

# NEWSLETTER

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### Apra Australia Mentoring Program

Call for applicants - mentors and mentees.

For more information email [info@apraaustralia.org.au](mailto:info@apraaustralia.org.au)

## Editor's Welcome

As you read this, over in the west we have started the season of Djilba - season of conception, a transitional time of the year. And you may recall in May we had a fascinating webinar on Myths & Using Inference, where Jonathan Jeffrey and Jason Briggs presented their critical analysis of some of the common variables of our work in private company valuation.

Have you transitioned into applying their concepts? Did their talk inspire you to conduct your own private company valuation analysis? Do you have further questions you'd like addressed? We'd like to know, so get in touch.

A review of the webinar is the feature content of this newsletter compiled by Alex Cook (University of Melbourne), Stephen Rowe (Australian National University) and Stephanie Kenez (Arts Centre Melbourne).

Also, make sure you reserve 9-10 November for the 2022 Apra Australia Conference. More details to come - watch your inbox!

Tim Grime  
Editor

## Blogs

Although he hasn't posted a blog for awhile, Jason Briggs (*co-founder of PyroTalks*) has written many a fine post. Of particular note, is his piece, "[10 Things I Learned About Effective Research Management](#)", which contains many a gem of an idea worth exploring if you haven't already.

[A Researcher's Diary](#) is a monthly blog by Joan Ogwumike, currently a *Prospect Research Associate* at the Obama Foundation, with past experience in NFPs and higher education. Her concise post on helpful [strategies for portfolio analysis](#) is a good one if you're needing ideas to assist your fundraisers work through their portfolio.

## Did you know?

Apra International's [Apra Bytes](#) is a handy free resource, your go-to place for quick, educational tips for prospect development professionals.

So, what's a Byte? A Byte is a short, educational video created by industry experts who provide a quick answer to your burning questions.

Some recent topics covered include:

- Develop a Velocity Score
- Retaining Crisis Donors
- Due Diligence for Nonprofits
- How Prospect Development Can Support Diversity & Inclusion

There is something for everyone, regardless of experience. A useful source of clarity, an inspiration or reminder for that next great idea to apply in your workplace.

## What caught the editor's eye



**Erin Osborn** @ErinDOsborn · 5h

I just sent two fundraisers an email explaining that Prospect Development is like the ocean in Moana. We can help them on their journey but can not do everything alone. This may have been too philosophical for a pre-holiday email.

**Apra Australia Committee**  
thinking of joining the  
Apra Australia Committee for  
2022-23?

**Become involved.**  
email [info@apraaustralia.org.au](mailto:info@apraaustralia.org.au)

### Diary Dates:

- **13-14 October (USA)** - [APRA Data Science Now](#)
- **4 Oct-22Nov (UK)** - [PyroTalks Masterclass II: Financial Analysis for Philanthropy](#)
- **October 25, 27, 29 | Virtual** - [Apra Fundamentals: Prospect Research](#)
- **Apra Australia 2021 Conference** (9-10 Nov 2021)
- **TBC (UK)** - [NanoConference 09 \(PyroTalks\)](#) - [Back to the Core: What is really working in prospect development?](#)

## Webinar in review:

### Deep Research: Expelling Myths & Using Inference

Reflections on the webinar *Deep Research: Expelling Myths & Using Inference*, Wednesday 19 May 2021. Written by [Alex Cook](#) (University of Melbourne), [Stephen Rowe](#) (Australian National University) and [Stephanie Kenez](#) (Arts Centre Melbourne)

[Jonathan Jeffery](#) and [Jason Briggs](#) were kind enough to get up very early (UK time) in May this year to share their critical analysis of some of the common variables of our work in private company valuation. This area is an almost eternal pain point for professionals in this field, and so the three of us have been comparing notes. So, here they are, starting with a summary as a reminder or for those who weren't able to make it:

- **Myth 1: Profit = Value**

There is great value even without great profits (pick a tech company as an example), because what's important is the future. Profits can also be accounting-inflated. We were introduced to 'Free Cash Flow to Equity' (FCFE) – a tool used by most company analysts. More on that soon!

- **Myth 2: Cash = Value**

Usually way out of date. Many caveats such as contingent liabilities, and many other assets such as investments are very relevant.

- **Myth 3: Net Assets = Value**

Many companies have very few tangible assets (again, tech) which is more and more concentrated in IP, risking that we hugely undervalue a company. Property companies are one exception.

- **Myth 4: Director Wealth = Accessible**

This is not cash, and at high levels is not available without hitting many future milestones for company or individual performance. This wealth is highly illiquid, and further, selling it may mean losing control of a company. In the case of options, you still need money to buy them, too. So think about timing – at what time of year are dividends usually paid out? Can you plan for that?

- **Myth 5: Shortcuts Exist**

There are no easy answers.

During question time, it was pointed out that particularly with private companies, often the only financial information available to use in valuing the company is revenue. It was freely admitted that revenue was so far from ideal that it wasn't even considered for this presentation, however Jonathan suggested that it would be best to use specific

'multipliers' applicable to the sector that the company is aligned with (e.g. airlines, retail, etc).

As a theme, the presentation highlighted that valuing a company is not as black and white as simply looking at one indicator – if anything we need multiple indicators over multiple years to get the very best idea. And FCFE? Here it is:

$$\text{FCFE} = \text{Net Income} + \text{Non Cash Expenses (depreciation \& amortisation)} - \text{Increase in Working Capital} - \text{Capital Expenditure}$$

#### What have we been doing since the presentation?

None of us are full time company analysts but how can we make use of this info in our profession? FCFE was put forward as a crucial tool for company valuations, but upon examination of our own range of sources these indicators are not immediately available. Limited testing left us a little unsure of whether we had done the maths right, or used exactly the right field of reference – as an example, 'Increase in Working Capital' is a term not often used, and certainly in many private companies is simply not available except for the very biggest ones, presenting a significant challenge.

Thinking about multipliers, we have found a few credible sources both in Australia and internationally:

- [Aswath Damodaran](#) from New York University has a set of [global revenue multipliers](#) (see Column E) and [US-specific multipliers](#).
- In Australia:
  - Grant Thornton's 2020 [Deal Tracker](#) (see p.24)
  - Nash Advisory's 2021 [Valuation Multiples by Industry](#)

#### Where to from here?

Jonathan and Jason were clear: if we want to do our best work, we have to use carefully chosen methods instead of jumping to quick solutions. Considering the common lack of private company data, we may still be forced to use shortcuts. But which ones? Are there FCFE multipliers that could apply? Do private company discounts need to be applied? Will any of this data be skewed by outliers in data sets that are too small?

This article is not the last word, and Jonathan and Jason have indicated they planning some new webinars for us as a result of the communications we have had with them since the presentation, so watch this space.

Have we missed anything? Almost certainly! We know there are many smart people in our community so please keep this discussion going on the Apra Australia [discussion forum](#), or get in touch with us at:

[Stephen.rowe@anu.edu.au](mailto:Stephen.rowe@anu.edu.au),  
[Stephanie.Kenez@artscentremelbourne.com.au](mailto:Stephanie.Kenez@artscentremelbourne.com.au),  
[alex.cook@unimelb.edu.au](mailto:alex.cook@unimelb.edu.au)

**Editor:** Tim Grime (UWA)

**Contributors:** Alex Cook (University of Melbourne), Stephen Rowe (Australian National University) and Stephanie Kenez (Arts Centre Melbourne) (Thank you!); Apra Australia Committee: Stephen Rowe, Priya Kanji, Molly Masiello, Rhia Sagers, Victoria Coyne, Tim Grime



[info@apraaustralia.org.au](mailto:info@apraaustralia.org.au)



[apraaustralia.org.au/](http://apraaustralia.org.au/)



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