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The latest in small and mid-market sales, mergers, acquisitions, investments and advisory

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Industry Scan

January 2014

In this edition:

Scancorp Joins Exit Alliance

A Targeted End-to-End Solution for Business Exit

With an estimated 70% of owners seeking to exit their business over the next 10 years, sales of privately held small and mid-businesses will become increasingly competitive. Businesses will need to be well prepared and marketed to compete for buyers' interest and owners will need to be well advised to optimise their tax and financial outcome. In response to this emerging reality, Exit Alliance was founded in 2013.

Exit Alliance is a national professional advisory network, servicing the increased demand for comprehensive exit and succession planning solutions sought by business owners who are seeking to transition out of their business in the coming years.

Exit Alliance is targeted at accountants, financial planners and advisors who join the network as members. In return, the professional advisors gain access to the end-to-end exit solutions that their clients are demanding. Such exit solutions include valuation, business preparation for exit, risk mitigation, family governance services, legal and contract support, specialist tax and structuring advice, leadership and succession services, merger and acquisition services, estate planning and retirement planning services.

Scancorp as the Exclusive M&A Advisor

Scancorp has joined Exit Alliance as its exclusive mergers, acquisitions and business broking strategy advisor. In this role, Scancorp will assist the clients of Exit Alliance to:

- sell their businesses,
- acquire new businesses,
- undertake mergers or joint ventures,
- acquire equity partners or
- publicly list their company

For more information:

For more information regarding Exit Alliance click here, or contact Marcus Salouk:

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Client in Focus: Anacacia Capital acquires Managed Corporate Outcomes

As one of the few private equity firms specialising in the mid-market space, Anacacia Capital has now entered Australia's growing education sector. In December 2013, Anacacia funded Careers Training Group to acquire Managed Corporate Outcomes (MCO) and the Selmar Institute.

Careers Training Group has installed former Australian CEO of Kaplan Education, Neil Shilbury, as its group managing director. Jeremy Samuel, managing director of Anacacia Capital, said the roll-up will be a springboard for "significant expansion" in Australia's $8.4 billion vocational educational market.

In the deal, several members of the management team share a minority equity position in Careers Training Group, which is majority owned by Anacacia.

The transactions come amid rising interest in the education sector. In December 2013, training company Vocation Ltd. listed on the Australian Securities Exchange with an initial market value of $378 million.

In August 2013, Anacacia closed a second fund at $150 million. The fund had originally sought to raise up to $100 million. Mr Samuel said that although conditions had been fairly quiet for private equity of late, he was seeing interest from companies balancing succession issues as founders attempt to step back while at the same time trying to broaden their share register.

Scancorp is delighted to have facilitated the transaction on behalf of Managed Corporate Outcomes.

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Industry Spotlight: General Practice Medical Centres

This industry includes some 35,000 businesses across Australia and generates in excess of $10 Billion p.a. General Practice (GP) medical centres provide the first point of contact in the medical system. The most common problems managed by GPs are high blood pressure, immunisations, general check-ups, respiratory tract infections, depression, arthritis, diabetes, high cholesterol, and back pain.

Industry performance

In the long-term, the overall revenues of GP medical centres are expected to steadily increase due to:

1. An aging population, especially over 65's who account for 30% of revenues – the elderly are more susceptible to illness and/or require prescriptions for medication, and
2. Increased Medicare funding due to an increase in bulk-billing - which now accounts for almost 82% of GP visits

As such IBISWorld forecasts that industry revenues will grow by almost 17% over the next 5 years.

Scancorp's Predictions for the Industry

We predict that while the industry will continue to grow steadily, the following will become priority considerations for medical practice owners and employees:

1. *Potential introduction of co-payments:* the Australian Centre for Health Research has proposed that a $6 co-payment be introduced to manage demand for services. If a modest co-payment is introduced, this will likely reduce revenues slightly. The Rand Corporation's co-payment experiment in the United States in the 1970s and 1980s indicated that a co-payment of 25% of the service price suppressed demand marginally. We estimate that a $6 co-payment would represent only 17% of the Medicare Level B GP attendance which categorises the vast majority of GP consultations. As such revenues will not be substantially impacted.
2. *Increased scope:* as the rate of bulk-billing continues to increase, it is likely that GP practices will focus on expanding their scope so that they offer additional highly profitable services. For example, it may be possible for a larger practice to offer to bulk-bill GP services at a loss while referring patients to in-house specialists which are highly profitable.
3. *Practice consolidation:* larger practices benefits from improved economies of scale such as reduced rent, administrative and compliance costs as a proportion of revenues. As more practices are required to bulk-bill to remain price competitive it is likely that clinics will consolidate in order to reduce overheads and remain profitable.
4. *Increased demand for succession-planning services:* many owners of medical clinics are reaching retirement age and will be looking for mechanisms to exit their business. Additionally, some owners will seek to exit or merge their practice as a result of the increasing price competition brought on by the rising rates of bulk-billing. As such we expect to see a significant increase in the demand for succession planning support within this industry.

In response to the anticipated demand for succession planning services, Scancorp has developed a customised version of its Divestment Readiness Assessment (DRA) for the GP medical centre industry – Click here for more information

Valuation Considerations

GP medical centres are typically valued based on a multiple of earnings before interest and tax (EBIT). Where a medical centre is owned by one or more practicing doctors, it is critical to understand the proportion of revenues that are generated by the current doctors and whether they will remain with the practice once sold.

In such cases it may be appropriate to normalise the EBIT to ensure the owner's remuneration is included as an expense going forward (in some cases this may represent 60% of their billings). This enables the business to be presented consistently to potential buyers, be they practicing doctors, owner/managers or investors.

The multiple applied to EBIT depends largely on the size and location of the practice, independence from the current owners, revenue and profitability trends, differentiation from competitors, breadth of services offered and diversification of revenues. While difficult to generalise, capitalisation rates of recent transactions have ranged from 25% to 40%.

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DRA Update - Medical Centre Module

As outlined in our previous Newsletter, Scancorp has developed the Divestment Readiness Assessment (DRA) as a product that assesses the readiness of a business for sale. The DRA identifies any specific actions required to optimise the sale outcome for the owner - whether or not the owner intends to sell in the near-term. The Divestment Readiness Assessment is a rigorous and focused process that was developed over 30 months leveraging over 30 years of M&A expertise. It draws on Scancorp's "5 Pillars" which identifies critical characteristics that buyers look for in a business acquisition – be they trade buyers, owner operators or investors.

In response to the growing demand for succession support and sale planning services from owners of GP medical centres, Scancorp has developed a specific Medical Centre module for the DRA.

In addition to the standard business divestment issues addressed in Scancorp's DRA, the Medical Centre DRA also addresses the saleability of a medical practice based on:

- *Practitioner Management* – which considers the management of doctors, specialists and allied health professionals including issues ranging from the processes for recruitment and retention of doctors through to the level of diversification of revenues amongst doctors and/or other allied health professionals operating within the clinic.
- *Practice Management* – which focuses on the management of the centre as a business such as the layout of the clinic and diversification of services offered by the centre, extent of revenues from programs such as PIP, PNIP and SIP and practice expansion opportunities available to the centre.
- *Patient Management* – which investigates how patients are attracted and cared for, considers the centre's reputation, and possible contractual agreements that the centre may have with local enterprises, centre marketing and promotion and patient profitability.

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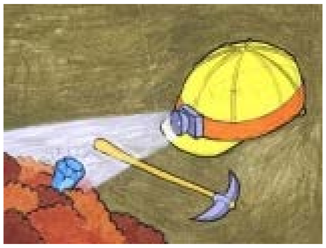
Other News

- [Why Australia's SMEs are 20% more optimistic than a year ago]
- [4 Rules of M&A For Startup Founders]
- [What's Your $1 Billion Idea?]
- [Exit Alliance launches in the Australian Market]



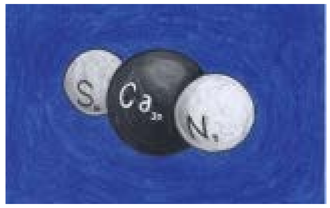
Featured Investment

Profitable Resource

Accommodation Freehold

Going Concern

- Stage 1 is complete and includes 80 fully-fitted ensuited rooms, dining hall and commercial kitchen, gym and general store
- Stage 2 is underway and will increase the facility to 152 rooms
- Stage 1 is fully occupied
- Freehold site is $8000m^2$
- Investment pipeline for the Surat Basin exceeds $180B from the energy sector
- Tangible opportunities for EBIT growth such as sale of diesel and alcohol from the general store
- Stage 1 EBITDA $3.3M, Stage 1+2 projected EBITDA $6.6M
- Based on capitalisation rate of 18.0%, the current facility is valued at circa $18.4M for



Featured Investment

Leading Brand Fuel Outlets & Service Centres + Leading Tyre Centre

- Established 24 years
- 2 leading brand retail fuel and service centres with a tyre centre located in Bowen Basin, Central Queensland
- Sale includes the 3 businesses and 2 properties
- Situated in two prominent locations to capture passing traffic
- Offers compelling value with 8.7% cap rate on properties and 25% ROIC on the business (inclusive of plant, equipment, stock and vehicles)
- Strong asset backing with a settlement balance sheet of circa $8.6M
- Reliable earnings with steady EBIT performance over the past 3 years

SCAN
Scan Business Brokers

Our Mission

We provide the highest quality advisory services and solutions, previously inaccessible to the small to mid market.

Our Vision

To be the leading boutique provider of advisory services to fellow small and medium companies.

Our Services and Capabilities

[Scancorp's Business Exit Approach]
[Scancorp Capabilities]
[Sellability Score Link]

Stage 1 and $36.9M on completion of Stage 2

Investment sought: $18M (equity, debt or mezzanine) sought to retire non-current liabilities and complete Stage 2

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- Operated under management with minor involvement from the current owners

Total investment: $10.1M ($7.4M properties and $2.8M for businesses including stock, vehicles, plant and equipment)

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