



Valuing the deal

rhas is a specialist valuer and appraiser of plant, machinery and equipment, from which flows asset management advice and broking services. ACQ's Juliette Barlow talks to Rodney Hyman, director and co-founder, to get some insight into recent activities, not least the recent and massive Rinker transaction.

In the beginning...

Over the years, rhas has provided valuations for all kinds of interesting assets, from the straight-forward to the downright bizarre; the list goes from fine art and jewellery to Russian foxtrot class submarines, and includes every industry in between, such as aviation, mining, telecommunications and steel, to name a few.

Rod has been a valuer and auctioneer/broker for a very long time; he started in 1970, so 38 ½ years be precise. It was almost ten years ago when Rod decided that a change was needed, as he explains: "In 1999 I found that I was working 150 hours per week and then some, so I decided to get my life back and I changed the paradigm for Australia of the type of business I wanted to run which was to try to appeal, in a general sense, to the bigger end of town and to try and find work that was more interesting and more challenging. Instead of doing what I'd done in my previous businesses, which was virtually a market – in other words; whatever comes to the door, let's get it out and let's do it - to pick and choose what we did and only do the jobs we could do really well." In the last couple of years, that philosophy has certainly started to pay off. At his peak he had about 80 people working for him and last year, with a staff of nine and many consultants, he had his biggest ever year, so it definitely paid to change the paradigm; to work smarter and look for more complex work.

Team work

Rod heads up the business with co-founder, Cameron

Dunsford, a man with a list of accreditations, affiliations and qualifications as long as your arm. The two directors attribute a lot of their success to their 'team' approach and, modestly, don't want to take all the credit for themselves. Rod comments: "Although it was me that had the idea for the paradigm that we're using, all the staff here contribute, in their own way, into the company as a product which, as a whole, makes the company what it is. I'm very hands-on and this is very much a team, I pride myself on that. There's no ego here; it is as common for me to walk next door and say to the guys 'what do you think of this?' as it is for them to walk into my office and say the same thing."

This attitude seems to be paying off and although rhas are not the largest company of their kind in Australia, they have attracted an impressive percentage of the small number of available professionals. Rod continues: "We have a core expertise in big projects which enables us to manage them to successful conclusions. In Australia we're a very small market; there are only about 60 or so people who are members of a reputable institution in this country (as plant and machinery valuers) and we have more than 10% of them working for us. We're in the top three of our kind in Australia." This, no doubt, is partly due to the freedom and flexibility rhas extends to its consultants, allowing them to manage their own time and take holidays at their leisure.

Developments

Australia has been through a tax consolidation regime, the result of which has been that virtually every public listed company in Australia has re-valued its fixed assets in order to have the privilege of re-depreciating them all over again.

"Under Australia's tax consolidation regime, companies joining a consolidated entity (ie a merger or an acquisition) can re-value their to market value and re-depreciate them over their remaining lives because the Commissioner in Australia, and I guess in most other countries, gives useful lives that are generally something

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Rodney Hyman

less than real life, if you ever get to re-value your assets for tax purposes, the figures will always be higher for market value.” This is obviously very good for rhas and similar companies, creating a boom in the industry, as Rod continues, “What that has done is driven a huge amount of work in this country, because not only are international accounting standards (IAS) (which Australia adopted as one of the first countries) a driver for cost allocation on acquisition after every transaction, you also need it now for tax purposes and companies really understand the tax benefit even if they can’t get excited about the compliance burden under IAS. So the driver for most of the world which has migrated to IAS is simply compliance, whereas in Australia, on acquisition or merger there is also a tax benefit in almost every case.”

Perhaps this development is even more welcome considering the current state of global economies; it would be easy to assume that a company such as rhas has been affected by the credit crunch and a worldwide tightening of belts. “We can never know what percentage of the M&A marketplace we have,” comments Rod, “but the other side of that coin has been the number of large valuations for public companies for borrowing; because they haven’t been able to go to the marketplace that was there a year ago, and now more traditional lenders are wanting more rigour in their lending. A year or more ago perhaps there would have been some cash flow lending or even lending based on reputation, now its coming down to asset based. I suppose whatever we’re losing in the transactional work in terms of M&A, if we are losing anything, we’re picking up in other work in valuations for lending. We’re talking about valuations between say, 10m and 100m dollars.”

Important transactions

It all sounds very positive, in fact Rod says that 2008 has been rhas’ biggest year “by a long shot” and thinks it is at least two, maybe three times better than any previous years in terms of bottom line. The firm have assisted in some big transactions recently, not least Rinker, a massive construction materials concern in Australia with around 250 sites all over the country. Rinker and rhas already had a long-standing relationship at the start of the valuation process which was a long and complicated affair. Together, Rod and Cameron led the rhas team, Rod explains more: “The Rinker transaction was a big deal; it had the biggest fee, the most number of resources thrown into it and it had the longest time span which was around four months. It was very challenging, we won it against some pretty stiff competition and it was probably the biggest presentation I’ve ever done in the sense that we sat around this huge round table with about ten other guys from around the world and another three on the phone from other states.

“When we did the valuation, we were able to provide a proven and innovative approach based on a sampling methodology using fairly well established mass appraisal techniques to make sure they weren’t hit with a bill for

millions of dollars. To inspect every asset you would have had to have valuers in the field probably for a year or more if you wanted to value every item based on inspection. Designing that process was my strength and managing it was Cameron’s. At the end of the day we were both out there and went to quite a number of sites along with most of the other staff as well.”

There were some challenges involved in the deal, as Rod explains: “There was a logistical problem which people outside Australia may find hard to understand. We had locations where you can be 300-400 miles from the nearest airport, and the nearest airport may have been a regional airport that is a two hour flight from the nearest capital city and maybe only one flight a day in and out of the regional airport.”

Rhas offered a wealth of expertise in the industry due to their previous experience within the marketplace; the Rinker business broadly falls into a category called construction materials, so the vast majority of their assets were either quarries or concrete plants. That market in Australia is owned by three companies that have about 92% of the turnover. Rod continues: “We’ve previously valued all three companies so we have a very high degree of expertise in that industry which allowed us to work very efficiently due to all the existing data we had on our books, it meant that we didn’t have to go out and do a lot of the research because we had done it previously. It is much easier to re-visit figures from two or three years ago and update them than it is to start again, from the beginning.” In fact, Rinker is just the tip of the iceberg; rhas has carried out numerous valuations in previous years and Rod believes there are around ten industries that they “own” or hold extensive data on. This gives the firm a major edge over competitors in future deals.

Future

It seems that rhas are going from strength to strength with the sort of confidence and ease that is hard to replicate in other businesses. As for the future, the firm can only continue to bloom. “It is hard to say whether we will do better than we have this year as we really have been stretched to the limit with our resources but there’s no reason to believe that it’s going to stop, it is still powering along, we are still in the fortunate position of telling clients when we will do their work rather than saying yes we can meet your requirements. At the moment we’re quoting delivery dates for simple work, well into August and I don’t doubt that shortly that will become September.”

Rod concludes: “We have been expanding over the last 12-18 months; we’ve started to do some significant work in New Zealand, not least of which was a valuation for Mighty River Power, which is the country’s biggest power generation utility producing about 22% of New Zealand’s power. We’ve done some other work there too and we’re currently looking at the Vietnamese market where what they call ‘equitisation’ is in full swing. We’re very busy. **ACQ**



Rodney Hyman

DETAILS



Rodney Hyman
+61 (2) 9986 1877
rodhyman@rhas.com.au
www.rhas.com.au