

Market Value Calculation



Sample Company, Inc.

as of

December 31, 200X

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Calculated Values

Month 1, 200X

Ben Sample, President
Sample Company, Inc.
123 Sample Rd.
Anytown, PA 12345

We have performed a calculation engagement, as that term is defined in the Statement on Standards for Valuation Services (SSVS) of the American Institute of Certified Public Accountants. We performed certain calculation procedures on the Company as of December 31, 200X. The specific calculation procedures are detailed in this report. The calculation procedures were performed solely to provide information for the use of the owner(s) of the Company; the resulting calculations of value should not be used for any other purpose. This calculation engagement was conducted in accordance with the SSVS. The estimates of value that result from a calculation engagement are expressed as calculated values.

In a calculation engagement, the valuation analyst and the client agree on the specific valuation approaches and methods to be used and the extent of valuation procedures to be performed. A calculation engagement does not include all of the procedures required in a valuation engagement, as that term is defined in the SSVS. Had a valuation engagement been performed, the results might have been different.

Based on our calculations, as described in this report, which are based solely on the procedures agreed upon as referred to above, the resulting calculated values of the Company as of the date shown above were:

Method	Calculated Value (\$)	Page
Percentage of Annual Revenue	91,188	8
Multiple of Seller's Discretionary Earnings	47,573	9
Adjusted Asset Value	59,833	10
Industry Rules of Thumb	Not used	11

These calculated values are subject to the Statement of Assumptions and Limiting Conditions stated within this report. We have no obligation to update this report or the calculated values for information that comes to our attention after the date of this report.

David E. Coffman

Calculation Procedures

Approach

The vast majority of small, privately-held companies are sold on an asset-sale basis. A typical asset sale includes the operating assets of a business – inventory; furniture, fixtures and equipment (FF&E); and all intangible assets (goodwill). Real estate may also be included if it is owned by the company. These assets are sold free and clear of all debt. These assets, as a group, comprise an ongoing business enterprise. The procedures described in this report are designed to calculate the value of the operating assets of the Company.

Private Company Transactions

This method uses data from the actual sales of businesses similar to yours. We search the BIZCOMPS database for transactions involving businesses in the same Standard Industrial Classification (SIC) Code or North American Industrial Classification System (NAICS) Code. We may further limit the search by type of business or annual revenue. The search criteria and results are summarized later in this report.

BIZCOMPS contains data from approximately 10,000 transactions involving the sale of privately owned businesses in the U.S. over the previous 10 years. This data is not publicly reported so it is obtained from business brokers and transaction intermediaries. These sources are considered to be reliable.

BIZCOMPS transactions are structured as or converted to asset sales. The Asking Price and Sale Price from BIZCOMPS contains only 2 components – furniture, fixtures and equipment (FF&E) and goodwill. Inventory is not included and must be added to the results of any method using BIZCOMPS ratios. All businesses are considered to be debt-free at closing even if the buyer is incurring new debt to finance the purchase. The seller is responsible for paying off all debt at closing.

The Percentage of Annual Revenue

This method applies the average Sale Price to Annual Revenue ratio to your company's most recent annual revenue to calculate value. This method ignores differences in gross margins and operating expenses (profitability). Therefore, this method often produces the highest or top-line value of the business.

The Multiple of Seller's Discretionary Earnings (SDE)

This method applies the Sale Price to SDE ratio to your business's most recent SDE to calculate value. SDE is equal to a company's earnings before: income taxes, non-recurring income and expenses, depreciation and amortization, interest income or expense, non-operating (discretionary) items, and owners' total compensation for services (including payroll taxes and benefits).

This method is best suited to a business where the salary and perquisites of an owner represent a significant portion of the total benefits generated by the business and/or an owner/manager typically runs the business. Buyers and sellers of small businesses tend to think in terms of their potential personal compensation rather than business profits. They look at the total discretionary earnings to see if it is sufficient to carry the debt structure necessary to buy and/or operate the business, and provide them with adequate compensation.

Any significant difference between the SDE method and the Percentage of Annual Revenue method is due to differences in profitability. If the SDE method is higher, your business has above average profitability. If the SDE method is lower, your business has below average profitability.

PROS – Since BIZCOMPS is based on actual sales of similar businesses; it is the closest thing to true market value. Data from searches containing a large number of transactions is more statistically sound.

CONS – From the amount of data collected by BIZCOMPS it is difficult to accurately assess the comparability of any one transaction. The number of transactions involving businesses similar to yours may be rather small and statistically insignificant.

Adjusted Asset Value

The adjusted asset value method is often considered the bottom-line value of a business because it excludes goodwill. It is most relevant when a business has negative cash flow or discretionary earnings, or has been operating for less than 1 year. The adjusted asset value may also be used to allocate value, calculated using other methods, between the physical (hard) assets and goodwill. The adjusted asset method approximates the liquidation or minimum value of a business.

The adjusted asset value method starts with the book value (cost less accumulated depreciation) of the company's assets included in the sale. The book values of the Company's assets were obtained from tax returns or balance sheet data. Where possible the book values are adjusted to an estimate of their current market value. For example, real estate may be adjusted based on a recent appraisal. Some assets may be adjusted to estimates provided by the seller, or a percentage of their original cost. The source of any market value estimates is disclosed on that schedule.

PROS – It is easy to do and understand.

CONS – It does not place any value on goodwill or other intangible assets. Any market value estimates not based on appraisals or other independent sources may be unreliable.

Industry Rules of Thumb

Some industries have formulas or rules of thumb about how businesses in their industry are valued. We use rules of thumb published in the Business Reference Guide from Business Brokerage Press. Because the source and quality of the data used for industry formulas is unknown, we do not calculate value using these formulas unless no better data is available. The Guide also provides industry data on expenses that can be used for basic benchmark comparisons, and general information about the industry. Industry data is presented later in this report for information purposes only.

PROS – Industry rules of thumb are easy to obtain and apply.

CONS – There is usually no credible evidence to support the source and quality of the data used. The rules do not give adequate consideration to the unique factors that affect the value of a specific business.

Statement of Assumptions and Limiting Conditions

This calculation engagement is subject to the following assumptions and limiting conditions:

1. The calculated values arrived at herein are valid only for the stated purpose as of the date of the valuation.
2. Tax returns, financial statements and other related information provided by the Company or its representatives, in the course of this engagement, have been accepted without any verification as fully and correctly reflecting the enterprise's business conditions and operating results for the respective periods, except as specifically noted herein. We have not audited, reviewed, or compiled the financial information provided to us and accordingly, we express no audit opinion or any other of assurance on this information.
3. Public information, and industry and statistical information have been obtained from sources considered to be reliable. However, we make no representation as to the accuracy or completeness of such information and have performed no procedures to corroborate the information.
4. The calculated values arrived at herein are based on the assumption that the current level of management expertise and effectiveness would continue to be maintained, and that the character and integrity of the enterprise through any sale, reorganization, exchange, or diminution of the owners' participation would not be materially or significantly changed.
5. This report and the calculated values arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. They may not be used for any other purpose or by any other party for any purpose. Furthermore the report and calculated values are not intended by the author and should not be construed by the reader to be investment advice in any manner whatsoever.
6. Neither all nor any part of the contents of this report should be disseminated to the public through advertising media, public relations, news media, sales media, mail, direct transmittal, or any other means of communication without our prior written consent and approval.
7. Future services regarding the subject matter of this report, including, but not limited to testimony or attendance in court, shall not be required of us unless previous arrangements have been made in writing.
8. We take no responsibility for any actual or potential liabilities resulting from non-compliance with any federal, state, or local laws or regulations.
9. No change of any item in this report shall be made by anyone other than us, and we shall have no responsibility for any such unauthorized change.
10. We have not inspected the facilities and have not conducted interviews with the current management of the Company.
11. Except as noted, we have relied on the representations of the owners, management, and other third parties concerning the value and useful condition of all equipment, real estate, investments used in the business, and any other assets or liabilities, except as specifically stated to the contrary in this report. We have not attempted to confirm whether or not all assets of the business are free and clear of liens and encumbrances or that the entity has good title to all assets.
12. This valuation reflects facts and conditions existing at the valuation date. Subsequent events have not been considered, and we have no obligation to update our report for such events and conditions.
13. David E. Coffman prepared this report. He has no present or contemplated future interest in the Company, no personal interest with respect to the parties involved, nor any other interest that might prevent him from performing an unbiased valuation. Our compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or use of, this report.

Certifications and Representations of David E. Coffman

I certify that to the best of my knowledge and belief:

1. The analyses, opinions, and conclusion of value included in the valuation report are subject to the reported scope limitations, and the assumptions and limiting conditions specified on Page 4, and they are the personal analyses, opinions, and conclusion of value of the valuation analyst.
2. The economic and industry data included in the valuation report have been obtained from various printed or electronic reference sources that the valuation analyst believes to be reliable. The valuation analyst has not performed any corroborating procedures to substantiate that data.
3. The valuation engagement was performed in accordance with the American Institute of Certified Public Accountants Statement on Standards for Valuation Services, the Professional Standards of the National Association of Certified Valuation Analysts, and the Uniform Standards of Professional Appraisal Practice.
4. The parties to which the information and use of the valuation report is restricted are identified; the valuation report is not intended to be and should not be used by anyone other than such parties.
5. The analyst's compensation is fee-based and is not contingent on the outcome of the valuation.
6. No one provided significant professional assistance to the person signing this report.
7. I am in compliance with the American Institute of Certified Public Accountants Accredited in Business Valuation (ABV) and National Association of Certified Valuation Analysts (CVA) re-certification requirements.
8. I do not have any direct or indirect, present or contemplated future interest in the Company.
9. Disclosure of the contents of this report is subject to the requirements of the National Association of Certified Valuation Analysts, and other professional organizations of which I am a member, related to review by their duly authorized representatives.

David E. Coffman

Professional Qualifications of David E. Coffman

Academic and Professional Credentials

- Certified Public Accountant (CPA) since 1978. Licensed in PA & NJ.
- Certified Valuation Analyst (CVA) since 1997.
- Accredited in Business Valuation (ABV) since 2001.
- Certified in Financial Forensics (CFF) since 2008.
- Bachelor of Science, Business Administration, Bloomsburg University, May 1976.

Position and Experience

- President & CEO of Business Valuations & Strategies PC, Harrisburg, PA. Founded in 1997.
- President & CEO of Business Advisors Group PC, Seaside Park, NJ. Founded in July 2008.
- Over 10 years of business valuation experience.
- Performed more than 100 business valuation engagements.
- Over 30 years of experience advising, owning and operating small businesses.

Professional Affiliations

- American Institute of Certified Public Accountants
- Pennsylvania Institute of Certified Public Accountants, Past President of the North and South Central Chapters
- New Jersey Society of Certified Public Accountants
- American Society of Appraisers – Associate Member
- National Association of Certified Valuation Analysts

Sample Company, Inc.

Private Company Transactions

Search Criteria

SIC Code
5812 - Eating places

NAICS Code
722211 - Limited service restaurants

Additional search criteria:
Annual revenue \$500,000 or less
Description - Fast food

Search Results

Number of transactions 163

Averages:

Asking price (AP)	119,294
Annual revenue (AR)	257,736
Seller's discretionary earnings (SDE)	58,117
Sales price (SP)	99,448

Ratios:

SP to AR	0.39
SP to SDE	1.71
SP to AP	0.83

Source - BIZCOMPS

**Sample Company, Inc.
Private Company Transactions**

Percentage of Annual Revenue

Company's Sales - 2006	218,094
Multiple - Sales Price to Annual Revenue	0.39
Value of FF&E and Goodwill	<u>85,057</u>
Add:	
Inventory	6,131
Value of Inventory, FF&E and Goodwill	<u><u>91,188</u></u>

Sample Company, Inc.
Private Company Transactions

Multiple of Seller's Discretionary Earnings (SDE)

SDE Calculation

Earnings Before Taxes	16,237
Add back:	
Owner/officer:	
Compensation	0
Payroll taxes (estimate)	0
Interest expense	1,333
Amortization	1,793
Depreciation	312
Discretionary expenses (non-operating):	
Vehicle expenses	0
Travel & entertainment	0
Charitable contributions	0
Equipment rent - Related party	4,560
Non-recurring items	0
Total SDE	<u>24,235</u>

Multiple - Sales Price to SDE Ratio 1.71

Value of FF&E and Goodwill **41,442**

Add:
 Inventory 6,131

Value of Inventory, FF&E and Goodwill **47,573**

Sample Company, Inc.
Adjusted Asset Value
12/31/200X

	Book value	Adjustments	Adjusted value
Inventory	6,131		6,131
Leaseholds & Equipment	31,202		31,202
Franchise fee	16,001	6,499	22,500
Organization & startup costs	4,913	(4,913)	0
Total	<u>58,247</u>	<u>1,586</u>	<u><u>59,833</u></u>

Adjustments
None

Sample Company, Inc.
Industry Data - Rules of Thumb

Franchise

1 35 percent of annual sales

Fast Food

1 35 to 45 percent of annual sales plus inventory

2 1 to 1.5 times SDE plus FF&E and inventory

Source: 2007 Business Reference Guide, Business Brokerage Press