



# Sample Business Valuation Pricing Analysis



Presented By:  
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President

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# Introduction Letter

22 July 202X

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Dear Business Owner,

I have reviewed the financial information you gave me, the related cash flow of the business over the last three years, comparable sales of similar companies around the country, and what the cash flow of the business will support as a selling price. This Calculation of Value report is based on a transaction being completed as an asset sale of 100% controlling value. The three pricing methods used in the report are:

1. Direct Market Data Method (Market Approach)
2. Capitalization of Earnings (Income Approach)
3. Buyer Test Method (Buyer Approach)

Based on my analysis and experience, it is my opinion that the Fair Market Value of your business is between **\$2,122,000 and \$2,350,000**. I recommend listing your business at **\$2,350,000**. This would price the business near the upper end of the range while allowing for a small amount of negotiation. This price is based on 202X performance continuing with the trend shown in the historical financial statements. This valuation assumes a buyer would take over all equipment leases used in this sample business.

Please refer to the specific calculation procedures detailed in this report. These calculations were conducted in accordance with the professional standards of the International Business Brokers Association (IBBA) and the Mergers & Acquisitions Source.

Sincerely,



Jeffery Baxter CBI, M&AMI, CM&AP

President

MidStreet Mergers and Acquisitions



# Disclaimer

This price evaluation report has been prepared as a service of MidStreet Mergers & Acquisitions, not as part of an appraisal practice as defined by USPAP (Uniform Standard Professional Appraisal Practice) standards and therefore is not bound by the requirements of USPAP.

This report is a business professional's opinion of value and not a valuation or appraisal. There are a number of significant differences between this opinion of value and an appraisal. This opinion of value is not nearly as rigorous as a formal appraisal, and is designed to give a guideline or benchmark value rather than a formal determination of value. Specifically, and at a minimum, a valuation and/or appraisal analysis should include the following conditions to be considered an appraisal or formal valuation.

1. Strict adherence to USPAP (Uniform Standard Professional Appraisal Practice) standards.
2. A full financial statements analysis, including Income Statement, Balance Sheets, and Cash Flows.
3. An in-depth understanding of the financial statements and the company to justify making appropriate adjustments to the income Statements and Balance Sheets.
4. An assurance that data is accurate and included in the final report.
5. A comparison of the valued company's financial statements to industry norms (RMA, trade, or other ratios/percentages) and using this data in building discount and capitalization rates.
6. Certifying cover letter with the evaluator's signature.

MidStreet Mergers & Acquisitions does not purport to be a guarantor of value. The valuation of closely held companies is an imprecise science and reasonable people can differ in their opinion of value. However, the formulas and valuation methodologies used in this report were developed by and are accepted by the business brokerage and / or valuation communities. The application of these methods in the analysis report herein along with years of experience in evaluating such businesses, although not considered a formal valuation or appraisal, in our opinion provides a reasonable basis for estimating the likely selling / listing price of a business.



# Assumptions & 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 enterprises business conditions and operating results for the respective periods, except as specifically noted herein. I have not audited, reviewed, or compiled the financial information provided to me and accordingly, I 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, I 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 my 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 my 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 me unless previous arrangements have been made in writing.
8. I 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 me, and I shall have no responsibility for any such unauthorized change.
10. Except as noted, I 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. I 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.
11. This valuation reflects facts and conditions existing at the valuation date. Subsequent events have not been considered, and I have no obligation to update my report for such events and conditions.





# Key Terms and Definitions

## Asset Sale

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In the context of this document, an asset sale is the means by which a business owner transfers ownership of tangible and intangible assets to another owner without transferring the ownership entity.

## Stock Sale

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The purchase of a company's shares of stock, wherein the purchaser assumes all of the assets and all of the debt of the company, both tangible and intangible.

## Transaction Value

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The total of all consideration passed at any time between the Buyer and Seller for an ownership interest in a business enterprise and may include but not limited to, all remuneration for tangible as intangible assets such as furniture, equipment, supplies, inventory, working capital, non-competition agreements, employment, consultation agreements, licenses, customer lists, franchise fees, assumed liabilities, stock options, stock or stock redemptions, leases, royalties, earn-outs, and future considerations.

## Net Owner Equity

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The amount that would be received by the owner(s) in a "typical" asset sale after collecting all assets NOT included in the sale and paying off all liabilities. Note: This does not take into account: tax liabilities, broker's fees, closing costs, and other costs associated with the sale.

## Seller's Discretionary Earnings (SDE)

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SDE represents an estimate of the total financial benefit one full-time owner operator would receives from the business on an annual basis. Expenses such as officer's salary, benefits, depreciation, and other situational items such as rent or utilities are added back into your net profit before taxes to quantify the total financial benefit of your company.



# Key Terms and Definitions

## Earnings Before Interest, Taxes, Depreciation, & Amortization (EBITDA)

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EBITDA, or Earnings Before Interest, Taxes, Depreciation, & Amortization, is similar to SDE, however a major difference between SDE and EBITDA is that EBITDA adds a market-value officer's salary into the operating expenses, to show the earning potential for an investor who does not plan to work in the business they purchase.

## Fair Market Value

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The fair market value of a business is the price that a business can reasonably achieve on the open market, given that both the buyer and seller are free from undue pressure, reasonably knowledgeable about the business, behaving in their own best interests, and given reasonable time to complete the transaction.

## Control

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Control refers to the ability to manage or control the business. A minority interest, by definition, does not have control. This is an important concept for this report, because the opinion of value is based on a 100% controlling value and acquisition.

## Types of Buyers

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**Individual Buyer** - An individual buyer is a candidate that is typically buying their first business and coming from corporate America. This is the most common type of buyer, however as the sale price of a business increases, the number of financial buyers decreases.

**Synergistic / Strategic Buyer** - Strategic buyer (also known as synergistic buyer) candidates consist of companies which already perform similar functions in different markets, or parallel industries. They may be competitors, suppliers, or even current customers of your business. For this reason, it is critical that brokerages have a careful process for protecting confidentiality when advertising to strategic buyers.

**Private Equity Groups (PEGs)** - A private equity group (PEG) is an investment management company that provides financial backing and makes investment in private companies, either start up or currently operating. The goal of a PEG is to purchase a company, improve the operations, run it for a few years, and sell it.



# Business Summary: Sample Business



**Name of Business or DBA:**

Sample Business Inc

**Type of Business:**

Business-to-Business Services

**NAICS Industry Code:**

353160

**Location**

Raleigh, NC

**Number of Years in Operation:**

21

**Additional Risk / Marketability:**

- Existing systems in place
- Desirable market area
- Great reputation



# Financial Analysis

## Overview

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Generally, the analysis of a company's financial statements, the income statements, and balance sheets, is performed in order to assist the business appraiser in measuring trends, identifying the assets and liabilities of the company, and in comparing the financial performance and condition of the company to other companies in the same or similar industry.

The process is useful because it helps the valuator understand, evaluate, and communicate the value and risk drivers present in the company. For this calculation report, we are going to limit this analysis to the adjusted earnings, as well as the assets & liabilities included in the calculation of value.

## Adjusting Your Financials

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To estimate the value of a business, a business's financial statements must be adjusted to reflect the full benefit that one full-time owner-operator can reasonably receive from the business. This process is often referred to as "Recasting". Traditionally, your financial statements are meant to minimize the earnings you report and therefore your tax liability. In recasting, we adjust these statements to reflect the true earning potential of your business for one owner-operator.

Typical adjustments for small to mid-size businesses include excess officer compensation, owner's benefits or "perks", large one-time expenses, interest, depreciation, and any other non-related business expenses and/or revenue. These individual adjustments are often referred to as "Add Backs".

These "Add Backs" increase your net profit before taxes, and help us calculate "Seller's Discretionary Earnings" or "**SDE**" and "Earnings Before Interest, Taxes, Depreciation, and Amortization" also known as "EBITDA".





# 2020 Recast Income Statement

Year: 2020

Source: Tax Return

	Statement	Add Backs	Adjusted	Note
<b>Income</b>				
Gross Sales	2,188,929	-	2,188,929	
Returns and Allowances	-	-	-	
Other Income	-	-	-	
<b>Total Income (Revenue)</b>	<b>2,188,929</b>		<b>2,188,929</b>	
<b>Cost of Sales</b>				
Cost of Goods Sold	436,905	-	436,905	
<b>Gross Profit</b>	<b>1,752,024</b>		<b>1,752,024</b>	
<b>Expenses</b>				
Officer's Salary	179,963	179,963	-	A
Salaries and Wages	404,322	-	404,322	
Repairs and Maintenance	500	-	500	
Rents	150,160	6,160	144,000	B
Taxes and Licenses	70,357	11,189	59,168	C
Interest Expense	89,780	89,780	-	
Charitable Contributions	-	-	-	
Depreciation	150,877	150,877	-	
Advertising	10,699	-	10,699	
Pension and Profit Sharing	8,961	-	8,961	
50% of Meals	100	-	100	
Accounting	13,280	-	13,280	
Bank Service Charges	2,607	-	2,607	
Capital Lease	265	-	265	
Commission	2,360	-	2,360	
Computer Expense	4,882	-	4,882	
Dues and Subscriptions	7,665	-	7,665	
Garnishment	(942)	-	(942)	
Gas and Electric	1,154	-	1,154	
Gifts and Donations	250	-	250	
Health Insurance	25,070	-	25,070	
HOA Dues	-	-	-	
Insurance	7,684	-	7,684	
Maintenance	2,931	-	2,931	
Meals and Entertainment	1,749	-	1,749	



# 2020 Recast Income Statement

Year: 2020

Source: Tax Return

	Statement	Add Backs	Adjusted	Note
Merchant Fees	28,723	-	28,723	
Miscellaneous	1,698	-	1,698	
Office Supplies	8,065	-	8,065	
Postage and Delivery	1,319	-	1,319	
Professional Fees	2,478	-	2,478	
Service Contract	131,216	-	131,216	
Shredding Expense	180	-	180	
Software	9,663	-	9,663	
Telephone	16,056	5,000	11,056	D
Travel	178	-	178	
Utilities	14,669	-	14,669	
Vehicle Mileage	4,674	-	4,674	
Other Expenses	-	(208,800)	208,800	E
<b>Total Expenses</b>	<b>1,353,593</b>		<b>1,119,424</b>	
<b>Net Profit / SDE</b>	<b>398,431</b>		<b>632,600</b>	

## Notes

- A Officer's salary added back
- B Rent normalized to market rate going forward
- C Officer's payroll taxes
- D Discretionary cell phone expense
- E Lease payments on equipment. All depreciation and interest added back above.



# 2019 Recast Income Statement

Year: 2019

Source: Tax Return

	Statement	Add Backs	Adjusted	Note
<b>Income</b>				
Gross Sales	2,062,068	-	2,062,068	
Returns and Allowances	-	-	-	
Other Income	-	-	-	
<b>Total Income (Revenue)</b>	<b>2,062,068</b>		<b>2,062,068</b>	
<b>Cost of Sales</b>				
Cost of Goods Sold	445,521	-	445,521	
<b>Gross Profit</b>	<b>1,616,547</b>		<b>1,616,547</b>	
<b>Expenses</b>				
Officer's Salary	147,600	147,600	-	A
Salaries and Wages	335,848	-	335,848	
Repairs and Maintenance	1,840	-	1,840	
Rents	123,310	(16,690)	140,000	B
Taxes and Licenses	78,808	10,720	68,088	C
Interest Expense	33,296	33,296	-	
Charitable Contributions	-	-	-	
Depreciation	145,855	145,855	-	
Advertising	8,596	-	8,596	
Pension and Profit Sharing	6,156	-	6,156	
50% of Meals	1,219	-	1,219	
Accounting	10,190	-	10,190	
Bank Service Charges	9,431	-	9,431	
Capital Lease	2,230	-	2,230	
Commission	2,372	-	2,372	
Computer Expense	2,618	-	2,618	
Dues and Subscriptions	7,192	-	7,192	
Garnishment	-	-	-	
Gas and Electric	-	-	-	
Gifts and Donations	2,678	-	2,678	
Health Insurance	12,625	-	12,625	
HOA Dues	-	-	-	
Insurance	8,000	-	8,000	
Maintenance	11,195	-	11,195	
Meals and Entertainment	640	-	640	



# 2019 Recast Income Statement

Year: 2019

Source: Tax Return

	Statement	Add Backs	Adjusted	Note
Merchant Fees	17,080	-	17,080	
Miscellaneous	7,245	-	7,245	
Office Supplies	4,348	-	4,348	
Postage and Delivery	1,829	-	1,829	
Professional Fees	1,478	-	1,478	
Service Contract	87,617	-	87,617	
Shredding Expense	-	-	-	
Software	6,620	-	6,620	
Telephone	16,588	5,000	11,588	D
Travel	1,194	-	1,194	
Utilities	17,922	-	17,922	
Vehicle Mileage	3,948	-	3,948	
Other Expenses	-	(208,800)	208,800	E
<b>Total Expenses</b>	<b>1,117,568</b>		<b>1,000,587</b>	
<b>Net Profit / SDE</b>	<b>498,979</b>		<b>615,960</b>	

## Notes

- A Officer's salary added back
- B Rent normalized to market rate going forward
- C Officer's payroll taxes
- D Discretionary cell phone expense
- E Lease payments on equipment. All depreciation and interest added back above.



# 2018 Recast Income Statement

Year: 2018

Source: Tax Return

	Statement	Add Backs	Adjusted	Note
<b>Income</b>				
Gross Sales	1,850,180	-	1,850,180	
Returns and Allowances	-	-	-	
Other Income	-	-	-	
<b>Total Income (Revenue)</b>	<b>1,850,180</b>		<b>1,850,180</b>	
<b>Cost of Sales</b>				
Cost of Goods Sold	475,857	-	475,857	
<b>Gross Profit</b>	<b>1,374,323</b>		<b>1,374,323</b>	
<b>Expenses</b>				
Officer's Salary	153,750	153,750	-	A
Salaries and Wages	360,739	-	360,739	
Repairs and Maintenance	212	-	212	
Rents	82,228	(53,772)	136,000	B
Taxes and Licenses	62,110	10,809	51,301	C
Interest Expense	27,774	27,774	-	
Charitable Contributions	-	-	-	
Depreciation	67,740	67,740	-	
Advertising	6,112	-	6,112	
Pension and Profit Sharing	7,127	-	7,127	
50% of Meals	2,154	-	2,154	
Accounting	4,252	-	4,252	
Bank Service Charges	9,064	-	9,064	
Capital Lease	264	-	264	
Commission	37,266	34,916	2,350	D
Computer Expense	1,888	-	1,888	
Dues and Subscriptions	600	-	600	
Garnishment	-	-	-	
Gas and Electric	11,644	-	11,644	
Gifts and Donations	69	-	69	
Health Insurance	41,008	-	41,008	
HOA Dues	7,233	-	7,233	
Insurance	7,371	-	7,371	
Maintenance	15,353	-	15,353	
Meals and Entertainment	-	-	-	





# 2018 Recast Income Statement

Year: 2018

Source: Tax Return

	Statement	Add Backs	Adjusted	Note
Merchant Fees	11,450	-	11,450	
Miscellaneous	2,088	-	2,088	
Office Supplies	4,764	-	4,764	
Postage and Delivery	337	-	337	
Professional Fees	2,322	-	2,322	
Service Contract	97,885	-	97,885	
Shredding Expense	-	-	-	
Software	4,574	-	4,574	
Telephone	12,857	5,000	7,857	E
Travel	3,745	-	3,745	
Utilities	6,554	-	6,554	
Vehicle Mileage	2,580	-	2,580	
Other Expenses	-	(208,800)	208,800	F
<b>Total Expenses</b>	<b>1,055,114</b>		<b>1,017,697</b>	
<b>Net Profit / SDE</b>	<b>319,209</b>		<b>356,626</b>	

## Notes

- A Officer's salary added back
- B Rent normalized to market rate going forward
- C Officer's payroll taxes
- D One-time bad commissions paid
- E Discretionary cell phone expense
- F Lease payments on equipment. All depreciation and interest added back above.



# 2018 - 2020 Original Income Statement

	2018	%	2019	%	2020	%
<b>Income</b>						
Gross Sales	1,850,180		2,062,068		2,188,929	
Returns and Allowances	-		-		-	
Other Income	-		-		-	
<b>Total Income (Revenue)</b>	1,850,180		2,062,068		2,188,929	
<b>Cost of Sales</b>						
Cost of Goods Sold	475,857	26%	445,521	22%	436,905	20%
<b>Gross Profit</b>	1,374,323	74%	1,616,547	78%	1,752,024	80%
<b>Expenses</b>						
Officer's Salary	153,750	8%	147,600	7%	179,963	8%
Salaries and Wages	360,739	19%	335,848	16%	404,322	18%
Repairs and Maintenance	212	0%	1,840	0%	500	0%
Rents	82,228	4%	123,310	6%	150,160	7%
Taxes and Licenses	62,110	3%	78,808	4%	70,357	3%
Interest Expense	27,774	2%	33,296	2%	89,780	4%
Charitable Contributions	-	-	-	-	-	-
Depreciation	67,740	4%	145,855	7%	150,877	7%
Advertising	6,112	0%	8,596	0%	10,699	0%
Pension and Profit Sharing	7,127	0%	6,156	0%	8,961	0%
50% of Meals	2,154	0%	1,219	0%	100	0%
Accounting	4,252	0%	10,190	0%	13,280	1%
Bank Service Charges	9,064	0%	9,431	0%	2,607	0%
Capital Lease	264	0%	2,230	0%	265	0%
Commission	37,266	2%	2,372	0%	2,360	0%
Computer Expense	1,888	0%	2,618	0%	4,882	0%
Dues and Subscriptions	600	0%	7,192	0%	7,665	0%
Garnishment	-	-	-	-	(942)	-0%
Gas and Electric	11,644	1%	-	-	1,154	0%
Gifts and Donations	69	0%	2,678	0%	250	0%
Health Insurance	41,008	2%	12,625	1%	25,070	1%
HOA Dues	7,233	0%	-	-	-	-
Insurance	7,371	0%	8,000	0%	7,684	0%
Maintenance	15,353	1%	11,195	1%	2,931	0%
Meals and Entertainment	-	-	640	0%	1,749	0%



# 2018 - 2020 Original Income Statement

	2018	%	2019	%	2020	%
Merchant Fees	11,450	1%	17,080	1%	28,723	1%
Miscellaneous	2,088	0%	7,245	0%	1,698	0%
Office Supplies	4,764	0%	4,348	0%	8,065	0%
Postage and Delivery	337	0%	1,829	0%	1,319	0%
Professional Fees	2,322	0%	1,478	0%	2,478	0%
Service Contract	97,885	5%	87,617	4%	131,216	6%
Shredding Expense	-	-	-	-	180	0%
Software	4,574	0%	6,620	0%	9,663	0%
Telephone	12,857	1%	16,588	1%	16,056	1%
Travel	3,745	0%	1,194	0%	178	0%
Utilities	6,554	0%	17,922	1%	14,669	1%
Vehicle Mileage	2,580	0%	3,948	0%	4,674	0%
Other Expenses	-	-	-	-	-	-
<b>Total Expenses</b>	<b>1,055,114</b>	<b>57%</b>	<b>1,117,568</b>	<b>54%</b>	<b>1,353,593</b>	<b>62%</b>
<b>Net Profit</b>	<b>319,209</b>	<b>17%</b>	<b>498,979</b>	<b>24%</b>	<b>398,431</b>	<b>18%</b>

## Condensed Statement

Total Sales	1,850,180		2,062,068		2,188,929	
- Cost of Goods Sold	475,857	26%	445,521	22%	436,905	20%
= Gross Profit	1,374,323	74%	1,616,547	78%	1,752,024	80%
- Total Expenses	1,055,114	57%	1,117,568	54%	1,353,593	62%
= <b>Net Profit</b>	<b>319,209</b>	<b>17%</b>	<b>498,979</b>	<b>24%</b>	<b>398,431</b>	<b>18%</b>



# 2018 - 2020 Recast Income Statement

	2018	%	2019	%	2020	%
<b>Income</b>						
Gross Sales	1,850,180		2,062,068		2,188,929	
Returns and Allowances	-		-		-	
Other Income	-		-		-	
<b>Total Income (Revenue)</b>	1,850,180		2,062,068		2,188,929	
<b>Cost of Sales</b>						
Cost of Goods Sold	475,857	26%	445,521	22%	436,905	20%
<b>Gross Profit</b>	1,374,323	74%	1,616,547	78%	1,752,024	80%
<b>Expenses</b>	-		-		-	
Officer's Salary	-	-	-	-	-	-
Salaries and Wages	360,739	19%	335,848	16%	404,322	18%
Repairs and Maintenance	212	0%	1,840	0%	500	0%
Rents	136,000	7%	140,000	7%	144,000	7%
Taxes and Licenses	51,301	3%	68,088	3%	59,168	3%
Interest Expense	-	-	-	-	-	-
Charitable Contributions	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
Advertising	6,112	0%	8,596	0%	10,699	0%
Pension and Profit Sharing	7,127	0%	6,156	0%	8,961	0%
50% of Meals	2,154	0%	1,219	0%	100	0%
Accounting	4,252	0%	10,190	0%	13,280	1%
Bank Service Charges	9,064	0%	9,431	0%	2,607	0%
Capital Lease	264	0%	2,230	0%	265	0%
Commission	2,350	0%	2,372	0%	2,360	0%
Computer Expense	1,888	0%	2,618	0%	4,882	0%
Dues and Subscriptions	600	0%	7,192	0%	7,665	0%
Garnishment	-	-	-	-	(942)	-0%
Gas and Electric	11,644	1%	-	-	1,154	0%
Gifts and Donations	69	0%	2,678	0%	250	0%
Health Insurance	41,008	2%	12,625	1%	25,070	1%
HOA Dues	7,233	0%	-	-	-	-
Insurance	7,371	0%	8,000	0%	7,684	0%
Maintenance	15,353	1%	11,195	1%	2,931	0%
Meals and Entertainment	-	-	640	0%	1,749	0%



# 2018 - 2020 Recast Income Statement

	2018	%	2019	%	2020	%
Merchant Fees	11,450	1%	17,080	1%	28,723	1%
Miscellaneous	2,088	0%	7,245	0%	1,698	0%
Office Supplies	4,764	0%	4,348	0%	8,065	0%
Postage and Delivery	337	0%	1,829	0%	1,319	0%
Professional Fees	2,322	0%	1,478	0%	2,478	0%
Service Contract	97,885	5%	87,617	4%	131,216	6%
Shredding Expense	-	-	-	-	180	0%
Software	4,574	0%	6,620	0%	9,663	0%
Telephone	7,857	0%	11,588	1%	11,056	1%
Travel	3,745	0%	1,194	0%	178	0%
Utilities	6,554	0%	17,922	1%	14,669	1%
Vehicle Mileage	2,580	0%	3,948	0%	4,674	0%
Other Expenses	208,800	11%	208,800	10%	208,800	10%
<b>Total Expenses</b>	<b>1,017,697</b>	<b>55%</b>	<b>1,000,587</b>	<b>49%</b>	<b>1,119,424</b>	<b>51%</b>
<b>SDE</b>	<b>356,626</b>	<b>19%</b>	<b>615,960</b>	<b>30%</b>	<b>632,600</b>	<b>29%</b>

## Condensed Statement

Total Sales	1,850,180		2,062,068		2,188,929	
- Cost of Goods Sold	475,857	26%	445,521	22%	436,905	20%
= Gross Profit	1,374,323	74%	1,616,547	78%	1,752,024	80%
- Total Expenses	1,017,697	55%	1,000,587	49%	1,119,424	51%
= <b>SDE</b>	<b>356,626</b>	<b>19%</b>	<b>615,960</b>	<b>30%</b>	<b>632,600</b>	<b>29%</b>





# Balance Sheet Analysis

Latest Period  
Data Source

12/31/2020  
Tax Return

	Previous Year 12/31/2019	Current Year 12/31/2020	Value Estimate (Buyer Receives)	Note
<b>Assets</b>				
<b>Current Assets</b>				
Cash & Equivalents	52,246	40,764	-	A
Accounts Receivable	-	-	-	
Inventory	3,608	3,608	3,500	
Prepaid Expenses	-	-	-	
Other	10,048	10,048	-	
<b>Total Current Assets</b>	<b>\$65,902</b>	<b>\$54,420</b>	<b>\$3,500</b>	
<b>Fixed Assets</b>				
Fixed Assets/Buildings	1,690,889	2,001,787	900,000	B
Accumulated Depreciation	(1,238,271)	(1,389,148)	-	
Intangible Assets	-	-	-	
Accumulated Amortization	-	-	-	
<b>Total Fixed Assets</b>	<b>\$452,618</b>	<b>\$612,639</b>	<b>\$900,000</b>	
<b>Real Estate</b>				
Land and Buildings	-	-	-	
Accumulated Depreciation	-	-	-	
<b>Total Real Estate</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	
<b>Other Assets</b>				
Loans to Shareholders	7,577	42,432	-	
Other Investments	-	-	-	
<b>Total Other Assets</b>	<b>\$7,577</b>	<b>\$42,432</b>	<b>\$0</b>	
<b>Total Assets</b>	<b>\$526,097</b>	<b>\$709,491</b>	<b>\$903,500</b>	
<b>Liabilities + Equity</b>				
<b>Current Liabilities</b>				
Accounts Payable	169	-	-	C
Current Portion, LTD	-	261,865	261,865	
Other	39,316	22,486	-	
<b>Total Current Liabilities</b>	<b>\$39,485</b>	<b>\$284,351</b>	<b>\$261,865</b>	
<b>Long-Term Liabilities</b>				
Notes Payable	603,359	422,197	422,197	
Loans from shareholders	1,000	1,000	-	
<b>Total LT Liabilities</b>	<b>\$604,359</b>	<b>\$423,197</b>	<b>\$422,197</b>	
<b>Total Liabilities</b>	<b>\$643,844</b>	<b>\$707,548</b>	<b>\$684,062</b>	
<b>Total Equity</b>	<b>-\$117,747</b>	<b>\$1,943</b>	<b>\$219,438</b>	
<b>Liabilities + Equity</b>	<b>\$526,097</b>	<b>\$709,491</b>	<b>\$903,500</b>	

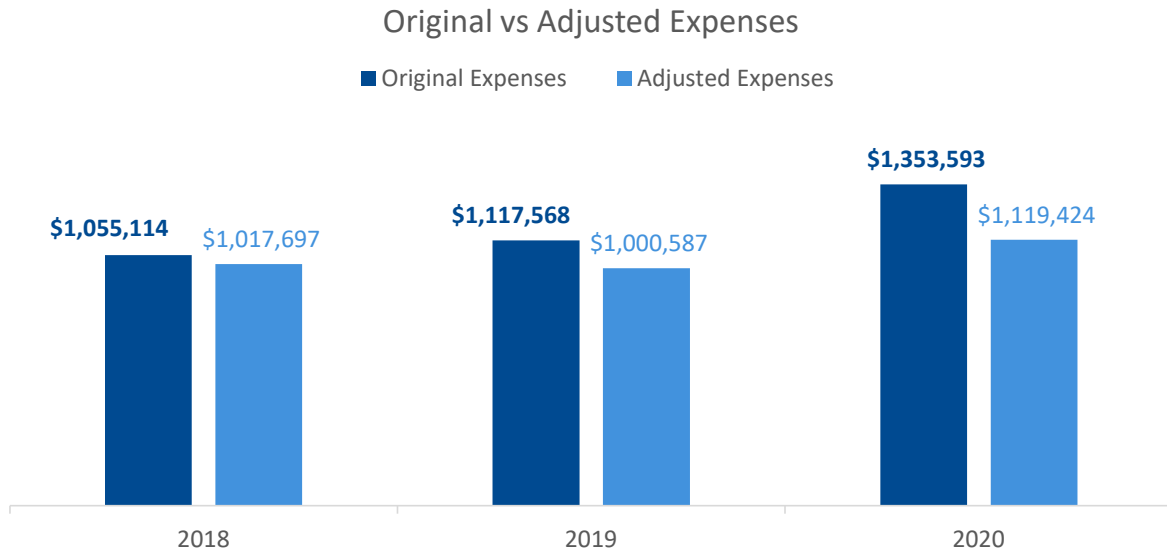
## Notes

- A Seller keeps cash and accounts receivable in typical deal structure  
 B Market value of business FF&E, for example.  
 C Seller transfer lease/financing for equipment to buyer

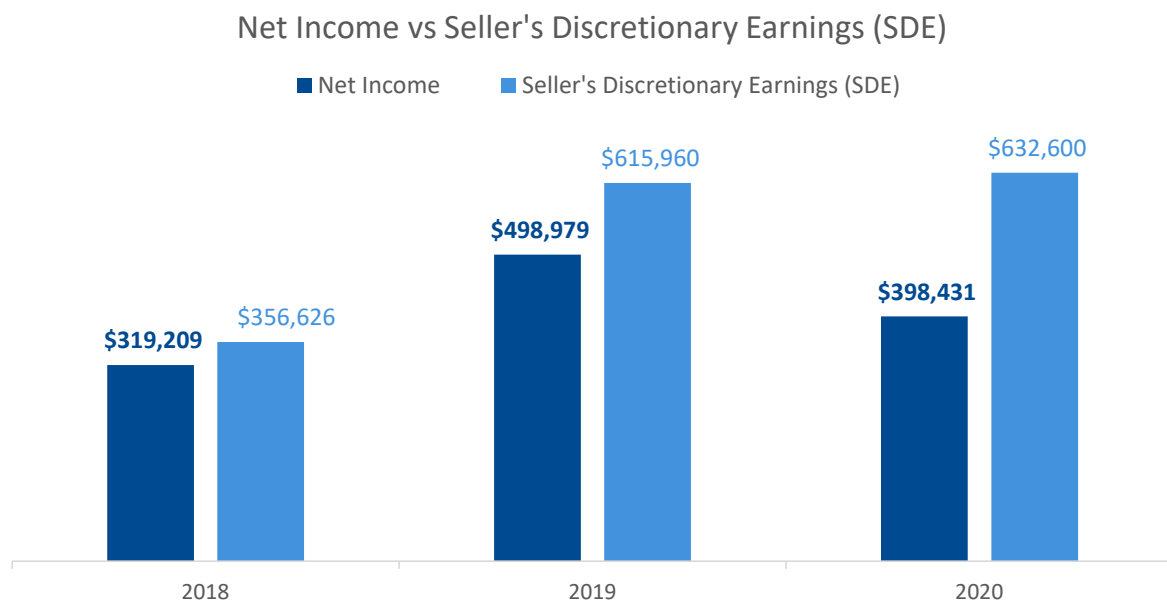


# Financials: Original vs Recast

## Adjusted Expenses Compared to Original Expenses



## Net Income Compared to Seller's Discretionary Earnings



# Weighting of Recast Financials

Year	2018	2019	2020
Total Sales	1,850,180	2,062,068	2,188,929
Cost of Goods Sold	475,857	445,521	436,905
Gross Profit	1,374,323	1,616,547	1,752,024
Total Expenses	1,017,697	1,000,587	1,119,424
SDE	356,626	615,960	632,600
Weighting	5%	25%	70%

## Weighted Averages

Weighted Average Revenue	2,140,276
<b>Weighted Average SDE</b>	<b>614,641</b>
<b>Adjusted EBITDA</b>	<b>514,641</b>
Adjusted EBIT	363,764



# Method 1: Market Method of Valuation

## What is the Market Method?

The market method uses multiples of Sellers Discretionary Earnings (SDE), Revenue, and Earnings before Interest, Taxes, Depreciation, and Amortization (EBITDA) to determine an estimated market price. MidStreet generates the multiples by creating a comparables report of companies in similar industries and of similar size that have recently sold. This database was created by certified business appraisers to give intermediaries the most reliable information possible on comparable transactions. Please see comps report attached at the end of this document.

Benefit Stream	SDE	Total Sales	EBITDA
Multiple from Comps	3.50	0.90	4.50
Weighted Average	614,641	2,140,276	514,641
Estimate of Value	2,151,244	1,926,249	2,315,885
Weight	70%	20%	10%

## Weighted Value

Market Method Value	\$2,122,709
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# Method 2: Capitalization of Earnings Method

## What is the Capitalization of Earnings Method

The capitalization of earnings method estimates the sales price of a business by calculating its current earnings and level of risk. This method uses a capitalization rate, derived from comparable transactions and benchmark data, to determine a probable selling price. These rates determine what a buyer would be willing to pay for a going concern in an operating company with a certain level of risk. The rates are specific to the industry and riskiness of the individual company.

### Finding the Cash Flow

<b>Seller's Discretionary Earnings</b>	<b>\$614,641</b>
<b>- Reasonable Salary</b>	<b>\$100,000</b>
<b>- Reasonable Capital Expenditure</b>	<b>\$25,000</b>
<b>- Growth in Working Capital</b>	<b>\$10,000</b>
<b>= Net Cash Flow</b>	<b>\$479,641</b>

### Determining the Cap Rate

<b>Risk-free Rate</b>	<b>1.33%</b>
<b>+ Equity Risk Premium</b>	<b>5.25%</b>
<b>Company Specific Risk Factor</b>	
Company Industry	3.45%
Company Size	4.55%
Company Age	3.30%
Earnings Stability	3.35%
<b>+Total Company Specific Risk Factor</b>	<b>14.65%</b>
<b>= Cost of Equity</b>	<b>21.23%</b>

### Applying the Cap Rate

<b>Cash Flow</b>	<b>\$479,641</b>
<b>Capitalization Rate</b>	<b>21%</b>
<b>Estimation of Value</b>	<b>\$2,259,000</b>





# Method 3: Buyer Test Method

## What is the Buyer Test Method?

The Buyer Test Method examines your proposed value in light of its ability to pay an acquisition loan, a salary to the owner, and provide a return on investment for the buyer's cash down payment. We often call this the "sanity check". This assumes your company is sold at its market value and is financed using conventional terms. The parameters we use are those commonly expected by third party lenders, including most SBA lenders.

### Buyer Test Method

Financing Scenario (SBA 7a)	Scenario 1	Scenario 2	Notes
Purchase Price	2,250,000	2,350,000	
Real Estate Value	600,000	600,000	
Owner Financing	-	-	
Working Capital	100,000	100,000	A
Down Payment	459,741	475,303	B
SBA Fees & Closing Costs	114,938	118,688	C
<b>Loan Request</b>	<b>2,605,197</b>	<b>2,693,384</b>	
Loan Term	157	156	
<b>Annual Debt Service</b>	<b>287,874</b>	<b>298,876</b>	
<b>Cashflow Scenario</b>			
Seller's Discretionary Earnings	614,641	614,641	D
+ Rent Add-Back	144,000	144,000	
Total Available to Buyer	758,641	758,641	
- Annual Debt Service	287,874	298,876	
<b>SDE Remaining After Debt Service</b>	<b>470,767</b>	<b>459,765</b>	
<b>Lender Debt Service Requirement</b>			
Seller's Discretionary Earnings	614,641	614,641	
Add Rent Add-Back	144,000	144,000	
Less Reasonable Owner Salary	100,000	100,000	
Available for Debt Repayment	658,641	658,641	
<b>Debt Service Coverage Ratio</b>	<b>2.29</b>	<b>2.20</b>	E



# Method 3: Buyer Test Method

## Buyer Test Method

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Previous Seller's Discretionary Earnings	615,960	615,960	F
Add Rent Add-Back	144,000	144,000	
Less Reasonable Owner Salary	100,000	100,000	
Available for Debt Repayment	659,960	659,960	
<b>Debt Service Coverage Ratio</b>	<b>2.29</b>	<b>2.21</b>	<b>G</b>

## Notes

- A: Working capital estimated from most recent balance sheet
- B: Down payment of 15% - common amount on SBA 7(a) loan
- C: SBA fees and closing costs estimated based previous deals
- D: Weighted average SDE
- E: Debt service coverage ratio (DSCR) must be greater than 1.25
- F: SBA requires a comparison using both the average and previous year SDE
- G: Debt service coverage with 2018 SDE must also exceed 1.25



# Reconciliation of Values

## Pricing Analysis Conclusion

The results for each of the three Price Evaluation Methods used are summarized on the following pages. These results, or value estimates, provide a probable price range for the subject. The most probably selling price is estimated by weighing each of these three value estimates and then calculating the weighted average value.

The weighting can be thought of as the probability that the value estimate for a given valuation method represents the value of the business (the sum of all weightings would then equal 100). The weights should take into account the extent to which a given valuation method addresses or does not address risk factors associated with the subject business. Based on the information given to us, our opinion of the value of the subject (excluding real estate if any) in a “typical” asset sale, as of the given valuation date is:

Method	Weight	Estimate
Market Method	40%	\$2,122,709
Capitalization Method	30%	\$2,259,000
Buyers Test Method	30%	\$2,350,000
Estimated Sale Price		\$2,232,000

