



Essentials Report

Smith Company

Valuation Date:
September 30, 2021

Report Date:
October 22, 2021

ABOUT YOUR REPORT



October 22, 2021

VIA ELECTRONIC MAIL

Ms. Sally Smith
Street Address
City, State and Zip

Re: Sample Report of Smith Company

Dear Ms. Smith,

We are pleased to provide you with our Sample Report - Essentials Report of Smith Company (SCC).

Within this report, you will find a market-based valuation and asset value of your company. All methods are explained and the calculations are provided. The report includes the historic financials of the company as well as the adjusted financials, which were the basis of the valuation.

Your Sample Report - Essentials Report is valuable for planning purposes but does not take the place of a certified appraisal. You can learn more about certified appraisals and the benefits of having one performed later in this report.

You can contact us directly should you have any questions or would like to conduct a certified business appraisal at any point in the future.

Best regards,

Firm Name

Firm Name



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ABOUT YOUR INFORMATIONAL Sample Report

Overview of the report and contents



ABOUT YOUR VALUATION

The purpose of this valuation and analysis is to provide you with a valuation based on the financial information you supplied as well as market-based information we obtained from subscription services, including comparable transactions and industry benchmarking.

You can use this report for planning purposes. This report is not “certified” and cannot be used for IRS or legal purposes. You can learn more about certified valuations and the benefits of having one performed at the end of this report. At your convenience, you can ask us about obtaining a certified valuation from your advisor or our Certified Valuation Analyst.

What is the Standard of Value for this report?

The standard of value for this report is **fair market value**.

There are three standards of value to consider when valuing a business; the most common standard of value is fair market value. All three standards of value are defined below for your knowledge and information.

1) Fair Value - There are multiple meanings of fair value, depending on the purpose of the valuation. Fair value usually produces a more conservative value than fair market value or investment value.

2) Fair Market Value - “The price at which the property would change hands between a willing buyer and a willing seller, when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts.” – IRS as defined by Revenue Ruling 59-60

3) Investment Value - The value/price a particular investor is willing to pay based on individual investment requirements and expectations. Investment value usually produces a higher value than fair market value or fair value.

What Premise of Value was assumed for my valuation?

The premise of value is an assumption regarding the most likely set of transactional circumstances that may be applicable to the valuation of your company (e.g., going concern, liquidation). This report was prepared using the premise that **your company is a going concern**. This means your business is an ongoing operating business enterprise.

Were there any assumptions and limiting conditions?

Yes, we assumed the financial information and all other data you provided us was true and accurate. We did not verify the information. This is the same assumption we placed on the data retrieved from subscription data services and/or publicly available information used. This valuation provides insight and information regarding your company’s value and should be insightful for planning purposes.

So, what's my business worth?

Well, that's the million dollar question and while this report is not a certified appraisal, it will provide you with valuable information to help you make informed decisions.

In Section 2 of this report, you are shown a valuation range for your business; this range is based upon two valuation approaches (market and asset) as well as various valuation methods. You can find a description of each valuation method in Section 2.

The value of your business will likely fall within this range or be close, but there is no guarantee. You will also see a “likely” or “suggested” price based on the median value of the comparable transactions. However, it's important that you also look at the profitability of your company and how it benchmarks to the industry to fully understand how your company performs relative to its industry peers as this will influence your company's valuation. Let us know if you'd like your company benchmarked and we'll

WHEN TO USE YOUR VALUATION

When should you use this non-certified valuation?

This non-certified report is a valuable tool that can be used by business owners for many reasons, including:

- Decision on whether or not to sell your business
- Discussions with your business advisor on how to price your business to sell
- Strategic planning
- Retirement planning
- Succession planning
- Early-stage estate planning
- Many more reasons

When should you use a certified valuation?

It is important to know that while this non-certified valuation report is insightful and helpful to business owners like you in many ways, the report is not a certified valuation and should not be used for many reasons, including:

- Negotiations for Mergers and Acquisitions
- Negotiations for Sales and Divestitures
- Buy/Sell Agreements
- Share Redemptions
- Partner & Shareholder Buyouts
- Marital Dissolutions
- Gift & Estate Planning
- Employee Benefit Plans
- Business Litigation

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VALUATION OF SMITH COMPANY

Overview of the valuation



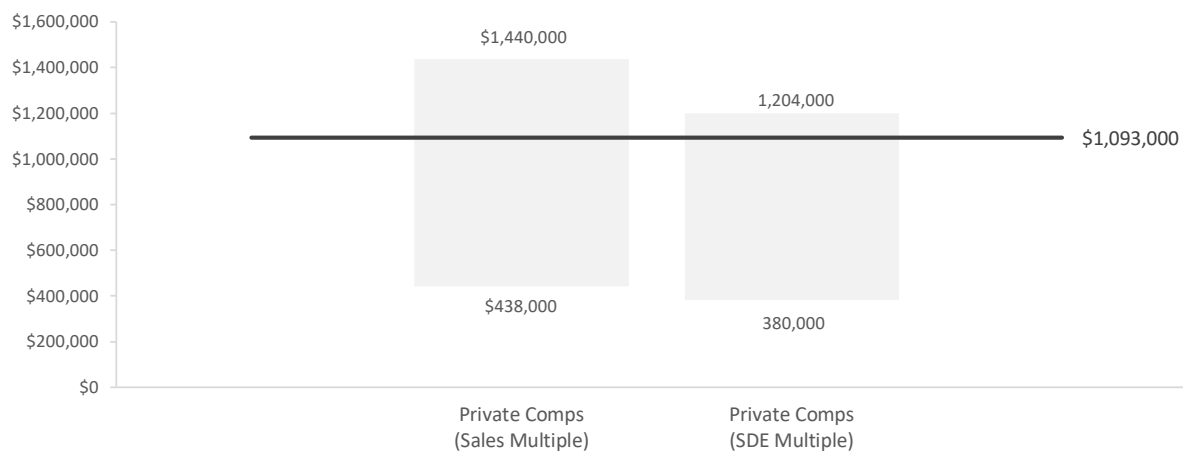
VALUATION SUMMARY

EQUITY VALUE

The purpose of this Sample Report and analysis is to provide you with a valuation based on the financial information you supplied as well as market-based information we obtained from subscription services, including comparable transactions and industry benchmarking.

The market and asset approaches were considered to value the equity of the Company. The following pages of Section 2 provide the calculations and explanations for each of the values shown below for the Company. The graph below marks the "selected" values of the market methods chosen to value the Company. The selected values represent the 75th percentile of the market comparable transactions based on the Company's past performance. The graph also shows the values based on the 10th, median, and 90th percentiles of the market approach methods. The Company's value could be closer to these extreme low/high values based on current market conditions and the Company's performance (i.e., benchmarking) vs. its industry.

<u>Approach</u>	<u>Method</u>	<u>Low</u>	<u>Median</u>	<u>High</u>	<u>Selected</u>
Market Approach	Private Comps (Sales Multiple)	\$ 438,000	\$ 966,000	\$ 1,440,000	\$ 1,301,000
Market Approach	Private Comps (SDE Multiple)	380,000	648,000	1,204,000	885,000
Asset Approach	Book Value Method				119,000
				Median (excludes book value): \$	1,093,000



VALUATION - MEDIAN OF APPROACHES

Based on the valuation approaches described in this report, below is the median value of SCC (excluding book value).

Median of Market & Income Approaches (rounded)

Value based on median of market and income approaches provided in this report

\$ 1,093,000

MARKET APPROACH

The concept underlying the Market Approach is that the value of your business can be determined by reference to reasonably comparable guideline companies (comps) for which transaction values are known. The values may be known because these companies are publicly traded or because they are privately held, recently sold and the terms of the transaction were disclosed.

Market Approach - Valuation Methods

What are common market valuation methods?

There are three common methods generally accepted in the market approach:

1. Comparable Private Transaction Method
2. Guideline Public Company Method
3. Prior Sales of Interest in Subject Company

Which method was used to value SCC?

We prepared a valuation of SCC utilizing the comparable private transaction method because of the availability of data of past private transactions.

The comparable private transaction method utilizes financial and market data from privately held company transactions of firms engaged in business similar to those of the subject company. Pricing multiples are derived from transactions that include acquisitions and sales of entire companies, divisions, or large blocks of shares.

A search of several subscription-based databases such as DealStats, BIZCOMPS and/or ValueSource was conducted to find transactions involving target companies using NAICS code(s) 442291.

The search for comparable transactions was limited to transactions closing after December 31, 2016. We eliminated companies from the search that reported less than one-tenth or greater than ten times the revenue of the Company earned over the period under review. There were 24 unique transactions found within the databases with this search criteria.

What multiple was used to value SCC?

The transactions that met the criteria described above were used to calculate the multiples used for this valuation. You will see the range of multiples used to the right - ranging from the 10th percentile to the 90th percentile.

When should the sales (and SDE) multiples be used?

The sales multiple is useful when a company has sales less than \$1-2 million and it is recognized that many buyers and owners believe they already know how much they can bring down to the bottom line. Valuations have been performed utilizing both multiples. In some cases, we will also value companies with revenue less than \$2 million with a seller's discretionary earnings (SDE) multiple.

When should the EBITDA multiple be used?

The EBITDA multiple is good to consider when your company has sales greater than \$1-2 million. This "Essentials Report" does not include EBITDA as it is designed for companies with annual sales less than \$2 million.

Summary of Transaction Multiples for SCC

	Sales Multiple	SDE Multiple
10th Percentile	0.19	1.20
25th Percentile	0.27	1.52
Mean	0.42	2.35
Median	0.43	2.05
75th Percentile	0.57	2.80
90th Percentile	0.63	3.81

How were the multiples applied to SCC?

The sales and SDE transaction multiples are applied to the sales and SDE streams of the Company. For this informational valuation, the last three years of sales and SDE were reviewed and a weighted average was calculated. When weights in excess of one are applied to a particular year (or years), the benefit stream (i.e., sales, SDE) will be more weighted to those years. The assumption is that the more heavily weighted years are a more reliable indicator of future performance than the year (or years) weighted less.

MARKET APPROACH

SALES MULTIPLE

Calculation of SCC's Sales Base

	Preceding 12 Months	2020	2019	2018
Revenue	\$ 2,658,928	\$ 2,233,059	\$ 2,044,948	\$ 2,152,708
Weight on Revenue	1	1	1	1
Ongoing Revenue		\$ 2,272,411		
SELECTED ONGOING REVENUE BASE		\$ 2,272,000		

Company Valuation (Sales Multiple)

\$ 1,301,000

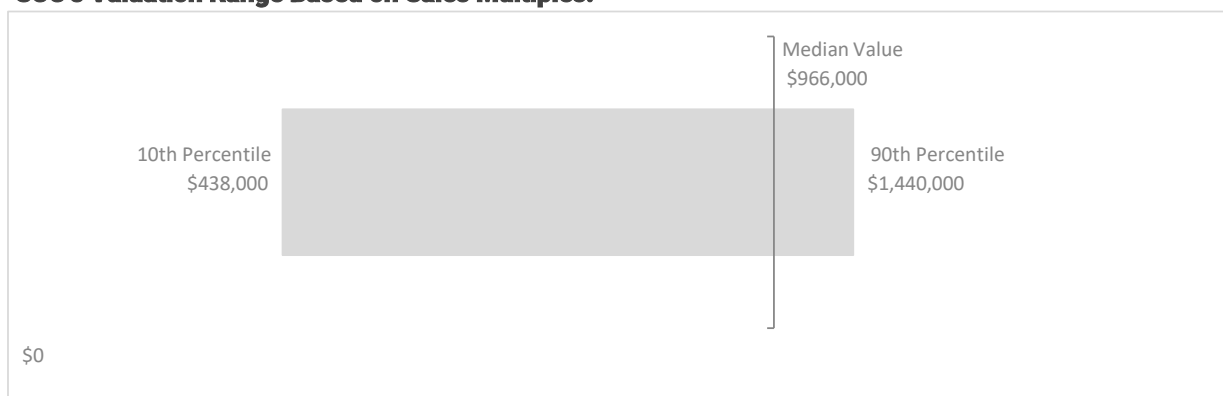
Calculation of SCC's Value Using Sales Multiple

	Sales Multiple					
	10 th PCTL	25 th PCTL	Mean	Median	75 th PCTL	90 th PCTL
Sales Base	\$ 2,272,000	\$ 2,272,000	\$ 2,272,000	\$ 2,272,000	\$ 2,272,000	\$ 2,272,000
Multiple	0.19x	0.27x	0.42x	0.43x	0.57x	0.63x
Ongoing Value	\$ 438,496	\$ 619,120	\$ 950,453	\$ 965,600	\$ 1,300,720	\$ 1,440,448
Adjusted Balance Sheet Debt	-	-	-	-	-	-
Subtotal	\$ 438,496	\$ 619,120	\$ 950,453	\$ 965,600	\$ 1,300,720	\$ 1,440,448
Adjustment*	-	-	-	-	-	-
Indicated Equity Value	\$ 438,000	\$ 619,000	\$ 950,000	\$ 966,000	\$ 1,301,000	\$ 1,440,000

What does this range of values for SCC mean?

The values for the Company range from the low (10th percentile) to the high (90th percentile) as well as the two values that represent the central tendency (the mean and median). The mean is the arithmetic average and is computed by adding up the given set of multiples and dividing by their count. The median is the middle number in an ordered list (when the numbers are sorted numerically, the median is the middle number in the set). If the median is higher than the mean, outliers may be causing a downward bias to the mean. Alternatively, if the mean is higher than the median, outliers may be causing an upward bias. Many place the most weight on the median as it is usually most representative of the central tendency of the retrieved multiples as outliers can dramatically impact the mean, whereas the median is less affected. You can also compare the Company's profitability to that of its industry to determine if you should use the value representative of its profitability benchmarking.

SCC's Valuation Range Based on Sales Multiples:



MARKET APPROACH

SDE MULTIPLE

Calculation of SCC's SDE Base

	Preceding 12 Months	2020	2019	2018
Adj. Pre-Tax Income	\$ 339,856	\$ 227,381	\$ 102,211	\$ 154,167
Interest	-	-	-	-
Non-cash expenses	-	120	200	331
Owners Comp.	110,000	110,000	110,000	110,000
SDE	\$ 449,856	\$ 337,501	\$ 212,411	\$ 264,498
Weight on SDE	1	1	1	1
Ongoing SDE		\$ 316,067		
SELECTED ONGOING SDE BASE		\$ 316,000		

Company Valuation (SDE Multiple)

\$885,000

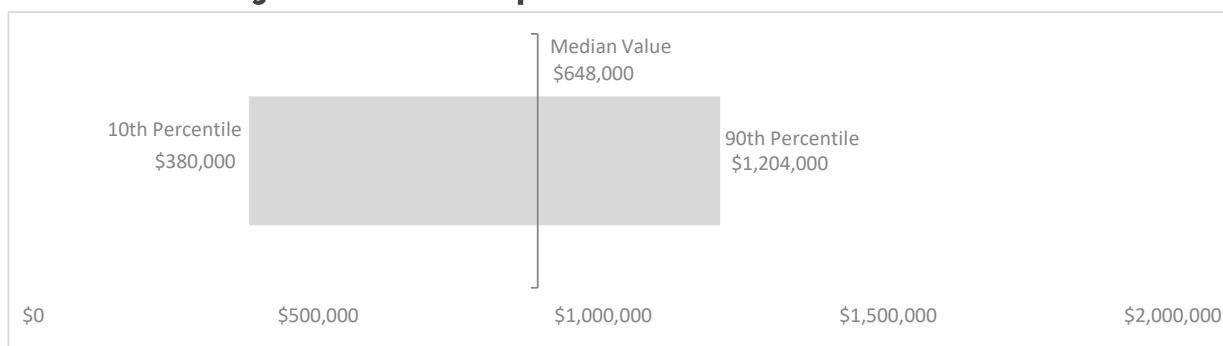
Calculation of SCC's Value Using SDE Multiple

	SDE Multiple					
	10 th PCTL	25 th PCTL	Mean	Median	75 th PCTL	90 th PCTL
SDE Base	\$ 316,000	\$ 316,000	\$ 316,000	\$ 316,000	\$ 316,000	\$ 316,000
Multiple	1.20x	1.52x	2.35x	2.05x	2.80x	3.81x
Ongoing Value	\$ 380,464	\$ 480,320	\$ 742,414	\$ 647,800	\$ 884,800	\$ 1,203,960
Adjusted Balance Sheet Debt	-	-	-	-	-	-
Subtotal	\$ 380,464	\$ 480,320	\$ 742,414	\$ 647,800	\$ 884,800	\$ 1,203,960
Adjustment*	-	-	-	-	-	-
Indicated Equity Value (rounded)	\$ 380,000	\$ 480,000	\$ 742,000	\$ 648,000	\$ 885,000	\$ 1,204,000

What does this range of values for SCC mean?

The values for the Company range from the low (10th percentile) to the high (90th percentile) as well as the two values that represent the central tendency (the mean and median). The mean is the arithmetic average and is computed by adding up the given set of multiples and dividing by their count. The median is the middle number in an ordered list (when the numbers are sorted numerically, the median is the middle number in the set). If the median is higher than the mean, outliers may be causing a downward bias to the mean. Alternatively, if the mean is higher than the median, outliers may be causing an upward bias. Many place the most weight on the median as it is usually most representative of the central tendency of the retrieved multiples as outliers can dramatically impact the mean, whereas the median is less affected. You can also compare the Company's profitability to that of its industry to determine if you should use the value representative of its profitability benchmarking.

SCC's Valuation Range Based on SDE Multiples:



ASSET APPROACH

BOOK VALUE METHOD

The Asset Approach places primary emphasis on the value of the assets net of liabilities of your business. This approach is widely used for holding and investment companies, and is also valid for companies with negative earnings and/or near (or in) liquidation or bankruptcy.

Asset Approach - Valuation Methods

What are common asset valuation methods?

There are two common methods generally accepted in the asset approach:

1. Book Value Method
2. Adjusted Net Assets Method

Book Value Method

The book value method is a well-known method that relies on the reported figures of the Company's assets and liabilities found on the balance sheet. It should be recognized, however, that under the book value concept, assets are reported in accordance with various accounting conventions that may or may not accurately reflect current value.

Adjusted Net Assets Method

The adjusted net assets method is used to value a business based on the difference between the fair market value of the business assets and its liabilities. Under this method the book value of the assets are adjusted to fair market value (generally measured as replacement cost or liquidation value) and then reduces the total adjusted value of assets by the fair market value of all recorded and unrecorded liabilities. Both tangible and identifiable intangible assets are to be valued in determining total adjusted net assets. This method can be used to derive a total value for the business or for component parts of the business and is a particularly sound method for estimating the value of a non-operating business (e.g., holding or investment companies). It is also a good method for estimating value of a business that continues to generate losses or which is to be liquidated in the near future.

Company Valuation (Asset Approach)

\$119,000

Which method was used to value SCC?

We prepared a valuation of SCC utilizing the book value method because the Company did not provide the current market values of its assets and liabilities so the book values were used.

Value of SCC - Book Value Method

	Period Ended December 31, 2021
Book Value of Net Assets	\$127,786
Less: Book Value of Liabilities	(8,294)
Indicated Value	119,492
SELECTED VALUE (rounded)	\$119,000

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FINANCIAL OVERVIEW OF SMITH COMPANY

Snapshot of SCC's financial statements



HISTORIC FINANCIALS

The summarized historical results of operations and the financial position of the Company are presented so one can better assess SCC's historic earnings and profitability. See below for the results of the preceding 12 months, the annual results for years 2018 - 2020 as well as the Company's 3-year average.

	Preceding 12 Months	2020	2019	2018	3-YR AVG
Income					
Revenue	\$ 2,658,928	\$ 2,233,059	\$ 2,044,948	\$ 2,152,708	\$ 2,143,572
COGS	1,773,172	1,521,728	1,353,905	1,298,207	1,391,280
Gross Profit	885,755	711,331	691,043	854,501	752,292
Gross Profit %	33.3%	31.9%	33.8%	39.7%	35.1%
Operating Expenses	632,924	558,260	641,127	779,249	659,545
Operating Profit	252,831	153,071	49,916	75,252	92,746
Other Income/(Expenses)	-	-	-	7,684	2,561
Pre-Tax Income	252,831	153,071	49,916	82,936	95,308
Pre-Tax Income %	9.5%	6.9%	2.4%	3.9%	4.4%
Assets					
Cash	\$ 146,973	\$ 154,832	\$ 20,014	\$ 22,975	\$ 65,940
Accounts Receivable	(25,561)	-	-	-	-
Inventory	-	-	-	-	-
Other Current Assets	-	(7,254)	89,321	40,716	40,928
<i>Total Current Assets</i>	<i>121,412</i>	<i>147,578</i>	<i>109,335</i>	<i>63,691</i>	<i>106,868</i>
Net Fixed Assets	-	-	-	-	-
Intangible Assets	1,000	1,179	1,299	1,499	1,326
Other Non-Current	5,374	-	-	-	-
<i>TOTAL ASSETS</i>	<i>\$ 127,786</i>	<i>\$ 148,757</i>	<i>\$ 110,634</i>	<i>\$ 65,190</i>	<i>\$ 108,194</i>
Liabilities & Equity					
Accounts Payable	\$ (11,831)	\$ (11,335)	\$ 57,672	\$ 11,381	\$ 19,239
Short Term Notes Payable	-	-	-	-	-
Current Portion of LT Debt	-	-	-	-	-
Other Current Liabilities	3,537	2,735	4,409	553	2,566
<i>Total Current Liabilities</i>	<i>(8,294)</i>	<i>(8,600)</i>	<i>62,081</i>	<i>11,934</i>	<i>21,805</i>
Long Term (Bank) Debt	-	-	-	-	-
Other Non-Current Liabilities	-	72,639	6,589	6,589	28,606
<i>TOTAL LIABILITIES</i>	<i>\$ (8,294)</i>	<i>\$ 64,039</i>	<i>\$ 68,670</i>	<i>\$ 18,523</i>	<i>\$ 50,411</i>
<i>TOTAL EQUITY</i>	<i>\$ 136,080</i>	<i>\$ 84,718</i>	<i>\$ 41,964</i>	<i>\$ 46,667</i>	<i>57,783</i>
<i>TOTAL LIABILITIES & EQUITY</i>	<i>\$ 127,786</i>	<i>\$ 148,757</i>	<i>\$ 110,634</i>	<i>\$ 65,190</i>	<i>\$ 108,194</i>

ADJUSTED FINANCIALS

The summarized adjusted results of operations and the financial position of the Company are presented below. It is sometimes necessary to make certain adjustments to better reflect a company's future earnings potential, as was the case with SCC.

	Preceding 12 Months	2020	2019	2018	3-YR AVG
Adjusted Income					
Revenue	\$ 2,658,928	\$ 2,233,059	\$ 2,044,948	\$ 2,152,708	\$ 2,143,572
COGS	1,773,172	1,521,728	1,353,905	1,298,207	1,391,280
Gross Profit	885,755	711,331	691,043	854,501	752,292
Gross Profit %	33.3%	31.9%	33.8%	39.7%	35.1%
Operating Expenses	545,899	483,950	588,832	708,018	593,600
Operating Profit	339,856	227,381	102,211	146,483	158,692
Other Income/(Expense)	-	-	-	7,684	2,561
Pre-Tax Income	339,856	227,381	102,211	154,167	161,253
Pre-Tax Income %	12.8%	10.2%	5.0%	7.2%	7.5%
Adjusted Assets					
Cash	\$ 146,973	\$ 154,832	\$ 20,014	\$ 22,975	\$ 65,940
Accounts Receivable	(25,561)	-	-	-	-
Inventory	-	-	-	-	-
Other Current Assets	-	(7,254)	\$ 89,321	\$ 40,716	40,928
<i>Total Current Assets</i>	<i>121,412</i>	<i>147,578</i>	<i>109,335</i>	<i>63,691</i>	<i>106,868</i>
Net Fixed Assets	-	-	-	-	-
Intangible Assets	1,000	1,179	1,299	1,499	1,326
Other Non-Current	5,374	-	-	-	-
<i>TOTAL ASSETS</i>	<i>\$ 127,786</i>	<i>\$ 148,757</i>	<i>\$ 110,634</i>	<i>\$ 65,190</i>	<i>\$ 108,194</i>
Adjusted Liabilities & Equity					
Accounts Payable	\$ (11,831)	\$ (11,335)	\$ 57,672	\$ 11,381	\$ 19,239
Short Term Notes Payable	-	-	-	-	-
Current Portion of LT Debt	-	-	-	-	-
Other Current Liabilities	3,537	2,735	4,409	553	2,566
<i>Total Current Liabilities</i>	<i>(8,294)</i>	<i>(8,600)</i>	<i>62,081</i>	<i>11,934</i>	
Long Term (Bank) Debt	-	-	-	-	-
Other Non-Current Liabilities	-	72,639	6,589	6,589	28,606
<i>TOTAL LIABILITIES</i>	<i>\$ (8,294)</i>	<i>\$ 64,039</i>	<i>\$ 68,670</i>	<i>\$ 18,523</i>	<i>\$ 50,411</i>
<i>TOTAL EQUITY</i>	<i>\$ 136,080</i>	<i>\$ 84,718</i>	<i>\$ 41,964</i>	<i>\$ 46,667</i>	<i>57,783</i>
<i>TOTAL LIABILITIES & EQUITY</i>	<i>\$ 127,786</i>	<i>\$ 148,757</i>	<i>\$ 110,634</i>	<i>\$ 65,190</i>	<i>\$ 108,194</i>

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ABOUT US

Background on the firm and why clients choose to work with us



ABOUT US



Services We Offer



Sell a Business

Our advisors will help you find maximum value from a qualified buyer so you can focus on running your business successfully.



Buy a Business

Buying a business can seem like a daunting task. Get advice and guidance from our experienced team of advisors to ensure a smooth process.



Mergers & Acquisitions

Meet with our advisors to review the best options for your business based on your goals.



20+

Years of Experience



1,000+

Business SOLD



5+

Brokers



About Us

We assist in the purchase and sale of main street to mid-market businesses. Our services include helping companies to secure a favorable price, submitting paperwork correctly and fulfilling licensing and permitting requirements.

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ABOUT YOUR BROKER

Learn more about your business broker & advisor



ABOUT YOUR BROKER



John Novartis

Senior Business Advisor

Phone: (123) 456-0001

Email:

Certifications

- Certified Public Accountant
- Certified M&A Professional
- Certified Business Intermediary
- Licensed Real Estate Professional

Education

- BBA, University of Michigan

About

John brings 25 plus years of domestic and international business experience in various fields including information technology, retailing, hospitality, real estate investment, and sales. He understands the issues facing both business buyers and sellers having bought and successfully sold his own businesses in the past. His experience ranges from owning his own retail store to leading an ERP implementation team in a 200-person organization. Steve has also been investing in real estate since 1995 and has developed a keen understanding of the real estate market.

John earned his Certified Business Intermediary (“CBI”) designation from the International Business Brokers Association in 2014. He has since been awarded the IBBA’s Outstanding Producer Award four years in a row and the Consumer Choice Award for Best Business Broker in Southern Florida for the last two years. Past and present affiliations include the IBBA, Chamber of Commerce, BNI, and Toastmasters International.

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CONTACT INFORMATION

You can contact us for your next step



CONTACT US



Thank you for choosing us for your valuation needs!
You can contact me anytime with questions about your Sample Report.