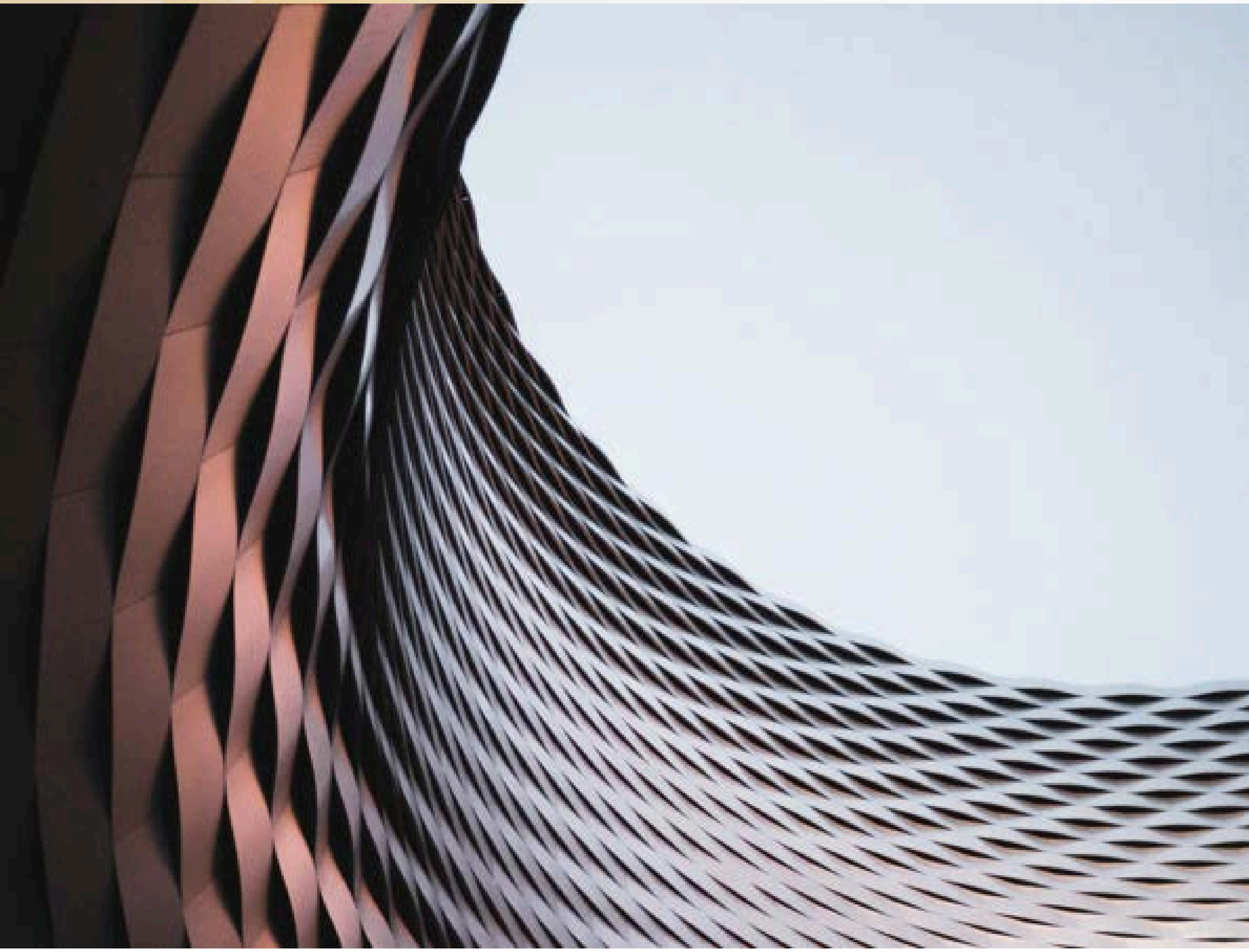


Business Valuation Report

Adacel Technologies Limited

Generated on 22 Aug 2024

Contents

Business Valuation Report, generated on 22 Aug 2024.

Valuation Report Introduction

Business Valuation Report, generated on 22 Aug 2024.

Pomanda's Business Valuation Report seeks to demystify valuation for those users who are new to it and to provide a useful resource for those experienced in valuation.

At the core of the report is the principle that there are many different ways of valuing a company or asset. Each of these valuation approaches will generate a different result. In simple terms, a company or asset can be valued on a relative basis, compared to other similar companies, or on an absolute basis, based on its performance and assets. However, at the end of the day, valuation is ultimately determined by what a buyer will pay for a company or asset.

Pomanda's Report does not intend to provide its users with a single definitive answer to valuation, since this would be misleading. What it does aim to do is to walk its users through a number of different valuation approaches and outcomes. The choice of which approach to adopt will be in the hands of the seller, typically the owner of the company or asset. Most owners prefer to focus on the valuation approach which produces the highest valuation. However, without a willing buyer and seller, there can be no sale and so any valuation will remain theoretical unless it takes into account the demand for the company or asset and how urgently the owner needs to sell it.

Pomanda's data is estimated using industry averages and the figures are provided as a helpful starting point for the Valuation Calculator. For an accurate valuation, we recommend updating the financial data to the latest available for the company. The data used is listed on page 14 and 15 of this report. Changes to this data can lead to large differences in our valuation calculations.

What is a market approach?

Ultimately, the value of your business is what somebody is willing to pay for it. This is why comparative valuations based off multiples of revenues or profits compared with the business's industry peer group, are the most common way of valuing established operating businesses. By looking at the valuations of companies trading on stock exchanges in the industry peer group and comparing these valuations with the peer group's financial performance, a set of industry multiples can be generated, which can then be applied to each business.

What is an asset based approach?

The asset-based valuation approach is less complex and easier to apply. It focuses on a company's net asset value, or the fair market value of its total assets minus its total liabilities, to determine what it would cost to recreate the business. While there is some room for interpretation in terms of deciding which of the company's assets and liabilities to include in the valuation, an asset-based valuation approach is generally the easiest to apply relative to the traditional income-based and market approaches.

Why is the industry important?

In order to identify a business's peers and compare it to similar type businesses it is important that Pomanda uses the correct industry classification(s). As a starting point, Pomanda will use the SIC Code provided by Companies House. However, this can often be wrong or out of date and we encourage users to customise their industry selections to improve the accuracy of the valuations.

Why does Pomanda provide both enterprise and equity values?

Enterprise value represents the entire value of a business, without giving any consideration to its underlying capital structure (how much of the business is funded by equity, debt or cash). Equity value represents the total amount of value solely attributable to shareholders. An offer to buy a business will usually be made in terms of the enterprise Value. The equity Value is what the seller shareholders will ultimately receive once adjustments have been made to take into account any debt and cash on the business's balance sheet. For this reason, most sellers are focused on equity value.

Valuation Methods

Business Valuation Report, generated on 22 Aug 2024.

Pomanda estimates Adacel Technologies Limited's valuation between the following range using 6 different valuation methods.

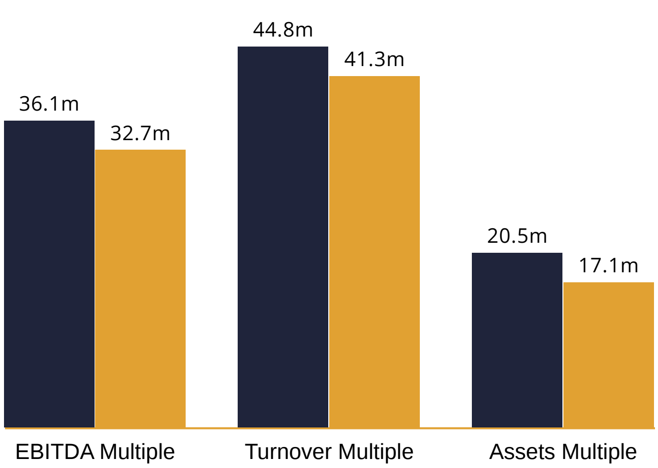
Market Approach

Basis: **Industry Multiple**

Description:

The relative value method uses valuation multiples from comparable companies operating in the same industry, as a guide to the value of the business. It is based on the assumption that companies that are similar in size, industry, and scale will be valued the same way, relative to their financial performance.

Results



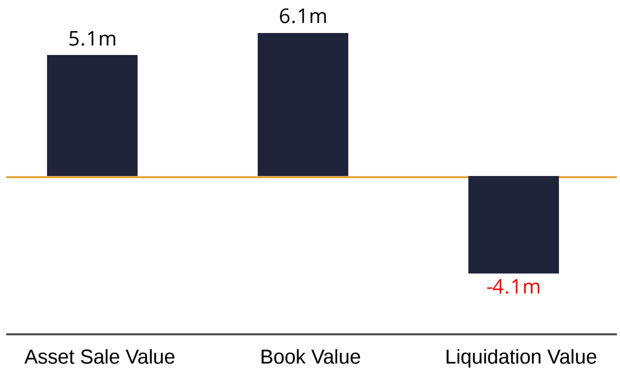
Asset Approach

Basis: **Balance Sheet**

Description:

The asset (or cost) approach utilises the balance sheet to determine what it actually costs to build a business, or may cost to replace a business. This approach ignores any value creation or cash flow generation and only looks at things through a "cost = value" viewpoint. In a mature business, this generally results in lower valuations than achieved through a market approach.

Results



Max	Valuation Range	Min
44.8m AUD		-4.1m AUD
Turnover Multiple (Equity Value)		**Liquidation Value**

In this section Pomanda compares the value of Adacel Technologies Limited to that of its industry peers.

What are Pomanda multiples?

Pomanda starts by creating accurate industry multiples based on data directly sourced from publicly traded companies. This provides a robust starting point for valuation. We then refine these multiples by considering the unique country risk associated with the business's operating environment. Our "Country Risk Adjustment" factors in political stability, economic indicators, currency risk, and regulatory environment, ensuring our valuation reflects the specific challenges of the business's location.

Recognising that private companies may have different characteristics than publicly traded ones, Pomanda makes further adjustments. We consider "liquidity," accounting for the fact that private companies may have less readily tradable shares. We also adjust for "scale differences" if the business is smaller than the average company in its industry. This recognizes that larger companies often command higher valuations due to advantages like greater market share and purchasing power. Through a proprietary algorithm, Pomanda generates a bespoke set of multiples for each business, incorporating both liquidity and scale adjustments. By combining industry multiples, country risk adjustments, and our proprietary adjustments, we ensure our valuation accurately reflects the nuanced conditions of the business, both within its industry and its operating country.

Why does Pomanda use 3 different industry multiples?

There are many different operating metrics which can be used to generate comparative valuations. Pomanda uses EBITDA, turnover and net assets because businesses at different stages in their development, and in different industry sectors, will typically have different operating metrics of relevance when calculating value.

EBITDA (which stands for Earnings Before Interest, Taxes, Depreciation and Amortisation) is probably the most commonly used metric. In mature businesses in most industries, EBITDA is a sensible proxy for the cash flows of a business and so a multiple of EBITDA is the preferred measurement for those looking to value a business.

Turnover Multiples are often used when a business is not mature and therefore not generating sufficient EBITDA to provide a meaningful indicator of value. Turnover multiples are also sometimes used in fast growing businesses, which have the potential to scale rapidly and which are focused on gaining market share over short term profitability.

Net Assets (total assets minus total liabilities) may seem a less relevant metric than EBITDA and Turnover. However, a Net Asset multiple can be a useful indicator of value in these sectors where

Valuation Multiples - EBITDA

Business Valuation Report, generated on 22 Aug 2024.

What is an EBITDA multiple?

EBITDA stands for Earnings Before Interest, Taxes, Depreciation and Amortisation. This is a common measure of a company's profitability when comparing companies as it excludes factors that can be influenced by certain accounting policies (depreciation and amortization), cost of debt and other capital expenditure.

When are EBITDA multiples used?

This is probably the most common industry multiple used and is a way for investors to measure the return on investment for traditional operating businesses. By using this methodology they are looking at the future cash flows from the operating business.

Enterprise Value = **32.7m**

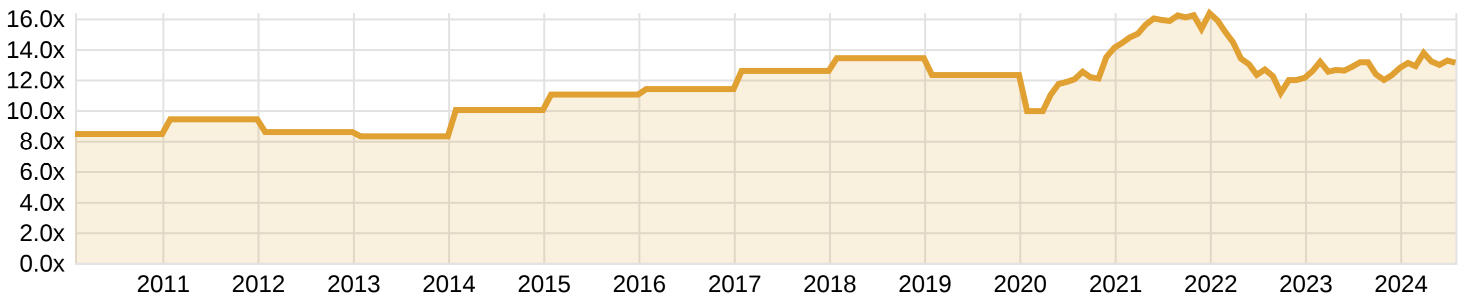
EBITDA		Company Multiple
3m	x	11x

Equity Value = **36.1m**

Enterprise Value		Debt		Cash
32.7m	-	129.1k	+	3.6m

All values are shown in Australia AUD

Historic Industry Multiples



Note - from March 2020 multiples are calculated monthly, prior to this they were calculated on an annual basis.

Multiples

Industry Multiple (July 2024)	13.1x
Pomanda Adjustment	-16%
Adacel Technologies Limited Company Multiple	11x

Industry Multiples - Turnover

Business Valuation Report, generated on 22 Aug 2024.

What is a turnover multiple?

Turnover, commonly referred to as revenue or sales, is the amount of money a company brings in prior to costs of goods sold and other operating costs. Unlike other multiples which might generate negative results, a turnover multiple allows people to value a business comparatively, even if it is losing money or has negative assets.

When are turnover multiples used?

Turnover multiples are often used when a business is not mature or is liable to volatile earnings and therefore not generating sufficient EBITDA to provide a meaningful indicator of value. A benefit of turnover multiples is the general stability and lower accounting distortion afforded by sales numbers. Turnover multiples are also sometimes used in fast growing businesses, which have the potential to scale rapidly and which are focused on gaining market share over short term profitability.

Enterprise Value = **41.3m**

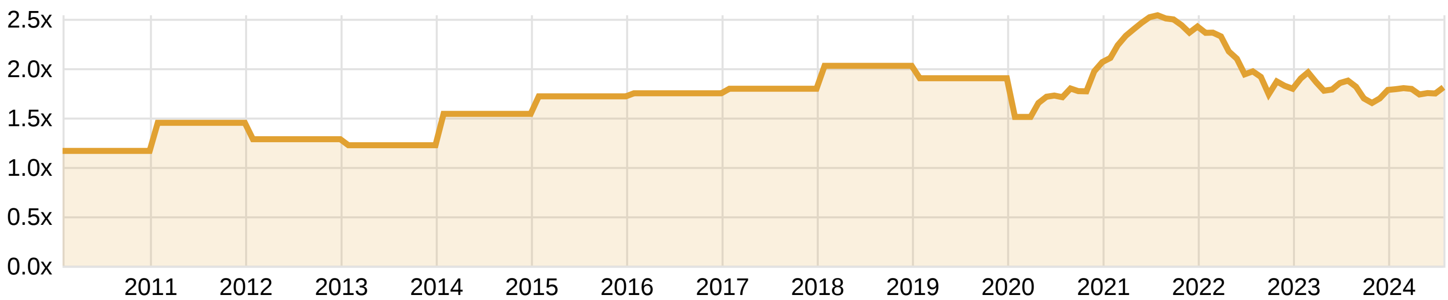
Turnover		Industry Multiple
27.3m	x	1.5x

Equity Value = **44.8m**

Enterprise Value		Debt		Cash
41.3m	-	129.1k	+	3.6m

All values are shown in Australia AUD

Historic Industry Multiples



Note - from March 2020 multiples are calculated monthly, prior to this they were calculated on an annual basis.

Multiples

Industry Multiple (July 2024)	1.8x
Pomanda Adjustment	-16%
Adacel Technologies Limited Company Multiple	1.5x

What is a net assets multiple?

A net asset multiple looks at the valuation of a business in relation to its net assets (being its total assets minus its total liabilities). Net assets provide a guide as to what a company owns (in assets and investments) relative to what it owes to third parties. For this reason, net assets also equal the shareholders' equity in the business.

When are net assets multiples used?

A net asset multiple can be a useful indicator of value in those sectors where income (and therefore value) is entirely dependent on the value of the assets in the business. Common examples of this are property and banking. A relatively high net asset multiple suggests that a business is delivering a strong return on its assets, whereas a low multiple suggests that its assets are not being used efficiently.

Enterprise Value = **32.7m**

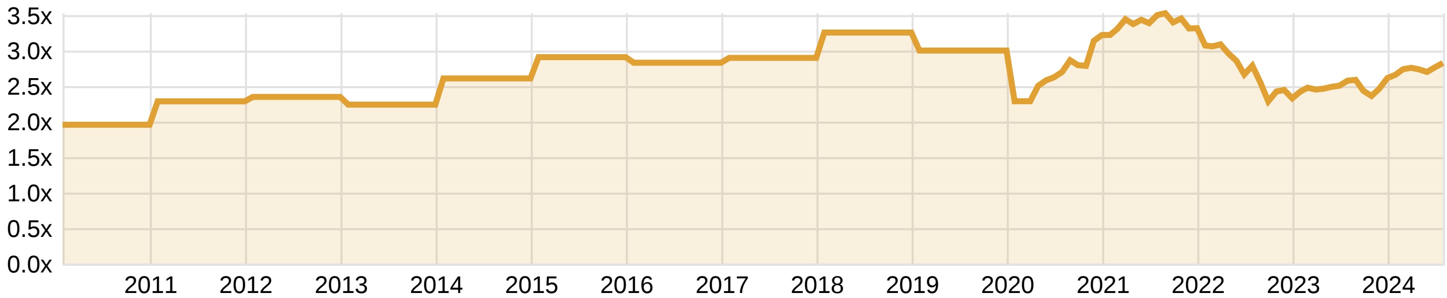
Net Assets		Industry Multiple
6.7m	x	2.5x

Equity Value = **20.5m**

Enterprise Value		Debt		Cash
32.7m	-	129.1k	+	3.6m

All values are shown in Australia AUD

Historic Industry Multiples



Note - from March 2020 multiples are calculated monthly, prior to this they were calculated on an annual basis.

Multiples

Industry Multiple (July 2024)	2.8x
Pomanda Adjustment	-10%
Adacel Technologies Limited Company Multiple	2.5x

In this section Pomanda looks at the balance sheet of Adacel Technologies Limited and the various valuation methods associated with it.

Which asset based valuation is relevant for my business?

Pomanda has three approaches to asset based valuations. In order to choose the right approach, you need to decide whether or not the business is a going concern. If it is a going concern, then the next decision is over whether or not to sell all its assets and liabilities (Book Value approach), or only specific assets (Asset Sale approach). If the business is not a going concern, then the Liquidation Value approach via a forced asset sale, will need to be adopted.

Why not just focus on sales or profitability?

Tangible assets form the core of many companies' balance sheets. These include real property (such as land, building, improvements) and personal property (including machinery, equipment, motor vehicles, furniture, computer equipment, etc.). The recent pandemic and previous financial crisis is a reminder to investors of the instability of earnings and the associated unpredictability of the future performance of businesses. This increased risk from cash-flow uncertainty is encouraging equity and debt investors to understand the worth of a business based on the value of its underlying tangible assets.

When are assets based valuations less useful?

When valuing income-generating businesses, the usefulness of this approach may be limited as it does not capture the future income-generating potential of the business or the value of its goodwill and other intangible assets. It does, however, present a reality check to the overall business valuation in providing an estimate of the potential lower end of the valuation range of the business.

When might asset based valuations be used?

The asset-based valuation provides an indication of the downside risk in a business. A potential debt or equity investor will take into consideration the value of the underlying tangible asset when deciding on the appropriate pricing for equity or a loan rate for providing debt to a business with limited historical information.

EQUITY INVESTOR VIEWPOINT

Assets → Risk → Value/Price

DEBT INVESTOR VIEWPOINT

Assets → Risk → Loan Rate

What is the asset sale value?

In an asset sale, the seller remains as the legal owner of the business. The buyer purchases assets of the company, such as equipment, licenses, goodwill, customer lists, and inventory. It is characterised as a cash-free and debt-free transaction.

Why sell the assets of a company rather than its shares?

The choice to sell the assets of a company is influenced by a number of factors, including the financial, legal and personal considerations of the buyer and the seller. As asset sale allows the seller to retain certain key assets within their business, but may also allow the buyer to pick and choose which assets they want to acquire. An asset sale generally involves the buyer in fewer risks, since they will not assume responsibility for any of the liabilities in a business. By way of comparison, in a share sale, the buyer will require the seller to give often extensive warranties and indemnities against any current or future liabilities. An asset sale can become complicated if the buyer is acquiring most or all of the business, since it will be important to ensure that all the parts of the business are legally transferred, including properties, any machinery, employees and all commercial contracts.

Asset Sale Value = 5.1m

Fixed Assets		Stock & Work in Progress
4.5m	+	598.5k

Assets	
Tangible Assets	3.9m
Intangible Assets	631.3k
Misc. Fixed Assets	0
Stock & Work in Progress	598.5k
Trade Debtors	4.1m
Cash	3.6m

Liabilities	
Trade Creditors	1.4m
Current Liabilities	4.5m
Long Term Liabilities	129.1k

All values are shown in Australia AUD

Balance Sheet - Book Value

Business Valuation Report, generated on 22 Aug 2024.

What is the book value?

The book value of a company is the difference between the total assets and total liabilities. Book value reflects the total value of a company's assets that shareholders would receive if the company were to be liquidated. An asset's book value is equivalent to its carrying value on the balance sheet.

When might book value provide a realistic view on valuation?

In unstable economic times, when many businesses struggle to generate reliable or positive cash flow, there is the need to look at valuing businesses from the perspective of the sum of assets and liabilities. Tangible assets form the core of many companies’ balance sheets. These include real property (such as land, building, improvements) and personal property (including machinery, equipment, motor vehicles, furniture, computer equipment, etc.). Intangible assets, typically representing brand value (goodwill) and/or intellectual property rights such as patents and copyrights, can be difficult to value. If they are not helping a business generate underlying cash-flow then they can often become worth very little, hence the focus in such situations on book value (total assets minus intangible assets minus liabilities).

Book Value = 6.1m

Total Assets		Intangible Assets		Liabilities
12.8m	-	631.3k	-	6.1m

Assets	
Tangible Assets	3.9m
Intangible Assets	631.3k
Misc. Fixed Assets	0
Stock & Work in Progress	598.5k
Trade Debtors	4.1m
Cash	3.6m

Liabilities	
Trade Creditors	1.4m
Current Liabilities	4.5m
Long Term Liabilities	129.1k

All values are shown in Australia AUD

Balance Sheet - Liquidation Value

Business Valuation Report, generated on 22 Aug 2024.

What is the liquidation value?

Liquidation value is the net value of a company's physical assets if it were to go out of business and the assets sold. The liquidation value is the value of company real estate, fixtures, equipment, and inventory. Intangible assets are excluded from a company's liquidation value.

How can asset based valuation help in a liquidation scenario?

While a business's assets can sometimes be liquidated in an orderly fashion as part of the normal course of business, liquidations are more commonly associated with forced assets sales, when creditors require value in a time pressured environment. In these scenarios, the business can only expect to receive a portion of the book value of machinery, equipment, stock and receivables. The exact discount to book value will be determined by the quality of the assets and demand for them through any auction process. Asset based valuations are useful here because they provide a sensible indication of the downside risk in a business. This may be important for investors and lenders as they look to assess the risk of not getting their money back should the business underperform.

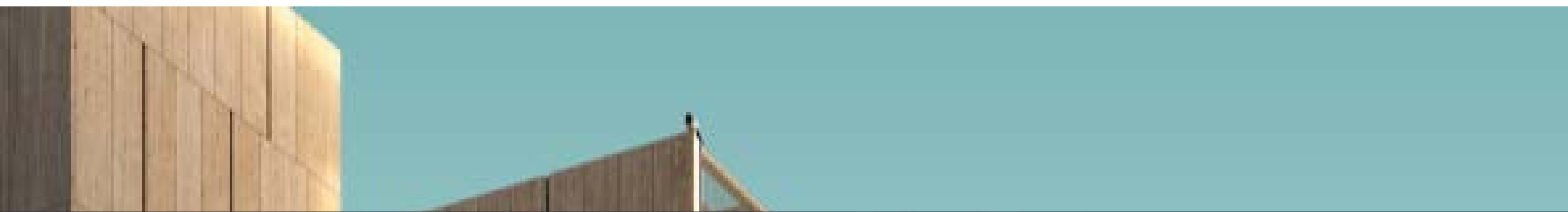
Liquidation Value = -4.1m

Tangible Assets		Discount		Liabilities
3.9m	x	50%	-	6.1m

Assets	
Tangible Assets	3.9m
Intangible Assets	631.3k
Misc. Fixed Assets	0
Stock & Work in Progress	598.5k
Trade Debtors	4.1m
Cash	3.6m

Liabilities	
Trade Creditors	1.4m
Current Liabilities	4.5m
Long Term Liabilities	129.1k

All values are shown in Australia AUD



■ Pomanda Estimates ■ Companies House Data ■ User Entered

Profit & Loss

Turnover	27.3m AUD
• Cost of Sales	4.1m AUD
• Gross Profit	23.1m AUD
• Admin Expenses	20.6m AUD
Operating Profit	2.5m AUD
• Depreciation & Amortisation	454.4k AUD
EBITDA	3m AUD

Balance Sheet

• Tangible Assets	3.9m AUD
• Intangible Assets	631.3k AUD
• Misc. Fixed Assets	0 AUD
Total Fixed Assets	4.5m AUD
• Stock & Work in Progress	598.5k AUD
• Trade Debtors	4.1m AUD
• Cash	3.6m AUD
Total Current Assets	8.3m AUD
Total Assets	12.8m AUD
• Trade Creditors	1.4m AUD
• Current Liabilities	4.5m AUD
• Long Term Liabilities	129.1k AUD
Total Liabilities	6.1m AUD
Net Assets	6.7m AUD

The Data - Industry

Business Valuation Report, generated on 22 Aug 2024.

Pomanda's market comparables have been based on this industry data. Data from the following industries is used to arrive at our multiples and the industry averages are used to benchmark this specific company against its peers.

Industry Selection

40%	Manufacture of air and spacecraft and related machinery
40%	Business and domestic software development
20%	Other information technology service activities

Industry Multiple

EBITDA	11x
Turnover	1.5x
Assets	2.5x

Industry Averages (Typical Company)

Growth Rate (3 year CAGR)	9.4%
Gross Margin	41.8%
Operating Margin	3.9%
Employees	66
Debtor Days	53 days
Creditor Days	39 days
Stock Days	76 days
Cash: Current Liabilities	19 weeks
Liabilities: Total Assets	49.2%

What to do now?

Explore your options

If you're interested in exploring your options further and potentially extracting the value from your asset, it might be worth talking to a financial professional or advisor. Pomanda has a network of industry experts who would be more than happy to help.

Monitor your progress

As you can see, there are a number of key financial metrics which directly influence your company's valuation. Monitor these metrics regularly and keep track of how their changes impact your valuation and which which ones have the most impact on your valuation.

Keep an eye out for deals done

Deals get done every day; if there are deals being done in your industry sector, it can indicate demand for your business. It can also give you an idea as to how your business might be valued and which valuation methodology to focus on.

How can I improve my valuation?

Improve the operations of the business

Pomanda benchmarks every company against its industry peers, which can have a big impact on the private company discount that is applied to our public company multiples. Consider looking at Pomanda’s Healthcheck section to see how the business stacks up.

Expand into different industries

As Pomanda provides comparative valuations to industry peers, look at expanding into different markets. A high growth and exciting industry can often command a higher multiple than a declining industry. Try looking at Pomanda’s Industry Insight pages or adding a new industry in the valuation calculator to model the impact on the valuation.

Strengthen your balance sheet

A number of Pomanda's valuations focus on the health of a company's balance sheet. Adding to your assets, analysing your supply chain (debtors and creditors) or refinancing liabilities you could make a big difference to a company’s value.

Disclaimer / Legal Info

Finfind Ltd t/a Pomanda does not represent or endorse the accuracy or reliability of any advice, opinion, statement or any other information displayed or distributed through this report or its website. This report is intended to be used as a guide only and is not to be relied upon.

The estimates and the data contained herein are made using the information provided by the user, publicly available information and data for different industries. Pomanda has not audited or attempted to confirm this information for accuracy or completeness.

Under no circumstances is the present report to be used or considered as an offer, solicitation, or recommendation to sell, or a solicitation of any offer to buy any security.

Pomanda gives no warranties and is not responsible for the results obtained from the present report nor their use and shall not be liable for any claims, losses or damages arising from or occasioned by any inaccuracy, error, delay, or omission, or from use of the report or actions taken in reliance on the information contained in it. The use of this report and the information provided herein is subject to Pomanda's online Terms of Use, Privacy Policy and Acceptable Use Policy