

Business Market Value Report

Prepared for: John Doe

**Line of Business: Convenience stores and mini-marts
with gas station.**

January 15, 2010

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Summary of Business Valuation Results

At the request of Mr. John Doe, we have performed the estimation of the business market value as the potential selling price derived in comparison to the actual sales of similar businesses.

The comprehensive assessment of the business market value is achieved by using a set of 40 standard valuation multiples which we apply simultaneously to 10 key financial performance measures including the revenue, profitability, cash flow, asset base and owners' equity of your business.

All business value calculations are summarized in the Conclusion of Business Market Value section of this report.

Expected selling price – business market value

Based on the information contained in the report that follows, it is our estimate that the business market value is:

Business Market Value: \$572,994

Valuation multiples

The business market value can also be represented as a multiple of its financial performance as follows:

- **0.26 times the Gross Revenues plus inventory**
- **0.29 times the annual Net Sales**
- **0.56 times the Gross Profit**
- **2.29 times the Net Income**
- **1.98 times the EBIT**
- **1.74 times the EBITDA**
- **0.86 times the Seller's Discretionary Cash Flow plus inventory**
- **0.74 times the Furniture, Fixtures and Equipment assets plus inventory**
- **0.48 times the Total Business Assets**
- **1.64 times the Owners' Equity**

Results of analyzing the comparable business financials, typical acquisition deal terms and market activity indicators are also presented below.

Typical business sale terms

The key average deal terms below show how the typical business buyer and seller have structured a successful business sale:

- **Buyer down payment: 30% of purchase price**
- **Seller financing terms: 5 years at 8.65% annual interest**

Market conditions

Comparison of the actual business selling prices to asking prices and the length of time it takes to sell a business similar to yours shows the relative strength of the market:

- **Selling price to asking price ratio: 69.75%**
- **Days on market: 186**

Content and Purpose of the Report

This report contains the results of analyzing a number of business sale comparables that most closely match your business. These business sale comparables are actual transactions recorded in the BIZCOMPS® and Pratt's Stats® private company sales databases.

The report is intended for use in estimating the fair market value of the subject business by comparison with the reported selling prices and financial parameters of businesses in the same industry.

Report Date

All data used in this report have been compiled on January 15, 2010.

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Business Market Value Calculation Tables

Table Section 1 – Analysis of business sale comps from BIZCOMPS

BIZCOMPS® private company transaction database search results. This database currently contains a number of business sales that are comparable to your business.

Key subject business parameters:

1. Line of business: Convenience stores and mini-marts with gas station.
2. NAICS 447110.
3. SIC 5411.
4. Annual gross revenues: \$2,000,000.
5. Furniture, fixtures and equipment: \$550,000.
6. Inventory: \$220,000.
7. Seller's discretionary cash flow: \$450,000.
8. Number of comparable business sales: 25.

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I. Business Financials and Selling Prices

Table 1 summarizes the key parameters of sold businesses that closely resemble the subject business.

Financials and Selling Price	Minimum	Median	Average	Maximum
Selling Price (Less Inventory)	\$32	\$420	\$513	\$3,150
Annual Gross Revenue	\$1,900	\$2,330	\$2,520	\$5,100
Seller Discretionary Cash Flow (SDCF)	\$5	\$180	\$220	\$500
Furniture, Fixtures & Equipment (FF&E)	\$20	\$142	\$151	\$625
Inventory at Closing	\$15	\$55	\$59	\$120

Table 1: Financials and Selling Prices.

Financial values, when included, are in USD (\$000).

Analysis Data Source: BIZCOMPS® private company transaction database.

Observations

The businesses had the average gross annual revenue of \$2,520,000, hard asset base of \$151,000 and seller's discretionary cash flow of \$59,000.

The average selling price of businesses in this group has been \$513,000. In addition to the selling price, the average inventory value of \$59,000 has been transferred at closing.

II. Business Sale Transaction Details

Table 2 below shows the details of the comparative business sales, including the time it takes to sell a business and the percentage of buyer down payment used to finance the deal.

Value	Minimum	Median	Average	Maximum
Selling / Asking Price Ratio, %	62%	78%	81%	142%
Down Payment as a Percentage of Selling Price, %	10%	45%	51%	100%
Seller's Note Term, Years	1	5	5	10
Seller's Note Interest, %	5%	8.5%	8.65%	11%
Days on Market	10	188	192	345

Table 2: Business Sale Transaction Details.

Analysis Data Source: BIZCOMPS® private company transaction database.

Observations

Average selling price was 19% below the asking price. The buyer down payment (equity and/or debt) averaged 51% of the contract selling price. It took 192 days on average from listing the business to closing a sale. However, it took up to 345 days to sell one of these businesses.

Sellers offered financing averaging 49% of the purchase price at 8.65% annually for 5 years.

III. Business Value Estimates

Table 3 lists the selling price estimates for the subject business based on its gross revenue, seller's discretionary earnings, and Furniture, Fixtures and Equipment asset base.

Pricing Multiple	Minimum	Median	Average	Maximum
Price based on Gross Revenue	\$200	\$430	\$485	\$1,000
Price based on SDCF	\$280	\$510	\$528	\$1,200
Price based on FF&E Assets	\$320	\$545	\$548	\$1,350

Table 3: Selling Price Estimates.

Analysis Data Source: BIZCOMPS® private company transaction database.

Observations

Using the Pricing Multiples derived from the sales of similar businesses, we can estimate the fair market value of the subject business as follows.

The selling price is likely to be between \$200,000 and \$1,350,000 with an average and median values of \$520,333 and \$495,000, respectively.

Table Section 2 – Analysis of business sale comps from Pratt’s Stats

Pratt’s Stats® private company transaction database search results. This database currently contains a number of business sales that are comparable to your business.

Key subject business parameters:

1. Line of business: Convenience stores and mini-marts with gas station.
2. NAICS 447110.
3. SIC 5411.
4. Annual net sales: \$1,950,000.
5. Gross profit: \$1,020,000.
6. EBIT: \$290,000.
7. EBITDA: \$330,000.
8. Inventory: \$220,000.
9. Net income: \$250,000.
10. Total assets: \$1,200,000.
11. Owners’ equity: \$350,000.
12. Number of comparable business sales: 32.

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IV. Businesses sold: Financial Performance, Longevity and Size

Table 4 summarizes the key parameters of sold businesses that closely resemble the subject business.

Value	Minimum	Median	Average	Maximum
Net Sales	\$1,600,000	\$1,850,000	\$1,925,000	\$3,250,000
Gross Profit	\$950,000	\$1,100,200	\$1,250,000	\$1,750,334
Net Income	(\$124,000)	\$44,000	\$45,320	\$225,000
EBITDA	(\$12,440)	\$284,000	\$328,000	\$550,000
EBIT	(\$27,400)	\$184,300	\$220,000	\$474,300
Total Assets	\$35,000	\$335,000	\$341,000	\$1,740,072
Inventory at Closing	\$0	\$65,000	\$68,430	\$172,350
Total Liabilities	\$5,000	\$240,000	\$221,000	\$1,500,000
Book Value of Equity	\$30,000	\$95,000	\$120,000	\$240,072
Quick Ratio	0.1	0.92	0.99	4.00
Current Ratio	0.43	1.03	1.41	4.94
Company Age, years	1	9	9	26
Number of Employees	2	4	6	24

Table 4: Business Financial Performance, Longevity, Size.

Financial values, when included, are in USD.

Analysis Data Source: Pratt's Stats® private company transaction database.

Observations

Businesses sold averaged \$341,000 in total assets, reported net sales of \$1,925,000 and net income of \$45,320, on average.

The companies had an average inventory of \$68,430 at sale close. With the total liabilities of \$221,000; the average book value of equity equaled \$120,000.

Prior to the sale, the typical company was operated for 9 years and had an average staff of 6.

Short term liquidity of the comparable businesses is indicated by the average quick and current ratios of 0.99 and 1.41, respectively.

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V. Business Sales: Deal Terms, Days on Market

Table 5 below shows the details of the comparative business sales, including the time it takes to sell a business and the percentage of buyer down payment used to finance the deal.

Value	Minimum	Median	Average	Maximum
Purchase Price/Asking Price, %	45%	58%	58.50%	100%
Amount of Down payment	\$0	\$135,000	\$144,300	\$832,000
Down Payment as Part of Purchase Price, %	0%	58%	61%	100%
Non-compete Agreement Value	\$0	\$10,000	\$15,480	\$125,000
Non-compete Agreement Length, months	24	54	48	60
Days on Market	15	142	180	423

Table 5: Business Sale Deal Terms, Days on Market.

Analysis Data Source: Pratt's Stats® private company transaction database.

Observations

The actual purchase price was just 58.5% of the asking price, which may be due to the somewhat high amount of buyer's down payment – 61% of the purchase price on average.

It took 180 days on average to sell a business in this industry. However, it took as long as 423 days to close a sale.

The average value of a non-compete agreement with outgoing business ownership was \$15,480 with a term of 48 months on average.

VI. Business Purchase Prices and Business Value Estimates

Table 6 lists the actual purchase prices of sold businesses and price estimates for the subject business based on its net sales, common profitability and balance sheet measures.

Value	Minimum	Median	Average	Maximum
Purchase Price	\$50,000	\$410,000	\$450,000	\$2,600,000
Liabilities assumed by Buyer	\$0	\$24,450	\$31,986	\$115,000
<u>Price Estimates</u>				
Price based on Net Sales	\$223,000	\$450,000	\$463,000	\$1,094,000
Price based on Gross Profit	\$204,340	\$398,442	\$449,432	\$1,041,240
Price based on EBIT	\$180,000	\$395,000	\$410,000	\$1,000,000
Price based on EBITDA	\$209,000	\$455,000	\$468,200	\$1,094,000
Price based on Net Income	\$200,000	\$380,000	\$400,000	\$1,050,000
Price based on Total Assets	\$284,000	\$510,000	\$525,000	\$1,280,000
Price based on Book Value of Equity	\$255,000	\$500,000	\$505,000	\$1,100,120

Table 6: Business Purchase Prices and Price Estimates.

Analysis Data Source: Pratt's Stats® private company transaction database.

Unless otherwise noted, the price includes all business assets except for cash and accounts receivable. Accounts payable are also excluded. The Purchase Price includes short and long-term liabilities assumed by the buyer.

Observations

The Purchase Price of businesses ranged between \$50,000 and \$2,600,000, with an average price being \$450,000.

Long-term liabilities may be assumed by some business buyers. The value of such liabilities ranged between \$0 and \$115,000; with an average being \$31,986.

Using the actual Pricing Multiples derived from this group of sold businesses, we can estimate the subject business fair market value:

The potential purchase price may fall between \$180,000 and \$1,280,000 with the average and median values being \$459,233 and \$441,206; respectively.

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Conclusion of Business Market Value

Assume the following proposed sale for the subject business:

- Business financial performance parameters as indicated in Table Sections I and II above.
- The firm's cash and accounts receivable are retained by seller.
- Buyer assumes no liabilities.
- No non-operating assets or real estate are to be acquired as part of the business purchase.

We can use all the estimates of the Purchase Price from Tables 3 and 6 above to calculate the business market value as the likely business selling price as follows:

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Market Value Estimation as a Potential Business Selling Price

1. Based on gross revenues plus inventory:

Business Value = \$528,750

2. Based on net sales:

Business Value = \$557,500

3. Based on gross profit:

Business Value = \$523,364

4. Based on net income:

Business Value = \$507,500

5. Based on EBIT:

Business Value = \$496,250

6. Based on EBITDA:

Business Value = \$556,550

7. Based on SDCF plus inventory:

Business Value = \$629,500

8. Based on FF&E Assets plus inventory:

Business Value = \$690,750

9. Based on Total Business Assets:

Business Value = \$649,750

10. Based on Book Value of Owners' Equity:

Business Value = \$590,030

Calculating the average of the business values from steps 1 to 10, we obtain the following business market value result:

Business Value = \$572,994

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Business Selling Price Definitions

The Purchase Price reported in Table Section 2 generally includes all business operating assets and business goodwill. It excludes the cash and cash equivalents, accounts receivable, accounts payable and long-term liabilities.

The Selling Price reported in Table Section 1 additionally excludes the inventory. The Total Invested Capital price is equal to the Purchase Price plus the long-term liabilities assumed by the buyer, if any. All of these business sale prices are at face value that has not been adjusted for the deal terms.

Fair Market Value Standard

The business sales used to generate this report are between independent business buyers and sellers. The data provide a good basis for business pricing comparisons under the "**fair market value**" standard defined as follows:

The value of the business enterprise agreed upon between a willing buyer and a willing seller, both acting in their best interests and in full knowledge of the relevant facts, and neither under the compulsion to conclude the transaction.

Going Concern Premise of Value

All business sale comparables represent asset sale transactions where 100% of the business ownership interest is transferred from the seller to the buyer with the expectation that the business will continue operating in the foreseeable future. This establishes the so-called "**going concern**" premise of value.

Business Valuation Approaches

Business valuation can generally be performed under the following three major approaches:

Asset approach

Income approach

Market approach

Comparative Transaction Valuation Method

There are a number of methods under each major approach to business valuation. This report uses the **Comparative Transaction Method** under the Market approach.

Essentially, the method relies upon the collection and analysis of business sale comparables that closely resemble the business being valued. We have selected the transactions involving businesses that share similar financial and operational characteristics and are in the same Standard Industrial Classification (SIC) group as your business.

Data Sources of Comparable Business Sales

All data are gathered from the two leading private company transaction databases. A brief description of each database follows:

BIZCOMPS® database contains business sales data that involve the most common types of small businesses and professional practices. As of the date of this report, BIZCOMPS contained 11,234 transactions with a median selling price of \$156,000 across 434 unique SIC codes.

Pratt's Stats® database lists business sales of small and mid-size establishments. It contains 13,785 deals with 46% of the selling prices under \$1,000,000 and the remainder between \$1,000,001 and \$500,000,000; across 745 unique SIC codes. The median selling price is \$1,500,000.

Selling Prices and Valuation Multiples

A number of so-called valuation or pricing multiples can be used to obtain estimates of your business market value such as those found in Table Section 1 and Table Section 2. In valuation of a private or closely held company these multiples typically include:

- Business price divided by revenue.
- Business price divided by the various measures of business earnings, such as SDCF, EBITDA, EBT, EBIT and Net Income.
- Business price divided by the fair market value of business assets or book value of equity.

These pricing multiples are statistically derived factors that relate the business economic performance to its potential selling price. For example, to estimate the business selling price you can take its revenue and multiply it by the "Selling Price ÷ Gross Revenue pricing multiple".

One way to arrive at an estimate of the business selling price is to use a single pricing multiple value, such as the average or the median. Another way is to calculate a pricing range by using a pair of values, for example the minimum and the maximum. The likely selling price will fall somewhere in between.

Business Value Estimation using Valuation Multiples

Using a number of valuation multiples based on several business sales and profitability measures lets you develop a comprehensive and accurate picture of the expected business selling price.

Your company may excel in one or more financial performance areas. Hence, you may find that some of the pricing multiples are especially useful when developing your business pricing strategy. Here are a few examples:

Revenue Based Valuation Multiples

You need a selling price comparison based on the top lines of similar businesses sold in your industry group. You have a rapidly growing company with significant sales but whose profitability has not yet been optimized.

Gross Margin Based Valuation Multiples

The firm has achieved exceptional operational efficiencies that consistently result in Gross Margins that are above the industry average.

EBIT Based Valuation Multiples

The business buyer's tax situation differs considerably from the current owner. The buyer may also have a different capital structure in mind. Hence, the buyer may want to estimate the business selling price on a pre-tax and interest basis.

SDCF Based Valuation Multiples

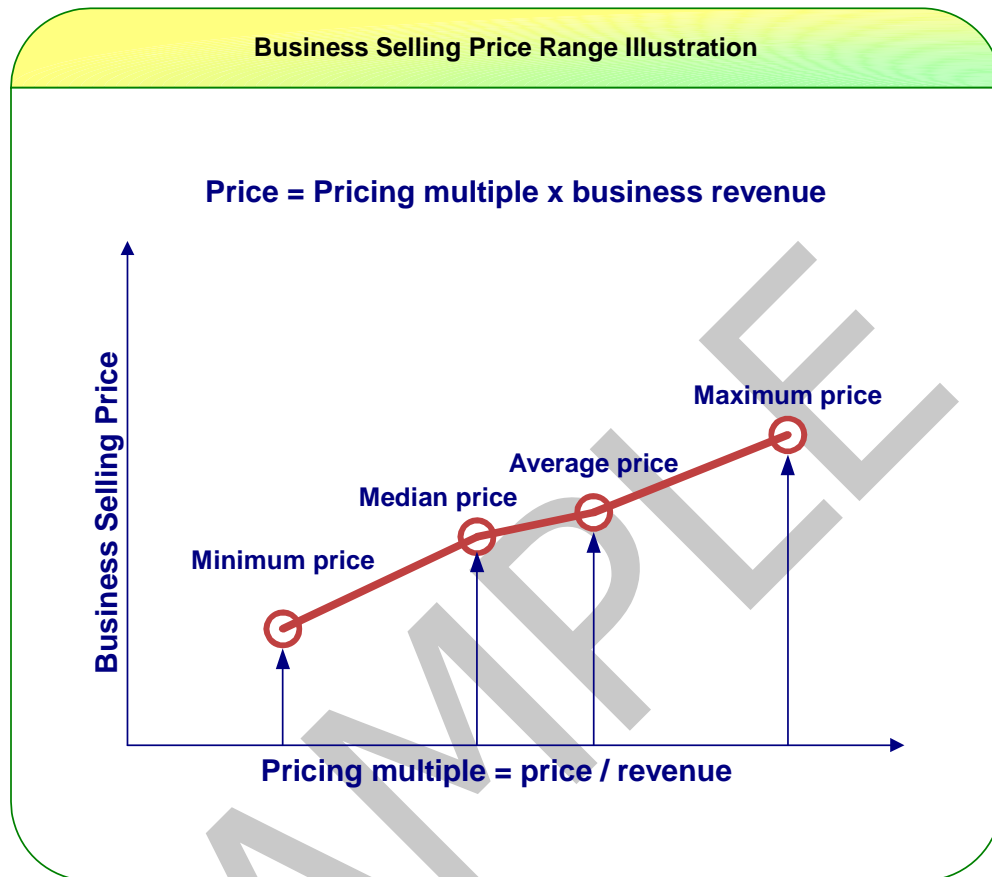
The business buyer plans to operate the business and views it as a major source of income.

Total Invested Capital Valuation Multiples

The buyer plans to assume some of the business long-term liabilities to take advantage of the favorable financing terms.

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Selling Price Estimation Illustration



The graph above illustrates the business selling price range calculated by using the Revenue Pricing Multiples. In other words, the estimated business price range is calculated by multiplying the pricing multiples by the business revenue.

Table Sections 1 and 2 provide potential business sale price estimates derived from the market comparables relevant for the subject business.

To use these estimates effectively, you would need to adjust your business historic financial statements. Please see how to do this adjustment by recasting your historical financials at

<http://www.valuadder.com/valuationguide/recasting-financial-statements.html>

You can use the price estimates from either or both tables to estimate your business selling price. When using the Price Estimates please bear in mind the business price definitions discussed above in the **Business Selling Price Definitions** section.

For example, the average purchase price estimates from Table Section 2 can be used as follows:

1. Select the average purchase price estimate value.
2. Add cash if included in the purchase (not common for asset sales).
3. Add accounts receivable if included in the purchase (not common for asset sales).
4. Add non-operating assets, if any, acquired in the purchase.
5. Subtract any business liabilities assumed by the buyer.

This provides the business pricing estimate based on the business revenue.

As an alternative of using business EBIT as the measure of income:

1. Select a purchase price estimate based on EBIT, such as the average value.
2. Add cash if included in the purchase.
3. Add accounts receivable if included in the purchase.
4. Add non-operating assets, e.g. real estate, acquired in the purchase.
5. Subtract any business liabilities assumed by the buyer.

This offers the business pricing estimate based on the business EBIT earnings.

To assess a range of selling prices for your business, you can use the Min and Max values of the price estimates in the table:

Select the desired Min and Max purchase price estimate values from the table, for example the Purchase Price based on EBIT.

Make the appropriate adjustments, as indicated in the box above.

The two results provide a pricing range estimate, from low to high, based on the business revenue.

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List of Abbreviations

Asset Sale – a type of small business sale transaction in which all underlying business assets transfer from the seller to the buyer. The buyer assumes no business liabilities.

Average – the arithmetic mean value, calculated by adding all the values in a set and dividing the sum by their number. For the business selling price, the average is the sum of all the deal prices divided by the number of the recorded business sales.

Book Value of Equity – the difference between the business's total assets and its liabilities as indicated on the current balance sheet. It is also known as the stockholder's equity.

Current Ratio – the ratio of the business's current assets divided by its current liabilities. It is a standard short-term liquidity measure.

Days on Market – the time in days from the date the business is listed for sale until the transaction closes.

Earnout – a portion of the business purchase price that is made contingent upon the business achieving some future measure of economic performance. For example, the earnout can be structured as a percentage of sales in excess of some base number, paid over some future period of time and limited to a maximum.

EBITDA – earnings before interest, tax, depreciation and amortization.

EBIT – earnings before interest and tax expense.

EBT – earnings before tax expense.

FF&E – the portion of business operating asset base comprising its furniture, fixtures and equipment.

Max – the maximum value in a set of values. For the business selling price, this is typically the highest recorded selling price value.

Median – the mid-range value with half of the values in the set falling below it and another half being above it. For the business selling price, the median price means that 50% of the business

sales were done at prices below the median, and the remaining 50% of the sales had prices above the median.

Min – the minimum value in a set of values. For the business selling price, this is typically the lowest recorded selling price value.

N/A – not available.

Non-compete Agreement – a covenant agreed between the business seller and buyer which limits the competitive activities the seller is allowed to engage in after the business sale. Such agreements are generally limited in time and geography.

Pricing Multiple – a statistically derived ratio of the business selling price to a measure of the business economic performance, such as the business revenue, profit or cash flow.

Purchase Price – the total monetary consideration paid for the business equity. Includes intangibles such as non-compete agreements, long-term liabilities assumed by the buyer. The Purchase Price excludes real estate and earnouts.

Purchase Price ÷ Net Sales – a pricing multiple which equals the purchase price divided by the business net sales.

Purchase Price ÷ EBT – a pricing multiple which equals the purchase price divided by the business earnings before tax.

Purchase Price ÷ Net Income – a pricing multiple which equals the purchase price divided by the business net income.

Quick Ratio – the ratio of the business's current assets, less inventory, divided by its current liabilities. Quick Ratio is a short-term liquidity measure.

SDCF – seller's discretionary cash flow is the business net pre-tax income before a single owner's total compensation, plus amortization, depreciation, interest expense and adjusted for any extraordinary, non-recurring or non-business related income or expenses.

Selling Price – the monetary consideration paid for 100% of business ownership interest in an asset sale transaction. The Selling Price includes all business assets except cash, accounts

receivable and inventory. Accounts payable are also excluded. The Selling Price does not include any long-term liabilities assumed by the buyer.

Selling Price ÷ Gross Revenue – a pricing multiple which equals the business selling price divided by the gross annual sales.

Selling Price ÷ SDCF – a pricing multiple which equals the business selling price divided by the SDCF.

SIC – Standard Industrial Classification, a US classification system grouping like businesses under the same numerical code.

Total Invested Capital – the same as the purchase price defined above.

Total Invested Capital ÷ EBIT – a pricing multiple which equals the total invested capital divided by the business earnings before interest and taxes.

Total Invested Capital ÷ Gross Profit – a pricing multiple which equals the total invested capital divided by the firm's gross profit.

Total Invested Capital ÷ Net Sales – a pricing multiple which equals the total invested capital divided by the business net sales.

Notice of Assumptions and Limitations

This Business Pricing Comparables Report has been prepared at the Customer's request, for the exclusive use by the Customer. The data used for the report have been gathered from a number of leading business sale transaction data sources thought to be reliable at the time of this report preparation. It is intended to help the Customer identify a potential range of selling prices for businesses of similar type, and is not a formal business appraisal. Numerous factors and conditions may affect the price for which a business eventually sells, and every business owner or purchaser must evaluate this report in light of their own business and industry experience, consider the input of any expert valuation or other professional counsel they may retain, and adjust their decisions accordingly. Haleo Corporation expressly disclaims any liability, including incidental or consequential damages, arising from any errors or omissions in this report. The report and information contained herein are subject to the Haleo Corporation ValuAdder License agreement, which is incorporated here by reference. A copy of the License agreement can be found online at www.valuadder.com/license.html.

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