Business Valuation Report

Plumbing Corporation
dba
Mickey's Plumbing & Heating

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The Complete Solution

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Table Of Contents

Important Notice, Disclaimers, & Limitations	3
Valuation Approach Explained	5
Valuation Notes	7
The Results for Your Business	8
Buyer Feasibility Test	9
Valuation Detail: Multiple of Owner’s Discretionary Cash Flow	10
Valuation Detail: Asset Based Method	11
Financial Trends	12
Income Statement	14
Discretionary Cash Flow Statement	15
Balance Sheet	16

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The sale of business assets or stock in a corporation is complex. The sale of stock in a corporation may require significantly more analysis than an asset based sale since the buyer is assuming all of the current, future and historical liabilities of the corporation. Also, the tax treatment of a business asset sale is significantly different from the tax treatment of a stock sale. The tax laws may be very complex. If you are planning a sale of business assets or of stock, you must consult with your attorney and tax advisor. A qualified professional based on each individual case must give such tax and legal advice. BizByOwner offers no such advice and strongly recommends that you seek the advice of qualified tax and legal counsel with regard to any sell on either a stock or asset basis.

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Valuation Approach Explained

It is important to understand that valuing a business is not an exact science. Two businesses in the same industry with the same cash flow could be worth significantly different amounts due to trends, opportunities, geography, etc. With that said, however, it is possible to arrive at a general sense of a possible range of value for a business. The BizByOwner Valuation Module takes 2 primary approaches:

- **Multiple of Owner's Discretionary Cash Flow** (DCF)
- **Asset Based**

These approaches are market-based analyses that attempt to identify a possible range of *Selling* values for the subject enterprise. It is important to note that this is not a *Formal Appraisal*. The value of any business to an existing owner may be different than the value of the business to a new owner. Emotional attachments aside, the capital structure of an acquisition can dramatically change the financial equation of the business. For example, if you have no debt and your business generates $200,000 in annual cash flow, but a buyer incurs $100,000 per year in financing cash outflows (debt service) in the process of buying the business—he or she is buying a $100,000 per year business (in terms of cash flow), not a $200,000 one—a very different value picture. BizByOwner is trying to help you identify a proper *Selling* price and is not performing a Formal Appraisal at a given point under the current ownership.

In addition to the above valuation methods, a "Buyer Feasibility" test is performed that considers whether or not the price at which you intend to go to market makes sense from a buyer's perspective. I.e., will a buyer be able to earn a sufficient return on investment to justify buying your business after financing the acquisition.

Valuation Methods Employed

Multiple of Owner's Discretionary Cash Flow (DCF)

Apart from exceptional circumstance wherein a company has a particular asset an acquirer might wish to obtain (a valuable patent, for example), what is being bought is the cash flow of the company, and the value of the business is based on two primary considerations: 1) the quality of the that cash flow; and 2) the potential for the cash flow to be perpetuated into the future. Owner's Discretionary Cash Flow is arrived at by adjusting the company's net income for all items that are either discretionary/particular to the existing ownership (e.g., interest, owner's compensation, etc.) or that are non-cash charges (e.g., depreciation), a multiple considered appropriate to the business is then applied to that DCF to identify a possible range of selling value.

Asset Based

An area where the Multiple of Owner's Discretionary Cash Flow approach can be inadequate is in a business that is asset intensive. The more assets in which you have to invest to generate cash flow, the lower the rate of return may be. This doesn't mean it isn't a viable or valuable business. Some industries simply, by their nature, require significant capital investment relative to cash flow. Imagine a construction equipment rental business with $500,000 in cash flow, assets that have a $5 million market value, and a long and stable operating history. A nice business, but with a typical multiple of 2.5 – 3.0 x DCF you'd be selling $5 million in assets for about $1.5 million. Clearly, you don't plan to do that. The asset-based approach takes a typical rate of return on assets and considers whether your business is generating more or less than the typical expectation for your asset base, and then applies a multiple to any earnings in excess of that standard expectation. To the extent a business is generating more than the typical return expected for its asset investment, it is worth more than the average, and the value is based on that "excess" cash flow. A multiple appropriate to the business is applied to the excess cash flow and that value is added to the market value of the assets to identify a possible selling price for the business.

Buyer Feasibility Test

It is very common for a business owner to over estimate the value of his or her business. This is quite natural since we all want our businesses to be worth as much as possible—especially when it comes time to sell. Because of a buyer's need to capitalize the acquisition, typically with some amount of debt, the cash flow to any new owner may very likely be lower than to an existing owner. The Buyer Feasibility Test assesses a standard financial arrangement based on the terms a buyer might find at a bank or other lending source. This potential financial structure is then applied to the company's cash flow so a return on the buyer's investment may be calculated. The question here is simple: Would it make any sense for a buyer to buy this company at this price based on a probable financial structure? If not, the price at which you offer your business may need to be re-evaluated. In this way, BizByOwner's Business Valuation Module and Report calculations may be just as useful in telling you what is *not* a proper value or a reasonable expectation as it is in telling you what *is* a proper potential selling value for your business.

Market Reality

The Selling Price ultimately suggested by the two methods employed by BizByOwner are just that: a suggestion. With the help of those results and the "litmus" test provided in the buyer feasibility test, you must apply your own knowledge of your industry and common sense to arrive at a range of fair value and remember that, ultimately, it is the market place that tells you what your business is worth. Use your own, independent judgment in conjunction with the tools provided here, or in conjunction with the opinions of professionals you may consult like a CPA or Business Appraiser. But always pay attention to the market feedback you receive.

Valuation Notes

What is Valued in this Report

Asset Sale. The basic assumption underlying the BizByOwner Business Valuation Module and this Report is that you will be executing an asset sale. This is by far the most common basis for the sale of small- and mid-sized businesses (versus a stock transfer or sale).

Exclusions. Therefore, all current assets and liabilities (e.g., cash, A/R, A/P, deposits, investment accounts, etc) are excluded from the basic assumptions built into the Business Valuation Module since a seller will typically keep all of those assets and pay off any such liabilities at or before closing.

Stock Sale. The BizByOwner Business Valuation Module is not designed to calculate stock equity values for a Stock Sale.

Real Estate. If applicable, real estate is not directly assessed in the valuation module and no appraisal of its value is performed. The market value of any real estate indicated in the BizByOwner Financial Information Module is taken at face value as provided by the client/user and is listed as a separate value and then added to the business value to show a total “Enterprise Value” in this report. It is not a part of the asset base used in the Asset Based valuation.

What is Your Business Worth?

Summary of Valuation Results

This page summarizes the result from the information provided in the BizByOwner Business Valuation Module and identifies a potential range of values for which your business might sell. A range of value is identified rather than a specific number because business valuation is an inexact science and every business has both subtle and significant differences from every other business—even if they have the same cash flow and asset base. The pages that follow offer additional detail for the results.

The Results for Your Business

Valuation Method	Specific Value	Potential Sales Price Range
Owner's Discretionary Cash	$706,147	$670,840 - $741,454
Asset Based	$617,357	$586,489 - $648,224
Average	$661,752	$628,664 - $694,839

Both methods used yield results within a range that indicates it may be appropriate to average the two results together for a final indication of Value. The average of the two valuation methods employed indicates a potential selling price range for your business of:

$628,664 -- $694,839

NOTICE: the upper end of the value range indicated is 62% of annual revenue. While this is possible, most small and mid-sized businesses will sell for 25% - 50% of annual revenue.

Buyer Feasibility Test

Proposed Max Price	$694,839
20% Down Payment	$138,968
80% Loan	$555,871
Payment	$7,423
Annualized Payment	$89,077
Discretionary Cash Flow	$265,469
Annual Net Cash Flow	$176,392
Return On Equity	126.9%
Return On Capital Invested	25.4%

The typical Return on Capital Invested that a buyer will consider acceptable falls within a range of about 20% – 40%. This is based on pre-tax cash flow. Taxes can take away as much as a third of the return, quickly turning 40% into less than 30%, and 20% into less than 14%. Most buyers will require a pre-tax return in excess of 30%, and offering a sales price that offers only a 20% pre-tax return may not attract buyers. While there are other considerations as well, including industry specific expectations, if the return to a prospective buyer is less than 30%, you will want to listen more closely to the market feedback you receive, as the structure that makes it an attractive investment may not be in synch with the pricing strategy you have chosen.

Valuation Detail: Multiple of Owner's Discretionary Cash Flow

Category	Unique Company Factors
Amount of Competition	4
Barriers to Entry	2
Business Sales Trend	4
Industry Growth Trend	3
Quality of Location	N/A
Quality of Facilities	3
Quality of F, F & E	3
Desirability of Business	3
Relocatability	N/A
Probability of Client Loss	2
Amount of Business Risk	3
Unique Factors Multiplier	**1.750**

Other Factors Considered

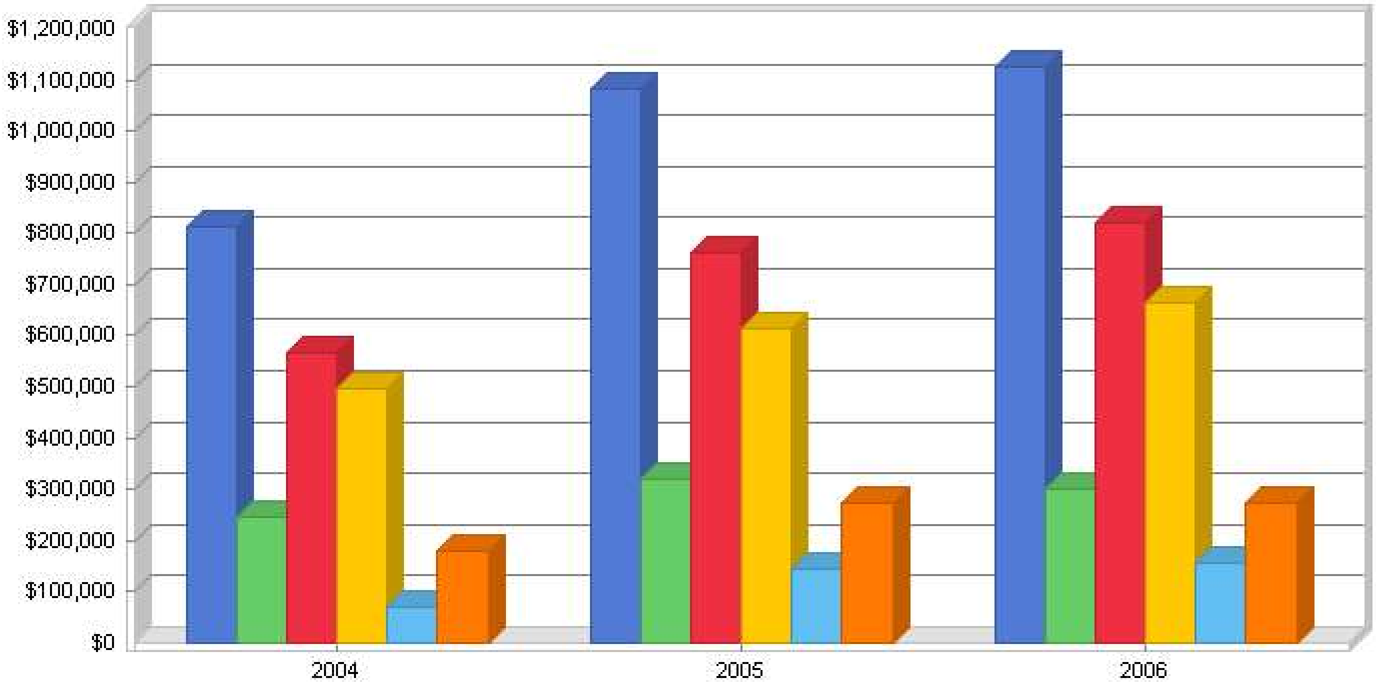
% of Owner Carry?	10%
Number of years in business?	37
Number of years under current ownership?	37
Is location important to you business?	No
Is relocatability important to your business?	No
Does your business operate out of a facility?	Yes
Does your business signifcantly outperform?	Yes
Annual Sales Range	$1,000,001 - $2,500,000
Interest Rates WSJ Prime	8.25%
Business Cash Flow Multiple	**2.660**
Discretionary Cash Flow	$265,469
Total Business Value	**$706,147**
Real Estate	**$449,000.00**
Total Enterprise Value	**$1,155,147**
Potential Range for Selling Price	**$670,840 - $741,454**

Valuation Detail: Asset Based Method

Balance Sheet Value of Assets	$237,787.99
Market Value Of Assets	**$277,000**
Average Rate of Return	15%
Earnings on Average Rate of Return	$41,550
Actual Discretionary Cash Flow	$265,469
Cash Flow in Excess of Expected Earnings	$223,919
Multiple for Excess Cash Flow	1.52
Value of Excess Cash Flow	**$340,357**
Total Business Value	**$617,357**
Real Estate	$449,000
Total Enterprise Value	**$1,066,357**
Potential Range for Selling Price	**$586,489 - $648,224**

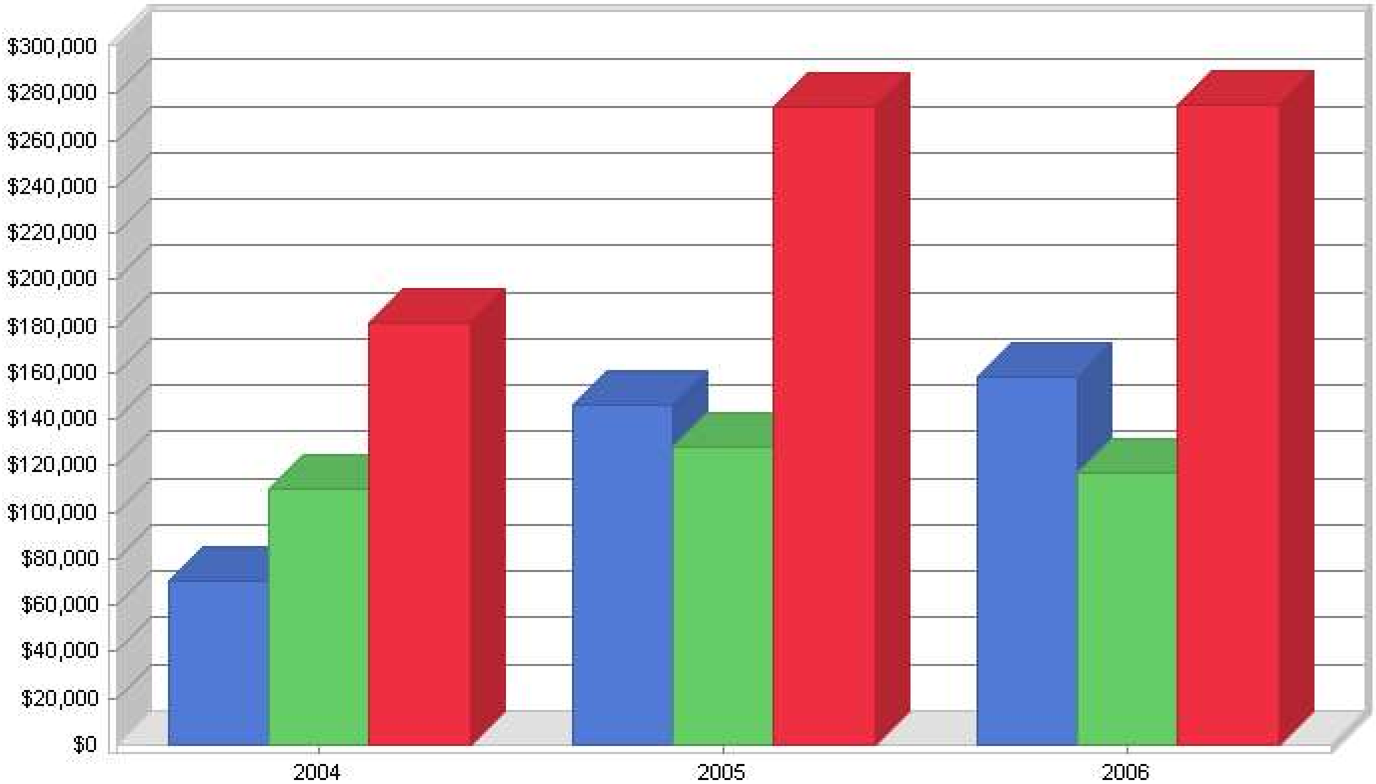
Financial Trends

Income Statement & DCF



	2004	2005	2006
Total Sales	$814,060	$1,080,860	$1,125,000
Cost Of Sales	$245,373	$320,169	$302,400
Gross Profit	$568,688	$760,691	$822,600
Operating Expense	$497,950	$614,615	$664,400
Net Income	$70,738	$146,076	$158,200
DCF	$181,007	$274,561	$275,000

Income, Adjustments & DCF



	2004	2005	2006
Net Income	$70,738	$146,076	$158,200
Discretionary Adjustments	$110,269	$128,485	$116,800
Discretionary Cash Flow	$181,007	$274,561	$275,000

Income Statement

	Period Ending & Information Source			
	2003	**2004**	**2005**	**2006**
	Financial Statement	**Financial Statement**	**Financial Statement**	**Projected**
Total Sales	**$758,942**	**$814,060**	**$1,080,860**	**$1,125,000**
Total Cost Of Sales	**$171,973**	**$245,373**	**$320,169**	**$302,400**
Gross Profit	**$586,969**	**$568,688**	**$760,691**	**$822,600**
Operating Expenses				
Accounting	$4,575	$6,500	$6,094	$6,000
Advertising	$17,628	$33,760	$61,203	$65,000
Auto Expense	$15,682	$30,829	$28,730	$40,000
Bank Fees	$613	$846	$5,251	$5,000
Contract Labor	$6,789	$745	$26,387	$30,000
Depreciation	$28,389	$6,310	-	-
Dues/Fees/Subscriptions	$250	$785	$530	$500
Insurance--Life/Health Employees	$15,726	$19,243	$36,791	$38,000
Insurance--Life/Health Owners	$37,734	$33,509	$36,873	$38,000
Insurance--Liability	$23,436	-	-	-
Insurance--Workman's Comp	$14,570	$31,231	$18,732	$20,000
Interest Expense	$12,806	$8,211	$4,873	$4,500
Leases--Equipment	$6,463	$3,470	$492	$500
Licenses & Permits	$2,657	$2,360	$5,738	$5,800
Meals & Entertainment	$1,206	$1,496	$1,391	$1,500
Miscellaneous	$897	$8,479	-	-
Office Supplies	$14,957	$15,270	$13,297	$14,000
Other Supplies	$6,839	$1,318	$3,106	$3,000
Payroll--Employee--If NOT in Cost of Sales	$186,858	$178,749	$250,254	$275,000
Payroll--Owner's--If NOT in Cost of Sales	$70,300	$61,895	$64,799	$65,000
Payroll Taxes	$23,440	$19,556	$736	$800
Postage & Shipping	$280	$1,766	$2,189	$2,500
Rent	$13,759	$20,209	$25,200	$26,000
Repairs & Maintenance	$192	-	$140	$200
Retirement Plan Contributions	$5,130	-	$7,369	$8,000
Telephone	$11,017	$9,445	$12,406	$13,000
Utilities	$1,621	$1,968	$2,037	$2,100
Total Operating Expenses	**$523,813**	**$497,950**	**$614,615**	**$664,400**
Other Income	-	-	-	-
Other Expenses	-	-	-	-
Net Income Before Taxes	**$63,156**	**$70,738**	**$146,076**	**$158,200**
Interest Expenses	$12,806	$8,211	$4,873	$4,500
EBIT	**$75,962**	**$78,949**	**$150,949**	**$162,700**
Depreciation & Amortization	$28,389	$6,310	-	-
EBITDA	**$104,351**	**$85,259**	**$150,949**	**$162,700**
Business Income Taxes (if C Corp)	-	-	-	-
Net Income After Taxes	**$63,156**	**$70,738**	**$146,076**	**$158,200**

Discretionary Cash Flow Statement

	Period Ending & Information Source			
	2003	**2004**	**2005**	**2006**
	Financial Statement	**Financial Statement**	**Financial Statement**	**Projected**
Total Sales	**$758,942**	**$814,060**	**$1,080,860**	**$1,125,000**
Total Cost Of Sales	**$171,973**	**$245,373**	**$320,169**	**$302,400**
Gross Profit	**$586,969**	**$568,688**	**$760,691**	**$822,600**
Total Operating Expenses	**$523,813**	**$497,950**	**$614,615**	**$664,400**
Other Income	-	-	-	-
Other Expenses	-	-	-	-
Income Taxes (if C Corp)	-	-	-	-
Net Income	**$63,156**	**$70,738**	**$146,076**	**$158,200**
Discretionary Adjustments				
Depreciation	$28,389	$6,310	-	-
Insurance--Life/Health Owners	$37,734	$33,509	$36,873	$38,000
Interest Expense	$12,806	$8,211	$4,873	$4,500
Meals & Entertainment	$1,206	$1,496	$1,391	$1,500
Payroll--Owner's--If NOT in Cost of Sales	$70,300	$61,895	$64,979	$65,000
Payroll Taxes	$5,600	$4,800	-	$800
Sales	-	($5,952)	$10,500	-
Bank Fees	-	-	$2,500	-
Retirement Plan Contributions	-	-	$7,369	$2,000
Auto Expense	-	-	-	$5,000
Discretionary Adjustments	**$156,035**	**$110,269**	**$128,485**	**$116,800**
Discretionary Cash Flow	**$219,191**	**$181,007**	**$274,561**	**$275,000**

Balance Sheet

	Period Ending
	Dec 31, 2005
ASSETS	
Current Assets	
Cash	$1,259
Accounts Receivable	$55,444
Inventory	$16,016
Other Current Assets	$1,791
Total Current Assets	$74,510
Long Term Assets	
Land	-
Building	-
Leasehold Improvements	$59,000
Furniture Fixtures & Equipment	$133,731
Vehicles	-
Other Depreciable Assets	$25,000
Franchise/Licensing Agreements	-
Other Intangible Assets	-
Other Long Term Assets	$4,041
Subtotal	$221,772
Less Accumulated Depreciation	$124,365
Net Long Term Assets	$97,407
Other Assets	
Notes Receivable	-
Investments	-
Deposits	-
Total Other Assets	-
Total Assets	**$171,916**
LIABILITIES & EQUITY	
Current Liabilities	
Trade Accounts Payable	$52,593
Accruals	$33,654
Credit Line(s)	$3,478
Other Current Liabilities	$102
Total Current Liabilities	$89,827
Liabilities Long-Term	
Total Notes Payable	$67,173
Other Long Term Liabilities	-
Total Long Term Liabilities	$67,173
Owner's Equity	
General Equity Account	$35,000
Current Earnings	$123,045
Retained Earnings	($227,129)
Total Equity	($69,084)
Total Liabilities & Equity	**$87,916**