

Welcome to the Supertrac Bulletin!

Supertrac is a corporate advisory firm specialising in business divestments, mergers and acquisitions to medium and large organisations. Supertrac has provided advice on clients' businesses totalling more than \$450M.

The Bulletin is distributed to clients, professional advisers, leading corporations and investors, including private equity firms, ASX listed companies, large private companies and high net worth individuals.

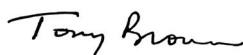
The articles in this edition feature a market update and information about an additional service.

These articles can be downloaded from supertrac.com.

We look forward to hearing from you when in need of our services.



David Holzgrefe CA



Tony Brown CA

Market Update

The acquisition and divestment market for businesses valued between \$1M and \$50M, Supertrac's market, continues to be strong. We expect this to continue as baby boomers seek retirement and other business owners seek change from their businesses. Therefore, for committed purchasers, there is a steady stream of quality, long term, stable businesses to acquire.

January 2009 brought a record number of sales for Supertrac and this strong activity is continuing.

The question we find most business owners currently pondering is: "Is now a good time to sell my business?" We will answer this question at the end of this article.

Overall Business Performance

While some clients have been directly affected by slowing economic activity, eg retail and other consumer discretionary items (motor vehicles etc), housing prices or new dwelling construction, most have been only partly affected, if at all.

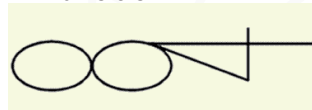
Many clients and other industry players are busy and have a very positive outlook on the conditions in their market, contrary to the negativity portrayed by the financial media.

Many have continued to show good results and expect this to continue. Not all businesses are dependent on strong discretionary consumer spending. For example, agri-businesses are more affected by the weather than consumer sentiment. Some businesses are involved with other events such as floods, fire and storm damage, where they carry out repairs for insurance companies. Consumer spending and sentiment have very little relevance in these and many other markets.

When purchasers are investigating opportunities, and when we are valuing them, it's a case of assessing whether the business is affected by the global financial crisis or not. It's just like The Great (Bubonic) Plague of 1665 during which 15% of London's population perished. A red cross was placed on the door of those houses containing affected families and they were sealed off while the disease took its course. Equally, as we analyse the financials of prospective and existing clients, businesses have earned a red cross or not i.e. affected or not affected.

Brain Busters

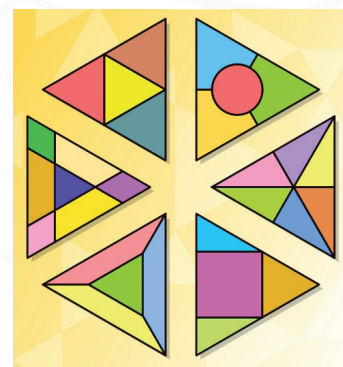
Q1 Can you find all ten numerals?



Q2 What can run but never walks, has a mouth but never talks, has a head but never weeps, has a bed but never sleeps?

Q3 A French-owned jet carrying 40 British tourists home from Sicily crash-landed on the border between Northern Italy, France & Switzerland. Legally speaking, where should any survivors be buried?

Q4 There are six triangular stained-glass windows. Which two of these windows can be drawn without taking your pencil off the paper or going along the same line twice?



Quiz answers available at supertrac.com

Businesses involved with mining services are either directly impacted or largely unaffected by mine closures. Just as the unemployment rate for an individual is either zero or 100% instead of the overall % statistic, organisations were either supplying mines that have closed or remain open. If they are open, generally speaking, they still require the same support services they always have. They may have scaled back non-essential spending, but they still need basic support as before. Therefore it is relatively easy to confirm future maintainable earnings for those businesses for a given economic scenario.

Many operators are experiencing a more favourable labour market as lay-offs in some industries are relieving the chronic labour shortages that have prevailed for several years. Skilled people are becoming more available and businesses are hiring them.

The smart operators, whilst they have briefly checked and are confident with their 'Armageddon' scenario plans, are getting on with their businesses and are looking to expand and therefore stay on the lookout for acquisition opportunities. In contrast, those who subscribe to the 'Chicken Little' theory have stopped to look up and are waiting for the sky to fall in.

Purchasers

Most purchasers whom acquire businesses being marketed by Supertrac are investors driven by strategic growth plans, know what they are looking for and are well organised. They understand that their growth plans cannot easily be met by organic growth alone and need to supplement this by acquiring other compatible organisations in their target market, which usually is a more cost-effective and faster way to build their businesses.

However, many purchasers dependent on a buoyant stock market (Australian or international) either for shareholders' funds or balance sheet backed bank finance, have withdrawn from the market, along with speculative early-stage consolidators with a plan to line up a collection of similar organisations to form the nucleus of a listed company.

Over the past 3-4 months we have seen an increase in quality purchasers looking for good private businesses. These purchasers are long term investors and are returning to the private business market now that the speculators have disappeared. These purchasers are prepared to pay, and are paying, for quality businesses at 3-4 times multiples.

These quality purchasers are actually more active now, as their banks are keen for them to borrow and interest rates are lower, making financing acquisitions more attractive. These purchasers realise that there are greater returns to be made from investing in quality businesses than in the stock market, commercial or industrial property, or having their cash in term deposits.

These investors include private equity firms, ASX listed companies, large private companies and high net worth individuals, with whom Supertrac has built relationships.

Income stream of target companies

Many purchasers are now focussing on the nature of the revenue streams from target organisations. The distinction between customers oriented with capital expenditure and operating expenditure (maintenance) are being drawn, as many organisations dependent on capital expenditure projects for their revenue are more likely to be adversely affected in the short term.

Funding

Established investors continue to either have cash to invest or have ready access to it through funding arrangements. The only change for these investors is that funds are now cheaper than before.

Banks have money to lend and are keen to do so for stable, long term customers with sound growth strategies. The liquidity crisis has changed the funding landscape and now businesses are dealing with the adverse effects of a generally more cautious market. Whilst banks have not changed their lending criteria, they appear to be applying them more diligently.

Pricing

Some purchasers of businesses are citing historically low public company PE (price earnings) ratios as an indicator of a general lowering of prices for private companies. For example, a share market PE of 10-12 may currently be 6-8. They argue this should translate to a lowering of private company PE pricing from 3-4 to 2-3.

However, this logic fails when you consider that share market PE's are based on historic earnings and the lowering of prices (and PE's) are in many cases the result of factoring in expected future lowering in profits of those organisations. The effective rate of return (or PE) then remains essentially the same as before.

Listed company PE's are volatile in comparison with private company returns and are influenced by a number of factors, including analysts' expectations of future earnings, the effects of margin calls, short selling etc, and appear to have resulted in a current over-selling of quality public company shares.

The more important component and determinant of business value remains future maintainable earnings.

Conclusion

So the question remains: "Is now a good time to sell my business?"

The answer is YES!

There are significant numbers of quality investors actively looking for good businesses. They appreciate that, even though these times are unusual, they will not last forever. These buyers are more committed now to make acquisitions before the equity markets settle and the speculators return and distort the market fundamentals. These investors are, just like you, getting on with executing their growth strategies, which includes making acquisitions.

Presale Business Analysis

Most business owners are referred to Supertrac when they are ready to sell, which is often too late to optimise the result!

Business owners may save hundreds of thousands of dollars by getting the right advice early in their sale planning process. Supertrac's extensive experience with a diverse range of businesses will help you maximise your sale price.

Many of our clients have suggested that a Pre-Sale Business Analysis would have been of even greater value if undertaken earlier in their sale

planning process, as they would have had more time to implement our recommendations.

Typically, clients are shown how EBIT (earnings before interest and tax) is calculated, the risks in their business as others see them, and gain a better understanding of the relationship between EBIT and business value. This new understanding triggers a whole range of opportunities to enhance the value of the business.

Recent examples include:

In the six months after our initial meeting and discussion, a client involved in metal fabrication rationalised its operations from two properties to one, significantly reducing the effective rental expense. They also deleted unprofitable products from their range and replaced them with new products generating significantly higher margins and secured the intellectual property to ensure the maintainability of the new level of profits. The effect was to increase the maintainable EBIT by \$1 million pa, enhancing the value of the business by \$3-4 million.

Another client, a wholesale supplier, was shown how their excess stock and relaxed debtor collection procedures eroded the goodwill component of the overall business value by more than \$1.5 million. They then proceeded to reduce stock levels and bring debtors back into shape. This brought \$1.5 million in cash back into the owner's pocket without any negative impact on profit and overall business value.

Yet another client's business in mining services had two significant impairments to value and saleability; it had one major customer and also a high dependence on its owner. Within 12 months of our initial meeting, the business had broadened its customer base and enhanced its management team, not only reducing the risk to the business and therefore making it significantly more saleable than it was 12 months earlier, but also added around \$500K to EBIT which increased the ultimate sale price by \$2 million.

Another prospective client, after learning how business value was inclusive of tangible assets, removed from his business \$500K of surplus equipment, sold it off separately and operated the business successfully without it, effectively realising this additional cash while maintaining the overall value of the business to be sold.

Another important preparatory check has shown clients the need to tidy up their properties in the areas of environmental contamination, removing or gaining approval for structures, site clearing, addressing asbestos risks and other impairments to a smooth sale process.

Our preliminary due diligence on clients' financial reporting can also show inaccuracies and potential weaknesses in their reporting systems, affecting the quality of data available, which may impact on the sale process and price, if not rectified before purchasers are involved.

Supertrac's team of chartered accountants and other qualified professionals, have also worked at management level in medium and large corporations, and have a wealth of experience in business sale and acquisition transactions. They will assess risks and opportunities to purchasers and how to best minimise these risks and maximise these opportunities in your business to achieve the highest possible selling price.

Although the typical value of Supertrac's clients' businesses ranges from \$1M-\$50M, this service is available to the wider market including smaller businesses.

This investment in early expert advice is modest in comparison with the potentially significant financial benefits, knowledge gained and confidence in knowing what your business is worth and the type of purchaser to target. The fee is rebateable against the success fee when your business is sold through Supertrac.

If you are considering selling your business within the next two years, please:

1. Contact your nearest Supertrac office; or
2. Complete and fax the Response Form attached; or
3. Visit supertrac.com.

Words of Wisdom

1. *I am neither especially clever nor especially gifted. I am only very, very curious - Albert Einstein*
2. *The ability to ask the right question is more than half way to finding the answer.*
3. *Be yourself in a world that is constantly trying to make you someone else.*