected to appoint a further full time role in office management in the next 12-18 months.
- Owners salaries are included in Staff Costs and are paid at:

  - $86k pa + car + super
  - The owners' partner is also paid a similar package for a part time administration role.
  - A CEO salary for a company of this size is typically $120k - $150k.
  - We have noted that market level wages for CEO and administration are equivalent to the combined salaries and hence no further adjustment required.
- The current office lease utilizes a multi-storey portion of the current building and rent is based on the "floor area under roof". As a result we consider the current $10k pa rent to be equivalent to market rent on a floor area basis.
- We expect overheads to increase a further $50k pa for increases staff requirements.

Based on advice and information provided by management, we have based the valuation on future overhead costs of $1.7m, with increases of 2% pa.

10. APPENDIX 5 - INDUSTRY AND EXTERNAL TRENDS

INDUSTRY STATISTICS

The PP business is part of the Plumbing Services industry which includes commercial plumbing services.

The key statistics of these industries reported by IBISWorld are shown in the table below.

	Plumbing Services[1]
Annual Growth in Revenue past 5 yrs (%)	1.5
Annual Growth in Revenue next 5 Yrs (%)	2.0
Industry Revenue ($b)	14.0
Number of Businesses	24,700
Average Revenue Per Business ($m/business)	0.6
EBIT Margin (%)	15.4
Rent (% Sales)	1.3
Wages (% Sales)	21.3
Purchases or Cost of Sales Margin (% Sales)	34.5

Key features of this analysis show that the business, compared to the relevant industry include:

- Higher revenue growth rate than the industry average.
- Lower EBIT margin than the industry average.
- Higher cost of purchases than the industry average.

PP operates in a niche market within the broader construction industry, and its performance statistics will vary from the industry average as a result. The niche market is expected to show less variability than the broader residential market as the economic performance changes. However a higher level of service and quality results in increased labour costs.

KEY INDUSTRY DRIVERS

The key industry drivers as reported by IBISWorld are shown in the table below.

Industry Driver	Comment	Expected Trend Impact in Next 12 Months
Demand from residential building construction	New residential building activity is the main demand determinant for plumbing services.	Decrease
Demand from non-residential building construction	Non-residential building activity is another major demand determinant for plumbing services.	Increase
Dwelling Commencements	A rise in the number of dwelling commencements in Australia brings new business for plumbers, as new households require plumbing networks to be installed.	Decline
Real household disposable income	Growth in household disposable income stimulates demand for plumbing activity on alterations and maintenance to household plumbing fixtures.	Increase

With the focus of PP in the high end renovation, construction and apartment construction, the industry is expected to see a continued increase in demand over the short term period.

[1] IBISWorld, Plumbing Services In Australia, Dec 2017

COMPETITIVE ENVIRONMENT

The key competitors that PP regularly competes against include:

- Trio Plumbing – a lot larger than Pipe
- Harris and Thorn Plumbing
- Westgate Plumbing

Competition is limited by established relationships with existing builders, and the size of the market is not considered to reduce available demand at this point.

REGULATORY ENVIRONMENT

The industry is regulated based on building codes and standards, limited to the areas of:

- Master Builders Code.
- Master Plumbing Authority.
- Workplace health and safety requirements.
- Employer obligations dictated by workplace agreements and awards (Metal Finishing Award).
- Local government planning and compliance requirements.

PP has no outstanding issues regarding these regulations or standards.

BUSINESS IMPLICATIONS

The PP business has secured a profitable niche market for high quality plumbing construction services delivered on time and within budget.

The business is exceeding industry growth averages but profitability is lower than expected. PP is expected to continue at this level in the foreseeable future.

For the purpose of the valuation, PP is expected to continue to meet the industry average in terms of revenue growth.

11. APPENDIX 6 – CASH FLOW ESTIMATES

PROFIT & LOSS PROJECTIONS

Profit & Loss Projection		FY2018	Alternative Entry	% Change Yr on Yr	FY2019	FY2020	FY2021
Revenue							
1	Sales	$ 4,151,936		10%	$ 4,567,130	$ 5,023,843	$ 5,526,227
Total Sales		**$ 4,151,936**			**$ 4,567,130**	**$ 5,023,843**	**$ 5,526,227**
Gross Profit Margins - Enter % Gross Margin by Sales Item or Enter Overall % Gross Margin Below							
Cost of Sales							
1	COGS	$ 2,110,738		10.0%	$ 2,321,812	$ 2,553,993	$ 2,809,392
	Total Cost of Sales	**$ 2,110,738**			$ 2,321,812	$ 2,553,993	$ 2,809,392
	Cost of Sale Adjustments						
Total Cost of Sales					**$ 2,321,812**	**$ 2,553,993**	**$ 2,809,392**
Total Gross Profit		**$ 2,041,198**			**$ 2,245,318**	**$ 2,469,850**	**$ 2,716,835**
	Overall Gross Profit Margin	49.2%			49.2%	49.2%	49.2%
Fixed Expenses / Overheads							
1	Administration	$ 32,127		2%	$ 32,770	$ 33,425	$ 34,094
2	Marketing	$ 9,788		2%	$ 9,984	$ 10,183	$ 10,387
3	Office Costs	$ 26,875		2%	$ 27,412	$ 27,960	$ 28,520
4	Operations	$ 62,254		2%	$ 63,499	$ 64,769	$ 66,065
5	Staff Costs	$ 1,567,591		2%	$ 1,598,943	$ 1,630,922	$ 1,663,540
Total Fixed Expenses		$ 1,698,635			$ 1,732,608	$ 1,767,260	$ 1,802,605
Earnings Before Interest Tax Depreci		**$ 342,563**			**$ 512,710**	**$ 702,590**	**$ 914,229**
	Depreciation	$ -			$ -	$ -	$ -
	Interest	$ -	$ -		$ -	$ -	$ -
	Tax	$ -			$ 143,559	$ 196,725	$ 255,984
Net Profit After Tax		**$ 342,563**			**$ 369,151**	**$ 505,864**	**$ 658,245**
	Net Profit Margin %	8.3%			8.1%	10.1%	11.9%
	EBITDA Margin %	8.3%			11.2%	14.0%	16.5%

12. APPENDIX 7 – CAPITALISATION ASSESSMENT

KEY FACTORS INFLUENCING EARNINGS MULTIPLE

Earnings Multiple Assessment

	Risk / Attractiveness Criteria	Level of Impact on Earnings Multiple	% Deviation From Range Midpoint	Key Evidence or Comments
Sales & Marketing				
1	Nature of revenue base	Moderately positive	25%	Niche; differentiated; relationship managed
2	What confidence does past trends in revenue provide for the future?	Moderately positive	25%	Expect revenue trends to increase by 10%
3	What impact are the future trends in revenue expectations likely to have	Moderately positive	25%	Expect revenue trends to continue
4	Effective marketing strategies in place to support revenue trends	Moderately positive	25%	Focus on delivery to standards and relationship management
Financial Preformance				
5	Past trends in profit performance	Moderately positive	25%	Past EBITDA results support maintenance of EBITDA
6	What is the likely impact on profits of achieving future cost savings (if any)?	Moderately positive	25%	Reduced costs of sale through improved pre-ordering and purchasing procedures
7	Future trends in profit expectations	Moderately positive	25%	Expected to increase with focus on efficiency
8	Sufficient cash reserves and financing to maintain ongoing operations of the business?	Extremely positive	100%	No issues
Systems & Processes				
9	Reliance by business rely on key staff and/or owner(s)?	Minor positive	10%	Management structure in place with operations documented
10	Extent of integration of IT systems	Strongly positive	66%	Use of online systems to support business
11	Extent of automation and processes implemented within the business?	Strongly positive	66%	Use of online systems to support business
12	Extent of documented and communicated procedures and systems within the business?	Strongly positive	66%	Detailed operations instructions and business management procedures written;
Strategic Factors				
13	Extent of a clear, documented competitive advantage for the business?	Moderately positive	25%	Focus on efficiency and delivery
14	The condition of the assets and/or resources to maintain future operations of the business?	Moderately positive	25%	
15	Defined, documented and protected intellectual property to support the competitive advantage?	Neutral or none	0%	Further definition of key competitive advantage and used in marketing would increase strength
16	Effective strategies and plans in place to support profitable performance and growth?	Moderately positive	25%	Well documented business plan with clear strategies for EBITDA growth
External Factors				
17	Any regulatory, legal or other issues that can impact the ongoing nature of the business?	Neutral or none	0%	No Issues
18	What stage is the lifecylce of the business at relative to its industry?	Minor positive	10%	Mature industry with new growth prospects
19	Impact of economic fluctuations on revenue and/or profits?	Minor positive	10%	Minor impact expected
20	Level of competitive pressures within existing markets?	Minor negative	-15%	Competitive bidding maintains low pricing, reduced impact due to differentiation and niche market

Average Impact on Earnings Multiple Range Midpoint	**28%**

13. APPENDIX 8 – COMPARABLE TRANSACTION INFORMATION

MARKET INFORMATION

Gold Coast Plumber	
Revenue ($ pa)	1.4m
Description	• Established a good customer reputation in terms of reliability, promptness and value-for-money. • Team of fully-qualified and trained technicians • Operates from northern Gold Coast base with fleet of service vehicles can • Large base of loyal customers. • Rent of $16,800 per annum, lease in place with a renewal option. • Price includes all of the unencumbered fleet of service vehicles.
EBITDA (exc Owners Wages)	$300k
Stock	
Price	$675k
Reference	https://australia.businessesforsale.com/australian/well-established-plumbing-business-gold-coast-for-sale.aspx

Plumbing NSW	
Revenue ($ pa)	2.8m
Description	• Servicing Sydney, for over four decades. • Trusted reputation, long and established client list. • Long history of working closely with commercial & residential construction and the property maintenance services company. • Plumbing - Emergency plumbing specialists with expertise in commercial and residential plumbing, strata, drain cleaning, hot water installation and repair and leak detection • Maintenance - When there's an emergency plumbing issue and the client needs a fast and quality solution, the company undertake storm water and sewerage clearing and gutter clearing. • Construction – The company is involved in high quality construction work, using the latest technology and the highly-experienced team. • The company have worked on projects including some Sydney Icon buildings, Units and Housing developments, Healthcare facilities, AusGrid (Energy Australia). • O.H. & S. System is accredited and is assessed independently to ensure they comply with the NSW O.H.S Act and Regulations. • Carry all the necessary Insurances and Certificates of Compliance in our trade.
EBITDA (exc Owners Wages)	$325k
Stock	-

Price	$1.6m
Reference	https://australia.businessesforsale.com/australian/leading-long-established-profitable-plumbing-business-for-sale.aspx

Fabrication and Plumbing Mildiura	
Revenue ($ pa)	4.0m
Description	• Established in 1975, one stop destination for Plumbing, Roofing, Heating, Cooling, Hot Water and the fabrication of gutters & flues covering over a 100-km radius throughout this Victorian region. • Sales over recent years have been $3M however with the introduction of improved systems and efficiencies, sales for the 16/17 year are on target to exceed $4M with an EBITA of approximately $300,000 PA. • Customers are in excess of 5,000 and include government agencies, estate agents, builders and other plumbing & air conditioning/heating businesses. • A significant part of the business (65%) is made up of direct sales to the end user.
EBITDA (exc Owners Wages)	$300k
Stock	$150k
Price	$800k
Reference	https://www.businessforsale.com.au/australia/17a80cf5/Fabrication-Plumbing-Heating-And-Air-Con-For-Sale