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VALUATION REPORT

for

ACME PTY LTD

- **Part A-** Valuation methodology, assumptions and subjects.
- **Part B-** Valuation Certificate.
- **Part C-** Valuation input and output data.

PART A

1. ABBREVIATIONS

The following abbreviations is used throughout this report.

- a) **Accountant-** The instructing accountant of this valuation namely
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- b) **Clients-** ACME Pty Ltd.
-    **Franchisor-**                                                       
-    **Vendor-**                                                    
- e) **Appraiser-**                                                
-    **Business-**
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- g) **Appraisal Report-** The full content of this document inclusive of schedules and annexures.

2. NOTATIONS

The following notations are used to compose various formulas and algorithms relating to TVM6 throughout this report. They carry the same meaning throughout unless otherwise stated.



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I lecture in Business and Franchising at Griffith University. Additionally, I consult in private practice in corporate strategy, intellectual property and franchise valuations. I hold a Master of Business Administration, Master of Leadership and a PhD in Intellectual Property Valuation. I have performed over 250 franchise valuations in my professional career.

10. INFORMATION USED IN THIS VALUATION

Parties instructing this valuation namely the Accountant and the Clients (the Parties) have provided me with written and verbal information (Information) for this valuation. I have relied exclusively on this information, and specifically the following documents:

Document	Code
Parties' written and verbal information	VDOC1
Accountant's written and verbal information	VDOC2
Client's written and verbal information	VDOC3
Client's written and verbal information	VDOC4
Client's written and verbal information	VDOC5
Client's written and verbal information	VDOC6
Client's written and verbal information	VDOC7
Client's written and verbal information	VDOC8
Client's written and verbal information	VDOC9
Client's written and verbal information	VDOC10
Client's written and verbal information	VDOC11
Client's written and verbal information	VDOC12
Client's written and verbal information	VDOC13
Client's written and verbal information	VDOC14
Client's written and verbal information	VDOC15
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Client's written and verbal information	VDOC22
Client's written and verbal information	VDOC23
Client's written and verbal information	VDOC24
Client's written and verbal information	VDOC25
Client's written and verbal information	VDOC26



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Document	Code
0000 000000000000 0000000000 00 00000000 000000 00000000000000	VDOC27

11. ASSUMPTIONS AND CONDITIONS

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This appraisal has been prepared in good faith and with due care. Any prospective returns contained in this document represent best estimates based on assumptions, which while reasonable, may not be achieved. Prospective financial information relates to future events and actions that have not occurred and may not necessarily occur. By their nature, these events cannot be independently substantiated. Anticipated future events frequently do not occur as expected and the differences between actual results and prospective returns may be material. Therefore, neither MKF nor me nor any other party confirms, underwrites, or guarantees the attainment of the results represented as prospective returns.

As this valuation is informed by historical Information provided by the Parties and the creation of forward estimates of revenue, expenses, profit, cash flow and net-tangible assets, the following assumptions must be accepted when using this Appraisal Report.

- a) This Appraisal Report does not purport to be an all-inclusive list of all the considerations undertaken to arrive at the opinion of value. It is an appraisal report designed to give a conclusion of value. It is not an accounting report and it should not be relied on to disclose hidden assets or to verify financial reporting. It is an opinion of value of the specific assets and liabilities considered by MKF and me.
- b) The purpose of this appraisal report is to provide a valuation to guide negotiations in a proposed acquisition. For valuation purposes, I have reviewed the Information provided to me by the Parties. The financial information and documents are believed to be reliable. I have not been asked to audit or test the integrity of the Information. Therefore, I deny any responsibility for the accuracy of the documents mentioned in Sc10 above and other non-disclosed financial information provided.
- c) **This Appraisal Report is prepared for the exclusive use of the Clients and their Accountant. No reproduction, publication, distribution, or other use of this Appraisal Report for other than its stated purpose is authorised without prior consent of MKF and me as undersigned Appraiser. The methodology described in this report is copyrighted to me and should not be shared or used by any other person/s.**
- d) All facts and data set forth in this report are true and accurate to the best of the Appraiser's knowledge and belief. No matters affecting the conclusions have been knowingly withheld or omitted.



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- e) The fee charged for this Appraisal Report is not contingent upon the value conclusion.
- f) This appraisal is subject to review upon the presentation of data which may have been undisclosed or not available at this writing. Additional fees may apply.
- g) MKF, its employees and subcontractors have no present or contemplated future interest in the Business. I have no interest in or bias with respect to the Clients, the Vendor, the Franchisor or the instructing Accountant.

12. INDUSTRY TRENDS

Marketforce is a leading provider of business appraisal services. The industry is highly competitive and subject to economic fluctuations. Marketforce has a strong track record of providing accurate and timely appraisals.

The market for business appraisal services is expected to grow over the next several years. This is due to the increasing number of businesses being sold and the need for accurate valuations. Marketforce is well-positioned to capitalize on this growth.

Marketforce's success is based on its expertise in valuation and its commitment to customer service. The company has a strong reputation in the industry and is a leader in providing high-quality appraisal services.

Marketforce's financial performance has been strong over the past several years. The company has a solid track record of profitability and is well-positioned to continue to grow. Marketforce's strong financial performance is a result of its focus on operational efficiency and customer satisfaction.

Marketforce's growth has been driven by its expansion into new markets and its focus on providing high-quality services. The company has a strong pipeline of new business and is well-positioned to continue to grow. Marketforce's strong growth is a result of its focus on innovation and customer service.

Marketforce's strong financial performance and growth are a result of its focus on operational efficiency and customer satisfaction. The company is well-positioned to continue to grow and is a leader in the industry.

2. This document is confidential and intended solely for the use of the individual named. If you have received this document by mistake, please notify the sender immediately.



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13. BASIS IF OF VALUE

This work values the Intellectual Property Assets (IPA) by calculating the total value of future free operating cash-flows of the Business less the opportunity cost of net tangible assets employed in generating these cash-flows. By extension, the approach includes imputed values for proprietary assets and cash-flows derived from licensed assets such as trademarks, brand names, and patents. As such, a valid valuation methodology must have the sophistication to calculate IPA values in that broader sense and must include three identified pillars of finance theory, namely the value of money, information, and risk. Above all the methodology must recognise that franchise related IPA is inherently different from valuing other types of IPAs.

The valuation process of most businesses rests on three structural pillars, namely the identification and valuation of operating and non-operating assets, the future earning power of these assets and the calculation of a discount rate. Regarding both asset classes, there is a corresponding need to determine individual assets within each class

that will positively add to earnings as a going concern and those that will not. This process then allows assets with earnings power to be capitalised (where cash-flows or net income are divided by an applicable rate) or discounted and those without, to be valued at net realisable value. Indeed, the value of any asset is a function of the cash-flows generated by that asset, their expected growth and the riskiness associated with their realisation. Therefore, in valuing IPA, the challenge is to arrive at an appropriate methodology to determine the value of physical assets with earning power, and the value of the business. However, this challenge cannot be undertaken without first establishing the meaning of value, as relying on the wrong standard of value can result in a different value and, in a dispute setting.

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מסמך זה מיועד לשימוש בלבד של לקוחות מסוימים. אין להפיץ את המסמך או את תוכנו לציבור או לשימוש אחר. כל עותק של מסמך זה הוא עותק של מסמך מקורי. אין להעתיק, לשכפל, לפרסם או לשתף את המסמך או את תוכנו באמצעות כל אמצעי, כולל אלקטרוני, ללא אישור מפורש מכתובת.

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14. MAINSTREAM METHODOLOGIES

Notwithstanding the available knowledge, a great number of businesses continue to be priced according to 'quick and dirty' methods such as, the rule-of-thumb or industry averages or multiple or some other method that in no way reflects the true worth of the business, when properly valued by financial and econometric models. In saying that, it is important to distinguish price, that is, the consideration agreed between purchaser and vendor for the conveyance of the business and value being the worth of the business to the buyer as measured by such purchaser perceptions as economies of



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scale, economies of scope and strategic value. The literature abounds in different valuation methodologies that have evolved to meet different objectives. With over 60 different approaches on offer, leading researchers summarise their fundamental approaches, under four rubrics which are reproduced below.

- a) Market Capitalisation Methods- MCM is based on the calculation of the difference between the market value of an enterprise and its assets, which is equalled to the value of intellectual capital. These methods are hard to apply in non-profit entities or enterprises of the public sector such as market to book values, Tobin's q and Investor's assigned market value.
- b) Return on Assets Methods- ROA is based on pre-tax average income versus average capital unit calculation. Afterwards, the obtained result is compared with the average value of the industry branch, and the result is treated as the average of return on intellectual capital. Part of these methods are based on discounted cash flow calculation and do not avoid some errors such as CIV, EVA, VAIC, and Knowledge capital earning.
- c) Direct Intellectual Capital Methods- DIC is based on evaluation of intellectual capital in monetary units by identifying the specific components or elements such as Technology broker-IC audit, Total value creation, The value explorer, Citation-weighted patents and Accounting for the future.
- d) Scorecard Methods- SC is based on identification of various components of intellectual capital and attribution of specific indicators or indices to measure these components. The difference from the first type lies in the fact that this type does not seek evaluation in monetary units such as Skandia navigator, IC index, and Intangible assets monitor.

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While the above classification provides an excellent generalisation of extant models, for the present, attention is directed at several mainstream methods of valuing franchise-dependent IPA that have emerged as influential and fit for purpose. They are the (a) multiple/classic method, (b) the super-profit method, and (c) the annuity method.

Let's begin with (a) the relative valuation or earnings *multiple/classic* method which values goodwill by multiplying the most recent or average net income of the target firm or its net cash-flows by a multiple that is representative of the industry's average. It is normally used when a business is expected to trade profitably in the future and where profits are sufficient to support a valuation more than the net assets of the business. It is predicated on supply and demand forces being the dominative determinant of value

in so far that it requires a multiple based on the overall performance of, or the comparable sales within, the industry.

In a different way, (b) the *super-profit* or the abbreviated goodwill income or capitalisation of earnings method determines goodwill in two ways. The simple version arrives at a value for goodwill by calculating a super-profit, being the present value of the company's net assets (at net book value). Under this approach, the company's asset values are discounted at a risk-free rate for a period of five to eight years. The



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discounted value is then reduced by the company's net income for the most recent year or that which is forecasted for the year ahead to arrive a value. In contrast, the complex version calculates the *realisable* value of the company assets rather than relying solely on the *book* value of its net assets to establish value. Both multiple/classic and the super-profit methods are intrinsically susceptible to extrinsic factors that are subject to bias, in that the multiple/classic method relies on a 'valuation multiple' and the super-profit method requires a 'depreciation rate' equally based on a reified industry average. Fundamentally, unlike the super-profit and annuity methods which is a search for intrinsic value, relative valuation relies much more on the market being right.

Lastly, (c) the *annuity method*, Anglo Saxon or indirect method, calculates a super-profit as described above and then computes value by converting that value into an annuity, at a risk-adjusted rate such as that for fixed income securities.

Central to the super-profit and annuity methods is the need to determine an appropriate range of discount rates or capitalisation rates, net asset values and income/cash-flow values, which unavoidably involves a consideration of several cross-sectional factors. Indeed, despite the vast body of work contained in the literature about discount rates, it remains one of the most contested and problematic issues in valuations. The issue of discount rates retains intellectual currency because in most valuation models, they are typically composed by combining a risk-free rate, a beta factor and a risk premium. As explained below, beta factors and risk premiums cannot be homogenised across all businesses and require customisation.

15. DISCOUNT RATE

The confluence of inflation, and the preference for present rather than future consumption, mean that a dollar today is worth more than one tomorrow. In investment term, the investor has a choice, either to invest in a business or elsewhere to earn a return, and the required rate of return together with the preparedness to take on risk, make up the discount rate. Indeed, if investments were devoid of uncertainties, there would be no risk, which will in turn steer the rational investor towards an investment with the highest return. In that context, it logically follows that franchises yielding the same level of cash-flows would be valued the same, thereby creating real investment indifference between any of them, or any combination of them. Moreover, discount rates are notoriously case sensitive, requiring adjustment and customisation, to accord with that which is being discounted and for a specific purpose. In other words, the valuation event and the equitable interest being acquired (acquisition of the entire firm or part thereof) must be known at the outset. In the case of an equity valuation, the discount rate reflects the cost of equity. Ultimately, in that sense the discount rate must reflect the initial and ongoing cost of financing that business. If the Clients will rely on a mixture of debt and equity as a source of capital, by design the discount rate must include the weighted costs associated with each source.

a) Cost of equity

Cost of equity is the rate of return required by investors to provide capital to the company. It is calculated as the risk-free rate plus a risk premium. The risk-free rate is the return on a government security with a maturity equal to the company's life. The risk premium is the additional return required to compensate investors for the risk of the company's assets. The cost of equity is used to discount the company's future cash flows to their present value.



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b) Cost of capital

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The issue of risk is a structural pillar in any valuation construct as valuations are prospectively informed by and constructed from antecedent, existent, and subsequent variables. Unavoidably, the prior accuracy of any valuation cannot be guaranteed.



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Marketforce is a leading provider of business-to-business solutions, offering a range of services to its clients.

Marketforce's services are designed to help businesses improve their operational efficiency and reduce costs. The company's solutions are scalable and flexible, allowing businesses to tailor their services to their specific needs.

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19. FREE CASH-FLOWS

Free cash-flows (FCF) represent the net flow of cash to the business after accounting for initial acquisition costs and deducting any injection of debt or equity capital and proceeds from sale of capital assets (free cash-flow). However, when valuing the firm, as opposed to valuing equity, cash-flows are increased by any outflows relating to debt repayments. This is to ensure that the cost of the capital structure of the business is properly reflected in the valuation. Cash-flows are to be distinguished from business profits, as the two do not necessarily equate. In TVM6 free cash-flows are estimated from the historical financial records according to a 3-step structured process, namely, (a) data collection, (b) normalisation and sanitation of financial statements, and (c) forecasting of profits and cash-flows. For this valuation, the Clients have provided forecasted gross revenues, expenses and capital expenditure for three years following acquisition. I have entirely relied on this information for my calculation of goodwill value.

20. NORMALISATION AND SANITATION OF FINANCIAL STATEMENTS

- a) Eliminate all payments (salaries, fringe benefits and other emoluments) made to or on behalf of the directors and shareholders of the Business, including their associates and impute a value equivalent to what the franchisee-operated business would pay at arm's length for equivalent skills and expertise.
- b) Eliminate all payments relating to the occupation of the freehold business premises and impute a value equivalent to what the Business would pay at arm's length for equivalent leasehold premises.
- c) Eliminate any revenues that do not directly relate to the operations of the Business as prescribed in the franchise agreement.



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23. THE RISK-FREE RATE

The risk-free rate is defined in context of an asset where (a) its expected returns are known with certainty, (b) there are no default risks, and (c) there are no reinvestment risks. Such assets are typically issued by government authorities in the form of bonds. In Australia, government bonds are commonly used as proxies for the risk-free rate. At the limit, the choice of an appropriate proxy begins with, (a) the selection of a risk-free asset, and (b) confirming the time period over which the rate is to be set, and (c) the matching the term/maturity of the security with that of the asset being discounted.

The risk-free rate for this valuation is 0.0000%

24. EFFICIENCY RATING

The efficiency factor E is returned as an integer between 0 and 1 by analysing the key content of the Franchisor's Annexure 1 Disclosure Document which is a mandatory document that franchisors must provide to a person proposing to enter into, renew or

renew or extend the Franchise Agreement. The key efficiency drivers measured in this valuation are as follows:

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The key efficiency drivers measured in this valuation are as follows:

- a) Franchisor legal structure
- b) Business experience
- c) Litigation
- d) Payments to agents
- e) Existing franchises
- f) Master franchises
- g) Intellectual property
- h) Franchise site or territory

⁶ <https://www.aofm.gov.au/securities/treasury-bonds>



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Valuation Certificate

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Business	Acme Pty Ltd
Location	Level 1, 268 There Street, Suburb, State, Australia
Industry	Fast Food
Purpose	To assess the goodwill value of the Business being acquired as a going concern.
Territory	North BOUNDARY: Yan Yean Road, Kurrak Road, Gorge Road, Plenty Road, Gordons Road, Great Eastern Way and Findon Road. SOUTH BOUNDARY: Murray Road, Southern Road, Waiora Road, Lower Plenty Road, Fitzsimons Lane and Yarra River. EAST BOUNDARY: Kangaroo Ground-Warrandyte Road, Eltham-Yarra Glen Road, Kangaroo Road-Wattle-Glen Road, Wilson Road, Black Gully Road and Iron Bark Road. andWEST BOUNDARY: High Street.

VALUE \$898,363

Franchisor	Acme Franchisor Pty Ltd
ACN	111 222 333 3
Client	John Acme

Disclaimer This valuation is provided for the exclusive use of the Client and should be used strictly in accordance with the Valuation Report provided by the Appraiser. Under no circumstances shall the Appraiser- or Marketforce Pty Ltd or their agents be liable to any party other than for direct or indirect, special, incidental or consequential damages arising of the use of this valuation.



Appraiser	John Sample
Date	xx/xx/xxxx