American Fortune Business Valuations

BUSINESS VALUATION

ABC Company

Prepared for:

John R. Smith, Owner

Prepared by:

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505 Third Street, Suite 301
Louisville, KY 40204

3/31/2013

Mr. John R. Smith, Owner
ABC Company
1111 First Street
Sacramento, CA 95816

Dear Mr. Smith:

VALUATION OF ABC COMPANY

At your request, we have prepared an opinion of the Fair Market Value of 100% of ABC Company as of 3/31/2013.

The standard of value used in our valuation of ABC Company is *Fair Market Value*. Fair Market Value is the price (in terms of 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 offered for sale on the open market for a reasonable period of time with both buyer and seller being in possession of the pertinent facts and neither being under any compulsion to act. If used in the sale of this business, the valuation assumes an Asset Sale of a debt free business and is not inclusive of cash or receivables held by this company.

As a norm in valuation methodology, a 5-4-3-2-1 Weighted Average of Discretionary Earnings is normally taken by the Valuator.

In this Summary Valuation we have considered income, market and asset approaches. Based on the results of these valuation approaches and methods and considering other relevant data, we have estimated the Fair Market Value of 100% of ABC Company as of 3/31/2013 to be $2,875,491. The opinions expressed in this valuation are contingent upon the conditions set forth in the Appraisal Procedures section and the Statement of Assumptions and Limiting Conditions that are a part of this report.

On a personal note, I sincerely appreciate this opportunity to do business with you and trust this valuation will meet your needs. Please contact me in the future should your business needs change.

Respectfully submitted,

Brian S. Mazar, CBI, MBA, AVA
American Fortune Business Valuations

Business Valuation Factors

When considering the factors for a valuation of a business it's important to understand the risk / cash flow relationship will always be the main consideration of a business's value. Depending on the size of the company, Seller's Discretionary Earnings (SDE), Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) or Earnings Before Interest and Taxes (EBIT) are all standard levels of adjusted cash flow that potential buyers will look at as the basis for determining value.

Ultimately, it's the present value of future cash flow that a potential buyer is purchasing. The buyer also has to assess the risk associated with the company's ability to generate that future cash flow. To determine cash flow, the Income Statement should be normalized by adjusting for discretionary (personal), non-recurring, and non-business related expenses. These items are often referred to as add-backs or adjustments. Traditionally, larger companies usually have very few "adjustments" during the normalization process, whereas smaller companies generally are the opposite.

It is easy to mistakenly make the assumption that the more cash flow, the more valuable the business. This is not necessarily true. For example, if you have a company with a declining sales trend and a variety of "personal adjustments", such as auto, travel, entertainment and non-operating salaries, to their Income Statement, this would indicate a significant financial risk. The business would likely be valued lower than another company with cleaner financial records (fewer "adjustments").

As a business owner, it is important to understand that risk will impact your company's value. Risk can come in many forms such as financial risk, management risk, technological risk and industry risk to name a few. But wherever risk can be identified, the severity of that risk will have an effect on the company's value in one way or another. Since profitability and resulting cash flow is the most significant driver of a company's value, it is important to eliminate as much risk associated with the company's cash flow as possible in advance of selling your company.

SCOPE OF SERVICE

The purpose of this valuation is informational. This report is prepared for ABC Company and should not be used by others.

Our opinion of Fair Market Value relied on a "value in use" or "going concern" premise. This premise assumes that the Company is an ongoing business enterprise with management operating in a rational way with a goal of maximizing shareholder value.

Our analysis considers those facts and circumstances present at the Company at the Valuation Date.

To arrive at a conclusion of Fair Market Value, we performed the following Procedures:

1. Collected the Company's relevant historic financial statements.
2. Analyzed the historic financial statements by calculating financial ratios and common-size financial statements for each historic year in order to identify trends.
3. Compared the Company's financial ratios and common-size financial statements to industry guideline data to identify any significant variances.
4. Developed risk-adjusted Capitalization and Discount Rates to apply to the Company's historic and projected earnings, respectively.
5. Collected and analyzed transactional data from comparable companies within the same industry.
6. Adjusted historic earnings to eliminate the effects of excess and discretionary expenses, non-operating revenues and expenses, and non-transferable revenue streams.
7. Utilized Income, Market, Asset and Other valuation approaches to determine an estimate of Total Entity Value. The following methods were considered under each approach:
    a. Income Approach

       Capitalization of Earnings and Discounted Future Earnings.
    b. Market Approach

       Price to Earnings, Price to Revenue, Price to Gross Cash Flow, Price to Cash Flow from Operations, Price to Seller's Discretionary Cash Flow, Price to Dividends, Price to Book Value, Price to Total Assets and Price to Stockholders' Equity.
    c. Asset & Other

       Capitalization of Excess Earnings & Multiple of Discretionary Earnings.
8. Selected the most reasonable Total Entity Value from the range of values established in the valuation methods and then applied any appropriate discounts to arrive at our conclusion of the estimated Fair Market Value of the interest.

Recasting the Income Statement

The income figures from the tax return will accurately represent revenue from all sources. However, the expenses taken make the tax return unsuitable for presentation elsewhere. Items such as depreciation, discretionary spending, owner's perks and pensions lower the net profit figures, sometimes past zero on tax returns. Presenting a buyer or a bank with a financial statement showing a small or no profit is simply unacceptable when selling a business or applying for credit or a mortgage. Buyers are not likely to purchase a business that has minimum profit or losses on a tax return. Banks will lend borrower money with adverse information only in limited situations.

The result of recasting the income in this scenario is that the re-casted income statement will show a true representation of the business, more than likely with more favorable numbers for the seller, buyer and lender. In order to recast financial statements, the following items should be adjusted to reflect reality: owner salaries, nonrecurring expenses and income, investments and non-operating expenses, interest payments, depreciation expense, rent expense, discretionary expenses, and pensions. The result will be a more accurate and reliable presentation of income that a bank or buyers can use to gauge the activity of the business and that an owner can use to make better business decisions

Calculation Of EBIDTA

	Year	2009	2010	2011	2012
	Information Source	**Tax Return**	**Tax Return**	**Tax Return**	**Tax Return**
1	**Sales**				
2	**Cost of Sales**				
3	**Operating Expenses**				
4	**Net Income / Unadjusted Pre-Tax Profit**		$ -	$ -	$ -
5	**Depreciation**				$ -
6	**Amortization**				
7	**Interest on loans to business from all lenders**				
8	**EBITDA (Total of Lines 4+5+6+7)**		$ -	$ -	$ -
9	**Officer / Owner's salary**				
10	**Adjusted EBITDA (Total of Lines 8+9)**		$ -	$ -	$ -

Calculation Of EBIDTA & Discretionary Earnings

11	**Wages or payments to family members (non-working)**			
12	**Auto for owner's and/or spouse personal use**			
13	**Auto insurance for owner's benefit**			
14	**Auto repairs & maintenance owner's personal use**			
15	**Contributions and donations**			
16	**Fair market rent adjustment**			
17	**Insurance premiums for owner's health, life, etc.**			
18	**Professional services (legal / accounting) non-recurring**			
19	**Retirement plan contributions**			
20	**Meals & entertainment (personal)**			
21	**Travel (personal)**			
22	**One time expenses or (income)**			
23	**Other benefits**			
24	**Bank penalties**			
25	**Personal credit cards pd by business**			
26	**Non-essential memberships**			
27	**Other:**			
28	**Total Owner Discretionary Add-Backs**	$ -	$ -	$ -
29	**Adjusted EBITDA (line 10 above)**	$ -	$ -	$ -
30	**Equals Total Seller Discretionary Earnings**	$ -	$ -	$ -

Financial Rules of Thumb

ABC Company

Financial Summary

	2008	2009	2010	2011	2012
Total Discretionary Cash Flow	747,360	773,468	566,954	578,375	715,290
Weight	1	2	3	4	5
Indicator	747,360	1,546,936	1,700,862	2,313,500	3,576,450
Sum of Indicators					9,885,108
Sum of Weights					15
Weighted Cash Flow					659,007
Adjustments					0
Available Cash Flow					659,007

Capitalization Rate	Rate	Multiple
Highly Marketable	17%	5.88
Very Marketable	20%	5.00
Marketable	26%	3.85
Average Marketability	32%	3.13
Below Average Marketability	40%	2.50
Poor Marketability	44%	2.27
Enter Capitalization Rate	20%	
Enter Total Tangible Assets	546,420	

Financial Rules of Thumb

ABC Company

Rules of Thumb

Rule of Thumb 1

Weighted Available Cash Flow		659,007
Tangible Assets	546,420	
Reasonable Rate of Return on Assets	15%	
Reasonable Return on Assets		81,963
Excess Earnings		577,044
Capitalization Rate (plus 5% for intangible risk)		25%
Value of Intangible Assets		2,308,177
Add: Value of Tangible Assets		546,420
Total Business Value		2,854,597

Rule of Thumb 2

Available Cash Flow	659,007
Valuation Multiple	5.00
Total Business Value	3,295,036

Rule of Thumb 3

Last Year's Discretionary Cash Flow	715,290
Cash Flow Multiplier (between 1 and 3)	2.70
Intangible Value	1,931,283
Add: Tangible Assets	546,420
Total Business Value	2,477,703

Summary

	Value	Weight	Extension
Rule of Thumb 1	2,854,597	33%	951,437
Rule of Thumb 2	3,295,036	33%	1,098,235
Rule of Thumb 3	2,477,703	33%	825,818
		100%	2,875,491

Financial Rules of Thumb

ABC Company

Price Justification

Pricing Scenarios

Price and Terms	1	2	3
Price	2,875,491	2,875,491	2,875,491
Equity Injection %	25%	25%	25%
Equity Injection	718,873	718,873	718,873
Balance Financed	2,156,618	2,156,618	2,156,618
Annual Interest Rate	7.00%	8.00%	9.00%
Years Financed	5	7	10
Debt Service			
Amount Financed	2,156,618	2,156,618	2,156,618
Monthly Payment	42,704	33,614	27,319
Principal (year 1)	361,480	230,833	133,734
Interest (year 1)	150,963	172,529	194,096
Total Annual Payment	512,444	403,362	327,830
Investment Analysis			
Weighted Available Cash Flow	659,007	659,007	659,007
Less: Annual Payment	(512,444)	(403,362)	(327,830)
Return on Investment	146,564	255,645	331,178
Return on Down Payment	20%	36%	46%
Average Last 2 Years Cash Flow Coverage	1.26	1.60	1.97
Should be equal or better than 1.25			

Valuation Multiples

Value Selected	2,875,491
Price to Discretionary Cash Flow (last full year)	4.02
Price to Discretionary Cash Flow (last two years)	4.45
Price to EBITDA (last full year)	4.02
Price to EBITDA (weighted)	4.36
Intangible Price to Discretionary Cash Flow (last full year)	3.26
Intangible Price to Discretionary Cash Flow (average last 2 years)	3.60

ASSUMPTIONS AND LIMITING CONDITIONS

This valuation is subject to the following assumptions and limiting conditions:

- Information, estimates, and opinions contained in this report are obtained from sources considered to be reliable. However, we assume no liability for such sources.
- The Company and its representatives warranted to us that the information they supplied was complete and accurate to the best of their knowledge and that the financial statement information reflects the Company's results of operations and financial condition in accordance with generally accepted accounting principles, unless otherwise noted. Information supplied by management has been accepted as correct without further verification (and we express no opinion on that information).
- Possession of this report, or a copy thereof, does not carry with it the right of publication of all or part of it, nor may it be used for any purpose by anyone but the client without the previous written consent of the client or us and, in any event, only with proper attribution.
- We are not required to give testimony in court or be in attendance during any hearings or depositions with reference to the company being valued unless previous arrangements have been made.
- The various estimates of value presented in this report apply to this valuation only and may not be used out of the context presented herein. This valuation is valid only for the purpose or purposes specified herein.
- This valuation assumes that the Company will continue to operate as a going concern, and that the character of its present business will remain intact.
- The valuation contemplates facts and conditions existing as of the valuation date. Events and conditions occurring after that date have not been considered and we have no obligation to update our report for such events and conditions.
- We have assumed that there is full compliance with all applicable federal, state, and local regulations and laws unless otherwise specified in this report.
- This report was prepared under the direction of Brian S. Mazar, CBI, CVA, MBA. Neither the professionals who worked on this engagement nor American Fortune have any present or contemplated future interest in ABC Company and any personal interest, with respect to the parties involved or any other interest that might prevent us from performing an unbiased valuation. Our compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report.

VALUATION METHODOLOGY

The Income Approach serves to estimate value by considering the income (benefits) generated by the asset over a period of time. This approach is based on the fundamental valuation principle that the value of a business is equal to the present worth of the future benefits of ownership. The term" income" does not necessarily refer to income in the accounting sense but to future benefits accruing to the owner. The most common methods under this approach are Capitalization of Earnings and Discounted Future Earnings. Under the Capitalization of Earnings method, normalized historic earnings are capitalized at a rate that reflects the risk inherent in the expected future growth in those earnings. The Discounted Future Earnings method discounts projected future earnings back to present value at a rate that reflects the risk inherent in the projected earnings.

The Market Approach compares the Company to the prices of similar companies operating in the same industry that are either publicly traded or, if privately-owned, have been sold recently. A common problem for privately owned businesses is a lack of publicly available comparable data.

The Asset & Other methods consist of valuation methods that cannot be classified into one of the previously discussed approaches. The methods utilized in the Other Approach are Capitalization of Excess Earnings and Multiple of Discretionary Earnings. Commonly referred to as the "formula method," the Capitalization of Excess Earnings method determines the value of tangible and intangible assets separately and combines these component values for an indication of total entity value. Under the Multiple of Discretionary Earnings method, the entity is valued based on a multiple of "discretionary earnings," i.e., earnings available to the owner (who is also a manager). Both of these methods are normally used to value small businesses and professional practices.

MULTIPLE OF DISCRETIONARY EARNINGS

The multiple of discretionary earnings method is best suited to businesses where the salary and perquisites of an owner represent a significant portion of the total benefits generated by the business and/or the business is typically run by an owner/manager. Discretionary earnings is equal to the Company's earnings before: income taxes, non-operating income and expenses, non-recurring income and expenses, depreciation and amortization, interest income or expense, and owners' total compensation for services that could be provided by an owner/manager. Buyers and sellers of very small closely held businesses tend to think in terms of income to replace their previous paycheck or income to support their family. They look at the total discretionary earnings to see if it is sufficient to pay all the operating expenses of the business, carry the debt structure necessary to buy and/or operate the business, and provide an adequate wage.

REPRESENTATIONS

The following factors guided our work during this engagement:

- The analyses, opinions, and conclusions of value included in this report are subject to the assumptions and limiting conditions specified in this report and they are American Fortune's personal analyses, opinions, and conclusion of value.
- The economic and industry data included in this report were obtained from sources that we believed to be reliable. We have not performed any corroborating procedures to substantiate that data.
- This engagement was performed in accordance with the American Institute of Certified Public Accountants Statement on Standards for Valuation Services.
- We have previously identified the parties for whom this information and report have been prepared. This valuation report is not intended to be, and should not be, used by anyone other than those parties.

CONCLUSIONS OF VALUE

Based on our analysis as described within this valuation report, **the estimate of value of 100% of ABC Company as of 3/31/2013 was $2,875,491.** This valuation does not include cash or receivables in the company and it does not include debt obligations by the company. If used in the sale of the Company, the valuation assumes an Asset Sale of a debt free business and is not inclusive of cash or receivables held by this company. This conclusion is subject to the Statement of Assumptions and Limiting Conditions and to the Representations, both presented earlier in this report.

This valuation engagement was conducted in accordance with the Statement on Standards for valuation Services (SSVS). The estimate of value that results from a valuation engagement is expressed as a conclusion of value.