

EXECUTIVE SUMMARY

| | |
|---|---|
| Client Name | John Miller |
| Purpose / Intended Use of Report | Transaction |
| Subject Company Name | ABC Restaurant |
| Interest % Valued | 100% |
| Ownership Characteristics | Closely-Held |
| Type of Entity | S-Corporation |
| Valuation Date | 12/31/20XX |
| Report Date | 7/8/20XX |
| Report Type | Ballpark Calculations |
| Premise of Value | Going Concern |
| Standard of Value | Fair Market Value |
| Appraiser Name | Daniel Jordan, ASA, CBA, CPA, MBA |
| Appraiser Firm | New York Business Valuation Group, Inc. |

Table 4.1
ABC Restaurant
Balance Sheets [1]

| Fiscal Year Ending 12/31 | 2021 |
|---------------------------------------|----------------|
| Cash | 14,350 |
| A/R | |
| Inventories | 9,500 |
| Other Current Assets | 3,985 |
| Total Current Assets | 27,835 |
| Property & Equip—Before Depr | 175,000 |
| Improvements | 55,000 |
| – Accum. Depreciation | |
| Property & Equipment—Net | 230,000 |
| Intangible Assets-Net of Amort | 51,900 |
| Loans to Shareholders | |
| Other Assets | |
| Total Assets | 309,735 |
| A/P | 6,845 |
| Accrued Expenses | |
| Income Taxes Payable | 2,965 |
| Current Portion of LTD | |
| Other Current Liabilities | 1,890 |
| Total Current Liabilities | 11,700 |
| Loans from Shareholders | |
| Long-Term Debt | 18,950 |
| Other Liabilities | |
| Total Long Term Liabilities | 18,950 |
| Total Liabilities | 30,650 |
| Common Stock | |
| Paid in capital | |
| Retained Earnings | |
| Total Equity | 279,085 |
| Total Liabilities & Equity | 309,735 |

Notes:

[1] Source: Internally prepared financial statements (2021), provided by Client.

Table 4.1.A
ABC Restaurant
Common Size Balance Sheets

| Fiscal Year Ending 12/31 | 2021 |
|---------------------------------------|---------------|
| Cash | 4.6% |
| A/R | 0.0% |
| Inventories | 3.1% |
| Other Current Assets | 1.3% |
| Total Current Assets | 9.0% |
| Property & Equip—Before Depr | 56.5% |
| Improvements | 17.8% |
| – Accum. Depreciation | 0.0% |
| Property & Equipment—Net | 74.3% |
| Intangible Assets-Net of Amort | 16.8% |
| Loans to Shareholders | 0.0% |
| Other Assets | 0.0% |
| Total Assets | 100.0% |
| A/P | 2.2% |
| Accrued Expenses | 0.0% |
| Income Taxes Payable | 1.0% |
| Current Portion of LTD | 0.0% |
| Other Current Liabilities | 0.6% |
| Total Current Liabilities | 3.8% |
| Loans from Shareholders | 0.0% |
| Long-Term Debt | 6.1% |
| Other Liabilities | 0.0% |
| Total Long Term Liabilities | 6.1% |
| Total Liabilities | 9.9% |
| Common Stock | 0.0% |
| Paid in capital | 0.0% |
| Retained Earnings | 0.0% |
| Total Equity | 90.1% |
| Total Liabilities & Equity | 100.0% |

Table 4.1.B
ABC Restaurant
Balance Sheet Item as Percentage of Sales

| Fiscal Year Ending 12/31 | 2021 |
|---------------------------------------|--------------|
| Cash | 3.8% |
| A/R | 0.0% |
| Inventories | 2.5% |
| Other Current Assets | 1.1% |
| Total Current Assets | 7.4% |
| Property & Equip—Before Depr | 46.5% |
| Improvements | 14.6% |
| – Accum. Depreciation | 0.0% |
| Property & Equipment—Net | 61.1% |
| Intangible Assets-Net of Amort | 13.8% |
| Loans to Shareholders | 0.0% |
| Other Assets | 0.0% |
| Total Assets | 82.2% |
| A/P | 1.8% |
| Accrued Expenses | 0.0% |
| Income Taxes payable | 0.8% |
| Current Portion of LTD | 0.0% |
| Other Current Liabilities | 0.5% |
| Total Current Liabilities | 3.1% |
| Loans from Shareholders | 0.0% |
| Long-Term Debt | 5.0% |
| Other Liabilities | 0.0% |
| Total Long Term Liabilities | 5.0% |
| Total Liabilities | 8.1% |
| Common Stock | 0.0% |
| Paid in capital | 0.0% |
| Retained Earnings | 0.0% |
| Total Equity | 74.1% |
| Total Liabilities & Equity | 82.2% |

Table 4.1.C
ABC Restaurant
Cash Flow Items as a Percentage of Sales

| Fiscal Year Ending 12/31 | 2021 |
|-------------------------------------|-------------|
| Capital Expenditures [1] | |
| Sale of Fixed Assets [1] | |
| Cap Exp/Sales | 0.0% |
| Current Assets excluding Cash/Sales | 3.6% |
| Current Assets/Sales | 7.4% |
| Depreciation/Sales | 0.0% |
| Amortization/Sales | 0.0% |
| Long Term Debt/Sales | 5.0% |
| Current Liabilities/Sales | 3.1% |
| Net Working Capital/Sales | 0.5% |
| Gain (Loss) on Sale of FA/Sales | 0.0% |
| Sale of FA/Sales | 0.0% |

Table 4.2
ABC Restaurant
Income Statements [1]

| Fiscal Year Ending 12/31 | 2021 |
|--|------------------|
| Sales | 376,705 |
| Cost of Sales | 12,644 |
| Gross Profit | 364,061 |
| SG&A Expenses | |
| Advertising and Marketing | 1,160 |
| Bank Charges and Fees | 10,428 |
| Office Supplies and Software | 1,492 |
| Insurance | 5,292 |
| Internet and Phone | 2,484 |
| Payroll | 171,460 |
| Payroll Fee | 754 |
| Payroll Tax | 20,490 |
| Rent | 94,054 |
| Repairs and Maintenance | 2,200 |
| Taxes and Licenses | 632 |
| Uniforms | 3,300 |
| Utilities | 9,500 |
| Sales Tax | 2,246 |
| Loyalty | 3,816 |
| Other | 1,100 |
| Total SG&A Exp | 330,407 |
| EBITDA | 33,653 |
| Depreciation | |
| Amortization | |
| Operating Income | 33,653 |
| Interest Income | |
| (Interest Expense) | |
| Other Income (Expense) | |
| Gain (Loss) on Sale of Fixed Assets | |
| Net Income Before Taxes | \$ 33,653 |
| Income Taxes | |
| Net Income After Taxes | \$ 33,653 |
| Adjustments | |
| Economic Net Inc Before Taxes | \$ 33,653 |
| Income Taxes @ 17.3% | (5,822) |
| Economic Net Income After Taxes | \$ 27,831 |

Assumptions:

| | |
|---|--------|
| Corporate Income Tax Rate (Fed & State) | 23.37% |
| State Tax Rate | 3.00% |
| Effective Corporate Income Tax Rate (Fed & State) | 17.30% |

Notes:

[1] Source: Internally prepared financial statements (2021), provided by Client.

Table 5.1
ABC Restaurant
Capitalized Cash Flow Method

| | Most Recent Year |
|--|-------------------------|
| | 2021 |
| 2021 Net Income After Tax (Table 2.1) | \$ 27,831 |
| Adjustments to Reconcile Net Income to Cash Flow: | |
| + Depreciation (Table 5.1.B) | - |
| + Amortization (Table 5.1.B) | - |
| - Capital Expenditures | - |
| - Incr in Net Working Capital (Table 5.1.B) | (54) |
| Total Adjustments | (54) |
| Forecast Cash Flow | 27,778 |
| Multiply by 1 plus the long-term growth rate | 1.03 |
| Growth-Adjusted Cash Flow | 28,611 |
| Divided by: Capitalization Rate (r - g) (Table 5.1.C) | 18.0% |
| Indicated Value of 100% of Equity = FMV-Marketable Minority Basis | \$ 158,950 |
| + Control Premium [1] | 15% 23,843 |
| Fair Market Value-Marketable Control Basis | \$ 182,793 |
| - Illiquidity Discount | 10% (18,279) |
| FMV-100% Illiquid Control Basis | \$ 164,514 |
| | |
| Indicated Fair Market Value of 100% Interest on an Illiquid Control Basis (Rd.) as of December 31, 20XX | \$165,000 |

Assumptions:

| | |
|---|-------|
| Discount Rate (Table 5.1.C) = <i>r</i> | 21.0% |
| Long-Term Growth Rate of Cash Flows = <i>g</i> (see report) | 3.0% |

Notes:

[1] See Quantitative Business Valuation: A Mathematical Approach For Today's Professionals, by Jay B. Abrams, McGraw-Hill, 2001, Chapter 7. Control is more desirable. We apply a 15% control premium based on the freedom to act and exploit market opportunities, including the desirability of unilateral decision to accept an offer to buy and immediately liquidate.

Table 5.1.B
Cash Flow Calculations

| | | |
|---|-------------|-----------|
| 2021 Depreciation as % of Sales | Table 4.1.C | 0.0% |
| Sales in 2021 | Table 4.2 | 376,705 |
| Estimated Depreciation | | 0 |
| 2021 Amortization as % of Sales | Table 4.1.C | 0.0% |
| Sales in 2021 | Table 4.2 | 376,705 |
| Estimated Amortization | | 0 |
| 2021 Net Working Capital as % of Sales | Table 4.1.C | 0.5% |
| Sales in 2021 | Table 4.2 | 376,705 |
| Times Estimated Growth Rate | Table 5.1 | 3.0% |
| Increase in Sales | | 11,301 |
| Estimated Growth In Working Capital | | 54 |

Table 5.1.C

ABC Restaurant

Cost of Equity Capital

CRSP Deciles Size Study (Using Build-Up Method) [1]

12/31/20XX

| | |
|--|--------------------------|
| Kroll Normalized Risk Free Rate (As of Valuation Date) [1] | 3.00% |
| Equity Risk Premium [1] | 5.50% |
| Size Premium (CRSP Deciles Size Study, Decile 10) [1] | 4.80% |
| Industry Risk Premium [2] | 2.81% |
| Company-Specific Risk Premium [3] | <u>5.00%</u> |
| DISCOUNT RATE | 21.11% |
| ROUNDED | <u><u>21%</u></u> |

| Company Specific Risk Component | <u>Risk Factor</u> |
|--|---------------------------|
| Financial position of the company | 1.0% |
| Level of diversification | 1.0% |
| Depth of management | 1.0% |
| Competition | 0.0% |
| Barrier to funds | 1.0% |
| Expected growth or decline of the business | 1.0% |
| Total Company Specific Risk Component | <u>5.0%</u> |

Notes:

[1] The Kroll Cost of Capital Navigator.

[2] The Kroll Cost of Capital Navigator, Industry: GICS 25301040 - RESTAURANTS

[3] Based on professional judgment.

Table 5.2

Guideline Transaction Method

DealStats--SIC #5812--Eating Places

DealStats contained 4305 transactions with the following criteria:

SIC was among 5800, 5812, 5813

Net Sales was between \$100,000 and \$1,000,000

Acquirer Type contains "Private"

Transaction Type contains "Asset"

This group of transactions displayed the following valuation multiples:

| Valuation Multiple | Count | Median | H Mean | WH Mean | Mean |
|-------------------------------------|-------|--------|--------|---------|-------|
| MVIC/Net Sales | 4,305 | 0.34x | 0.27x | 0.36x | 0.39x |
| MVIC/Gross Profit | 4,057 | 0.52x | 0.41x | 0.56x | 0.62x |
| MVIC/EBITDA | 2,377 | 2.3x | 1.8x | 2.4x | 8.0x |
| MVIC/EBIT | 3,418 | 2.3x | 1.8x | 2.4x | 10.3x |
| MVIC/Discretionary Earnings | 1,920 | 1.9x | 1.5x | 2.0x | 3.7x |
| MVIC/Book Value of Invested Capital | 366 | 1.7x | 1.0x | 1.5x | 5.1x |

Valuation Using Invested-Capital Multiples

| | Sales | Disc Earn [1] | EBITDA |
|---|-----------------|-----------------|-----------------|
| Comp. Fundamental (2021, transferred from Table 4.2) | 376,705 | 93,653 | 33,653 |
| Median MVIC Multiple | 0.33 | 1.90 | 3.62 |
| Indicated Value | 124,313 | 177,941 | 121,825 |
| Adjustments to Arrive at Fair Market Value (Table 4.1) | | | |
| + Cash | 14,350 | 14,350 | 14,350 |
| + Receivables | - | - | - |
| + Other Current Assets | 3,985 | 3,985 | 3,985 |
| - Liabilities | (30,650) | (30,650) | (30,650) |
| Total Adjustments | (12,315) | (12,315) | (12,315) |
| Fair Market Value-Private Illiquid Control Int | 136,628 | 190,256 | 134,140 |
| Rounded | 137,000 | 190,000 | 134,000 |

Notes

[1] Discretionary Earnings is EBITDA plus one owners' compensation. Here, we use \$60,000 for the owner.

Table 5.3
ABC Restaurant
Reconciliation of Fair Market Value as of 12/31/20XX

| Valuation Methods | Table | Indicated Value | |
|---|-------|-------------------|-------------------|
| Asset Approach | | | |
| Book Value Method | 4.1 | \$279,085 | |
| Income Approach | | | |
| Capitalized Cash Flow Method | 5.1 | \$165,000 | |
| Market Approach | | | |
| Guideline M&A Method-DealStats | | Asset Sale | Stock Sale |
| MVIC/Net Sales Multiple | 5.2 | \$124,313 | \$137,000 |
| MVIC/Disc Earnings Multiple | 5.2 | \$177,941 | \$190,000 |
| MVIC/EBITDA Multiple | 5.2 | \$121,825 | \$134,000 |