HOW TO ASSESS an SME

Portfolio Value - "PV" (any period)
use current Co. **EBIT**, then;
x Equity % held in your Portfolio to Co.
x Pay Back Period dividend years till exit.
+ Original Investment Retained (if any)
divided into
Total Issued Shares of the Company
= your Portfolio Price per share.

Calculation Result
What you should end up with is the Difference in two Values that shows the intrinsic spread between CNW share value and PV share value.

This Model is NOT used for Accounting, Tax Audit or Exchange Company purposes.

Company Net Worth - "CNW" (annually adjusted)
use Total **Cash Invested** in Company by all shareholders, then;
+ Labour [industry standard annual wages per employee]
+ Employee cost to train. [to competency level]
+ Management [directors deemed value of expertise] x years of performance [depends on industry complexity, say 3 -5 years, ie Dip = 3, Phd = 5]
+ infrastructure [cost to set up]
+ Customers list value [active customers per year]
+ EBIT [for current period, if Losses use the Loss figure]
x Venture worthiness/market density [EBIT x Factor. if no EBIT use next year post money EBIT x Factor, 1-20 times] [No. main competitors eg. Nuclear Plant = 1, Milling Plant = 3 Saw Mill = 5, no Competitors = 0, as there is no competition to grow market presence or liquidity, or dilute main competition]
+ Tangible property [ie. Inventory, Plant, Office, Realty]
+ Intangible property [ie. Copyrights, Patents, Brands, Designs, Logos, Trade knowledge in service.]
less
Liabilities
divided into
Total Issued Share Capital of the Company
= Company Net Worth per share (NWC)

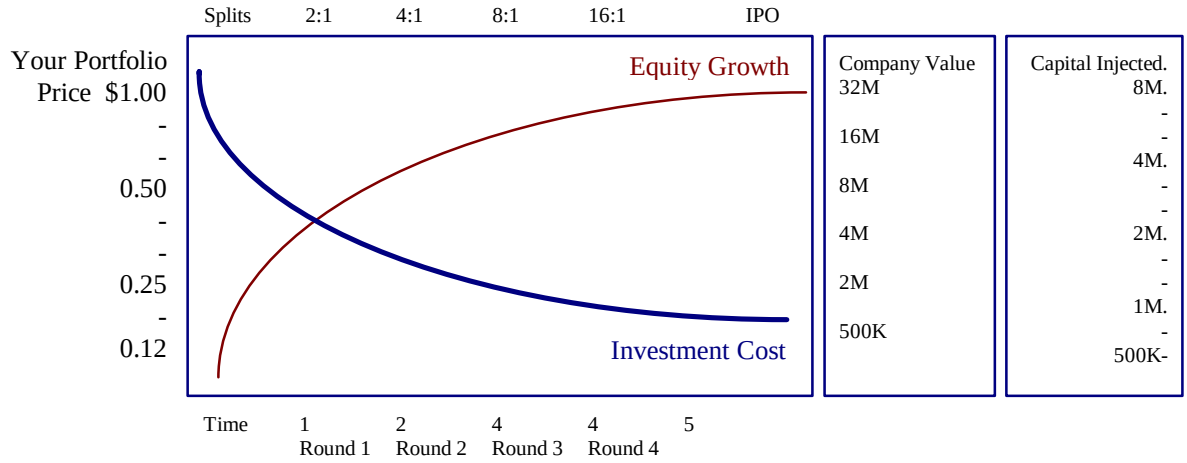
EFFECT of SHARE SPLITS on the COMPANY

Logic: Investors want a good deal, SME want to isssue at $1.00, as more capital is injected into the SME, the Shareholders benefit by the next Round of share split, Company achieves Asset growth, Shareholders gain Equity growth, critical mass increases, production rises, EBIT grows.

The investor may decide to sell off part of its portfolio to recover part of initial investment while retaining equity in the company and pick up the next round of share split. ie Shareholder arbitrage.

Bulletin Board Companies shares price per Round (usually $1.00) may increase depending on 'Supply & Demand' and Company value after each capitalisation stage due to capital injection and production resulting in better dividend prospects. SMEs may start with 2-10 million shares on issue, but ultimately will need to increase to 10 fold over the next few years to raise additional capital.

Other factors may need to be considered as the SME expands and grows or retracts, these could be multiple restructuring, capital adjustments, review of Business Plans, adequacy contingencies, movement of key executives in and out of the SME, Bankruptcy Remoteness to name a few.



EFFECT of SHARE SPLITS on SHARE PORTFOLIO

Generally when a company makes announcements to any Market that a share split will occur after a capitalisation round the Investors are likely to be stimulated to make enquires.

The effect on actual Share Price Value may be equal or higher price per share since the Company is issuing stock at a higher price than the previous shareholders to raise capital, therefore, Shareholders received a bonus in the form of a equity gain, the investment cost goes down, company value increases.

The effect on Shareholders may create a margin spread in their shares, (providing the SME remains in a Restricted Market). Ultimately when sufficient capital is raised -v- share splits that the investment cost per share is say $0.20 per share and the company issuing at $0.80 -$1.20 then a move to an Exchange listing by the company may see its share value increase under Exchange valuation models. Thus, if the Company is running a Depository Program may also effect the result in calculable margins and equity growth for Shareholders.

Currently there is a shift in accounting thinking to include many of the intangible items into a company valuation report thus giving a better reflection of the company's real and true position.

This can be seen when a company goes into liquidation and the Founders restart again on mere intangibles which the Liquidator cannot access or sell, intangibles *are the REAL underlying asset of the SME company.*

Raw SME Assessment Model

developed by Stephen C Burrows - AIBF (Fellow)
for the Australian Unlisted Capital Market

It is widely recognised within Banking circles that former accounting practice fail in the prudent valuation of SMEs. This Assessment Model is designed as a template for SME which go from Start Up to $50,000,000 in under 10 years. Other Models may be used as a checking reference, ie. P/E ratio, Money's value, IRR, etc...

SME assessment modelling can only be properly assessed from the actual and factual components locked within and contained in the SME structure in *'Real-Time'* for projection into *'Concept-Time'*. The most transparent are:

- **Capital** in the form of (order of ranking):
  Revenue, EBIT, Issued Shares, Work in Progress, Inventory, Debtors
- **Time** investment in the form of (order of ranking):
  Founders time imput, Management input time, Labour input time, Trained skills time, Professional imput values, Third party support value.
- **Asset** generation in the form of (order of ranking):
  Tangible ideas implemented into actual work environment, non registered designs, Copyrights, Patents, Brand Names, Logos, Customer list, subsidiaries, infrastructure, chattels, equipment, plant, property, surplus cash, recyclable junk (ie. a rusted 1950 ute still working)
- **Resources** in the form of;
  Environmental and Geographically available, abundance, ease of access, economical, convertibility, production simplicity, easy custom jobbing, mass production capabilities, portable, non destructive, value retention, resale backup, recyclable.
- **Markets** in the form of (order of ranking):
  Existing demand (current), local/regional accessible markets, population density for product
  absorption, economical entry, acceptance in the market, competitive margin, saleability, cross border
  penetration, repetition, product lifespan, export transferable, export market satuation.
- **Barriers** in the form of (order of ranking);
  Founder suppression of Business, Management phobias, Lack of Education, Lack of
  Knowledge, Lack of Skill, Lack of Business acumen, Lack of Corporate acumen, Lack of
  Financial acumen, Lack of Legal acumen, Market complexity, Market abractness, Market competitiveness, Market cost of entry, Loan Capital accessibility, Equity Capital accessibility,
  Saleability constraints, Government restrictions, Missed Opportunities, Illegibility.

A stupidly simple Business Example: (true life example)

Founder buys a 2nd hand lawn mower ($50 infrastructure) puts add in news paper ($10 to enter the market) gets 10 orders, buys fuel ($10 production cost) collects $100 revenue, pays wife $50 management fee, EBIT $50, pays himself $25 dividend, surplus $25. Repeats the exercise next day.
Analysis: Millions of lawns, Millions of Customers, Market saturated with lawn mowers hence cannot scale up to a $50 million Enterprise.

A ridiculous Business Scenario (another true life example)

Founder decides to set up a new chain of Meat Pie Restaurant, (logic, if Macdonald's can do it so can I), wants to hit the national market with 200 outlets in 12 months to get presence to make $0.50c per pie. His business experience is a labourer, 45 years old, no academic skills, no money wants to pay deposit rates to investors.(this one is similar to the guy who wanted to sell sandwiches on the Internet)
Analysis: Millions of Customers, Entry Barrier skills, Entry cost too high, product margin too low.

A crazy Corporate Illustration (true life situation again)

Academic Medico Founder visualises a drug cartel on new formula, actually raises over a million dollars, miscalculates that the distribution network will cost $100mil to get enough product sales to breakeven. Burns the investment capital, skips the country, Interpol warrant out for his arrest.
Analysis: High Skills, no Business acumen, Scale up cost prohibitive.

A Smart Entrepreneur (real case)

Founder joins with 2 partners, set up a mini custom production pilot plant, runs at break even, enters market for 2nd year, gains small customer network, finds 5-8 small investors to restructure into a small Corporation, gets some professional help, sales exceed cost, historical figures can be accurately projected and scaled up, SME attracts venture capital expands again with 20 shareholders, $2mil capitalisation, SME becomes a potential for Exchange listing. Plans export strategy.
Analysis: SME exhibits many of the traits to comply with Time-Capital-Market-Resources criteria.

Experienced Investors can quickly assess futile ventures, without even reading an Offer and Disclosure Document or the SME Business Plan. Successful ventures have a common undelying pattern being transmissible from the Intangible to the Tangible. The *skilled art* (attitude perception) of assessment can identify the difference.

It is worth keeping in mind that even Conglomerate companies periodically suffer from the same Start Up problems at the end of the Corporate Life Cycle (ie Enron, HIH, Ansett, and others that merge but did not hit the headlines). **Some companies have long life cycles** (Coal Miners, Oil producers) **others very short** (certain Dot.Coms). **Corporate recycling of aged delinquent corporate structures is a fact of the corporate life cycle.**

Also some of the best and most well presented deals may have future problems, due to market and socio-economic changes and anti trust or trade practices (corporate espionage) within the market place.