Moore Australia

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20 December 2022

Shire of Dundas,
PO Box 163,
NORSEMAN, WA 6443

Dear Shire of Dundas,

Valuation of the Business

1. Introduction

Purpose of the Report

1.1 You have requested that Moore Australia Corporate Finance (WA) Pty Ltd ("MACF") prepare an indicative valuation ("Valuation") to give guidance on the fair market value of the Norseman IGA ("Business") at the date of this report.

1.2 This is a summary report ("Report") prepared for the Shire of Dundas and is subject to the disclaimer and consents included in this Report. This Report is a summary of a valuation report dated 15 December 2022. Any references in this Report are taken to have the same meaning in our report dated 15 December 2022

Approach

1.3 Our valuation approach has involved:

- Assessment of the historical unaudited financial statements of the Business for the years ended 30 June 2019 to 30 June 2022;
- The most recent management accounts available (for the period ended 31 October 2022);
- Assessment of appropriate valuation methodologies;
- Calculation and determination of applicable valuation multiples and discount rates to apply to the respective valuation methodologies adopted; and
- Illustration of values assessed based on the most appropriate valuation methodologies adopted.

1.4 We have conducted our services above according to the guidelines contained in APES 110 "Code of Ethics for Professional Accountants" and the principles of APES 225 "Valuation Services".

1.5 An Indicative Valuation Engagement is defined by APES 225 as follows:

"an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the scope of the work is limited or restricted which may be referred to as a limited scope valuation engagement or a indicative valuation engagement."

1.6 This Indicative Valuation Engagement has been undertaken in accordance with the requirements set out in APES 225.

Assumptions and Limitations

1.7 Our indicative valuation has been prepared subject to the following assumptions and limitations:

- Our valuation includes various adjustments for one-off revenue and expenditure items.
- Asset balances have been recorded at historical cost. No revaluations have been performed.
- We have not performed an audit or review of the historical or forecast financial information of the business and have not verified any of the transactions or balances.

2. Valuation Approach

Valuation Approaches Adopted for the Business

2.1 We have assessed the value of the Business utilising the Net Asset Valuation of the Assets to which the Shire of Dundas will be purchasing. We have considered all other valuation methodologies and their applicability to the business but, in our opinion, no other methodology is as appropriate. We have performed a secondary valuation utilising the earnings based approach. We set out our reasoning below:

- The Shire of Dundas is acquiring only certain assets and liabilities associated with the Business;
- We do not consider that the DCF basis of valuation is appropriate as the management of the Business are not able to reliably and accurately forecast the future cashflows of the business;
- The Business is a retail trading business, as such the NAV methodology would not typically be the preferred valuation methodology , as the value of the business is not predominantly derived from the value of its tangible assets. However, given the Shire of Dundas will be acquiring specific assets and the profitability of the Business is small, we consider the net asset value to be an appropriate primary methodology;
- As noted, the Business is a retail trading business so the future maintainable earnings methodology is typically the preferred valuation methodology. However, the Business's earnings are low when compared to the assets required to generate its income. As such, we consider the FME methodology to be an appropriate secondary valuation methodology; and
- The Business is a private business and as such, its shares are not traded in an open market.

Assessed value of the Business

2.2 Our assessment of the value of the Business is set out below:

Enterprise Value	Low	Midpoint	High
	$	$	$
FME	683,741	792,966	902,191
NAV	1,023,228	1,023,228	1,023,228

3. Ability to Repay Borrowings

3.1 The Shire of Dundas plan to finalise the purchase through either a loan totalling $1,750,000, a split of $700,000 from a loan and the remainder financed through an Asset Replacement Renewal Fund ("ARRF"), or the total amount financed through an ARRF, which would also be used to do required upgrades to the buildings.

3.2 The assumed information and inputs for the loan schedule are listed below:

- Loan amounts: $1,750,000, $700,000, $0
- Annual Interest Rate: 6%
- Loan Period: 10 Years
- Number of Payments per year: 12 (Monthly payments)

3.3 The first year (12 months) of the loan schedule is listed in the table below:

	$1,750,000			$700,000			$0		
	Total Payment	Principal	Interest	Total Payment	Principal	Interest	Total Payment	Principal	Interest
Total	**$233,143**	**$131,726**	**$101,416**	**$93,257**	**$52,690**	**$40,566**	**$0**	**$0**	**$0**

3.4 In our opinion, the Shire of Dundas won't be able to meet the loan repayments based on a 10-year term and an interest rate of 6%, if it borrows $1.75 million.

3.5 The repayments and ability to pay off the loan is heavily dependent on the extrapolated FY23 figures being consistently achieved. Given the risks associated with remote location population, we consider the margin between the expected EBITDA and loan repayments to be insufficient.

3.6 The total repayment figures are sensitive to the annual interest rate which is to be attached to the $1,750,000 borrowings. There is uncertainty on future interest rate movements given the current economic climate. Every 0.5% change in the interest rate has an approximate $5,000 change on the annual payments.

3.7 The total repayment figures are highly sensitive to the loan period, with the schedule being set at a 10-year loan which is typically the higher end of a long-term business loan.

3.8 Earnings from the Business may be able to cover the repayments on a $700,000 loan contingent on the assumptions listed above and reporting earnings similar to FY23. If the Company's earnings were to drop to FY22 levels, the Company would be subject to higher risk levels in its ability to repay the $700,000 loan.

3.9 It's important to note that the figures above do not consider any capital expenditure that may be required from time to time and it does not include any additional costs that may be incurred as a result of the Business being operated by the Shire. We note that the Business does not appear to have spent significant funds on capital assets in FY22.

3.10 If no funds are borrowed and all of the funding is secured through the equity finance option, the Shire should expect to receive a suitable return for the risk exposed through the acquisition of the Business. A company's measure of financial return can be measured by the return on investment (ROI). The higher the ROI the more efficient the company is at generating income for its investors. If the Shire of Dundas was to fund the total amount of $1,750,000 through the ARRF financing, the ROI from the forecast net income for 2023 and actual net income for 2022 would be 12.4% and 8.2% respectively. Alternatively, if the Shire of Dundas was to fund $700,000 through a loan and the remaining amount through the ARRF, its ROI for the forecast net income for 2023 and actual net income for 2022 would be 12.7% and 5.7% respectively.

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4. Disclaimers and Consents

Moore Australia Corporate Finance (WA) Pty Ltd has been requested to prepare an indicative valuation for the Directors of the Shire of Dundas. This Report is a summary of the valuation report.

Moore Australia Corporate Finance (WA) Pty Ltd consents to this report being used by the Shire of Dundas for internal purposes. This report or any reference thereto is not to be included in, or attached to any other document, statement or letter without prior consent from Moore Australia Corporate Finance (WA) Pty Ltd.

Our valuation is valid as at the date of our report and may not be valid at a future date if market and economic conditions change.

Moore Australia Corporate Finance (WA) Pty Ltd has not conducted any form of audit, or any verification of information provided to us, and which we have relied upon in regard to the Business, however we have no reason to believe that any of the information provided, is false or materially incorrect.

The statements and opinions provided in this report are given in good faith and in the belief that they are not false, misleading or incomplete.

Neither Moore Australia Corporate Finance (WA) Pty Ltd nor Mr Gray take any responsibility for, nor have they authorised or caused the issue of, any part of this report for any third-party other than the management of the Business in the context of the scope and purpose defined in Section 2 of this report.

The statements and opinions expressed in this report are given in good faith and with reliance upon information generated both independently and internally.

In regard to any projected financial information noted in this report, no member or Director of Moore Australia Corporate Finance (WA) Pty Ltd has had any involvement in the preparation of the projected financial information.

Furthermore, we do not provide any opinion whatsoever as to any projected financial or other results prepared for the Business, and in particular do not provide any opinion as to whether or not any projected financial results referred to in the report will or will not be achieved.

Yours faithfully

Peter Gray
Director
Moore Australia Corporate Finance (WA) Pty Ltd

CONTACT US

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