



Non-Financial KPI Case Studies

The power of a data backed valuation

Purpose:

Highlight how Industry Drivers and Top Performer data can pinpoint weaknesses in valuations, especially unsupported or rule-of-thumb multiples.

Industry and Business Profile:

Cafés, Restaurants and Takeaway Food Outlets (\$0.5M - \$2.0M revenue range).

Concerns, Risks and Flaws:

Low market multiple used to calculate compensation offer.

Non-Financial KPI:

Premises tenure and terms, customer loyalty, supplier relationships, staff retention, and owner’s experience.

Critiquing a café valuation

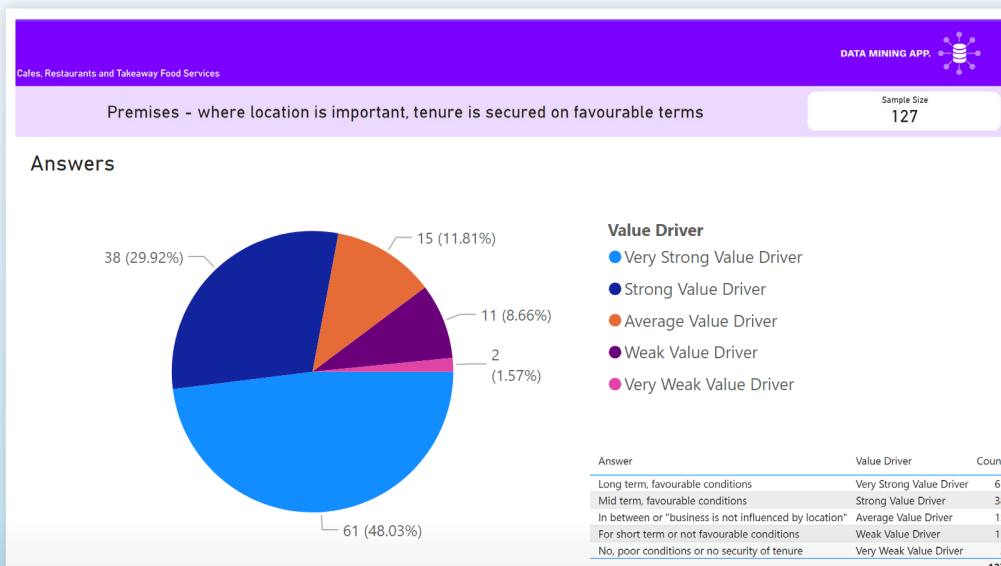
A shopping centre/commercial property owner needed vacant possession to redevelop their property. To support a low offer of compensation to the tenant for early termination of the lease, the landlord engaged a valuer who provided a valuation with an EBIT multiple of **1.5** (landlord’s valuation). The basis of the multiple was stated to be recent business broker sale appraisal data, based on café sales in the general area.

The devastated café owner turned to their accountant for advice about the compensation offer. The accountant reviewed the landlord’s valuation. The multiple was well below the industry average of **3.3**.

The café had a two-year term remaining on its lease but importantly had two options for further five-year terms (effectively a twelve-year lease period) on favourable conditions.

The accountant identified other concerns with the landlord’s valuation, including:

- No explanation of the valuation methodology used to determine the EBIT multiple;
- No separation between the business valuation process and the appraisal for sale process, which are different;
- Relying on sale appraisals data to set the EBIT multiple (rather than using it to validate the valuation EBIT multiple);
- No analysis of non-financial Risk-Profit-Value Drivers specific to the business;
- Non-financial assumptions were not supported by validation data;
- The data used to validate the EBIT Margin percentage was unadjusted (not a ‘like for like’ comparison).



Premises – where location is important, tenure is secured on favourable terms.

Sample size **20,230** KPIs, based on revenue \$0.5M - \$2M, period 1/07/2020 to 31/03/2026.

In critiquing the landlord's valuation, the accountant started by focusing on the **Strongest and Weakest Risk-Profit-Value Drivers** for the industry and specific to the business. The landlord's valuation report did not deal with them directly.

A key risk factor for cafés and restaurants that was not specifically mentioned in the landlord's valuation report was quality of location and **security of tenure**.

78% of café business owners rate tenure security as a strong to very strong value driver.

The accountant then valued the business, using the café's adjusted actual financial data and a Risk-Profit-Value Driver analysis assessing the business against **eighty non-financial KPIs**.

Data and analysis showed above benchmark performance on key financial and non-financial KPIs, including profitability. The café location had high location goodwill with both strong foot traffic and a large and loyal customer-base. It had operated profitably from the premises for more than 5 years.

The café owner had over 30 years industry experience, trusted supplier relationships (with favourable discounts and trading terms) and long term, loyal staff.

The accountant's valuation produced a multiple of **3.7**, which was both higher than the industry average, and significantly higher than the landlord's valuation multiple.

Industry Top Performer Data was used to support the accountant's Conclusion of Value. The data identified lease term as a material risk when valuing a café business and supported other value driver assumptions.

Focus analysis with the Top Performer Report

Top Performer Data for the industry, using the widest data set, was used to identify the strongest risk factors affecting top performance.

This café business featured 6 of the 10 Top Performer Drivers for both Risk Score and Valuation Multiple.

None of these Drivers were mentioned in the landlord's valuation report.

Armed with their own valuation and the detailed critique of the landlord's valuation, the café owner was able to engage the landlord in a detailed, **data & evidence-based discussion** to increase the compensation offer for surrendering the lease.

Sample size **70,080** KPIs, based on all available data, no date or revenue restrictions.

