December 2014

Tylee+Co welcome you to another edition of our newsletter in which we cover:

- Updates on a range of recently completed assignments;
- Some great news about one of our recent clients, Sush Mobile;
- An investment opportunity in the stakeholder & civic engagement market; and
- An article we recently wrote for VetBiz on why it is important to know the value of your veterinary business.

Wishing you all the best for the remainder of 2014. Take care over the Xmas and New Year holiday break and enjoy the summer ahead.

As always, we look forward to your feedback.

Regards, Dougal Tylee

Recent Assignments

Corporate Finance Transactions

Energy and Technical Services Ltd

Tylee+Co provided advice on a potential **acquisition** opportunity.

Energy and Technical Services also provided this great feedback:

Dougal provided an excellent service to ETSL in what amounted to a constrained timeframe. His research, financial and strategic analysis proved invaluable to us. Furthermore, Dougal brings a pleasant and personable demeanour to the table, which is something that is often overlooked. Business in the end is all about people and we would have no hesitation about using Dougal's services again or recommending him to others.

Geoff Bennett, Chief Executive, Energy and Technical Services Ltd

Strategic & Financial Advisory Services

GKC Ltd

Tylee+Co provided indicative **valuation** advice.

Tylee+Co also assisted a:

- Division within a State Owned Enterprise draft and review an internal strategic paper;
- Technology business draft a term sheet for a potential acquisition.

Sush Mobile - #52 on the Deloitte Technology Fast 500™ Asia Pacific 2014

Sush Mobile, a New Zealand based mobile apps software developer and one of our recent clients, has had an incredible year. Sush Mobile has been ranked Number 52 on the Deloitte Technology Fast 500™ Asia Pacific 2014, a ranking of the 500 fastest growing technology companies in Asia Pacific. Among those listed, Sush Mobile is effectively the Number 1 fastest growing specialist enterprise mobile software solutions developer in New Zealand and Australia.

News of Sush Mobile's phenomenal growth rankings in Asia Pacific came just weeks after being named the 9th Fastest Growing Company in New Zealand on the 2014 Deloitte Fast 50™ Awards, where the mobile apps powerhouse received recognition for having achieved 667% growth. This significant growth is attributed to both the diverse team of passionate specialists working at Sush Mobile, as well as the trending shift to mobile solutions across all industry levels including enterprise, SME, entrepreneurs, NPOs, and government. For more information on these rankings refer http://bit.ly/1unC1Yk.

In August 2014, the sale of Sush Mobile to Auckland-based financial technology company Finzsoft Solutions (NZX:FIN) was also announced. For more information on this transaction refer http://bit.ly/1vFXLOu.

Investment Opportunity – Stakeholder & Civic Engagement Software

An opportunity exists to invest in a software company that has identified a significant growth opportunity in the fast growing and global stakeholder & civic engagement market. This market is growing quickly for many fundamental and basic reasons, especially in the Commonwealth and the USA.

The company has existing paying customers for its software, which has been developed using an agile approach. The current software assists organisations that are project orientated or need to manage on-going stakeholder relationships. For example, an electricity distribution company needs to engage with a range of stakeholders (such as landowners, council, Iwi and other affected parties), when planning for and constructing a new transmission line.

The company is seeking $400k for 30% ($25k minimum subscriptions). This first round will be used for further product development, building marketing & sales capability, winning further customers and further validating the NZ market.

The company has experienced directors and advisory board members.

This opportunity is only available to New Zealand resident high net worth individuals, angel investors and other eligible investors who may be issued shares in accordance with New Zealand's securities laws in the absence of a prospectus (as defined in the Securities Act 1978) or a disclosure statement (as defined in the Financial Markets Conduct Act 2013).

Please contact me if you have interest in learning more about this opportunity and / or to request further information.

Why It Is Important to Know the Value of Your Veterinary Business

We recently wrote the following article for the next edition of the VetBiz magazine. A lot of the points in this article also apply to businesses outside of the veterinary sector.

Knowing and understanding the value of your veterinary business is important for a host of reasons. You may be entering into merger and acquisition discussions with another veterinary business and need to know what your business is worth, or you may need to understand value for succession planning reasons.

When Do You Need a Valuation?

You may need a valuation of your veterinary business when you are:

- Succession planning and considering selling some of your shares to a younger veterinarian;
- Considering raising capital for growth purposes (e.g. for organic growth or funding the acquisition of another veterinary business), or to strengthen the balance sheet;
- Considering selling all, or part, of your business (or the shares in it) and want to ensure you get a fair price;

- Looking to merge with another veterinary business and want to understand what percentage of the merged business you might get;
- Undertaking strategic planning and need to know the value of your business to help you consider different strategic options.

What Drives Value for a Veterinary Business?

Valuation is ultimately about future cash generation and risk. Value drivers that affect cash generation and risk for a veterinary business include size, stability of earnings, growth, profitability, margins and people.

Veterinary businesses that are larger, more profitable, growing, have more stable earnings, have margins exceeding industry benchmarks and have management teams and governance in place, should command a higher value than veterinary businesses lacking all or some of these attributes.

There are numerous other factors that positively affect the value of a veterinary business (and reduce its risk). These include when the business has:

- A strong competitive position and brand;
- A broad range of services and customers;
- A larger geographic market;
- Higher levels of recurring revenues;
- Higher levels of tangible assets (compared with intangible assets such as goodwill);
- Lower key person risk;
- Strong internal systems and capabilities, e.g. in marketing.

Owners of veterinary businesses looking to exit will extract greater value when there are more buyers than sellers. The supply–demand dynamics in the fragmented New Zealand veterinary sector have significantly improved, with numerous parties including larger veterinary groups actively seeking to acquire, merge, and invest in veterinary businesses. They are doing this for a host of reasons including economies of scale and being better able to attract, grow and retain staff.

These value drivers apply to all types of veterinary business.

What are the Common Approaches to Value a Veterinary Business?

Various approaches are used to value a veterinary business, with the most common being the capitalisation of earnings approach. This involves valuing the veterinary business by applying a multiple (or capitalisation rate) range to an estimate of future maintainable earnings.

Estimating a multiple range requires an analysis of comparable transactions involving sales of other veterinary businesses. However, it is often difficult to source information on transactions involving privately owned veterinary practices. One useful source involves analysing the multiples that larger listed offshore veterinary companies (e.g. Australian-based Greencross Ltd) have paid for smaller veterinary businesses (mainly companion animal practices and veterinary hospitals). For these types of multiples, adjustments will likely be required to recognise premiums paid due to consideration including a deferred, contingent and/or share component. The fact these acquisitions have been made in offshore markets also needs to be considered. It is not usually relevant to analyse the trading multiples of the large listed offshore veterinary companies themselves, given the relatively small size of most New Zealand veterinary businesses.

To estimate future maintainable earnings (FME), an analysis of a veterinary business's past and expected earnings is required. FME will need to be "normalised" for any non-market (such as shareholders' salaries) and material one-off items. Sometimes a weighted approach is taken to estimate FME, with more weight placed on latest actual and forecast earnings for the coming year.

Other approaches include discounted cash flows (DCF), capitalisation of dividends and valuing the net tangible assets (NTA) of the veterinary business on a going-concern basis.

The choice of valuation approaches depends on factors specific to the veterinary business including:

- The availability of forecasts and projections;
- The financial performance and position of the practice;
- The rights and restrictions attached to the shares being valued;
- Who is purchasing the shares;
- The size of the stake being valued.

The capitalisation of earnings approach is most appropriate for veterinary businesses with an operating history and an earnings trend that is sufficiently stable to indicate ongoing earnings potential. The DCF approach is often used to value growth businesses and projects, but can only be used if the veterinary businesses has longer-term projections. The capitalisation of dividends approach is used to value small minority parcels of shares, and the NTA approach is used where a lack of profitability exists.

Why Knowing the Value of Your Veterinary Business is Important

Knowing the value of your veterinary business is important because it:

- Promotes an understanding of the key drivers of value;
- Encourages you to plan ahead to maximise value;
- Helps you position your business for possible eventual sale;
- Helps you justify the prospective purchase price to potential buyers.

Veterinary business owners who seek to understand their value drivers and improve them (often over many years) will be in a much stronger position to maximise value than those that don't.

Tylee+Co provide investment banking and corporate advisory services

Strategic & Financial Advisory Services	• Advisory board services • Strategic & business planning • Financial modeling & analysis • Business & share valuations • Litigation support including expert witness services
Corporate Finance Transactions	• Business sales • Mergers & acquisitions • Management buy outs • Equity capital raising

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