

Sample Summary Valuation

Of

Acme Services, Inc.

as of

December 31, 2009

Prepared By:





February 24, 2010

John Smith
Acme Services, Inc.
1234 Main Street
Any Town, USA 12345

Dear John,

We are pleased to present this estimate of *fair market value* of Acme Services, Inc. as of December 31, 2009.

The suggested price is divided between tangible assets and goodwill. The tangible asset value represents the current estimated value of the furniture, fixtures, equipment, vehicles, leasehold improvements, and supplies for internal consumption. The intangible asset price or *goodwill* represents the current estimated value of the established customer base, management systems, operating systems, technology systems, and physical location, proprietary rights such as patents and trademarks, training upon sale. Sellable inventory is calculated in addition to the purchase price.

Estimated Current Market Value

The enclosed report with supporting documents offers a range of suggested values based on multiple valuation methodologies. Our single price conclusion is a weighted average of the maximum and minimum value ranges for all methodologies reviewed.

Fair Market Value	Plus Inventory	Total Enterprise Value
\$293,000	\$21,418**	\$314,418

** Total Enterprise Value of the business may be higher or lower at the time of closing depending on the value of inventory on the day of close, or a negotiated final inventory value.

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Background Information

Client Data

John Smith of Acme Services, Inc. has authorized BizByOwner to analyze the Company and complete this report. Acme Services, Inc. is located at 1234 Main Street, Any Town, USA 12345. The subject business is an industrial laundry and linen rental company.

Purpose of Valuation

This report provides the client with an opinion of the company's fair market value. *Fair market value* is the price, in cash or equivalent, that a buyer could reasonably be expected to pay, and a seller could reasonably be expected to accept, if the business were exposed for sale on the open market for a reasonable period of time, both buyer and seller being in possession of the pertinent facts and neither being under compulsion to act.

Form of Valuation

This valuation DOES NOT establish of value of the stock for the subject company. The analysis assumes that John Smith of Acme Services, Inc. will sell the business rights and tangible assets of Acme Services, Inc. to another individual or corporation. Balance sheet adjustments have not been made with this form of valuation. To convert market value of the business to stock value of the corporation, the reviewer will need to add cash assets, accounts receivables, notes receivable, etc, and subtract accounts payable, notes payable, etc.

Review of Internal and External Factors

Our approach has been to determine a value which would provide a fair and reasonable return on investment to an investor or owner, in view of the facts available to us at the time. Both internal and external factors which influence the value of the Company were reviewed, analyzed and interpreted. Internal factors include the Company's financial position, results of operations and the size and marketability of the interest being valued. External factors include, among other things, the status of the industry and the position of the Company relative to the industry.

Documents Reviewed

Documents listed below have been reviewed and any assumptions made from such documents or reports may be included in this report. BizByOwner has relied on the expertise of the company's financial advisors supplying this information for its accuracy.

- Form 1120 U.S. Corporation Income Tax Return Y/E 2007, 2008 and 2009
- Profit and Loss Statements Y/E 2009
- Balance Sheet as of December 31, 2009
- Company Website: www.acmeservices.com
- Client Questionnaire

Valuation Effective Date

Values stated are effective as of 12/31/2009 (the most current date of provided financial information). Any difference between the date this report is presented and the effective date could have a bearing on the value opinion stated.

Disclaimer and Contingencies

This is a limited scope valuation report and *not* a certified appraisal. A limited scope report is not as rigorous as a formal appraisal, and is designed to give a guideline or benchmark value rather than a formal determination of value. This valuation may not conform to all IRS and USPAP requirements, but is still guided by the most recognized standards of the business valuation industry.

This report is only to be used in its entirety, and for the purpose for which it was prepared. No third parties should rely on the information contained in this report without the advice of their attorney or accountant, and without confirming for themselves the information contained herein.

BizByOwner has no present or contemplated financial interest in the Company. Our fees for this valuation are based upon our normal valuation rates based on the product ordered, and in no way are contingent upon the results of our findings.

BizByOwner has no responsibility to update this report for events and circumstances occurring after the date of this report.

The analysts and appraisers, by reason of preparing this report, are not required to give testimony nor be in attendance in court or any other governmental hearing with reference to matters herein, unless prior arrangements have been made with the evaluator relative to such additional employment.

BizByOwner assumes no responsibility for matters of a legal nature affecting the property valued or the title thereto, nor do we render any opinion as to the title, which is assumed to be good and marketable. The property is valued as though under responsible legal ownership.

BizByOwner assumes no responsibility for any environmental problems and has not inspected the property.

This valuation was based on a specific period of time. Data for this period of time has been collected from several sources. The particular business environment and market may not continue in the future, therefore, the evaluator is not making any claims regarding future performance of this business. The evaluator assumes no responsibility for errors in data available from external sources.

Readers of this business valuation report should be aware that business valuations are based on future earnings potential that may or may not materialize. Any financial projections presented in this report are included solely to assist in the development of the value conclusion presented in this report. The actual results may vary from the projections, and the variations may be material.

BizByOwner was retained by its client, who is thoroughly familiar with the business, and all past and future performance information used in this report has been based on information provided by the client and other sources deemed to be reliable. The analysts and appraisers disclaim any ability of any potential purchaser to generate any future income, cost and expense potential, or expectations as may be stated in this report.

All information in this report has been provided by our client and is assumed to be reliable. No verification of the information has been done by BizByOwner, nor have we made an inspection or on-site visits of the business premises or facilities.

Possession of this report or a copy thereof does not carry with it the right of publication. It may not be used for any other purpose, in whole or in part, by anyone except the client for whom the valuation was prepared without the prior written consent of BizByOwner.

It is assumed that the reader of this report has at least a basic understanding of the subject business's industry, terminology and operations.

Other assumptions and limiting conditions are as may be stated in various other sections of this report.

Approach to Valuation

A business valuation is an opinion of the value of a business based on the appraiser's experience, training, and integrity. In reaching a conclusion, comparison of businesses usually involves adjustments due to the individuality and uniqueness of each business.

Being an opinion of value, the business valuation cannot be guaranteed, nor can it be proven. The valuation can, however, be substantiated and the final opinion is the result of a thorough professional analysis of a large amount of data. A valuation must not be considered absolute but should be used as a basis of negotiations between concerned parties, whatever their interests.

The valuation process as followed in the preparation of this report is an orderly procedure for arriving at an estimate of value. By following this procedure, the appraiser begins with a preliminary study of the issues and defines the basis from which the opinion is to be made. Once the data has been collected, a systematic approach is taken to analyzing the data and selecting appropriate valuation methodologies.

In assignments to estimate fair market value, the ultimate goal of the valuation process is a supported conclusion that reflects the appraiser's study of all influences on the value of the company being appraised. Therefore, the appraiser studies the business from various perspectives. Various questions are raised and answered through communication with the owners and advisors, research of the industry, and the financial capabilities of the subject business.

The various valuation approaches are interrelated, and each involves gathering and analyzing specific pieces of data relating to the company being analyzed. From the analysis, the appraiser derives separate indications of value, of which one or more may be used in determining the final value.

To complete the valuation process, the appraiser integrates the information drawn from market research, analysis of data, and from numerous valuation methodologies to form a final conclusion.

Fair Market Value

The single most important market factor to impact the value of a business is the supply and demand of an equally desirable substitute that is available in the marketplace. According to the principle of substitution, the value of a business tends to be determined by the cost of acquiring an equally desirable substitute. A buyer will pay no more for a business than the cost of purchasing a similar business. This concept is the basis of fair market value and is the overriding methodology in this valuation report.

There are three approaches to determining the value of any business:

1. The **cost approach**, which considers the cost of purchasing or reproducing the assets of the business.
2. The **income approach**, which is a financial analysis consisting of capitalizing an income stream based on the cost of money and a risk rate that reflects current market conditions.
3. The **market data approach**, which values the business based on current sales in the marketplace for the same or similar business.

In this report you will find as many methods, under each approach, as is reasonably applicable to valuing the subject business. In order to arrive at a supportable value, we have chosen those methods that would best apply to the purchase of the subject business as reflected by the marketplace.

The Internal Revenue service established Revenue Ruling 59-60 as the standard for the valuation of closely held companies. The following summarizes the key factors to consider:

1. History and Nature of the Business.
2. Economic Outlook.
3. Book Value.
4. Earning Capacity of the Enterprise.
5. Dividend Paying Capacity of the Enterprise.
6. Goodwill and Intangible Assets.
7. Recent Sales of Stocks.
8. Market Value of Comparable Companies.

Cost or Asset-Based Approach

In considering the cost approach, we must remember that the cost of something does not necessarily determine its selling price. This is true in a rapidly changing market, which is highly affected by technological changes or variances in supply and demand. This is especially true if a company is very young and has not yet established enough of a track record to make a confident analysis of the future performance.

Also, in the case of a business, all serious practitioners of business valuation agree that book value is not necessarily an adequate proxy for representing the underlying net asset value of a business for valuation purposes, much less for representing the value of the business itself. However, book value is a figure that is available for almost all businesses. Furthermore, it is a value that different businesses have arrived at by some more or less common set of rules, usually some variation within the scope of generally accepted accounting principles (GAAP). Also, each asset or liability number that is a component of book value as shown in the financial statements represents a specific set of obligations that can be identified in detail by referring to the company's records, assuming that the bookkeeping is complete and accurate. Therefore, book value usually provides the most convenient starting point for an asset value approach to the valuation of a business interest.

The nature and extent of adjustments that should be made to book value for the business valuation depend on many factors. One, of course, is the purpose for the valuation. Another, which is frequently a limiting factor, is the availability of reliable data on which to base the adjustments both for the subject company and for other companies which might be compared in the course of the valuation.

One concept for fixed assets is *value in use*, the value of the operating assets to the owner/user, or buyer who will use it in a similar manner. Value in use is the value that includes consideration for the unique relationship of the item to a particular business such as the subject. There is a value for an item, which is already in place and is ready to use. The value might be the item's retail price, plus applicable taxes, freight, and installation charges. The summation of these costs, after proper deductions for depreciation and obsolescence, is the *value in use* of that item. This value may be different from its *fair market value* to a buyer who will not use the equipment at its present location.

The cost approach is used when the income stream generated by the business does not adequately reflect the value of the company. It is usually reflected in the valuation of not-for-profit companies and associations, start-up companies without an operating history, and/or distressed companies. Although part of the valuation analysis, it is rarely used when assessing the value of a viable operating entity.

Income Approach

The income approach estimates the Company's value based on its ability to generate income. This estimate may be calculated by i) projecting cash flows in to the future and discounting them back to present at a stipulated rate of return or ii) capitalizing a free cash flow base at an appropriate rate of return. The free cash flows used in this valuation methodology are defined as cash available to debt and equity holders after investment. The Discounted Cash Flow (or "DCF") methodology is ideal when valuing companies whose future performance is projected to be materially different from its past performance. DCF requires explicit identification of the future cash flow streams that anticipated business plans will generate. For this reason, the DCF approach is also useful when valuing companies that: (i) operate in niches which are uninhabited by comparable companies or (ii) face unique circumstances or operating environments.

The Capitalization of Earnings method is easier to employ than the DCF method. In this method, a normalized measure of earnings, such as operating cash flow, is usually divided by the appropriate cost of capital less the projected growth in operating cash flow. This calculation yields the indicated enterprise value for the business. Because the capitalization of free cash flow method is based on a single earnings base, the value that it yields may be less precise than the value yielded by the DCF method which is based on a detailed, explicitly identified stream of future earnings. However, the capitalization of free cash flow method and the DCF method will lead to similar valuation conclusions when the Subject Company is a mature company whose future performance is not expected to differ materially from its past.

Market Approach

The Market Approach (or Comparable Companies Approach) to valuing a closely-held non-traded company involves comparing the Subject Company to counterparts engaged in the same or similar lines of business. However, similarity in size, methods of operation, markets and customers served, and projected growth in sales and earnings are important for reliable market approach results. Since the IRS and USPAP appear to prefer the Market Approach to value determination, it is BizByOwner's method of choice.

The market approach is based on third-party verifiable transactions. Successful usage of this approach requires that the analyst have access to a large database of arms-length transactions involving companies similar to the Subject Company. Information on sales of comparable companies can be difficult to obtain for parties not privy to the transactions. When such data is publicly available, the market approach is the most credible and understandable approach of the three. However, this approach still may ignore or incorrectly include the potential combination benefits or synergies associated with a transaction.

The market approach is easy to understand, credible, and commonly relied upon. However, to the extent a company is exceptional, the value as indicated by the market approach will differ from its true fair market value.

The Market Approach includes several valuation methods in two basic categories: Public Company Comparable Methods and Private Company Comparable Methods. The former category uses discounted price/earnings or other ratios of publicly traded companies to approximate the value of a privately-held company. Unfortunately, these comparisons are usually of little value, since the size, capital structure, and liquidity of the Subject and Comparables Companies often differ to a great extent. In an attempt to solve this problem, many analysts have tried to assign discounts in order to compensate for the size, capital structure and liquidity issues. However, these discounts simply add a very arbitrary and subjective element into the valuation process. As a group, the Private Company Comparable Methods offer the overall best methods of business valuation since they compare similar privately-held companies that have sold on the open market to the Subject Company. The various methods include multiples of revenue, earnings before interest & taxes (EBIT), and earnings before interest, taxes, depreciation & amortization (EBITDA), and EBITDA + owner's compensation (Seller Discretionary Earnings (SDE)). BizByOwner will only be using Private Company Comparable Methods in the creation of this valuation.

Revenue Multiples

Revenue multiples have been a favorite of many analysts and business brokers over the years for two primary reasons. First, it is very easy to calculate. One simply multiplies the revenue by the revenue multiple for a given industry to arrive at an indicated value. Second, revenue is fairly easy to determine, and is a single figure that usually requires no adjustments, and no knowledge of accounting. However, the most obvious problem is that two companies in the same industry with equal revenue, but different earnings will be valued equally, even though the earnings benefit to the owner could be drastically different.

Earnings Multiples

Multiples of earnings are usually the best way to measure the value of a particular business. Businesses exist to provide earnings to their owners, shareholders or members. However, as discussed above, there are many types of earnings (before-tax earnings, after-tax earnings, EBIT, EBITDA, SDE, etc.). The only truly neutral measure of earnings is Seller Discretionary Earnings (SDE), (also called Adjusted Net Profit), because it is the only measure of earnings that removes the discretionary treatment of taxes, interest, depreciation, amortization, owner salary, health/life insurance, and other non-salary perks, and extraordinary items. SDE provides the true debt-free, discretionary earnings available to the owner(s) of the business.

BizByOwner analyzes both multiples of revenue and multiples of earnings methods in the creation of this valuation.

Correlation of Methods

It is important to note that under guidelines set by the “The Uniform Standards of Professional Valuation Practice” (Standards Rule 9-5), the Internal Revenue Service (Revenue Ruling 59-60), as well as most valuation societies, the evaluator is required to use all approaches for which reliable data is available and applicable. The use of as many approaches and methods within these approaches is useful to the extent that it will establish a range of values for the entity being appraised.

Revenue Ruling 59-60 (in Section 3, “Approach to Valuation”) recognizes the fact that appraising is not an exact science: “[a] sound valuation will be based upon all the relevant facts, but the element of common sense, informed judgment and reasonableness must enter into the process of weighing those facts and determining their aggregate significance.”

Sometimes it will be obvious that the analyst should rely on a single approach, such as methods under the cost approach whereby earnings are insignificant to the value of the assets. An example of this would be a new enterprise with little or no longevity or profits, where projections would be meaningless. Another example would be a company that has longevity, but insignificant profits, and would be a candidate for liquidation. In other cases, it may be apparent that several methods would be appropriate for the final value conclusion. When this is the case, the evaluator must look to the real world to determine which method or methods should receive the most weighting.

SDE Recast Worksheet

The most accepted measurement of earnings for small and mid-sized businesses is Seller Discretionary Earnings (SDE) because it is the only measure of earnings that removes the discretionary treatment of taxes, interest, depreciation, amortization, owner salary, health/life insurance, and any other non-salary perks, and extraordinary items. Also called Adjusted Net Profit, SDE provides the true debt-free, discretionary earnings available to the owner(s) of the business.

The following worksheet shows the analysis of how the business income statements were recasted to reflect SDE.

BUSINESS NAME: ACME SERVICES, INC.

	2007	2008	2009
GROSS SALES:	\$586,781	\$585,159	\$584,997
FROM P&L SUMMARY:			
Salary (one working owner or manager)	+ \$90,272	\$98,079	\$104,960 1
Payroll Taxes on Owner Salary	+ \$6,906	\$7,503	\$8,029 2
Discretionary Expenses, if included in P/L expenses			
Personal Auto Expense	+		
Personal Travel	+		
Owner Health Insurance (one owner)	+ \$12,000	\$12,000	\$12,000 3
Owner Life Insurance	+ \$1,700	\$1,700	\$1,700 4
Interest	+ \$4,345	\$1,886	\$1,385 5
Personal Meals & Entertainment	+ \$300	\$250	\$500 6
Depreciation	+ \$6,711	\$5,435	not exp on P&L 7
Amortization	+		
Personal Telephone/Internet	+		
Rent Adjustment, Fair Market Value	+		
Other: Loan Payment - Principal Expensed	+		\$6,840 8
Other: Dryer Purchased Expensed	+		\$2,616 9
Expenses not included on P&L (Explain)	+		
Total Adjustments (from above)	\$122,234	\$126,853	\$138,030
Net Profit (loss) from Tax Rtn/P&L	+ -\$18,210	\$18,479	-\$6,201
Seller's Discretionary Cash/Recast Net Profit	\$104,024	\$145,332	\$131,829

Notes on Recast Earnings

- 1 Added Back one working owner wages and normalized other two owners wages at \$33,000/year
- 2 Company matching payroll taxes on owner wages added back
- 3 One Owner's Health Insurance benefits (estimated family premium for 2 adults and 2 children)
- 4 Owner's Life Insurance benefits (estimated)
- 5 Based on Current ownership capital structure, not buyers
- 6 Owner perk - non-operational expense (estimated)
- 7 Non-Cash Expense
- 8 Entire Loan payment expensed on P&L - principal should not be expensed... interest was added back above (footnote 5)
- 9 Dryer Purchase - should not be expensed, should be capitalized and depreciated

Weighted Averages

The revenues and earnings of each year are usually weighted to reflect the expected relevance of each year toward the future sustainable results of the company. A commonly used pattern is to weight the oldest year least, and the most recent year highest, in the belief that the near-term future will most closely resemble the company's most recent past performance. The weights are used to calculate a set of averages of earnings and/or revenues, shown above, which are used in all of the valuation methods which follow.

WEIGHTED EARNINGS				
	Year	Adjusted Net	% Weight	Total
	2007	\$104,024	10%	\$10,402
	2008	\$145,332	30%	\$43,600
	2009	\$131,829	60%	\$79,097
			100%	\$133,099
				Weighted Earnings

Valuation Methods

A business's value can actually be divided into five components:

1. Market value of tangible assets.
2. Historical trends of revenues expense and cash flow.
3. The value of rights, systems, technology, clientele.
4. Estimated stability in the future.
5. Esthetic appeal.

Internal formulas have been used to calculate each of the results of valuation method. Each of the methodologies were then reviewed to determine which apply most in this case to justify the suggested price. Not every method will necessarily be used to calculate the final suggested price.

All of the valuation methods below are calculated and displayed in price ranges with a maximum value and a minimum value. A value range is used in lieu of a fixed value for many reasons including: 1) a variable of error in the client provided data, 2) false assumptions on behalf of the appraiser, 3) multiple rules of thumb and formulas for a similar industry, 4) the data used to calculate these values are often based on estimates.

The methods reviewed in this report are described below:

Asset Value

The asset value (or Cost Approach) method is used to determine a minimum value range for a business. This amount represents the estimated market value of all tangible assets. This method does not include the value for sellable inventory.

Asset value must not be determined solely on the basis of book value or an asset's worth in its current application but also must consider replacement value including all installation and testing costs. The upper and lower asset values are determined based on the accuracy of the asset data that was provided by the client to the appraiser.

Upper range: \$67,305.

Lower range: \$60,895.

Basic Method

This method is a *rule of thumb* multiplier that is calculated by adding one and a half year's net cash flow to the business's tangible assets, valued at current market value.

Upper range: \$303,311.

Lower range: \$224,186.

Capitalization Of Earnings Method

This method calculates return on investment. It is based on a simple mathematical model, which calculates a total investment based on discretionary cash flow divided by a rate of return associated with the cost of money and the level of risk associated with the valued business.

Capitalization of earning capacity is considered by some to be the most important factor in the valuation of closely held companies.

Upper range: \$355,577.

Lower range: \$293,738.

Industry Method

This method is based on pricing formulas and rules of thumb that have been developed for a specific industry. Most of these industry rules of thumb are based on multiples of revenues or multiples of earnings. Others are based purely on formulas niche to that industry.

Upper range: \$333,631.

Lower range: \$289,979.

Discounted Cash Flow

This method is based on discounting the forecasted earnings or cash flow stream at a risk adjusted rate of return. The earnings stream is forecasted for ten years, typically using a long term growth rate, and then a terminal value is calculated at the end of ten years. Capitalizing the last period's earnings and then discounting the result to its present value calculates the terminal value. The following table shows how this was calculated:

Upper range: \$425,195.

Lower range: \$368,764.

Multiple or Averaged Value Method

This method is the average of all of the previously described formulas based on the theory that a diligent buyer would rely on more than one of the previous formulas. An average value derived from all of the formulas should represent the actions of a *reasonable* buyer.

Upper range: \$340,592.

Lower range: \$276,980.

Conclusions

Upper Range Value

The *upper range value* represents the average of all of the upper range values for each methodology above. This is the most optimistic view of the business given current market constraints.

Upper Range Conclusion: \$340,592.

Lower Range Value

The *lower range value* represents the average of all of the lower range values for each methodology above. This is most conservative opinion of the business value. This would be the opinion of a buyer who is primarily concerned with financial rewards including return on investment and return on equity, and will buy a business based on conservative financial estimates.

Lower Range Conclusion: \$276,980.



Suggested Price

Our single price conclusion is a weighted average of the maximum and minimum value ranges for all methodologies reviewed. Based on the final opinion of the appraiser, it is common for the Suggested Price to be much closer to either the Upper Range Conclusion or to the Lower Range Conclusion.

The fair market value of the business is: \$293,000.

Statistical Summary

For summary purposes we have itemized the breakdown for *asset value* and *business value* and a final *suggested price*.

We estimate the asset value of this company to be: \$64,100.

We estimate the intangible value (goodwill) of this company to be: \$228,900.

We estimate the total market value of this company to be: \$293,000.

Our analysis generates a price range representing the highest price a seller could expect and the lowest price a seller should accept. The *suggested price* is calculated based on the information generated by the various formulas, but will account for special situations and inconsistencies. The summary of each methodology used is listed below:

Suggested Pricing	Upper Range Value	Lower Range Value	Weighting
Asset Method	\$67,305	\$60,895	0%
Basic Method	\$303,311	\$224,186	25%
Capitalization of Earnings	\$355,577	\$293,738	25%
Industry Method	\$333,631	\$289,979	25%
Discounted Cash Flow	\$425,195	\$368,764	25%
Averaged Values	\$340,592	\$276,980	100%
Suggested Range	\$340,592	\$276,980	
Suggested Price	\$293,000		

