

# Broker's Price Opinion

Billy Bob's Barbecue

Toby Tatum, MBA  
Certified Business Appraiser  
Certified Valuation Analyst  
Master Analyst in Financial Forensics





# ALLIANCE

## BUSINESS TRANSFER SERVICES

Business Sales, Broker's Price Opinions, Certified Business Appraisals, Transaction Consulting  
775-847-7481 [www.AllianceBTS.com](http://www.AllianceBTS.com) AllianceBTS@Gmail.com

April 25, 2012

Dear Robert Bobalinski:

I have made an estimate of the Most Probable Selling Price for Bill Bob's Barbecue for the purpose of assessing the merits of a purchase offer.

All company-specific information used to develop this analysis was obtained from the company's unaudited internal Profit & Loss Statements. I have no independent knowledge of the accuracy of this information, therefore the exactness of this estimate is predicated substantially on the absence of any distortion inherent in that information.

Based on the information contained in the narrative report that follows, I estimate that Most Probable Selling Price as a going concern as of November 30, 2012 is \$310,066.95. This price includes the company's goodwill plus all fixed assets including but not limited to furniture, computers, fixtures, equipment, operating machinery plus all inventory and work in progress. This price does not include any other current assets such as but not limited to cash, accounts receivable, prepaid expenses and deposits or non-operating fixed assets. The resulting estimate for the value of its total operating assets including the value of the goodwill is \$348,200. Subtracting the total debt the seller must pay off at close of escrow of \$110,459.48 yields net proceeds to the seller in cash and notes of \$237,916 plus the net value of retained excess assets and liabilities of \$25,000.00 for a seller's net take-away of \$262,916 before selling costs.

Sincerely,

Toby Tatum, MBA, CBA, CVA, MAFF

## Table of Contents

Transmittal Letter	1
Definition of the Most Probable Selling Price	3
Executive Summary	5
Deal Structure Worksheet	7
Summary of Seller's Net Proceeds From Sale	8
Detailed Seller's Net Proceeds From Sale Worksheet	9
Detailed Buyer's Cash Requirements Worksheet	10
Subject and Purpose of the Broker's Price Opinion	11
Assumptions and Limiting Conditions	12
Description of the Company	18
Financial Analysis of the Company	20
Enterprise Value Indication via the Market Approach	52
Enterprise Value Indication via the Income Approach	71
Enterprise Value Indication via the Asset Approach	78
Valuation Synthesis	89
Broker Qualifications	90
Appendix I Explanation of Regression Analysis	93
Appendix II Actual and Adjusted Income Statements	95
Appendix III Bizminer Industry Financial Report	128

## MOST PROBABLE SELLING PRICE DEFINED

Most Probable Selling Price is defined as “the price at which 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 the relevant facts. Court decisions frequently state, in addition, that the hypothetical buyer and seller are assumed to be able, as well as being willing, to trade and to be well informed about the property”

It is important to understand that “Most Probable Selling Price” as defined for this report includes the following assumptions: (1) the hypothetical buyer and seller are both willing, and thus interested in the transaction and are able to enter into this transaction, implying that the hypothetical buyer has sufficient funds to enter into it; (2) the hypothetical buyer is prudent, implying a rational buyer, but is not motivated by any strategic or synergistic influences—the buyer under the Most Probable Selling Price standard is considered to be a “financial” buyer and not a “strategic” buyer, where the buyer contributes only capital and management of equivalent competence to that of current management and intends to conduct business on a going-forward basis in approximately the same fashion as the seller; (3) while the hypothetical buyer may see the potential for increased cash flows by changing the subject company’s existing standard operating procedures, he or she will not pay for that potential; (4) the hypothetical sale will be for cash; (5) the seller will sign a non-compete agreement as a condition of sale; (6) the business has been placed on the open market and there are a number of similar businesses for sale ; and (7) it is assumed in this report that the typical buyer will not be a publicly traded entity unless specifically stated otherwise.

Under the Most Probable Selling Price standard, the hypothetical seller is also not a specific person, although it is assumed that this seller is prudent and has reasonable knowledge of relevant facts. Under the Most Probable Selling Price standard it is assumed that the hypothetical seller has common characteristics with other prospective sellers, including not being under duress or compulsion to sell. Rather, the seller under this standard of value will act rationally and with his or her best interest in mind.

It is assumed that the hypothetical seller is aware of the subject company’s liquidation value as opposed to its value as a going concern and would opt to cease operations and liquidate the company’s assets in a going out of business sale if such action would generate greater sale proceeds than would be possible if the company was sold as a going concern.

In addition, the Most Probable Selling Price standard implies that the hypothetical buyer and seller know the market for such property, which means that both parties understand the industry and other economic conditions and their effects on the subject company’s value on the most probable selling price date.

And finally, under the Most Probable Selling Price standard of value, the lowest price the current owner(s) say they would be willing to accept is irrelevant. Only the appraiser's opinion of the price the hypothetical typical seller would accept is applicable.

## Executive Summary

The purpose of this report is to present an opinion of the most probable selling price and value for Billy Bob's Barbecue, a destination full service restaurant in order to assist the owner, William Bobalinski in assessing the merits of a purchase offer.

Three separate enterprise value indications have been developed including one method from the Income Approach, one from the Market Approach and one from the Asset Approach. The value indication obtained based on the Bizcomps database of \$322,900 is itself an average of six separately calculated value indications.

	Enterprise Value (value of total assets excluding excess assets & liabilities)	Weighting of the method	Weighted value
Income Approach via PEPM	\$369,015	45.00%	\$ 166,057
Excess Earnings	\$368,285	10.00%	\$ 36,828
Market Approach with Bizcomps	\$322,900	45.00%	\$ 145,305
			\$ -
			\$ -
			\$ -
	Sum of the weights		\$ 348,190
	<b>Enterprise Value</b> (value of total assets excluding excess assets & liabilities)		<b>\$ 348,200</b>
	Minus adjusted liabilities		\$ 110,284
	Fair market value of owner's equity (excluding excess assets & liabilities)		\$ 237,916
	Plus excess assets		<b>\$ 25,000</b>
	Minus excess liabilities		
	Fair market value of owner's equity		<b>\$ 262,916</b>

There are two reasons for developing multiple indications of value for a business. The first is that the appraisal of a business (or the appraisal of anything for that matter) “is, in essence, a prophecy as to the future.” In other words, an appraisal is an estimate which is a probabilistic concept meaning that “certainty” is impossible. Therefore, it is necessary to develop multiple value indications emanating from different valuation methodologies so that each can serve as a sanity check or as mutual validation of the other. This is somewhat analogous to the degree of confidence you can place on a Ground Positioning System’s (GPS) indication of your location on the earth’s surface as it locks on to more satellites—more is better. The second reason is that there is no such thing as the “perfect” or “best” valuation methodology. They all have their strengths and weaknesses thus reliance on only one value indication for the reasons just cited has great potential of being way off base. However, unlike our GPS analogy, the relative merit of the various valuation methodologies varies from one business to another for a variety of reasons. Thus it is standard procedure for the appraiser to subjectively weight the different value

indications to reflect their perceived relative degree of perspicacity in the instant case. The rationale for these different weights is explained in the Valuation Synthesis section of this report. In this case, the highest of the enterprise value indications is \$369,015 the lowest is \$322,900. The midpoint of this range is \$353,400 and there is only 4.23% spread between the midpoint and the high value and a 9.45% spread between the midpoint and low value.

The net equity value is equal to the enterprise value minus current liabilities and long-term debt. This adjustment is presented in detail in the "Deal Structure" worksheet appearing on the following page.



<b>Seller's Net Proceeds Summary</b>	
Value of Tangible Assets	\$233,660.05
Value of Goodwill	\$114,539.95
<b>Enterprise Value (sum of tangible assets &amp; goo</b>	<b>\$348,200.00</b>
MINUS Assets seller keeps	\$38,133.05
<b>EQUALS Most Probable Selling Price</b>	<b>\$310,066.95</b>
Seller's Proceeds From Sale	
Selling Price	\$310,066.95
Plus Assets Seller Keeps	\$38,133.05
Minus Seller Liabilities Buyer Assumes	-\$175.00
Plus Excess Assets	\$25,000.00
Minus Excess Liabilities	\$0.00
<b>Gross Proceeds From Sale</b>	<b>\$373,025.00</b>
Minus Debts Seller Pays Off	\$110,284.48
<b>Net Proceeds From Sale Before Selling Costs</b>	<b>\$262,740.52</b>
Minus Estimated Selling Costs	\$32,006.70
<b>Estimated Proceeds From Sale after Selling Costs</b>	<b>\$230,733.83</b>
Plus Interest on Seller Carry Back Loan	\$0.00
<b>Net Proceeds From Sale including interest income</b>	<b>\$230,733.83</b>

Seller's Estimated Proceeds from Sale for			
<b>Bill Bob's Barbecue</b>			
As of date of the broker's price opinion		Estimated Closing Date	
December 31, 2013		December 31, 2013	
<b>1. Selling Price</b>	\$310,066.95	<b>7. Estimated net cash proceeds to seller from down payment (1-6)</b>	\$248,778.78
<b>2. Selling Expenses</b>		<b>8. Additions to seller's cash proceeds</b> (list only items NOT included in the purchase price)	
Closing costs and/or escrow fees	\$1,000.00	Cash in bank and on Premises	\$13,654.73
Filings & recordings		Accounts Receivable	\$1,119.70
Attorney's fees			
Accountant's fees		Prepaid Insurance	\$4,557.00
Brokerage fees	\$31,006.70	Other current assets	\$8,801.62
Inventory service		Lease deposit	\$10,000.00
<b>Total Selling Expenses</b>	\$32,006.70		
<b>3. Creditor Claims</b> (list only items NOT to be assumed by buyer)			
Wages payable	\$8,564.35		
Accounts payable	\$11,003.55		
Sales tax payable	\$5,648.33		
Other current liabilities	\$4,065.25		
<b>Total Creditor Claims</b>	\$29,281.48	<b>Total additions</b>	\$38,133.05
<b>4. Payoff of interest bearing debt</b>		<b>9. Estimated selling proceeds +seller retained assets at COE</b>	\$286,911.83
Bank of America equipment loan	\$81,003.00		
<b>Total Encumbrances</b>	\$81,003.00	<b>10. Selling Price</b>	\$310,066.95
<b>5. Other Expenses</b>		<b>11. Existing liabilities to be assumed by buyer</b>	
Repair equipment		Unredeemed gift certificates	\$175.00
Replace equipment			
Compliance with government agencies			
<b>Total Other Expenses</b>	\$0.00	<b>Total debts assumed by buyer</b>	\$175.00
<b>6. Total expenses (2+3+5) does not include interest bearing debt</b>	\$61,288.18	<b>Estimated Proceeds Summary</b>	
		<b>12. Down Payment</b>	\$310,066.95
		<b>13. Remaining balance of purchase price owed to seller</b>	\$0.00
		<b>14. Total interest to be paid on seller carry-back note</b>	\$0.00
		<b>15. Total money owed seller (purchase price less buyer assumed debts)</b>	\$309,891.95
		<b>16. Estimated seller retained assets at COE</b>	\$38,133.05
		<b>17. Less total expenses paid off at COE including selling costs</b>	-\$61,288.18
		<b>18. Gross present and future cash &amp; retained assets to seller</b>	\$286,736.83
		<b>19. Less interest bearing debt</b>	-\$81,003.00
		<b>20. Net present and future cash &amp; retained assets to seller</b>	\$205,733.83
		<b>21. Plus excess assets</b>	\$25,000.00
		<b>22. Minus excess liabilities</b>	\$0.00
		<b>23. Net present and future cash and retained assets after adjustments for excess</b>	\$230,733.83
		<b>Seller's proceeds from sale above (or below) the selling price</b>	-\$79,333.13



## SUBJECT AND PURPOSE OF THE BROKER'S PRICE OPINION

### Subject of the Broker's Price Opinion

The subject of this Broker's Price Opinion is Bill Bob's Barbecue. The company operates from its facility in Reno, Nevada.

### Summary Description of the Subject Interest

Bill Bob's Barbecue is a Subchapter S Corporation.

### Purpose of the Broker's Price Opinion

The purpose of this report is to assist Robert Bobalinski in assessing the merits of the seller's asking price and developing an offering price.

### Date of Most probable selling price

This most probable selling price report represents a most probable selling price estimate as of December 31, 2013.

### Standard of Value

The estimate of value provided is the "Most Probable Selling Price" defined as "the price *in cash* that a willing buyer would reasonably be expected to pay and a willing seller would reasonably be willing to accept if the property were exposed for sale on the open market for a reasonable period of time, both buyer and seller being in possession of the pertinent facts and neither being under a compulsion to act."

### Premise of Value

The Most Probable Selling Price of the subject company will be based on the premise that it is a going concern.

### Intended Users

The intended user of this report is Robert Bobalinski and his advisors.

### Principal Sources of Information

All company-specific information used to develop this analysis was obtained from the company's unaudited internal financial reports. This broker has no independent knowledge regarding the accuracy of this information. Therefore the exactness of this estimate is predicated substantially on the absence of any distortion inherent in that information.

## **ASSUMPTIONS AND LIMITING CONDITIONS**

The businesses' most probable selling price analysis requires certain assumptions and limiting conditions, many of which may have significant influence on the most probable selling price conclusion:

Bullis and Company CPAs, LLC does not purport to be a guarantor of value. Estimating the most probable selling price of closely held companies is an imprecise science and reasonable people can differ in their opinions of value. Bullis and Company CPAs, LLC has, however, used conceptually sound and commonly accepted valuation methods and procedures in determining the broker's price opinion included in this report.

Since Bullis and Company CPAs, LLC is not a law firm, any legal issues that have an impact upon value have been considered from a non-attorney's viewpoint. Readers of this report should seek proper legal advice if such matters are material in nature.

As previously indicated, internal and external factors can strongly affect value. The information disclosed in this report is considered to be necessary and relevant to support the price opinion. We have not knowingly withheld pertinent information in arriving at the conclusion of the most probable selling price.

Nothing has come to our attention to cause us to believe that all facts and data set forth in this report are not true and correct. We have not knowingly withheld or omitted anything affecting value.

Bullis and Company CPAs, LLC and its associates have no present or contemplated future interest in the subject property of this report. We have no interest in or bias with respect to the subject property or to the owners thereof.

The fee for this most probable selling price estimate is not contingent upon the value reported and is valid only for the purpose specified herein. We have no responsibility or obligation to update this report for events or circumstances occurring subsequent to the date of this report.

All opinions as to values stated are presented as our considered opinion based upon the facts and data as set forth in the report. No responsibility is assumed for a seller's inability to obtain a purchaser at the values reported herein.

No responsibility is assumed for matters of a legal nature or other specialized expertise, investigation or knowledge beyond that customarily employed by most probable selling price analysts valuing businesses. Bullis and Company CPAs, LLC assumes no responsibility for

matters of legal nature affecting the property valued, nor is any opinion of title rendered. The businesses' most probable selling price estimate assumes ownership in the highest form. Other than any specific exceptions described within the report, in reliance on management's representations, Bullis and Company CPAs, LLC has not reviewed any legal documents including, but not limited to, articles of incorporation, bylaws, minute books, distribution or franchise agreements, leases, employee or collective bargaining agreements, documents related to litigation or the like, warranties, guarantees, or loan agreements, or ESOP/ESOT agreements. To the extent Bullis and Company CPAs, LLC has reviewed such documents, it is acknowledged that considerations of how they may impact the most probable selling price are outside the skills of the valuation analyst.

Public information, industry, and statistical information are from sources that we deem to be reliable; however, we make no representation as to the accuracy and completeness of such information, and have accepted the information without further verification.

The conclusions presented herein are based upon the assumption that present management would continue to maintain the character and integrity of the enterprise through any sale, reorganization, or diminution of the owner's participation.

This most probable selling price estimate is made for the purpose stated in the report and is to be used in its entirety. No third parties should rely on the information contained in this report without the advice of their attorney or accountant, and without confirming for themselves the information contained herein. Neither the report nor the information it contains should be used for any other purpose or function, and it is invalid if so used. Neither this most probable selling price estimate nor any part of it shall be used separately or in connection with any other most probable selling price estimate.

This report is designed to give a calculation of the most probable selling price. It is not an accounting report and it should not be relied upon to disclose hidden assets or to verify the accuracy of the firm's financial reporting. The report is an opinion of the most probable selling price for the specific assets and liabilities considered by Bullis and Company CPAs, LLC.

Bullis and Company CPAs, LLC does not purport to be a guarantor of value. Estimating the most probable selling price of closely held companies is an imprecise science, with value being a question of fact, and reasonable people can differ in their opinions of value., Bullis and Company CPAs, LLC has, however, used conceptually sound and commonly accepted methods and procedures of most probable selling price estimation in determining the estimate of the most probable selling price included in this report.

Bullis and Company CPAs, LLC has accepted the financial records of the Company including statements and opinions of the firm's management and advisors regarding them without additional verification. We did not prepare the tax returns and records nor has Bullis and Company CPAs, LLC issued any reporting regarding the accuracy of the financial statements or tax positions taken. The accuracy of the information provided Bullis and Company CPAs, LLC is the sole responsibility of the owners and management of the Company as well as any prospective buyers who may read this report. This most probable selling price estimate and its report are based upon information obtained from other sources that, with exceptions, if any, as noted herein, the most probable selling price analyst believes to be reliable. However, the valuation analyst has not made a specific effort to confirm the validity of any of the information; accordingly, its accuracy or completeness cannot be guaranteed.

We have compiled certain of the information contained herein. That information, namely, but not limited to, financial statements, corporate history and market overview has been supplied by the subject company, its owner or representatives. This information has not been audited or reviewed by us; we have not subjected it to any type of audit or review procedures. Also, Bullis and Company CPAs, LLC, have audited or reviewed the books and records of the Company. Accordingly, this report should not be construed, or referred to, as an audit, examination or review by Bullis and Company CPAs, LLC.

This written most probable selling price report contains historical and normalized financial statements, as well as other financial presentations, used solely in developing and presenting the most probable selling price of the entity and/or equity interest of such entity. These financial statements may contain departures from generally accepted accounting principles (GAAP) or another comprehensive basis of accounting (OCBOA) because the purpose of such statements is solely to assist in developing and presenting the business most probable selling price of an entity and/or equity interest of such entity. For this reason, it is understood by all parties that the financial statements, as well as other financial presentations, included in this written most probable selling price report will not be used to obtain credit or for any purpose other than developing and presenting the business's most probable selling price.

Users of this report should be aware that business' most probable selling prices are based on assumptions regarding future earnings potential and/or certain asset values, which may or may not materialize. Therefore, the actual results achieved in the future will vary from the assumptions utilized in this most probable selling price report, and the variations may be material.

We have relied upon the representations of the owners, management and other third parties concerning the value and useful condition of all equipment used in the business and any other assets or liabilities except as specifically stated to the contrary in this report. We have not

attempted to confirm whether or not all assets of the business are free and clear of liens and encumbrances, or that the company has good title to all assets.

This most probable selling price report and its conclusions are subject to review upon presentation of data, which may have been undisclosed or not available at the time of this report.

In connection with this engagement, Bullis and Company CPAs, LLC appraised none of the fixed assets.

Possession of this report, or a copy hereof, does not carry with it the right of publication of all or any part of this report without the expressed written consent of Bullis and Company CPAs, LLC, and then only in the event of proper attribution. Should you provide copies, or the right to review, to others, said other parties may be assured that this report, while performed in the employ of our client, was prepared on a non-advocacy basis. Said other parties, however, are cautioned that Bullis and Company CPAs, LLC has no duty to you, and therefore, no warranty is expressed or implied. Nothing in this report is intended to replace any third party's independent sole judgment, due diligence, or decision to seek legal, accounting or most probable selling price advice. All such other parties will be considered "unintended users" under the terms of our engagement.

This most probable selling price, unless specifically stated otherwise herein, assume there are neither litigious, regulatory compliance and/or similar problems, nor restrictions or other qualifications within the documents referred to above, which could materially affect the value of the property being valued. No representations or warranties are expressed or implied regarding such conditions and no consideration has been given to the possible effects of any such conditions.

Neither our opinion of the most probable selling price nor this report constitutes advice for any specific action.

Financial restructuring or a public offering has not been directly considered. If material changes, other than those specified herein, occur in the ownership, financing or public offering opportunity, the impact upon value could be significant and some of the assumptions inherent in this most probable selling price could be invalid.

Bullis and Company CPAs, LLC is not required to give testimony or appear in court simply because this project has been completed. Separate arrangements for testimony, IRS representation and court appearances must be made.

Unless otherwise provided for in writing and agreed to by both parties in advance, the extent of the liability for the completeness or accuracy of the data, opinions, comments, recommendations and/or conclusions contained in this report shall not exceed the amount paid for professional fees and, then only to the party(s) for whom this report was prepared.

Hazardous substances, if present, can introduce an actual or potential liability that will adversely affect the marketability and value of the business. Such liability may be in the form of immediate recognition of existing hazardous conditions or future liability that could stem from the release of currently non-hazardous contaminants. In the development of the most probable selling price estimate, no consideration was given to such liability or its impact on value unless Bullis and Company CPAs, LLC is provided with an environmental or toxic contamination report by management. Since no such report was provided to Bullis and Company CPAs, LLC in connection with this engagement, we have not taken into account any and all future environmental liability.

Privacy Policy – Bullis and Company CPAs, LLC regards all personal information as confidential. We recognize our relationships with current and prospective clients are based on integrity and trust. We work hard to maintain your privacy and are very careful to preserve the private nature of our relationship with you. At the same time, in the course of conducting our business, there are circumstances in which we may disclose to other parties information we have about you or former clients. However, these disclosures are only made as permitted by law and/or approved by you.

We want you to be aware of our policies for collecting and disclosing personal information. We may collect nonpublic personal information about you from information you disclose from personal interviews, financial documents, consumer reporting agencies, web sites, etc. We restrict access to nonpublic personal information about you to those employees who need to know that information to provide services to you. We maintain physical, electronic, and procedural safeguards that comply with our professional standards to guard your nonpublic personal information.

This report is further subject to any other contingencies, assumptions, and limiting conditions set out elsewhere within this report.

At the behest of the client this broker has performed a Limited Scope, Most Probable Selling Price Report. In order to save time and money, this most probable selling price analysis departs from the guidelines for a comprehensive business valuation resulting in a Conclusion of Value established by the Institute of Business Appraisers, the Uniform Standards of Professional Appraisal Practice and the Internal Revenue Service's Revenue Ruling 59-60. This broker visited the subject company's physical location but did not perform all of the research generally

included as part of a formal business appraisal Conclusion of Value report. For these reasons the most probable selling price estimate provided herein is not predicated on the same amount of research and analysis normally included in a Business Appraisal conforming to the aforementioned standards for a Conclusion of Value report. Had a Conclusion of Value been determined, the results may have been different. Therefore, this broker assumes no responsibility for errors in the opinion rendered resulting from inaccuracies attributable to the omission of research and analysis that would have been performed under the work standards of a comprehensive Business Valuation analysis culminating in a Conclusion of Value.

## DESCRIPTION OF THE COMPANY



### Occupational Safety & Health Administration

[Division G: Retail Trade](#)

[Major Group 58: Eating And Drinking Places](#)

Industry Group 581: Eating And Drinking Places

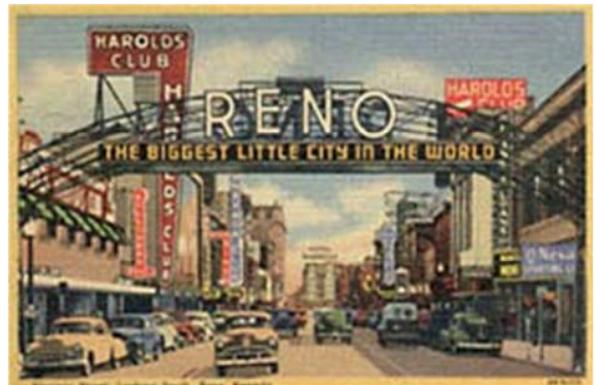
---

#### 5812 Eating Places

Establishments primarily engaged in the retail sale of prepared food and drinks for on premise or immediate consumption. Caterers and industrial and institutional food service establishments are also included in this industry.



Billy Bob's Barbecue has been in continuous operation in Reno, Nevada for 28 years. It has a reputation throughout the region as one of Reno's premier casual dining destinations.





Billy Bob's Barbecue features a full bar and live entertainment on Friday and Saturday nights.

Billy Bob's Barbecue also offers outdoor dining on its enclosed and spectacularly landscaped patio during the summer months.

There is plenty of off-street parking



## **FINANCIAL PERFORMANCE REVIEW OF THE SUBJECT FIRM**

### Introduction

A review and analysis of the subject company's historical financial performance and current financial condition are central to envisioning the firm's expected future performance and condition and therewith central to the valuation of the firm.

The basis for these analyses is the firm's historical Profit & Loss Statements and Balance Sheets, industry averages for the same data and industry trends—the “raw data” if you will, employed in the analyses. With very large privately owned businesses it may sometimes be helpful to compare actually reported historical performance with industry averages, however this is not the case for small and medium size enterprises (SMEs). The first step in the analysis of SMEs' financial reports must be to make a variety of adjustments to them (to be described momentarily) in order to transform them from varying degrees of either intentional or involuntary distortion into meaningful representations of actual performance and therewith provide a realistic basis upon which to estimate expected future performance.

This task is known as “adjusting” or “normalizing” or “recasting” the firm's financial statements. The importance of this task should not be underestimated. Whereas in the case of large, privately owned businesses, their financial performance and the reporting thereof tends to comport more closely with publicly traded companies where the types of adjustments described below are less frequent and less pronounced. In the case for small businesses however, the ultimate value conclusion is generally driven to a significant degree by the nature and extent of the adjustments primarily to the profit & loss statements and secondarily to the balance sheet on the date of the valuation.

### Introduction to an analysis of the firm's profit & Loss Statements

The task of adjusting the historical profit & loss statements—generally for the past five years—can be separated into five basic categories:

Comparability adjustments. This means restating profit based on “last in, first out” (LIFO) inventory accounting to “first in, first out” (FIFO) accounting. The requirement for this adjustment in small businesses is rare.

Non-recurring expense adjustments. This would be the elimination of an actual expense for something that is unlikely the company will experience again in the foreseeable future—say, for example, the cost to repair a broken sewer line under the storage room concrete slab floor or perhaps a one-time extraordinary legal advice/assistance fee. In other words, the historical P&L is restated under the assumption that these expenses never occurred. The need to make adjustments of this type is fairly common.

Non-recurring income adjustments. An example of this adjustment would be a one-time \$1 million contract with a profit of say, \$350,000 for a company that has never before landed a contract greater than \$200,000 and is unlikely to ever be so lucky again. This is a highly unusual adjustment for small businesses.

Discretionary adjustments. These are the most common for small businesses. Although some of these adjustments may be applicable to larger businesses as well, they will more frequently be applicable to small businesses. Discretionary adjustments relate to expenses that are solely at the discretion of the owners and are really income to the owners that could have been avoided, thereby providing additional taxable profit. Discretionary expenses include the following:

- Excessive owner's compensation
- Owner's perquisites
- Entertainment expenses
- Travel expenses
- Dues and subscriptions
- Charitable contributions
- Automobile expenses
- Compensation to family members
- Rent expense (if not an arm's-length lease)
- Interest expense (this is a voluntary cost of capital, not a cost of doing business)

Non-Cash expenses. Depreciation and amortization expenses are non-cash write-offs that are always added back to the income statement in order to restate earnings in terms of cash flow—either owner's discretionary earnings or earnings before interest, taxes, depreciation and amortization (EBITDA).

#### ANALYSIS OF THE PROFIT & LOSS STATEMENTS

The following analyses are based on the subject company's year-end financial statements that have not been compiled, reviewed or audited by a Certified Public Accountant. Although the quality of these statements is deemed acceptable for the purpose of developing this report, the fact that they have not received any statement of assurance by a CPA in their production does add a small amount of additional risk from the perspective of the typical buyer which is reflected in the value conclusion.

## Adjusted Profit & Loss Statements<sup>1</sup>

Figure 1

<b>Bill Bob's Barbecue</b>					
<b>Summary of Adjusted Statements</b>	Adjusted	Adjusted	Adjusted	Adjusted	Adjusted
	2009	2010	2011	2012	2013
Sales Revenue	\$952,874	\$979,975	\$881,858	\$971,449	\$1,036,759
Contribution Margin	\$266,257	\$276,747	\$251,382	\$258,082	\$271,177
Fixed Costs	\$91,869	\$189,070	\$99,486	\$104,724	\$105,096
Seller's Discretionary Earnings	\$174,388	\$87,677	\$151,897	\$153,359	\$166,081
Owner/Operator Fair Market Value Wage	\$38,413	\$39,773	\$41,182	\$42,640	\$44,150
EBITDA	\$135,975	\$47,904	\$110,715	\$110,719	\$121,931

Figure 1 is a summary of the key adjusted historical financial performance metrics for the subject company. Detailed actual and adjusted income statements are included as an appendix to this report.

### Estimation of a fair market value owner's salary

The annual salary and bonuses that the owner/managers of privately owned businesses pay themselves can vary significantly from the fair market value salary those owners would probably pay an individual to perform their functions for them. Therefore, one of the analytical steps in the valuation of a privately owned business via the income approach is the need to ascertain to what extent an owner/manager's salary differs from a fair market value salary.

In those cases where an owner/manager's salary differs from an estimated fair market value salary, it is necessary to adjust the actual salary to fair market value. If the owner/manger's salary is greater than the fair market value estimate, then the amount above fair market value would be added back to cash flow for the purpose of valuation and would result in a higher value estimate for the subject company. Conversely, if the owner/manager's salary is less than fair market value, then the difference between the owner/manager's actual salary and a fair market value salary must be subtracted from cash flow in order to properly estimate a business's value using the income approach. If the owner is an absentee owner and general management is performed by a salaried non-owner employee, then that person's salary, bonus and perquisites are added back to cash flow.

Figures 2 is the result of an internet search for salary information for restaurant managers in Reno, Nevada. These figures represent internet based salary estimates. CareerOneStop.com estimates the average salary for a restaurant manager in Reno is \$49,200 per year. However, it is

---

<sup>1</sup> The following analyses are based on the subject company's year-end financial statements that have not been compiled, reviewed or audited by a Certified Public Accountant. Although the quality of these statements is acceptable for the purpose of developing this report, the fact that they have not received any assistance by a CPA in their production does add a small amount of additional risk from the perspective of the typical buyer which is reflected in the value conclusion.

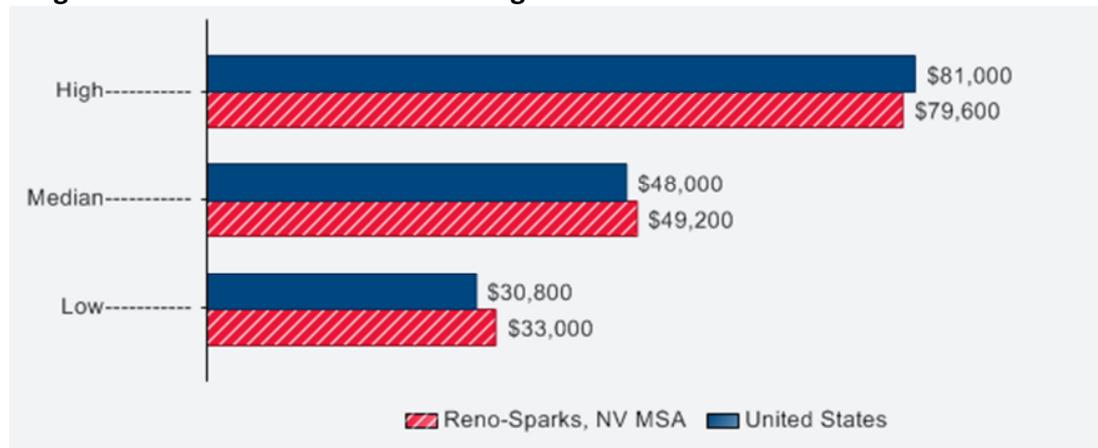
appropriate in this case to add some amount to this baseline to compensate for the Chief Executive Officer and Chief Financial Officer tasks that attach to all small business owners. For this reason, I have assumed that a fair market value salary for an owner/manager or hired equivalent would be \$50,000 per year.

Figure 2

**Wage Information: Food Service Managers**

Yearly Wage Chart : [Hourly Wage Chart](#) :

**Wage Information: Food Service Managers**



- "High" indicates 90% of workers earn less and 10% earn more.
- "Median" indicates 50% of workers earn less and 50% earn more.
- "Low" indicates 10% of workers earn less and 90% earn more.
- "N/A" indicates the data is not available.

**Notes:** Yearly wage data applies only to workers with full-time, year-round schedules. For salary information for part-time or part-year workers, use hourly wage data.

**Occupation Description**

**Food Service Managers** Plan, direct, or coordinate activities of an organization or department that serves food and beverages. Excludes "Chefs and Head Cooks".

### Analysis of the Firm' Adjusted Profit & Loss Statements

The primary analysis of the firm's profit & loss statements is embodied in all of the various adjustments to them described in the introduction. However there are three other types of analyses to which the adjusted P&L data is subjected:

- Benchmarking
- Volatility analysis
- Trend analysis

### Benchmarking

Comparing the subject company's key operating cost and profitability data to industry averages is known as benchmarking. The purpose for this type of analysis is to see if there are any material differences between the subject company's various revenue, cost and profitability ratios and its industry averages. If there are any material differences, the reasons for them need to be explored and therewith a determination made as to the degree to which they may affect the riskiness of the firm.

Figure 3

Billy Bob's Barbecue	5 Year average		Industry Averages	Industry variance with most recent 12 months		Company 5-year avg. variance with industry average	
	Average \$	Average %					
Total Cost of Goods Sold	\$418,092.20	43.29%	62.04%	-26.98%	lower	-30.22%	lower
Gross Profit	\$546,490.85	56.71%	37.96%	44.10%	higher	49.39%	higher
Total Direct Conversion Costs	\$642,514.39	66.57%	59.27%	14.70%	higher	12.32%	higher
Gross Margin	\$322,068.66	33.43%	40.73%	-21.39%	lower	-17.93%	lower
Total Marketing Expenses	\$39,390.48	4.08%	3.12%	23.08%	higher	30.70%	higher
Non-Discretionary Fixed Costs							
Rent	\$70,080.59	7.28%	6.97%	2.80%	higher	4.43%	higher
Owner's Discretionary Cash Flow	\$166,510.16	17.28%	8.95%	78.99%	higher	93.07%	higher
Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA)	\$104,510.16	10.83%	8.48%	18.39%	higher	27.77%	higher

The industry averages appearing in the blue cells are from BizMiner's *Barbecue Restaurants (Full-Service)* analysis based on 9 firms operating in Reno, Nevada.<sup>2</sup> In the case of the subject company its key operating costs comprised of Cost of Goods Sold and Direct Labor plus its Total Marketing Costs and Rent are all higher than the industry average. However, the bottom line—in this case Earnings Before Interest, Taxes, Depreciation and Amortization is 18.39% higher than the industry average. Obviously most if not all of the other costs for which no direct comparison is possible must be lower than the industry average. Thus, the conclusion of this benchmark analysis is that the subject company's profitability expressed as a percent of sales is superior to its industry and warrants consideration in some form in the final value conclusion.

<sup>2</sup> The Bizminer report is included in this report as an appendix

Figure 4

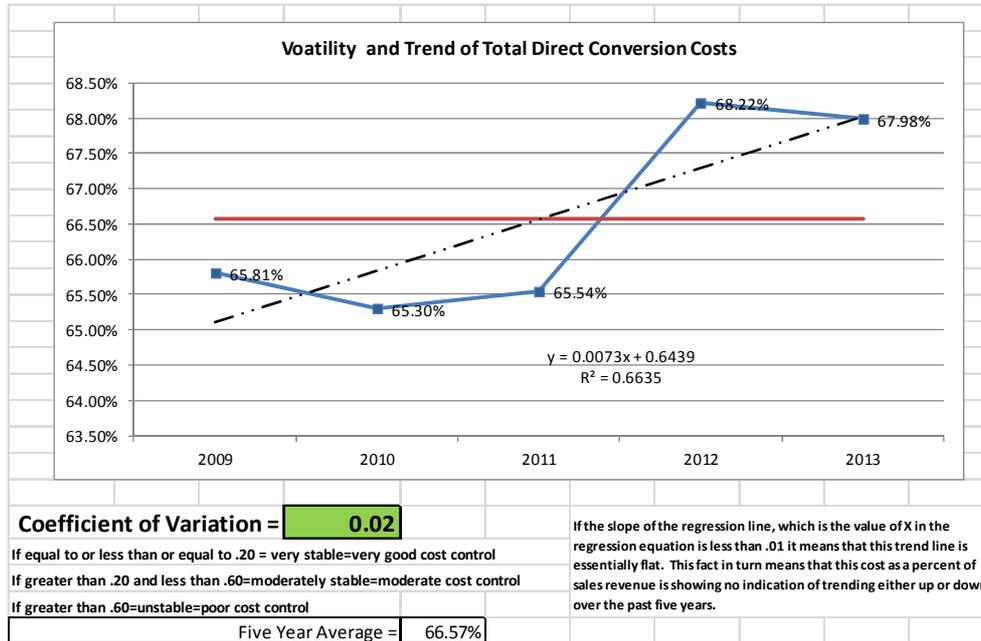
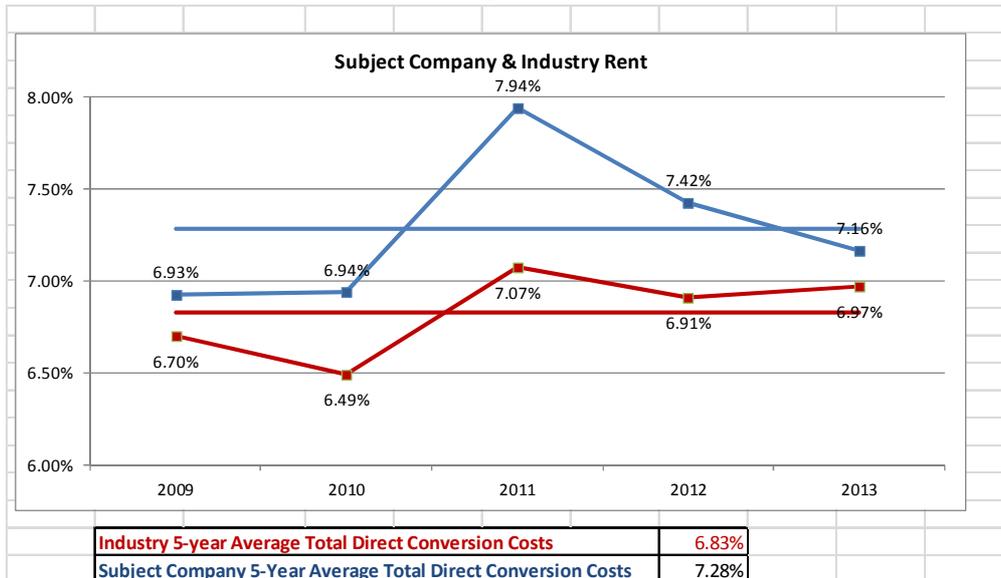


Figure 4 displays the 5-year annual history for the Direct Conversion Costs (also known as “prime costs”). This is a key metric to constantly monitor. Here we can see that cost has increased a little over this time period but appears to have stabilized. For this reason, coupled with the firm’s superior profitability, no negative weight should be applied to the final value conclusion.

Figure 5



The subject company’s rent as a percent of sales is slightly higher than the industry average but not significantly so. This cost is not a problem.

Figure 6

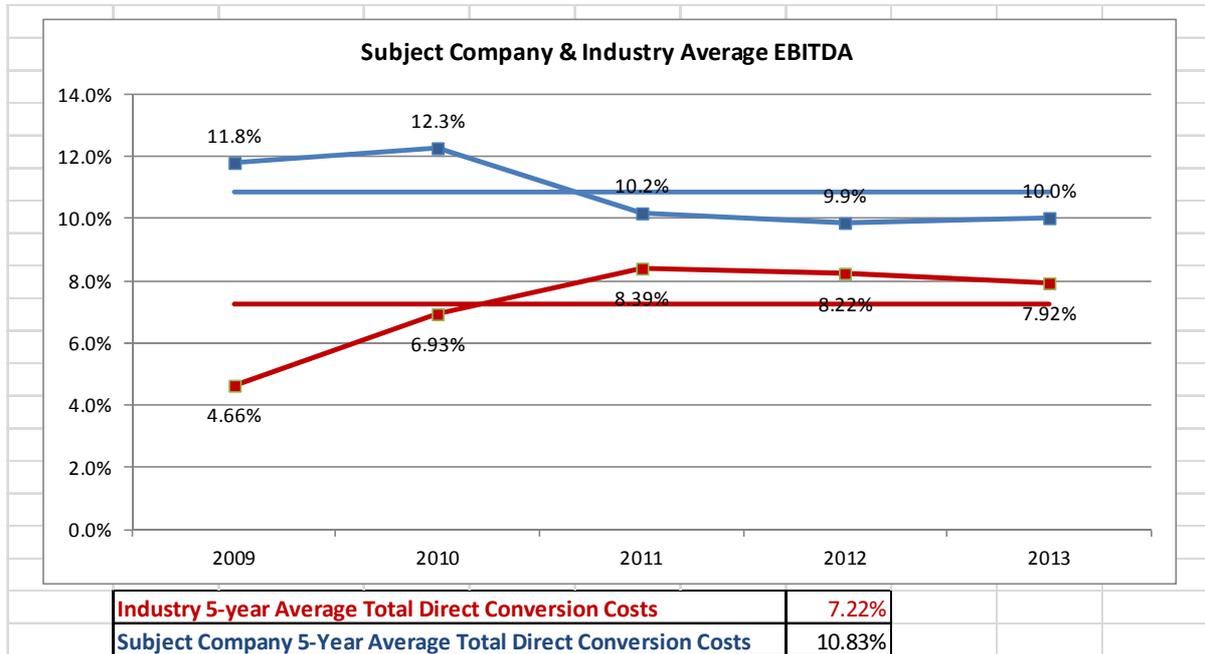


Figure 5 compares the subject company's five year history and average EBITDA with its industry. In this case the subject company's earnings performance has been superior to its industry average.

## Volatility analysis

Figure 7

Billy Bob's Barbecue	Volatility Index
<b>Sales Revenue</b>	
Food cost	0.05
Beer & Wine	0.10
Total Cost of Goods Sold	0.03
Gross Profit	0.02
<b>Direct Labor Cost</b>	
Direct Labor	0.04
Overtime Labor	0.34
Vacation Pay	0.09
Employer's SSN	0.03
State Unemployment Insurance	0.04
Federal Unemployment Insurance	0.04
Worker's Comp Insurance	0.04
Total Direct Labor Cost	0.03
Total Direct Conversion Costs	0.02
Gross Margin	0.04
<b>Marketing</b>	
Newspaper Advertising	0.30
Radio Advertising	0.22
Yellow Pages	0.00
Direct Mail Advertising	0.35
Total Marketing Expenses	0.11
<b>Other Variable Costs</b>	
Cleaning Materials	0.09
Small Wares	0.24
Outside Maintenance	0.31
Repairs	0.22
Total Other Variable Costs	0.19
<b>Total Variable Costs</b>	0.01
<b>Contribution Margin</b>	0.03
<b>Non-Discretionary Fixed Costs</b>	
Rent	0.05
Utilities	0.05
Property & Liability Insurance	0.05
Bookeeping & Accounting	0.05
Total Non-Discretionary Fixed Costs	0.05
<b>Total Fixed Costs</b>	0.06
<b>Total Operating Costs</b>	0.01
<b>Owner's Discretionary Cash Flow</b>	0.07
Minus FMV Owner Salary	0.05
Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA)	0.10

“Volatility” means a specific financial performance metric’s tendency to oscillate from time period to time period—in this report from year to year. The greater the amplitude of the oscillations, the less predictable this metric will be on a forward looking basis and therewith the greater the risk of investing in this business. Figure 5 presents the measurement of volatility of a metric’s coefficient of variation in terms of its percent of sales revenue. The coefficient of variation is the standard deviation of the five years’ individual results divided by the five year average; the lower the coefficient of variation, the smaller the amplitude of the year-to-year oscillations and the lower the risk of the investment; conversely, the greater the coefficient of variation, the great the riskiness of the investment.

Figure 7 presents the coefficient of variation for key expenses and subtotals. Greatest focus should be on the coefficient of variation for operating cost-centers (e.g., Total Cost of Goods Sold, Total Direct Labor, Total Direct Conversion Costs and Total Other Variable Costs subtotals. Each calculated coefficient of variation is highlighted in either green, yellow or red which stand, respectively, for low (safe bet), medium (caution) and high (danger). The value ranges for these indications is my subjective opinion of reasonableness and green means equal to or less than .20, yellow means greater than .20 and less than .60 and red means equal to or greater than .60. This company’s financial performance

metrics are all in the green or yellow zone with all the key subtotals being in the green zone. This indicates that based on the past five years’ historical performance, a buyer’s ability to accurately predict the expected future performance of those metrics is fairly good. This fact has a positive effect on the company’s most probable selling price.

For all variable costs, if management is doing a good job of reacting to changes in sales revenue by appropriately adjusting them—labor cost for example—by reducing that cost when sales decline and adding labor hours as needed to maintain production quality when sales increase, then volatility in this cost as a percent of sales revenue will be low. Low volatility means that management is doing a good job at controlling operating costs.

Low volatility for sales revenue and fixed costs means that the trend in sales, whether up, down or flat is relatively stable and that one can therefore project that trend forward for the next few years with reasonable confidence. High volatility means the opposite—that one cannot project this value forward for the next few years with confidence.

Low 5-year volatility in revenue and costs improves a company's market value. Thus, a company with an upward trend in sales revenue and earnings combined with low 5-year volatility in key operating costs and earnings could reasonably be expected to command a higher selling price than a company with, say, the same average revenue or earnings for the past 5 years but exhibiting a less positive upward trend and/or higher volatility.

As a practical matter, one only needs to focus on the volatility index for key operating costs and the subtotals of operating cost categories. For example, if the volatility index for, say, Total Marketing Expenses is low while at the same time volatility is high for one or more of the individual costs which comprise that total, there generally is no need for concern. This would be an indication that management is shifting the focus of its marketing expenditures from time to time but maintaining control of the overall expense.

Figures 8 through 14 provide a detailed look at the volatility for key income statement metrics. Each of these figures show the past five-year history for their respective cost categories, the volatility, the trend and the five-year average. Essentially they provide a more detailed look at the data already presented in Figure 5. In every case trends either up or down are evident. However, the slopes although appearing pronounced are insignificant. For example in Figure 8 the slope of the upward trend line—i.e., the regression line is .0061. This means that the average annual increase in the Cost of Goods sold is .61%--that is just a little more than one half of one percent per year.

Figure 8

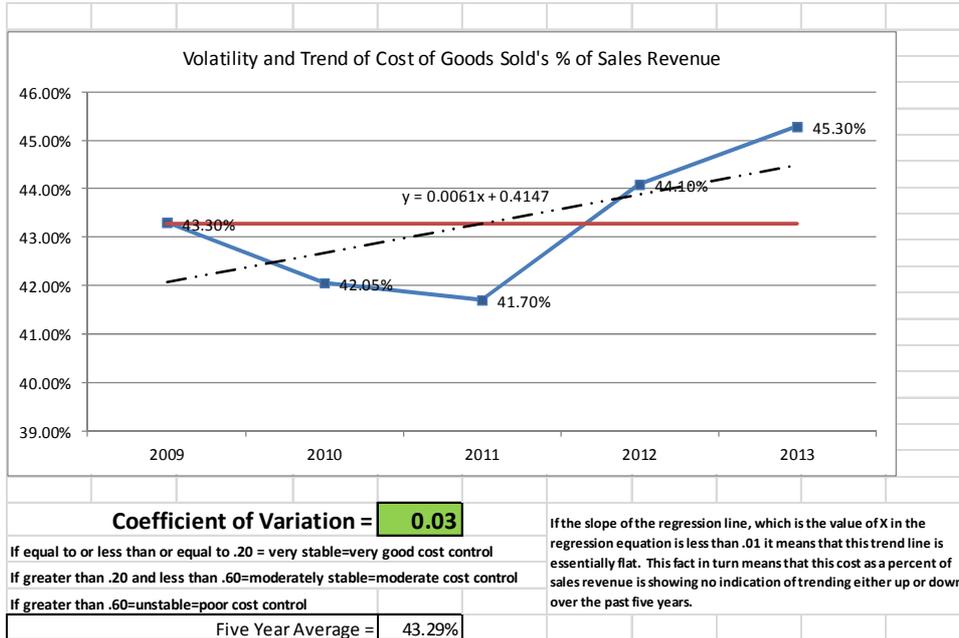


Figure 9

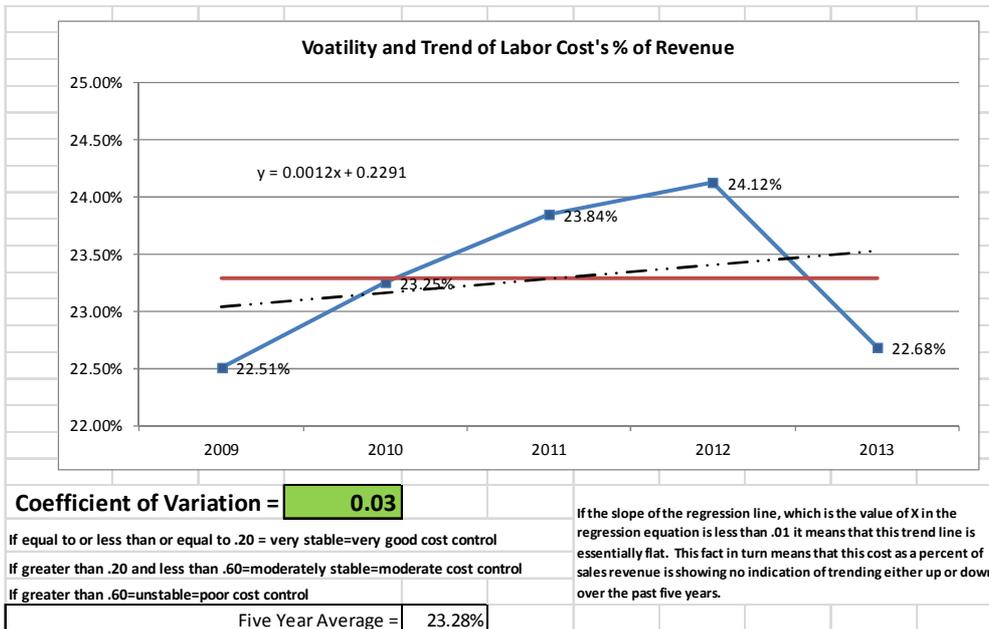


Figure 10

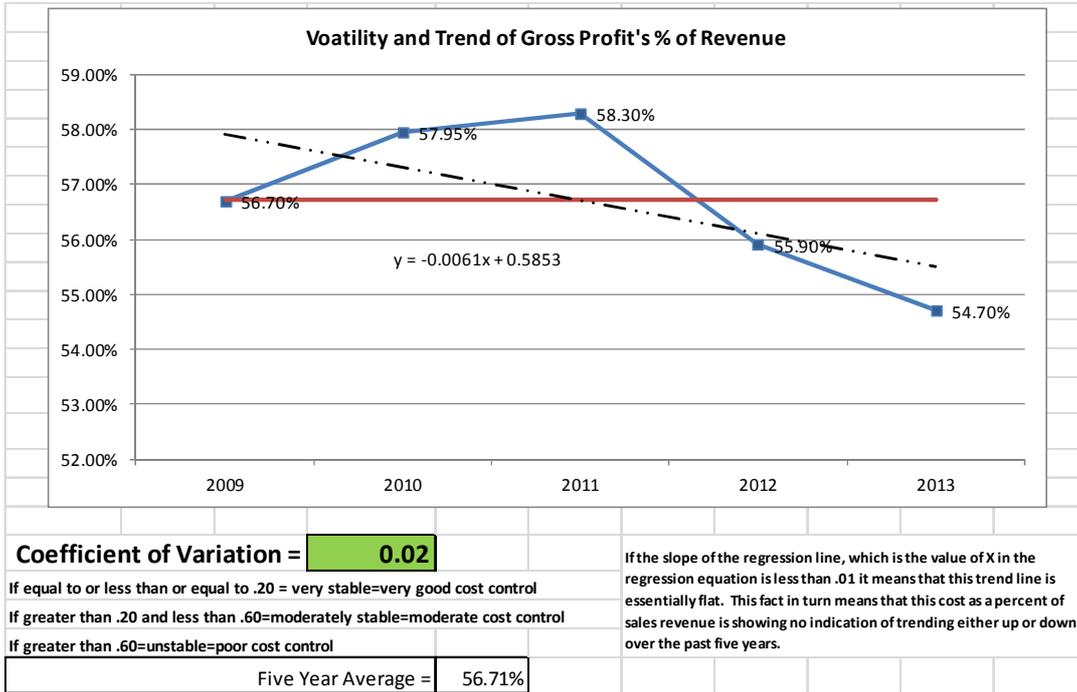


Figure 11

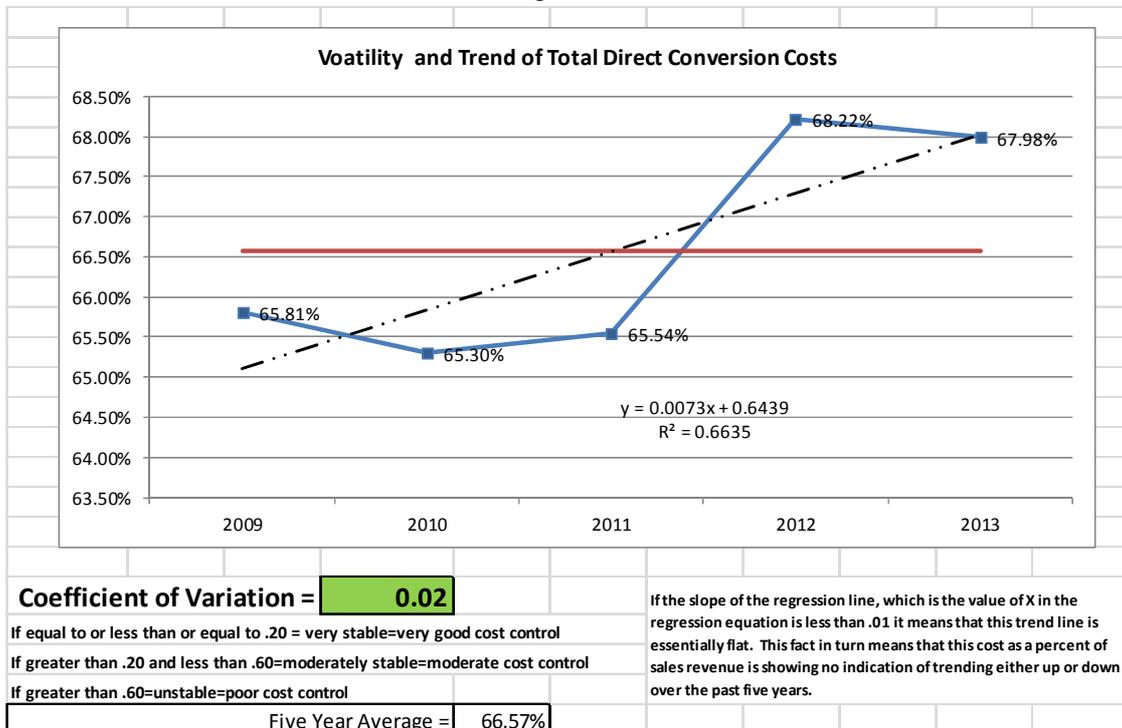


Figure 12

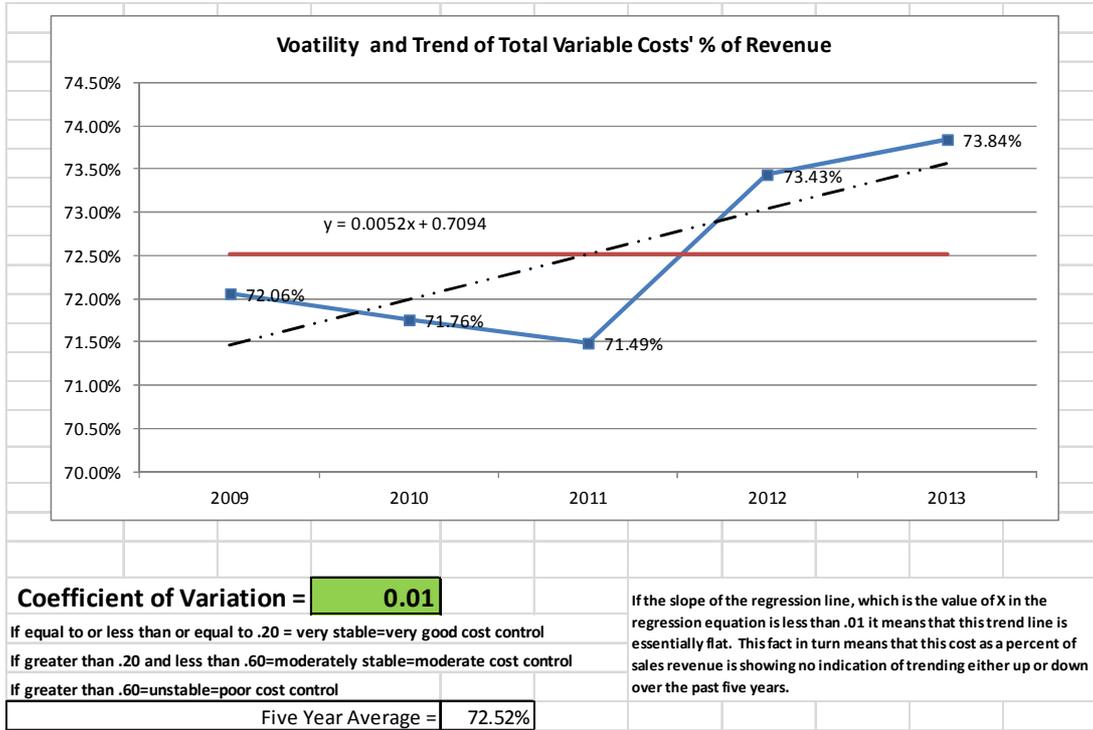


Figure 13

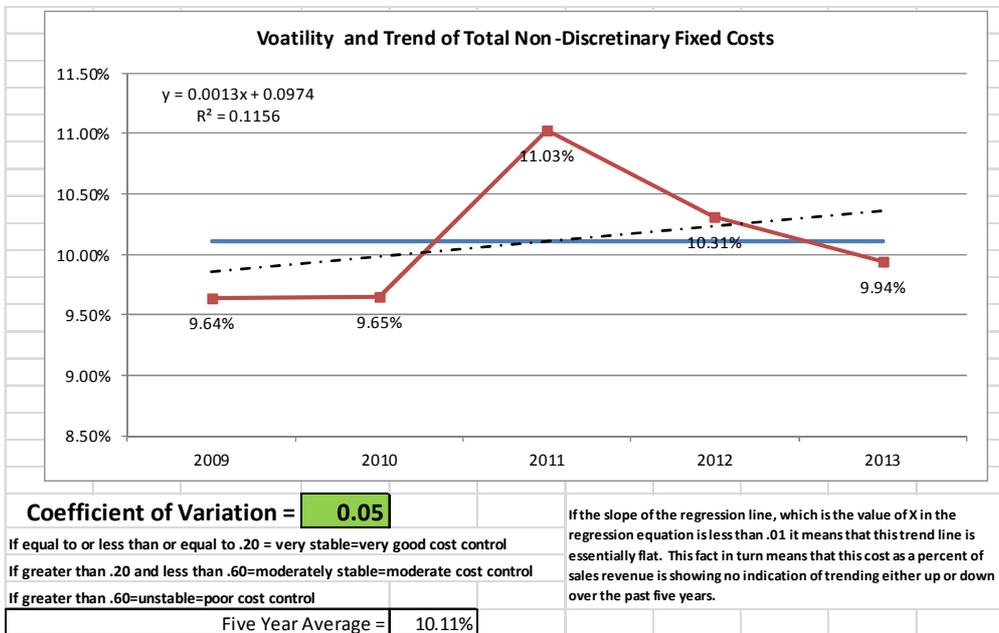
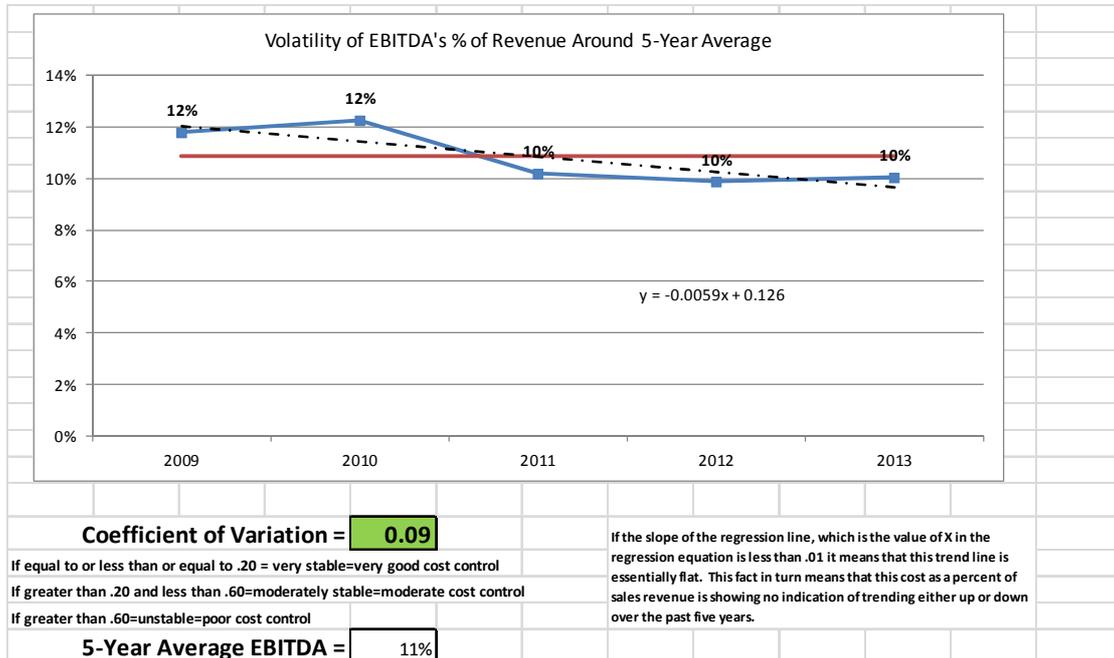


Figure 14



Trends

The year-over-year trends in a company’s sales revenue and cash flow play a vital role in the valuation of a business. This is because the value indication developed via the income approach is based on the present value of expected future earnings. Thus, if earnings are expected to increase in the future then the value of the business will be greater than if they are expected to remain about the same (or decline). And, of course, the greater the expected growth rate in earnings, the greater will be the value indication.

The ways upon which expected future trends in sales revenue and earnings are based are projections of recent historical trends in sales revenue and earnings for the subject company and its industry averages in addition to the estimations made by industry experts.

Figures 15 and 16 examine the subject company and its industry’s 3-year and 5-year historical growth rate in sales revenue and resulting future 5-year projections.

Figure 15

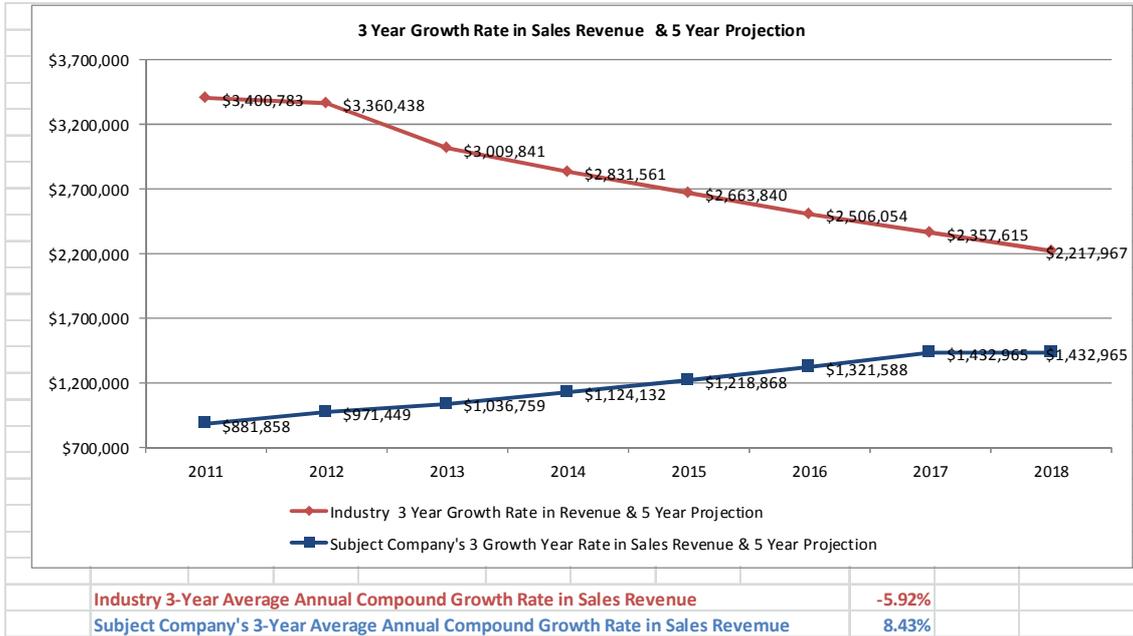
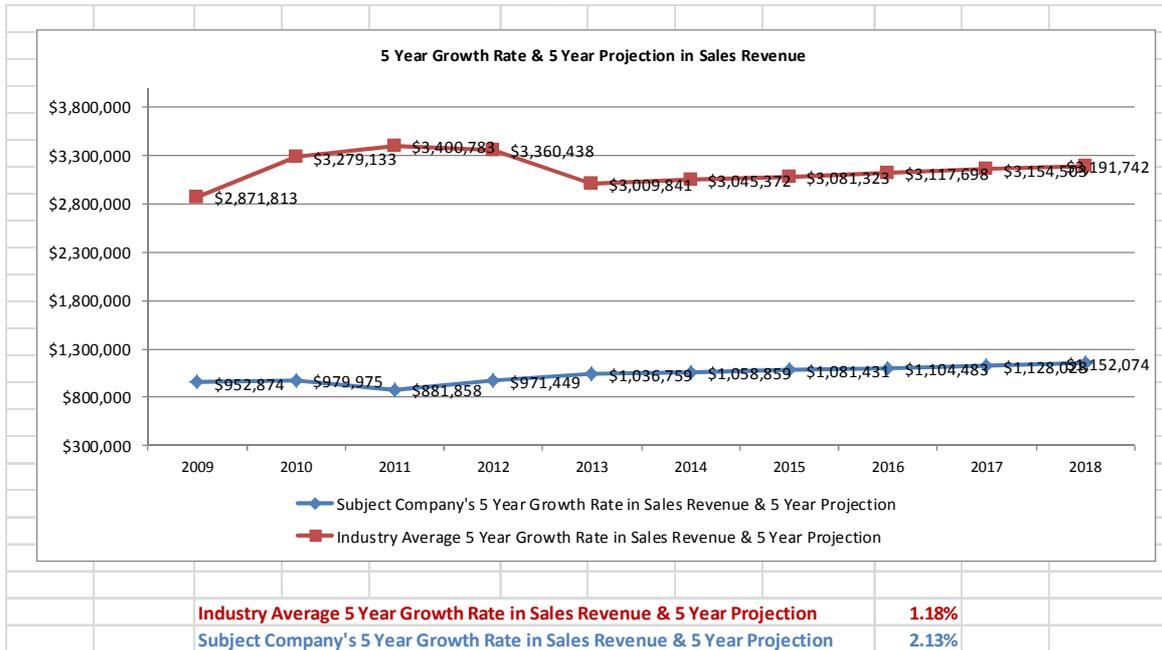


Figure 16



Figures 17 and 18 examine the subject company and its industry's 3-year and 5-year historical growth rate in EBITDA and resulting future 5-year projections.

Figure 17

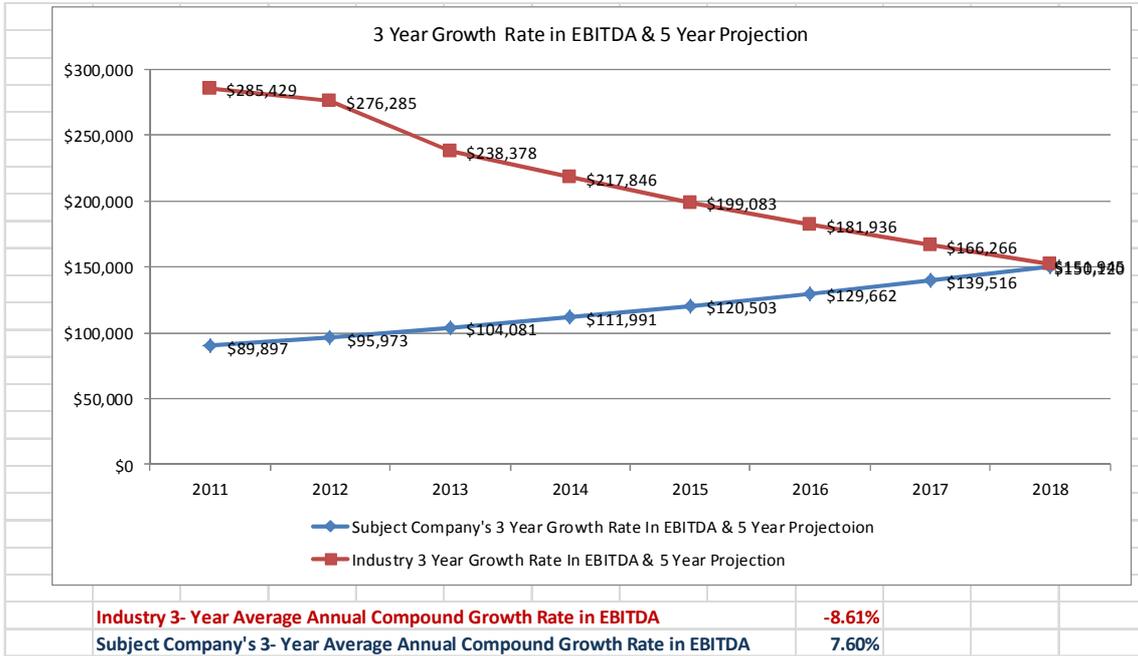
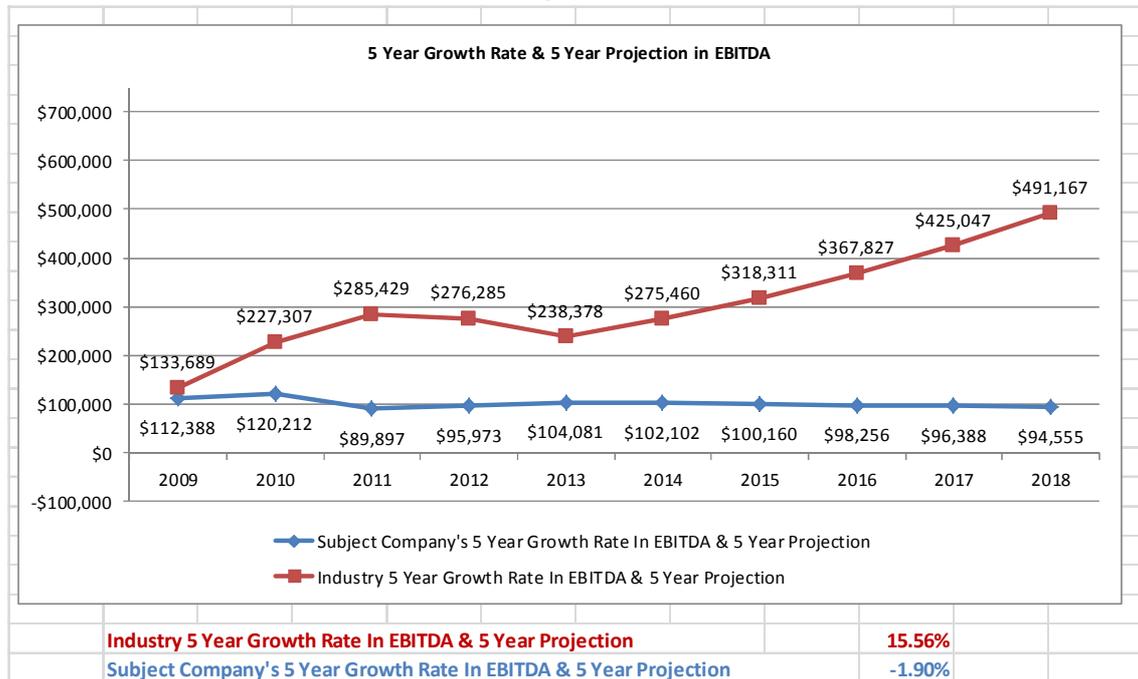


Figure 18



## ANALYSIS OF THE BALANCE SHEET

### Introduction

The balance sheets for small businesses are unlike large privately owned businesses and all publicly traded companies in one very important respect. That is that there is no clear-cut separation of the businesses' capital structure and the owner(s) personal balance sheet. It is *very* common for the balance sheets of small businesses to carry a "loan from owner" liability. This is because small business owners routinely pull as much cash from their business that they think they can get away with, only to have to replace all or part of it at some point in the not-too-distant future. Moreover, when the cash is replaced, it is always done so in the form of a "loan from owner" so that it can be pulled back out again tax-free. When it comes to cash in the bank, it is common for small business owners to make little or no distinction between the cash in their businesses' bank accounts and their personal bank accounts and behave accordingly. For this reason, no worthwhile conclusions can be made regarding a small businesses' fair market value based on the relative strength or weakness of its current ratio, quick ratio or debt-to-equity ratio because, in reality such strengths or weaknesses as the case may be, are entirely a function of the consolidation of businesses' and the owners' personal balance sheets. The truth of this fact is readily reinforced by the absence of any scrutiny that small business buyers focus on a prospective acquisition balance sheet's liquidity and debt-to-equity ratios.

For this reason, a small business should be valued assuming an industry-average debt-to-market value of equity ratio for a fair market value or fair value estimate. This matter is handled in the valuation section of this report by replacing actual interest expense<sup>3</sup> with the industry average interest rate<sup>4</sup> times the subject company's "phantom" debt. The dollar amount of phantom debt employed in the analysis is the adjusted dollar value of the subject company's total tangible assets times the firm's phantom debt's percentage of owner's equity. Of course, the challenge here is determining the phantom debt's percentage of owner's equity since we don't know what the fair market value of the owner's equity is. Making that determination is the purpose of this report.

The challenge in determining how much long-term debt should be assumed that that hypothetical typical buyer will factor into the valuation analysis is handled by incorporating the average amount of long-term debt expressed as a percentage of owner's equity for a sample of publicly traded companies that are representative of the subject company's industry. The companies selected for this purpose are presented in the valuation section of this report. However the average amount of debt expressed as a percentage of our sample of public companies "market

---

<sup>3</sup> All interest expense is eliminated in the adjusted income statements in order to determine adjusted EBITDA.

<sup>4</sup> This is the interest rate based on the data in the Bizminer report.

capitalization (Market Cap) has been determined to be 24.95%. The dollar value of the adjusted tangible assets for our subject company is \$298,997.86. Therefore, the amount of phantom debt employed in this analysis is \$74,599.97. The assumed interest expense for the year just ended will be changed to the industry average according to Bizminer of 4.79% times \$74,599.97 which equals \$3,573.34. I have made these adjustments because this company's or any company's actual debt may be, and often is, far above or far below what the typical buyer should be expected to assume in his or her valuation calculations. In such instances, employing the subject company's actual debt will either over-value or under-value the company based on the income valuation approach. According to Shannon Pratt, "if a controlling ownership interest is to be valued and the standard of value is fair market value, an argument can be made that an industry-average capital structure should be used. This is because a control buyer would have the power to change the capital structure and the industry average could represent the most likely result."

In the income approach, the value of a company is based on its net cash flow which is affected in part by year-to-year additions and reductions to third-party interest bearing debt. This means that an assumption is required regarding the typical buyer's long-term management plans regarding what proportion of the company's assets will be financed with third-party debt, what portion with the owner's cash and the rate at which the debt is paid off.

In the absence of any empirical data on what the "typical" buyer's most likely intention will be, the wisest assumption is to invoke the principal embodied in *Occam's razor*. *It is a principle urging one to select from among competing hypotheses that which makes the fewest assumptions.*<sup>5</sup> In this case the fewest assumptions results if we assume that the buyer will maintain a constant debt-to-equity ratio equal to the subject company's industry average in perpetuity. This means that if we assume perpetual, positive growth in sales and earnings, none of the company's existing long-term debt will ever be repaid, thus no provision is required for the pay-down of debt in projected future cash flow. This also means that whatever the estimated annual incremental investment in fixed operating equipment necessary to sustain expected growth in sales and earnings may be, the charge against net cash flow for that investment should be proportionate to the firm's out-of-pocket portion of the assumed perpetual debt-to-equity ratio. For example if the total expected future annual investment (or additions to a reserve for replacement) is \$10,000 and equity is to remain a constant 70% of total adjusted tangible assets, then the charge against future cash flow for the purchase of those additional fixed assets should be \$7,000 with the balance of \$3,000 assumed to be financed with additional third party debt.

This same reasoning is will also be applied to the percentage the current assets comprised of cash. A small business should be valued after the actual cash balance has been adjusted up or

---

<sup>5</sup> [http://en.wikipedia.org/wiki/Occam%27s\\_razor](http://en.wikipedia.org/wiki/Occam%27s_razor)

down as the case may be to its approximate industry average.<sup>6</sup> This means that if the company's actual cash balance is materially less than its industry average percent of sales revenue then "phantom" cash should be added to the balance sheet for the purpose of the valuation and, as a final value opinion adjustment, the "phantom" cash should be subtracted from the preliminary value conclusion. On the other hand, if the company's actual cash (and non-operating marketable securities and other "near-cash" assets) is greater than its industry average, this excess should be removed for the purpose of valuing the company and then that withheld amount must be added back to the preliminary value conclusion as the final step in arriving at the company's fair market value. If this adjustment is not made, then the value conclusion will be distorted by either over or under estimating the required future cash investment in working capital needed to support the expected growth in sales revenue and/or earnings. Additionally, it is not uncommon to encounter small business balance sheets that show a negative cash balance. The reason for this apparent impossibility is that the bookkeeper has processed all accounts payable, produced the checks for payment and has then stuffed those checks in his or her desk drawer where they will sit until there is enough cash in the bank to cover them. In this case, it is necessary to adjust the cash balance to zero and increase the accounts payable by the amount of the negative cash balance. This zero cash balance must then, in turn, be further adjusted as described above to an industry average amount.

An exception to adjusting a company's balance sheet to conform to its industry average should be made for a small business's current assets of inventory and accounts receivable. The fact that these current assets are materially greater or less than the subject company's industry average percentage of sales revenue should initially be assumed to be an integral element of its strategic business model which must be maintained under new ownership to avoid the possibility of a serious and potentially debilitating disruption to established operational and/or marketing and/or customer service and/or customer credit policy continuity.

There are two ways that the value of a company can be negatively affected by excess or insufficient inventory and accounts receivable relative to its industry average. If the amount of inventory is less than the industry average, this may indicate that the company is losing potential sales and therefore potential earnings due to frequent stock-outs. On the other hand, if the company has more invested in inventory relative to the average of its peers it may mean that it is suffering increased costs due to inventory obsolescence and/or damage and/or spoilage due to inappropriate storage and/or excessive handling and/or shrinkage. Add to this the fact that the more inventory a business must carry, the greater must be its incremental cash investment in additional inventory to support real growth in sales revenue which reduces after-tax net cash flow.

---

<sup>6</sup> Not the published industry average percentage of total assets but the percentage of cash divided by annual net sales revenue. The published industry average cash's % of total assets can vary significantly from that for the subject company due to significant differences in the value of all the other assets.

Figure 19 presents the subject company's actual and adjusted balance sheet as of the date of the appraisal.

Figure 19

Bill Bob's Barbecue				Bill Bob's Barbecue			
ACTUAL BALANCE SHEET				TRUE VALUE BALANCE SHEET			
December 31, 2013				December 31, 2013			
ASSETS				ASSETS			
Current Assets		Adjustments	Footnotes	Current Assets			
Cash in bank and on Premises	\$13,654.73			Cash in bank and on Premises		\$13,654.73	
Accounts Receivable	\$1,119.70			Accounts Receivable		\$1,119.70	
Inventory	\$11,123.00			Inventory		\$11,123.00	
Prepaid Insurance	\$4,557.00			Prepaid Insurance		\$4,557.00	
Other current assets	\$8,801.62			Other current assets		\$8,801.62	
<b>Total Current Assets</b>	<b>\$39,256.05</b>			<b>Total Current Assets</b>		<b>\$39,256.05</b>	
<b>Fixed Assets</b>				<b>Fixed Assets</b>			
Lease deposit	\$10,000.00			Lease deposit		\$10,000.00	
Food service operating equipment	\$228,996.00	-\$49,002.00		Food service operating equipment		\$179,994.00	
Office equipment	\$16,447.00	-\$12,037.00		Office equipment		\$4,410.00	
Less Accumulated Depreciation	-\$105,668.00	\$105,668.00					
<b>Net Value of Operating Equipment</b>	<b>\$149,775.00</b>			<b>Market Value of Operating Equipment</b>		<b>\$194,404.00</b>	
	\$255,443.00						
<b>Non Operating Assets</b>				<b>Non Operating Assets</b>			
Owner's automobile	\$25,000.00	-\$25,000.00					
<b>Net Value of non-operating assets</b>	<b>\$25,000.00</b>			<b>Market Value of non-operating assets</b>		<b>\$0.00</b>	
Owner's Goodwill	\$0.00		\$0.00	Owner's Goodwill		\$114,539.95	
<b>Total Fixed Assets @ Net Value</b>	<b>\$174,775.00</b>			<b>Market Value of Fixed Assets</b>		<b>\$194,404.00</b>	
<b>Total Assets</b>	<b>\$214,031.05</b>			<b>Total Assets</b>		<b>\$348,200.00</b>	
<b>LIABILITIES</b>				<b>LIABILITIES</b>			
<b>Current Liabilities</b>				<b>Current Liabilities</b>			
Wages payable	\$8,564.35			Wages payable		\$8,564.35	
Accounts payable	\$11,003.55			Accounts payable		\$11,003.55	
Sales tax payable	\$5,648.33			Sales tax payable		\$5,648.33	
Unredeemed gift certificates	\$175.00			Unredeemed gift certificates		\$175.00	
Other current liabilities	\$4,065.25			Other current liabilities		\$4,065.25	
<b>Total Current Liabilities</b>	<b>\$29,456.48</b>			<b>Total Current Liabilities</b>		<b>\$29,456.48</b>	
<b>Long Term Liabilities</b>				<b>Long Term Liabilities</b>			
Bank of America equipment loan	\$81,003.00			Bank of America equipment loan		\$81,003.00	
Loan from owner	\$10,000.00	-\$10,000.00					
<b>Total Long Term Liabilities</b>	<b>\$91,003.00</b>			<b>Total Long Term Liabilities</b>		<b>\$81,003.00</b>	
<b>Total Liabilities</b>	<b>\$120,459.48</b>			<b>Total Liabilities</b>		<b>\$110,459.48</b>	
<b>OWNERS NET WORTH</b>				<b>OWNERS REAL NET WORTH</b>			
Paid in capital	\$75,000.00			Owner's Invested Capital		\$75,000.00	
Retained earnings prior years	\$35,203.20			Retained Earnings		\$35,203.20	
Retained earnings this year	\$25,856.37			Net Income Year to Date		\$25,856.37	
Owner draws (dividends)	-\$10,847.00			Adjustment to all asset classes (except goodwill)		\$19,629.00	
Balancing adjustments	-\$31,641.00			Adjustment to all liability classes		\$10,000.00	
				Owner's Goodwill		\$114,539.95	
<b>Total Net Worth</b>	<b>\$93,571.57</b>			<b>Total Real Net Worth</b>		<b>\$237,740.52</b>	
<b>Total Liabilities &amp; Owner's Net Worth</b>	<b>\$214,031.05</b>			<b>Total Liabilities &amp; Owner's Net Worth</b>		<b>\$348,200.00</b>	

Balance Sheet Footnotes on next page

1. The lease deposit is a non-operating asset. It will remain the same for the term of the lease. For this reason it is removed from the balance sheet in order to better estimate the required annual reinvestment and additional investment in fixed operating equipment. Similarly, the owner's personal automobile is a non-operating asset. i.e., not required for the operation of the company and would not be included in a sale of the company. Therefore it has been removed. The dollar value of both of these assets will be added back to the balance sheet as the last step in calculating the company's equity value.

3. The fixed assets have been adjusted to their estimated fair market value; estimated to be midway between cost new and net book value. In conjunction with these adjustments, accumulated depreciating is added back since the adjustments to the assets are in lieu of depreciation.

3. The loan from the owner has been restated as additional capital investment because it is money he owes himself and therefore will not have to repay upon sale of the company.

Figures 20 through 26 present various balance sheet ratios. The purpose here is to assist in better understanding the subject company's financial performance strengths and weaknesses.

Figure 20

	Adjusted		
	5	Adjusted	Industry
	Year Avg	12/31/2011	Average
Average days holding inventory	10	9	12
Total Cost of Goods Sold	\$418,092.20	\$469,651.66	\$689,460
Ending Inventory	\$10,911.56	\$11,123.00	\$22,304
Number of days	365	365	365
Inventory's % of Sales Revenue	1.13%	1.07%	1.26%

We can see from Figure 20 that the subject company's five year average inventory as a percent of sales revenue is 1.13% and as of the valuation date it is 1.07%. These values are lower than the industry average. This suggests that the company may be not be carrying enough inventory—a possibility that is reinforced by the fact that the average holding period for the inventory is slightly less than the industry average. Neither of these facts affects the riskiness of the business and therefore the discount rate. Whatever effect, negative or positive that this difference may have on cash flow is reflected in reported historical cash flow and automatically included in projections based on that history. Therefore no further adjustment to the value estimate is warranted by this difference. However, it is a matter worthy of management investigation. When inventory is below the industry average this may suggest that there are frequent "sold out" problems for certain menu items which is never a good thing.

Figure 21

	Adjusted		
	5	Adjusted	Industry
	Year Avg	12/31/2011	Average
<b>Total Asset Turnover</b>	4.07	4.44	7.58
Total Assets	\$237,249.95	\$233,660.05	\$233,660
Sales Revenue	\$964,583.05	\$1,036,758.63	\$1,771,481

Figure 22

	Adjusted		
	5	Adjusted	Industry
	Year Avg	12/31/2011	Average
<b>Fixed Asset Turnover</b>	5.05	5.33	5.63
Total Fixed Assets	\$191,104.69	\$194,404.00	\$314,831

Figure 21 shows the five-year average and the most recent 12-month period's total asset turnover ratios—that is, sales revenue divided by the value of total assets. Figure 22 does the same thing for just the firm's fixed assets. The purpose of these two analyses is to assess the efficiency of the subject company's assets relative to its industry average. A ratio materially lower than its industry average is an indication that the subject company either requires a greater investment in current assets and/or fixed operating equipment relative to its industry generally that is necessary to generate the same sales revenue and/or that it owns significant non-operating assets. A ratio materially higher than its industry average is an indication that the subject company is able to generate sales revenue equal to its industry average with a substantially lower investment in tangible assets. However, a higher ratio may also be an indication that the subject company's fixed operating equipment is old, perhaps somewhat obsolete relative to its competitors and/or in much greater need of continuous repairs and maintenance which in turn, drives up that expense thereby reducing earnings and market value. In this case the turnover ratio for fixed assets is in line with its industry average.

When based on the net book value of the fixed assets, the efficacy of this analysis is limited by the fact that the net book value is equal to cost new minus accumulated depreciation expense and therefore an apparent difference between the subject company and industry average fixed asset ratios may, in large part, be attributable to the employment of different depreciation schedules. On the other hand, if this ratio is based on the original cost of the fixed assets, then any potential competitive disadvantage attributable to antiquated, still-in-use equipment will be much less (if at all) apparent. The ideal basis of comparison would be based on the appraised value of the subject company's fixed operating equipment with its industry average's appraised value but this is impossible. Therefore, the analysis presented in Figure 22 is based on the best estimate for the current value of the subject company's operating equipment which is the midpoint value between

the cost new and net book value of the fixed assets, i.e., the average of the two values, but is compared to the industry average net book value. Thus, this is an apples-to-oranges comparison.

In all of the preceding scenarios described above, the potential effects on value results from their effect on net cash flow—and not the riskiness of the business (with the exception of the fixed asset turnover ratio). This means that there should not be any adjustment to the discount (or capitalization) rate resulting from observed departures from industry average investments in inventory and accounts receivable expressed as a percentage of sales revenue. The way these departures from industry averages are properly addressed in the valuation analysis is via expected future growth in sales revenue and cash flow based on historical experience—experience that incorporates the effect that these asset balances have had so far.

On the liability side of the balance sheet, the assumption should be that if the accounts payable and total current liabilities are less than the industry average, then the typical buyer will not adjust them upward to the industry average; he will continue with the former owner's policy of paying vendors more promptly than the industry average and maintain lower than average total accounts payable and current liabilities under the assumption that there has been and will continue to be a strategic reason for doing so.

On the other hand, if the accounts payable are materially *greater* than the industry average, then for the purpose of the valuation, these values should be adjusted to the industry average and the amounts by which they were reduced should be held in suspense. Then, as the final step in the valuation, these “suspended” excess liabilities should be subtracted from the preliminary value conclusion. Making this adjustment increases the baseline amount invested in working capital by reducing offsetting current liabilities and therewith increases the estimated future additional investment in working capital necessary to sustain an expected growth in sales revenue. This fact, in turn, results in a decrease in expected future net cash flow and with that, a concomitant decrease in market value. The reason for adjusting excessive accounts payable to the industry average is based on the assumption that the typical buyer who intends to pay his vendors on time gains a competitive advantage via preferential vendor treatment over those who do not which more than offsets the slight reduction in future net cash flow resulting from excessively high outstanding balance in accounts payable.

As we see in Figure 23, the subject company accounts payable's percentage of sales revenue and average days to pay are very close to the industry average. For this reason, no adjustment has been made to this value.

Figure 23

	Adjusted		
	5	Adjusted	Industry
	Year Avg	12/31/2011	Average
<b>Average days to pay accounts payable</b>	9	9	22
Total Accounts Payable	\$9,762.09	\$11,003.55	\$41,033
Total Cost of Goods Sold	\$418,092.20	\$469,651.66	\$689,460
Number of days	365	365	365
<b>Accounts Payable's % of Sales Revenue</b>	1.01%	1.06%	2.32%
<b>Total Current Liabilities % of Sales Revenue</b>	2.83%	2.84%	7.08%

The subject company's current ratio is slightly lower than its industry average which in this case results from the fact that the amount of the subject company's accounts payable are higher than the industry average. However neither the current ratio nor the quick ratio indicate a cause for concern.

Figure 24

	Adjusted		
	5	Adjusted	Industry
	Year Avg	12/31/2011	Average
<b>Current Ratio</b>	<b>1.69</b>	<b>1.33</b>	<b>1.58</b>
Total Current Assets	\$46,145.25	\$39,256.05	\$197,556
Total Current Liabilities	\$27,305.42	\$29,456.48	\$125,416

Figure 25

	Adjusted		
	5	Adjusted	Industry
	Year Avg	12/31/2011	Average
<b>Quick Ratio</b>	<b>1.29</b>	<b>0.96</b>	<b>1.40</b>
Total Current Assets	\$46,145.25	\$39,256.05	\$197,556
Ending Inventory	\$10,911.56	\$11,123.00	\$22,304
Total Current Liabilities	\$27,305.42	\$29,456.48	\$125,416

### Estimating expected future cash flow

The next step in the income approach is to develop an expected future cash flow projection. The point of departure in making such a projection is the company's prior cash flows because "they are usually the most reliable guide as to future expectancy."<sup>7</sup> It is important to emphasize that expected future cash flow *does not* mean "hoped for" or "maximum potential" future cash flow. A statement of expected future cash flow is a theoretical concept. "The calculation of an expected future cash flow requires the estimation of potential future cash flows under different scenarios, to which probabilities are then attached."<sup>8, 9</sup>.

"Net cash flows to be discounted or capitalized should be *statistically expected values*, that is, (mean) *probability-weighted* cash flows. In the real world, it is far more common for realized net cash flows to be below forecast than above. A valuation that does not take this factor into account will overvalue a business."<sup>10</sup>

Estimating a company's expected future earnings and cash flow has both a high impact on the ultimate value conclusion and is a problematic metric to estimate. I have found that the most reliable approach to this challenge is to first estimate expected future sales revenue—typically (but not always) based on the recent annual historical sales revenue growth rate. Estimating the growth rate in this metric, although problematic, is generally the easiest financial performance metric for management and the appraiser to make a reasonably reliable estimate.

The following probability-weighted sales revenue growth rate estimate developed via Figures 27 through 33 is based on historical sales revenue. Even though the final value conclusion will be based on after-tax free cash flow, for the purpose of estimating the subject company's expected future annual compound growth rate in earnings, sales revenue is a more reliable metric as a point of departure because it is not an adjusted theoretical value; it is based on actual historical performance data.

---

<sup>7</sup> Revenue Ruling 59-60

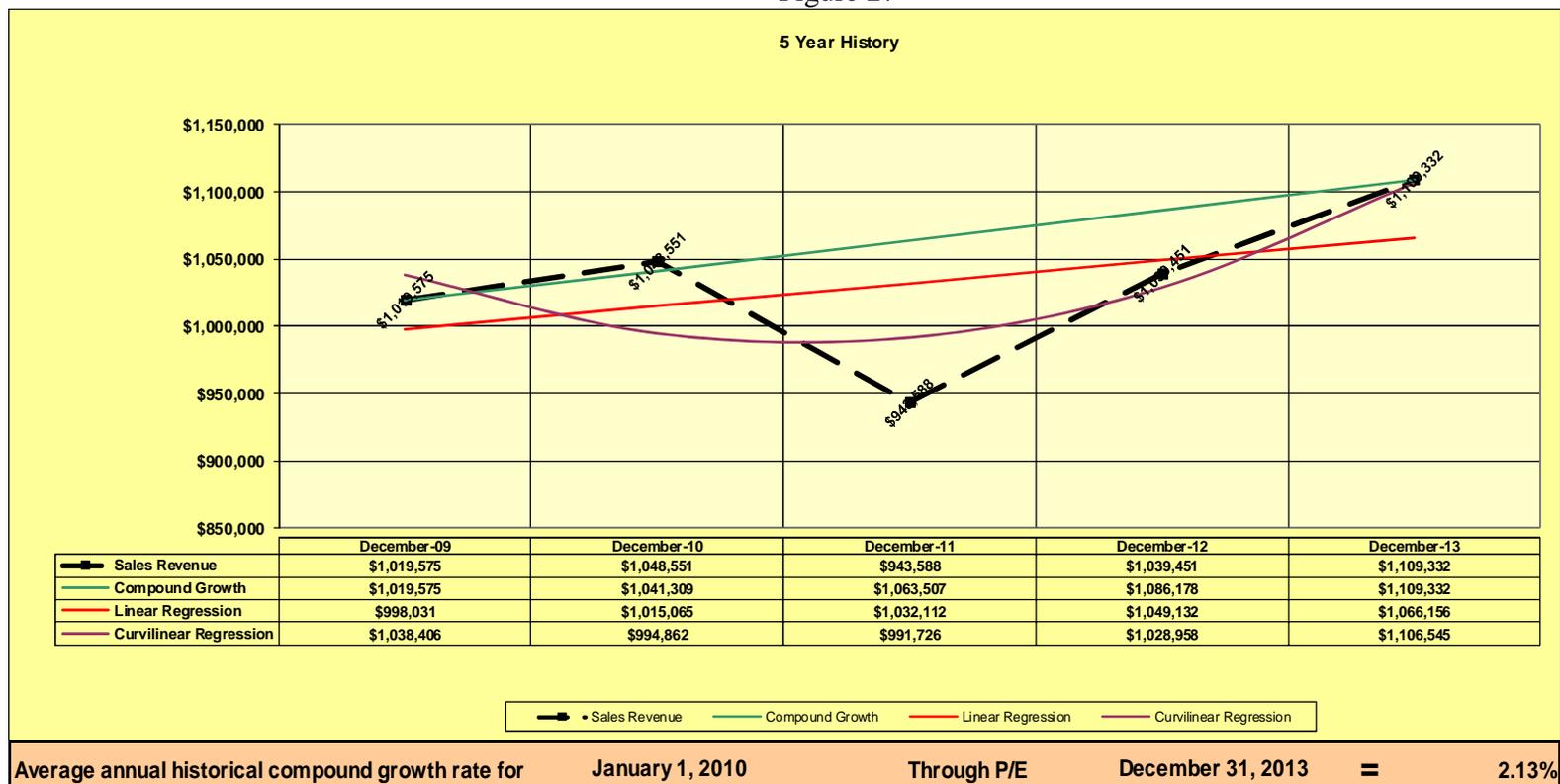
<sup>8</sup> Ibbotson Associates, *op. cit.*, p. 15. See also, Shannon Pratt, *Business Valuation Body of Knowledge*, copyright 1998 by John Wiley & Sons, p. 110.

<sup>9</sup>It is vital to keep in mind that regardless of the method by which an estimate of expected future cash flow is developed, it must be predicated on the assumption that the company's current capital investment will not change. This is to say, we cannot estimate a level of growth in future sales and profits that cannot be sustained by the subject company's current amount of operating equipment and other assets. To do otherwise mandates that we also subtract from expected future cash flow, the investment in additional capital assets and working capital required to attain sales and earnings levels beyond what is reasonably doable as the company is currently configured. For example, assuming the level of inflation will increase at an average of 3% a year for the next 10 years, then any forecast in earnings beyond that amount must come from a real increase in customer purchases. If an annual earnings increase of 10% is estimated for the next 10 years then, assuming 3% inflation, real earnings must increase by 7% a year. For this level of growth to be achievable, the company must be able to *double* the amount of products and services it can sell without acquiring any additional operating equipment during that 10 year period if no deduction from expected future cash flow for additional capital expenditures is considered in the projection; the only allowable assumption is the replacement of existing equipment. See Shannon Pratt, *Cost of Capital*, p. 24

<sup>10</sup> Shannon P. Pratt & Roger J. Grabowski, *Cost of Capital: Applications and Examples, Third Edition*, copyright 2008 by John Wiley & Sons, Inc., p.17.

A review of the subject company's preceding five years' sales revenue history reveals the following:

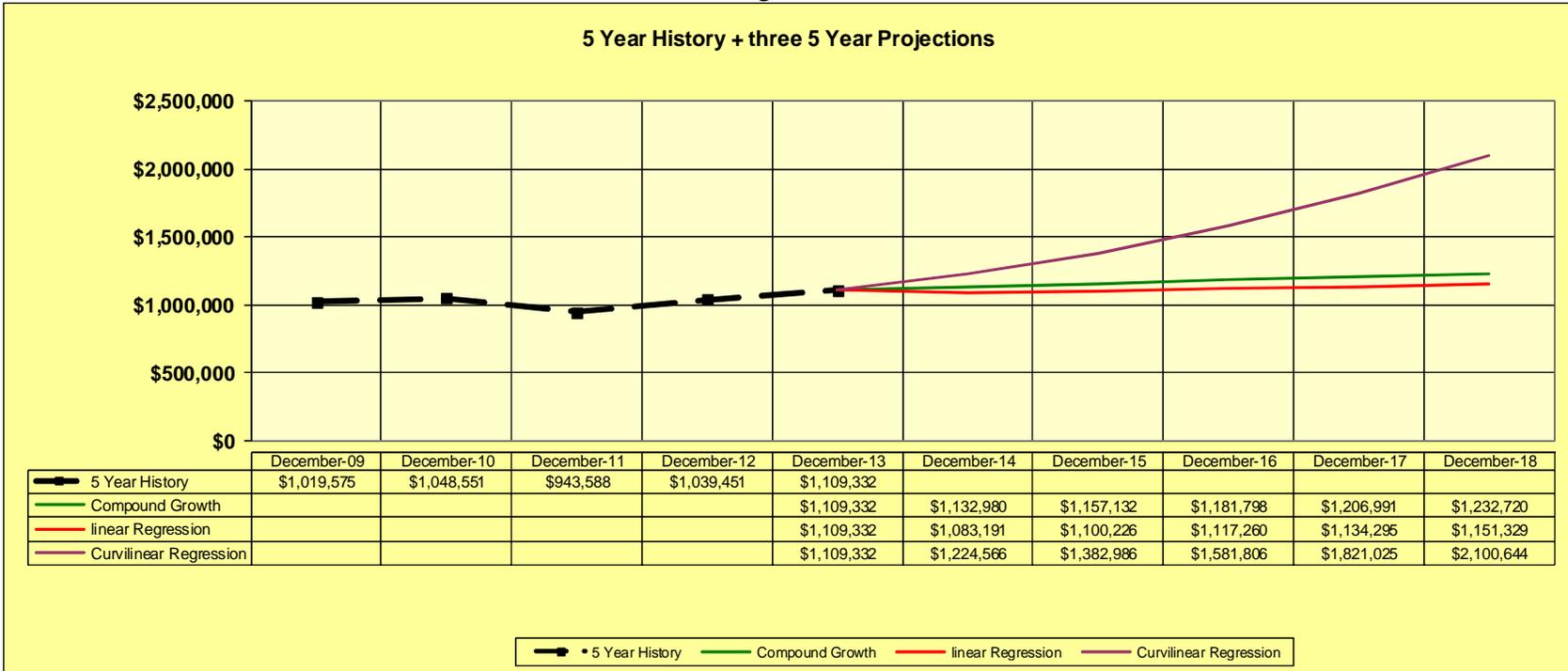
Figure 27



Given this picture, three different earnings *projections* have been calculated: (1) A projection represented by a linear regression line through the data extended into the future; (2) A projection based on the compounded growth rate applied to 2013 sales for five years, 2009 through 2013; and (3) A projection based on a curvilinear regression line through the data.

The next graph depicts this historical data with the calculated trend lines projected out five years:

Figure 28



Next, four earnings forecasts have been developed, (1) very optimistic; (2) optimistic; (3) pessimistic and; (4) very pessimistic:

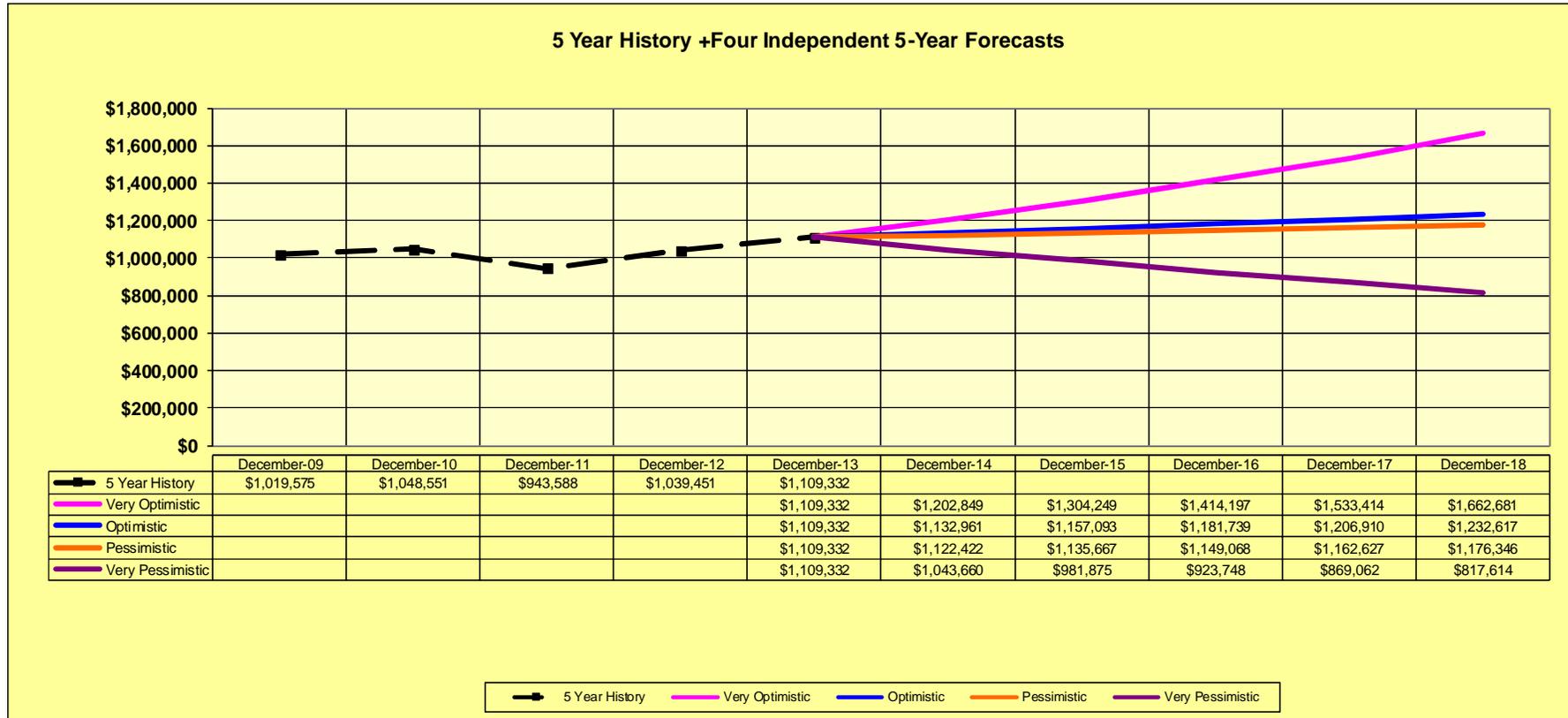
Figure 29

	Forecasts			
	Enter Unique Data	Enter Unique Data	Enter Unique Data	Enter Unique Data
	Select Growth Rate	Select Growth Rate	Select Growth Rate	Select Growth Rate
	8.43%	2.13%	1.18%	-5.92%
	Very Optimistic	Optimistic	Pessimistic	Very Pessimistic
December-14	\$1,202,849	\$1,132,961	\$1,122,422	\$1,043,660
December-15	\$1,304,249	\$1,157,093	\$1,135,667	\$981,875
December-16	\$1,414,197	\$1,181,739	\$1,149,068	\$923,748
December-17	\$1,533,414	\$1,206,910	\$1,162,627	\$869,062
December-18	\$1,662,681	\$1,232,617	\$1,176,346	\$817,614

The selection of these growth rate forecasts come directly from Figures 15 and 16 in the *Analysis of the Income Statements* section of this report.

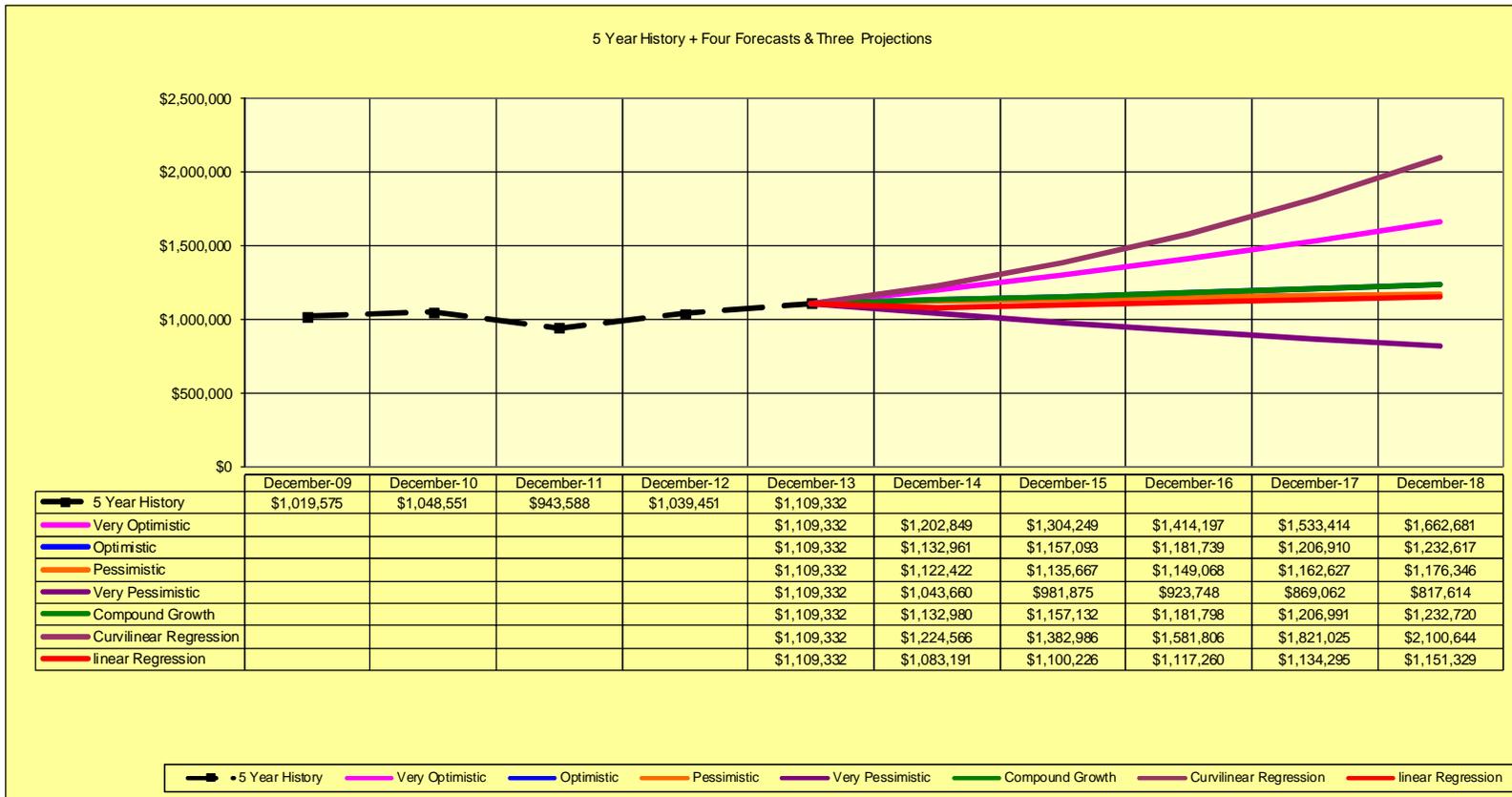
Below is a graphic depiction of these four forecasts:

Figure 30



Below is a graphic presentation of the preceding four earnings forecasts and three earnings projections:

Figure 31



The next step is to apply subjective probabilities of occurrence to each of the seven possibilities depicted above:

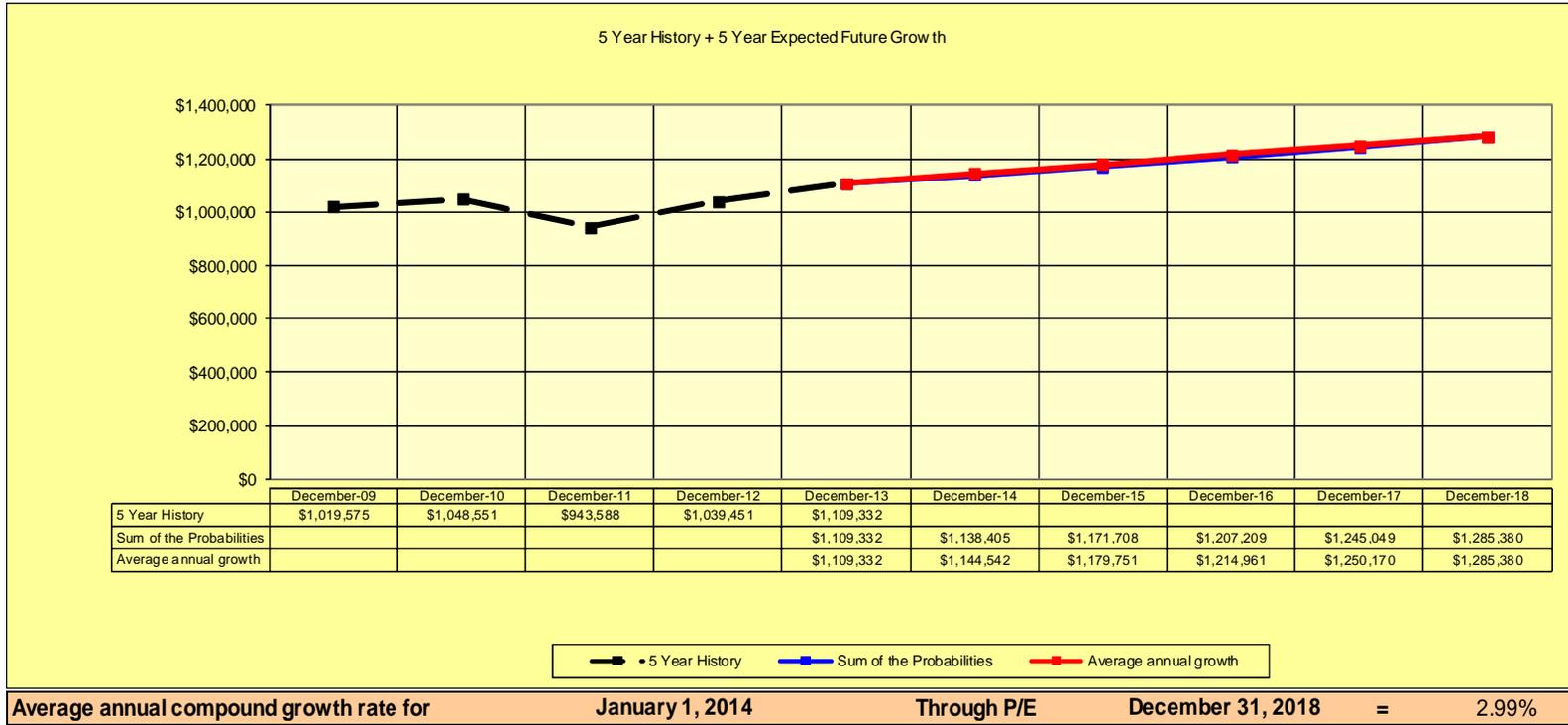
Figure 32

Subjective Probability of Occurrence		
Compound Growth Rate		5.0%
Linear Regression		5.0%
Curvilinear Regression		0.0%
Very Optimistic		20.0%
Optimistic		50.0%
Pessimistic		15.0%
Very Pessimistic		5.0%
<b>Sum of the Probabilities =</b>		<b>100.0%</b>

Average annual compound growth rate for	January 1, 2014	Through P/E	December 31, 2018	=	2.99%
---	-----------------	-------------	-------------------	---	-------

Given the subjective probabilities of occurrence to each of the seven earnings growth possibilities, the resulting “expected future adjusted owner’s discretionary earnings” has been estimated to grow at an annual compound rate of 2.99%. Following is a graphic depiction of this forecast:

Figure 33



Note: The only value used from this analysis is the average annual compound growth rate. The projected data in the tables is not used.

Estimating Expected Future Earnings

As stated previously, the point of departure in estimating expected future earnings is estimating sales revenue. Given the preceding sales estimate, expected future earnings have been projected as presented in Figure 34. The sales revenue growth rate comes from Figure 33. The growth rate for the contribution margin (i.e., sales revenue minus total variable costs) is assumed to be the same as the sales growth rate. The growth rate in fixed costs is driven largely by the rate of inflation but generally influenced somewhat by the sales growth rate. In this case, the growth rate in fixed costs has been subjectively estimated as a blend of the expected rate of inflation and the subject company’s sales revenue growth rate. The combined effect of these several estimates is an estimated average annual growth rate for EBITDA of 3.00%

Figure 34

Billy Bob's Barbecue		Growth Rates	2013	2014	2015	2016	2017
Summary of Adjusted Statements	Adjusted						
	2012						
Sales Revenue	\$1,036,759	3.00%	\$1,067,861	\$1,099,897	\$1,132,894	\$1,166,881	\$1,201,887
Contribution Margin	\$271,177	3.00%	\$279,312	\$287,692	\$296,323	\$305,212	\$314,369
Fixed Costs	\$105,096	3.00%	\$108,249	\$111,497	\$114,842	\$118,287	\$121,835
Seller's Discretionary Earnings	\$166,081		\$171,063	\$176,195	\$181,481	\$186,925	\$192,533
Fair Market Value Owner Salary	\$62,000	3.00%	\$63,860	\$65,776	\$67,749	\$69,782	\$71,875
Adjusted EBITDA	\$104,081		\$107,203	\$110,419	\$113,732	\$117,144	\$120,658
Adjusted EBITDA average annual compound growth rate	3.00%						↕
		Proof	\$107,203	\$110,419	\$113,732	\$117,144	\$120,658
		Growth Rate	3.00%	3.00%	3.00%	3.00%	3.00%

## THE MARKET APPROACH BASED ON BIZCOMPS

### Introduction

The Market Approach is the single most powerful approach used to estimate the value of residential real estate and has important applications in the valuation of commercial and industrial real property as well. Anyone who has bought or sold a home and worked with a real estate agent in the process is almost certain to have compared the contemplated offering price or asking price of a home to known selling prices of similar homes in the same neighborhood.

This is because the market approach has its theoretical basis in the Principal of Substitution, which states that “the value of a thing tends to be determined by the cost of acquiring an equally desirable substitute. In estimating the value of a business using the market approach the task then, is to identify businesses similar to the subject company which have actually been sold and use the reported selling prices and other reported data to infer thereby what value the market is likely to ascribe in this case.

In theory this approach is both quite sound and appealing. In its actual application however there are some drawbacks. Unlike its application in the appraisal of residential real estate, the comparable transactions used to draw an inference about the value of the subject company cannot be visually inspected nor, in the vast majority of cases, can anything more than the most rudimentary attributes of those other businesses be known. Additionally, the efficacy of this approach is limited by the fact the number of comparable transactions from which we may draw an inference about the subject business is also limited. For this reason, it is necessary to rather broadly define the term “comparable transactions” to mean reported transactions involving businesses in more or less the same industry or with similar operating cost structures. In other words, “if you look for an exact fit, you will probably never find one. However, to apply the guideline company method, you need to use some imagination to set parameters for a search other than the subject company’s Standard Industrial Classification (SIC) code. Sometimes better companies may exist in different industries.<sup>11</sup>

These important caveats notwithstanding the fact remains that the market approach is based on business sale transaction data taken directly from the market. As such, it provides the most direct approach to estimating the market value of a business.

### Types of Methods within the Market Approach

There are two methods that may be employed using the Market Approach. There is the *Guideline Publicly Traded Company Method*, and the *Guideline Merged and Acquired Private Company Method*, also known as the *Merger and Acquisition Method*, *Direct Market Data Method*, *Guideline Transaction Method* or *Comparable Sales Method*.

In the valuation analysis to follow, the *Merged and Acquired Private Company Method* is employed. There are several databases that provide comparable private company transaction

---

<sup>11</sup> Gary R. Trugman, *Understanding Business Valuation: A Practical Guide to Valuing Small to Medium Sized Businesses, Third Edition*, copyright 2008 by The American Institute of Certified Public Accountants, Inc., p. 722.

information. Some provide fairly specific transactional information that facilitates making comparisons with the subject company on an individual basis and some provide only limited information and are used to develop an indication of the central tendency for private company selling prices within a specific industry. The first type of data is sometimes referred to as “guideline comparables” while the second type is referred to as “total market” comparables.

The databases that provide guideline-comparison-quality data typically provide a greater amount of detail on each transaction, enabling the analyst to compare their subject company to specific transactions in the database. Those that are considered “total market” comparables provide less detail, and provide a more general indication of industry multiples for the industry that the subject company is in...<sup>12</sup>

The source of the transaction data upon which this valuation is based is the Bizcomps database. This database belongs to the “total market” genre of databases. As such, the process employed in order to develop an opinion of value for a subject company based on the data in these databases is *inferential statistical analysis*. Indeed, a synonymous term for the “total market method” could be the “inferential statistical analysis method” where the transactions in the database are regarded as a sample or subset or portion of all transactions.

*Inferential* statistical analysis is concerned with measuring the characteristics of only a *sample* from the population and then making inferences, or estimates, about the corresponding value of the characteristics in the population from which the sample was drawn.<sup>13</sup> Inferential statistical analysis is the science of making decisions in the face of uncertainty; that is, making the best decision on the basis of incomplete information.<sup>14</sup>

The first step in this valuation process is one of selecting an appropriate sample of transactions upon which the value conclusion will be based. The task of sample selection necessitates careful consideration for the nature of the sample data selected.

Unfortunately, this first step in the process creates a dilemma for the analyst. On the one hand, it is very important that the size of the statistical sample be sufficiently large to provide a reliable indication of the central tendency in selling price multiples for a specific industry. On the other hand, the larger the sample size selected, the more the various metrics of the selected comparables depart from those of the subject company.

For this reason, the “industry” within which the subject company belongs generally needs to be fairly broadly defined. When reaching outside of the subject company’s specific industry for comparables (which is necessary for most valuations), selecting companies that have similar

---

<sup>12</sup> Nancy Fannon and Heidi Walker, *The Comprehensive Guide To The Use and Application Of The Transaction Databases*, copyright 2008 by Business Valuation Resources, p. 8-1.

<sup>13</sup> Sam Kash Kachigan, *Statistical Analysis*, copyright 1986, Radius Press, p. 9.

<sup>14</sup> H. T. Hayslett, Jr., *Statistics Made Simple*, copyright 1968, by Doubleday & Company, p. 7.

characteristics such as a similar labor force pool with similar trade skills and pay scales, a similar competitive environment, similar operating costs and so forth is acceptable. Indeed, Revenue Ruling 59-60 specifically recognizes and codifies this requirement.<sup>15</sup>

The size of the sample is next up for consideration.

“A larger group of comparables will reduce the importance of any single guideline company. Since at least one company in any group may be anomalous, having a larger group reduces the effect of this potential anomaly. Furthermore, companies are complex. No one or two guideline companies can approximate all of the characteristics of a complex subject. Having a larger group of comparables increases the likelihood that more of the subject’s characteristics can be captured.”<sup>16</sup>

“...every transaction that takes place in the market is specific to the actual buyer and seller with specific criteria that caused each party to the transaction to consummate the deal. If you have many of these transactions taking place at about the same time, you have a market. You need to have quite a bit of activity to get rid of any special motivations of the individual buyers and sellers to reach a normative state that would represent fair market value. The market value would cluster around the same point, at a particular moment in time, creating what we consider to be the fair market value of the property.”<sup>17</sup>

...it is best to strive to incorporate a minimum of 30 transactions in a sample. This will not always be possible, but it is a good rule of thumb. Using fewer transactions is not necessarily catastrophic but the risk of making an incorrect estimate does tend to increase...With sample sizes fewer than ten transactions, all bets are off.<sup>18</sup>

General statistical practice is to assume that for most applications, the sampling distribution of the sample average can be approximated by a normal probability distribution whenever the *sample size is 30 or more*. In effect, a sample size of 30 or more is assumed to satisfy the large sample condition of the central limit theorem.<sup>19</sup>

To illustrate the importance of selecting an adequate number of comparable transactions consider Figure 1. Figure 1 illustrates the degree of error in the estimate for a population’s central tendency—in this case the weighted harmonic mean value of the

---

<sup>15</sup> Revenue Ruling 59-60, Section 3, Paragraph 3.

<sup>16</sup> James R. Hitchner, *Financial Valuation: Applications and Models*, Second Edition, p. 287

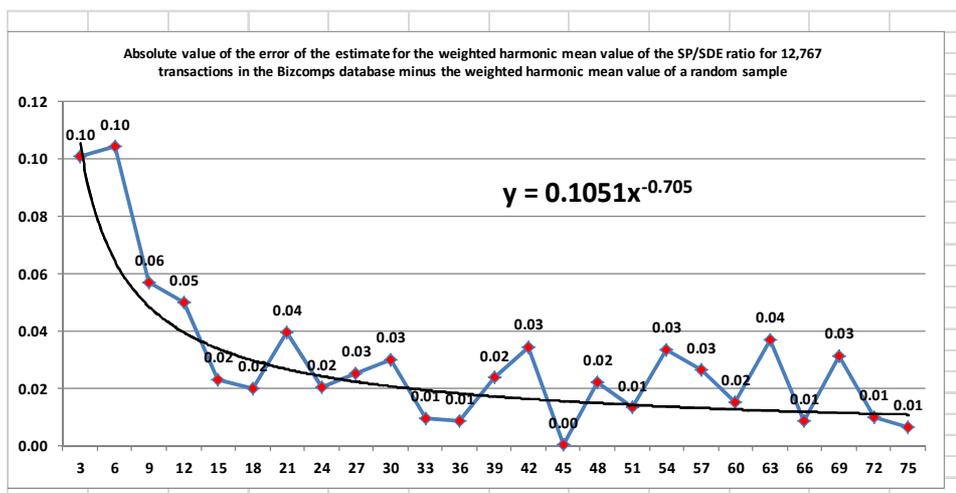
<sup>17</sup> Gary R. Trugman, *Understanding Business Valuation*, A practical guide to valuing small to medium sized businesses, Third Edition, p. 97.

<sup>18</sup> Toby Tatum, *Transaction Patterns: Obtaining Maximum Knowledge from the Bizcomps Database*, copyright 2000 by Toby Tatum, p. 130.

<sup>19</sup> M. Anderson, Sweeney & Williams, *Statistics for Business and Economics, Fifth Edition*, Copyright 1993 by West Publishing Company, p. 225.

selling price-to-seller's discretionary earnings for all 12,767 usable transactions in the 2012 Bizcomps database which is 2.26.<sup>20,21</sup> To produce Figure 1, an estimate of this value was made based on the weighted harmonic mean value of three transactions selected at random. The selection of three transactions was then repeated 300 times. The value appearing in the Figure 1 is the average of 300 random samples of three transactions. This process was then repeated 300 times with six randomly selected transactions, then nine and so forth up to 75 transactions. Next, the absolute value of the difference between the weighted harmonic mean value of the sample and 2.26 was calculated and plotted. The point of this exercise is to show that the error of the estimate becomes smaller as the sample size is increased. However, once the sample size exceeds around 30 to 40 transactions, very little incremental improvement in the accuracy of the estimate results. The conclusion to be drawn from this presentation is that the potential for error in estimating the central tendency of transaction ratios is significant when based on a small number of comparables and attains about as good an estimate as one can get with a sample of 30 to 40 transactions and little incremental improvement in the estimate with larger sample sizes.

Figure 1<sup>22</sup>



An important reason for limiting the number of comparables to between 30 and 40 (when it is possible to select more than 40) is due to the size effect phenomenon. That is, as businesses

<sup>20</sup> Prior to making an analyses of the Bizcomps database, all transactions with an SDE of zero or less were deleted and all transactions with zero sales revenue were deleted.

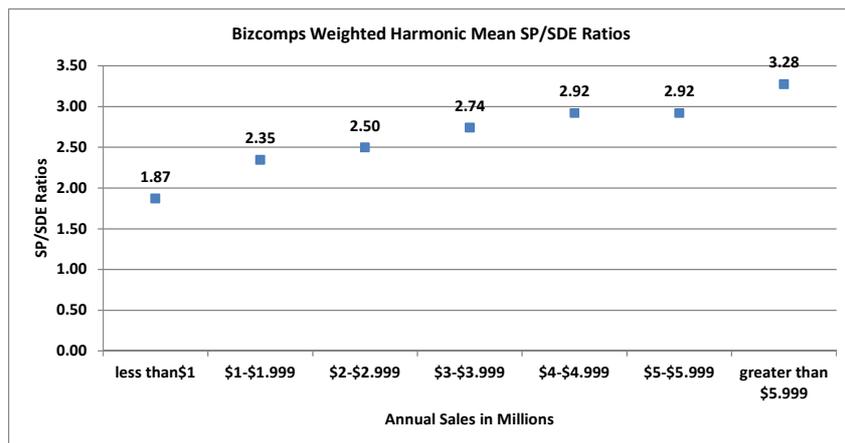
<sup>21</sup> **Weighted Harmonic Mean.** In cases where both the selling prices and seller's discretionary earnings in a statistical sample vary, the weighted harmonic mean is the appropriate calculation of the sample's central tendency. The different prices paid are taken as weights. The formula for the calculation of weighted harmonic mean is Weighted H.M. =  $(\sum(w) / \sum(w/x))$  = Where w is the weight and X the value of the variable.

[http://www.gyplan.com/weighted\\_hm\\_en.html](http://www.gyplan.com/weighted_hm_en.html). This website has a weighted harmonic mean calculator.

<sup>22</sup> For detailed discussion of this topic see the Institute of Business Appraisers Quarterly Journal *Business Appraisal Practice, Second Quarter 2012* "Some Observations on Statistical Sample Size" by Toby Tatum.

become larger in size, the central tendency in the Selling Price divided by Seller’s Discretionary Cash Flow ratio increases. Thus, when a sample size larger than 30 to 40 transactions is selected, the value conclusion inferred thereby is likely to become biased either too high or too low due to some comparables being in a different SP/SDE size category. This phenomenon is illustrated in Figures 2 and 3.

Figure 2<sup>23</sup>



In Figure 2, all of the transactions in the Bizcomps database were segmented into seven size categories in increments of one million dollars. In this case it is clearly evident that as businesses become larger, with size based on annual gross sales, the central tendency in the SP/SDE ratios increases.

Figure 3

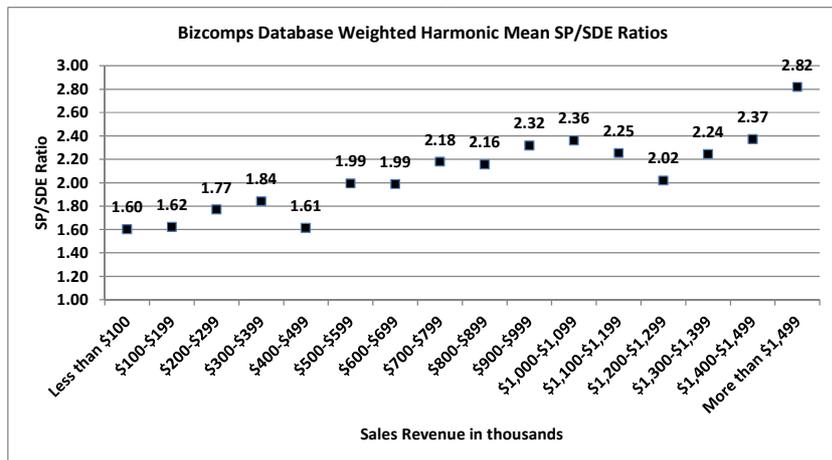


Figure 3 is an identical analysis focused on the smallest of the small businesses with size categories in thousands.

<sup>23</sup> For detailed discussion of this topic see the Institute of Business Appraisers Quarterly Journal *Business Appraisal Practice*, First Quarter 2012 “Revisiting The Size Effect Phenomenon Among Small Businesses” by Toby Tatum.

Although there is some noticeable random variation in the data when segmented into relatively narrow-ranged size categories, it is still clearly evident that the size effect phenomenon operates all the way down to the smallest of small businesses. Because of the size effect phenomenon, any value estimate based on the central tendency for all of the transactions in a database such as an SP/SDE ratio of 2.26 which is the case in the 2012 edition of Bizcomps or a rule-of-thumb multiple that does not address an appropriate business size range will be flawed.

There are two more issues for consideration in sample selection from the Bizcomps database. There is the method of payment for each transaction, the date of the transaction and the region of the country from which the sample was selected.

First, there is the matter of payment terms. There are two basic categories: 100% cash payment at close of escrow and partially seller financed via a seller carry-back promissory note. Virtually every book on business valuation published after around 1990 notes that the selling prices of businesses clearly tend to be higher when the seller partially finances the transaction via a seller carry-back note.

According to Shannon Pratt, “the difference between transactions concluded for all cash and those involving seller financing is usually quite significant in the sale of small businesses and professional practices. This is because the rate of interest on contracts carried by the seller is usually far below a market rate of interest for any other comparable contract.”<sup>24</sup> We find a similar position taken by Christopher Mercer in his discussion of fair market value when he states that “lenient [seller carry-back] terms combined with overstated prices must be discounted to current market rates and terms in order to replicate the cash-equivalent concept of fair market value.”<sup>25</sup>

Likewise, Richard Houlihan and D. Gray Merryman state that “...if the consideration [offered for a business] is not all cash, review the value of the consideration to be given and compare it to the fair market value of the business (an all-cash offer is not the same as *20 percent down payment* with the remaining purchase price financed by a long-term, low-interest rate note secured by the business being purchased).”<sup>26</sup>

This issue is revealed in Figure 4. The left-most distribution of selling price to earnings ratios is based on all transactions in the 2013 Bizcomps database that closed for 100% cash at closing. There is an observable statistical difference between the distribution of selling price to earnings ratios for that group compared to the group where the selling price was partially financed by the seller.<sup>27</sup>

---

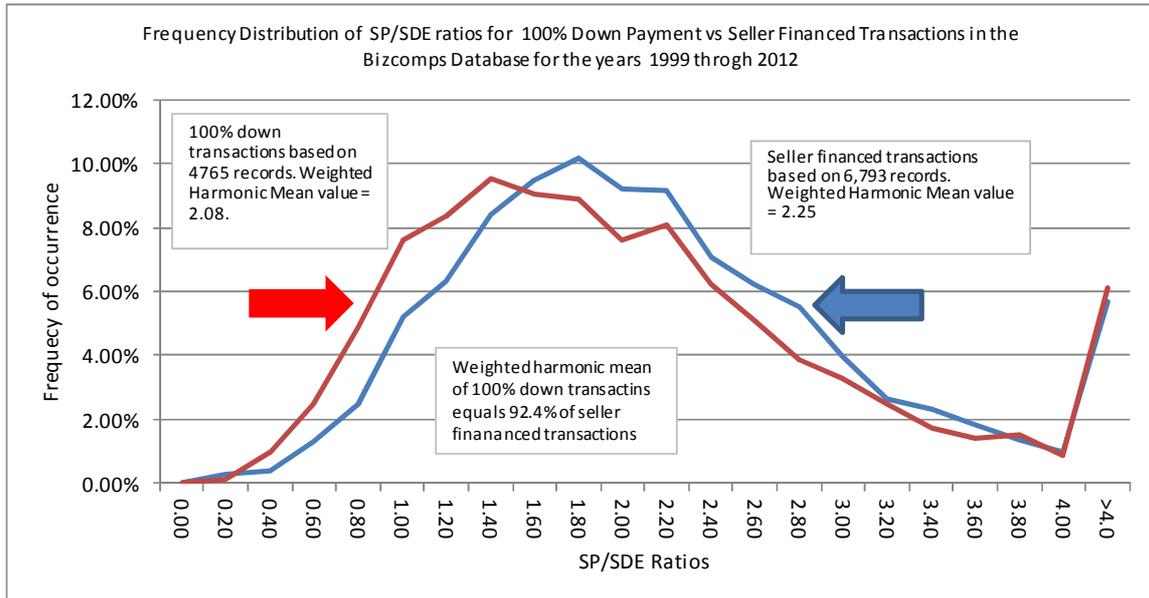
<sup>24</sup> Shannon Pratt, et. al, *Valuing Small Businesses and Professional Practices, 3<sup>rd</sup> Edition*, Copyright 1998 by McGraw-Hill, p. 490.

<sup>25</sup> Z. Christopher Mercer, *Quantifying Marketability Discounts*, Copyright 1997 by Z. Christopher Mercer, Peabody Publishing, LP, p. 8

<sup>26</sup> Richard Houlihan and D Grey Merryman, *The Investment Banker’s Perspective on Due diligence for Mergers, Acquisitions, and Securities Offerings, Handbook of Business Valuation, 2<sup>nd</sup> Edition*, Thomas L. West and Jeffery D. Jones, Editors, Copyright 1999 by Thomas L. West, published by John Wiley & Sons, p. 50.

<sup>27</sup> For detailed discussion of this topic see the Institute of Business Appraisers Quarterly Journal *Business Appraisal Practice, Third Quarter 2012* “Adjusting Seller-Financed Selling Prices to Their All-Cash Equivalent Value” by Toby Tatum.

Figure 4



This means that any transaction included in a statistical sample where the purchase price was partially financed by the seller, must be adjusted to its theoretical all-cash-at-closing price to properly represent a sample transaction where the terms of sale comport with the definition of fair market value. “In determining fair market value, you need to convert the “value” of any consideration received to its cash-equivalent basis. Researchers or practitioners who do not (or cannot) convert the proceeds reported in the databases to their cash-equivalent basis will come to faulty conclusions.”<sup>28,29,30</sup>

Unfortunately, there is no universally accepted method for adjusting seller-financed transactions to their theoretical all-cash-at-COE equivalent value. Therefore, the method I have selected is to

<sup>28</sup> Shannon Pratt & Roger Grabowski, *Cost of Capital: Applications and Examples, Third Edition*, Copyright 2008 by John Wiley & Sons, Inc., p. 445.

<sup>29</sup> Although I have yet to find a definition of ‘cash equivalents’ in the business valuation literature, I have found it defined in a purchase contract. It was defined as (a) marketable direct obligations issued or unconditionally guaranteed by the United States Government or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within one year from the date of acquisition thereof; (b) commercial paper maturing no more than one year from the date issued and, at the time of acquisition, having a rating of at least A-1 from Standard & Poor’s Rating Agency or at least P-1 from Moody’s Investors Service, Inc., and; (c) certificates of deposit or bankers’ acceptances maturing within one year from the date of issuance thereof issued by, or overnight reverse purchase agreements from, any commercial bank organized under the laws of the United States of America or any state thereof or the District of Columbia having combined capital and surplus of not less than \$100,000,000.

<sup>30</sup> *Cash equivalent price* is defined as “a price expressed in terms of cash, as distinguished from a price expressed totally or partly in terms of the face amounts of notes or other securities that cannot be sold at their face amount.” Appraisal Institute, *The Dictionary of Real Estate Appraisal, 4<sup>th</sup> ed.* “Cash equivalents include U.S. government Treasury bills, bank certificates of deposit, bankers’ acceptances, corporate commercial paper and other money market instruments.” <http://www.answers.com/topic/cash-equivalent>.

adjust the selling price to seller’s discretionary earnings ratio for each transaction by the average spread between the weighted harmonic mean value for all seller financed transactions and the weighted harmonic mean value for all of the 100% cash at closing transactions in the 2012 edition of Bizcomps.

From Figure 4 we see that the weighted harmonic mean value of selling price to seller’s discretionary earnings for all seller financed transactions is 2.25 and it is 2.08 for the all cash at closing transactions. Thus, it is reasonable to downwardly adjust the actual selling price for financed transactions by 7.55% (multiply the actual value by .924—i.e.,  $2.08 \div 2.25$ ).

The next issue is the matter of variation in transaction ratios based on the year of the transaction. From Figure 5, it is evident that there is some year-to-year volatility in the weighted harmonic mean value of the selling price-to-seller’s discretionary earnings. Therefore, just as it is necessary to adjust seller financed transactions to their all-cash-at-COE equivalent value, it is appropriate to adjust comparable transactions employed in a statistical sample to their 2012 equivalent value.

Figure 5

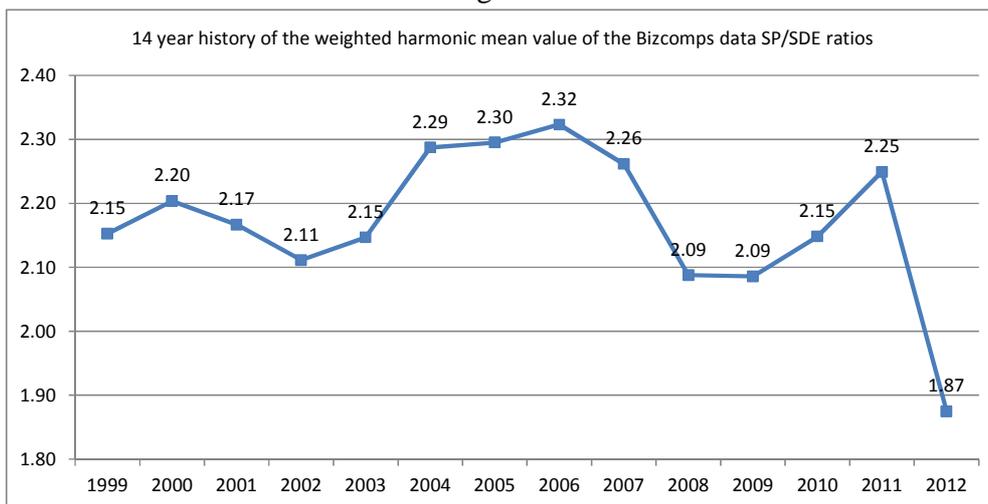


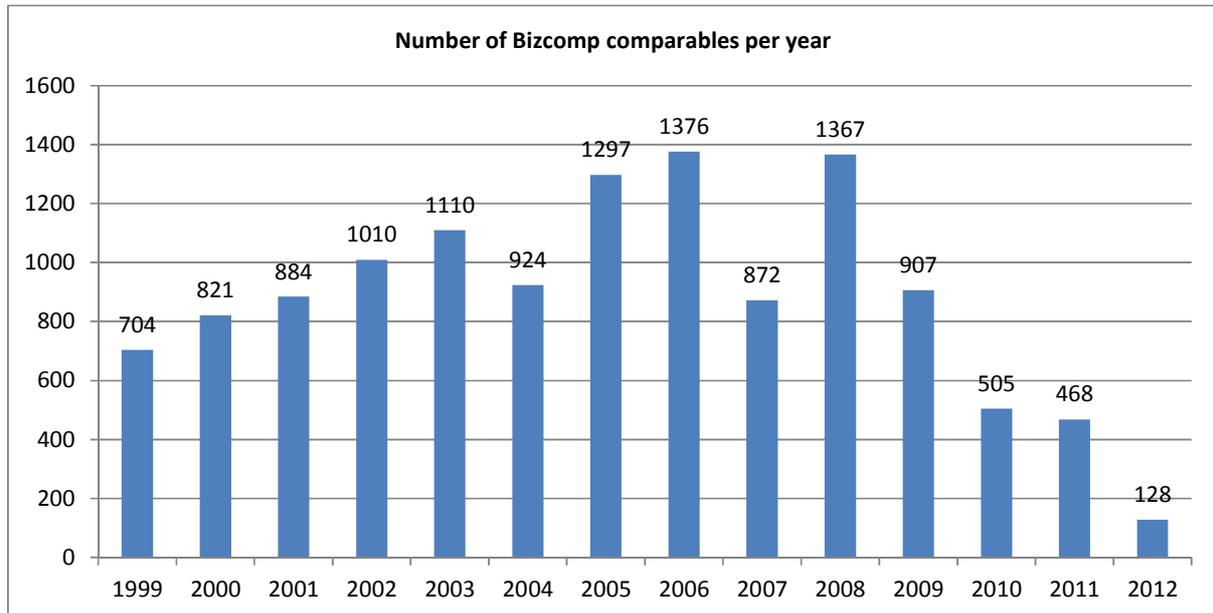
Figure 6

Year	Weighted Harmonic Mean value	Adjusted to as though sold in 2012
1999	2.15	87.09%
2000	2.20	85.08%
2001	2.17	86.52%
2002	2.11	88.79%
2003	2.15	87.32%
2004	2.29	81.95%
2005	2.30	81.68%
2006	2.32	80.69%
2007	2.26	82.89%
2008	2.09	89.80%
2009	2.09	89.88%
2010	2.15	87.27%
2011	2.25	83.35%
2012	1.87	100.00%

Figure 6 shows the adjustment for the SP/SDE ratio. In other words, a comparable transaction that occurred in 1999 must be multiplied by 1.061 to yield a 2012 equivalent value.

Figure 7 presents the number of comparables for each year presented in Figure 6

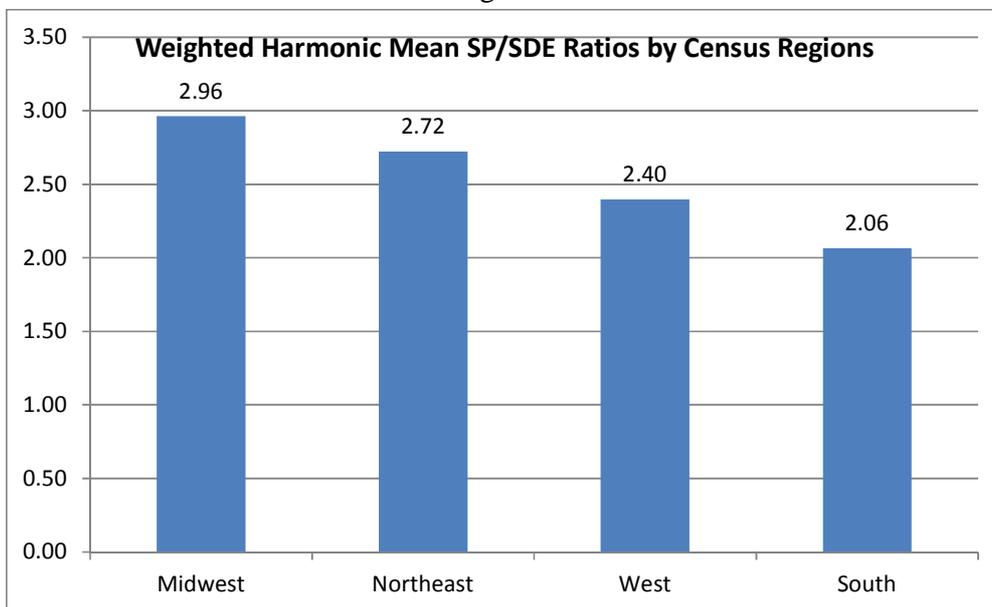
Figure 7



Regional SP/SDE variations

Figure 8 presents the central tendency in the SP/SDE ratios by Census Regions.

Figure 8



Clearly, there is significant disparity in the central tendency of the SP/SDE ratios among these four regions. The question is why? When it comes to the selling prices of real estate the commonly held belief that the three most important factors driving real estate values are location, location and location! But that's because every property is unique and it is that relative

uniqueness that drives value. However, the thing that drives a business's value is its expected future cash flow and the degree of risk that that cash flow will materialize. So, if you have two identical businesses—say two convenience stores; one in Cucamonga and one in Timbuktu and both are identical in historical financial performance, expected future financial performance and buyer's perceived risk profile then in theory they should have identical values; their different locations should be immaterial. Does the location of a manufacturing plant affect what a consumer is willing to pay for the product it manufactures? Does the location of a publicly traded company affect its stock price? Location per se should have no effect on business value fundamentals. A possible reason that would cause the SP/SDE ratios to differ among regions is a materially different mix in the numbers of different type of businesses being sold among the regions. We will look at this factor momentarily. Figure 9 presents the central tendency for the SP/SDE ratios for SIC codes 2000-3999—Manufacturing, 5000-5199—Wholesale Trade, 1500-1999—Construction, 7000-8999—Services and 5200-5999—Retail Trade for the entire country.<sup>31</sup>

Figure 9<sup>32</sup>

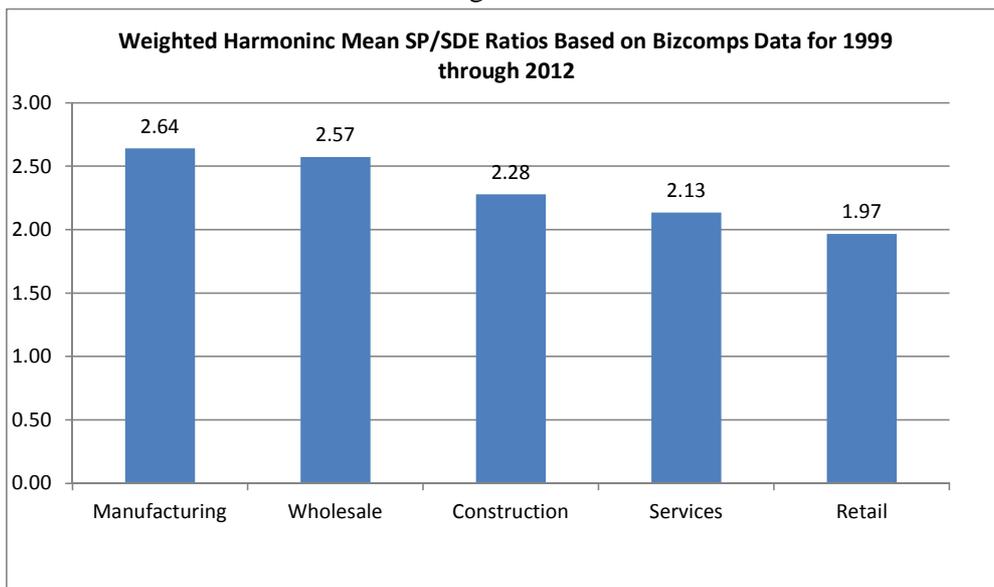


Figure 10 compares the weighted harmonic mean SP/SDE ratios between the entire US, the Midwest and the South by the same SIC categories and Figure 16 does the same for the West and Northeast.

<sup>31</sup> There is insufficient data in Bizcomps to reliably reflect the central tendency of SP/SDE ratios in other fundamental industry segments.

<sup>32</sup> In the past I posited that there is an inverse relationship between the prevailing wage in a region and the central tendency in that region's SP/SDE ratios. The theory being that the opportunity cost of quitting a job to buy a business is lower in low-wage regions and this causes competing buyer's to bid up the price they are willing to pay for a given cash flow. However, I have not been able to replicate a previous study I used to support that hypothesis and no longer hold this position.

Figure 10

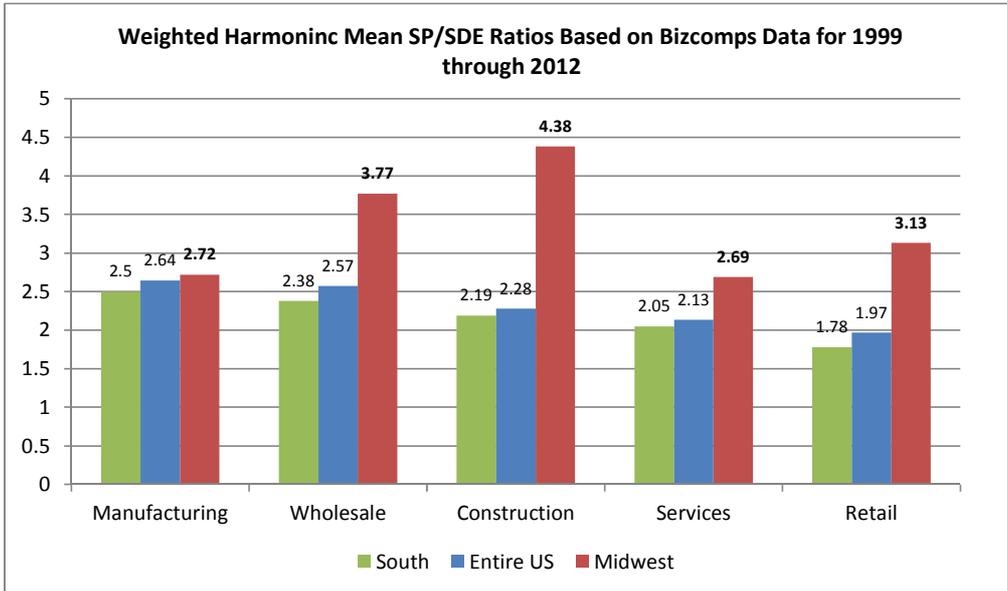
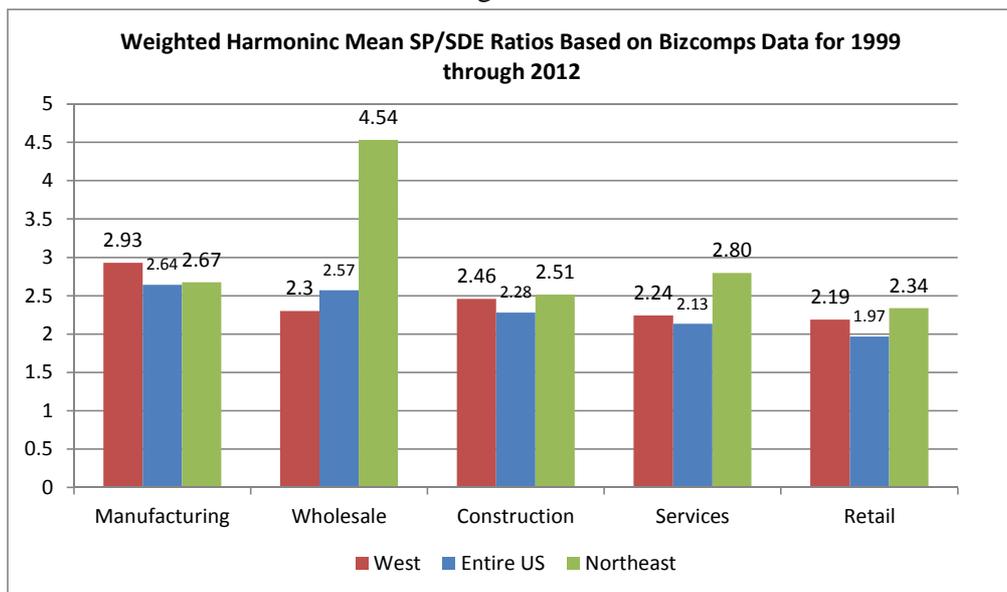


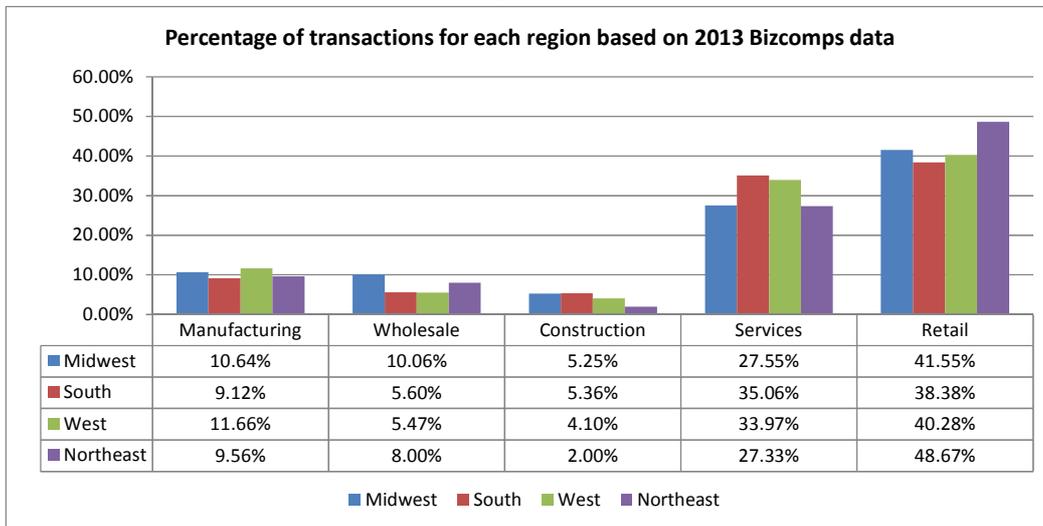
Figure 11



The proposition that the region of the country should not have any effect on the prices that buyers will pay for a given cash flow and risk profile notwithstanding, Figure 10 tells us that Midwestern buyers pay more for every type of business relative to the US average and that Southern buyers pay less for every type of business relative to the US average. However, with just a few exceptions, this empirical study depicted in Figures 10 and 11 suggests that for the most part these regional differences are not material.

Figure 12 presents the percentage of types of businesses sold in the different regions.

Figure 12



From Figure 12 we see that there is no material differences in the percentage of types of businesses sold among the different regions of the country. The differences in regional SP/SDE ratios presented in Figure 9 notwithstanding, I think the conclusion we can draw from the studies presented in Figures 10, 11, and 12 is that the observed differences in the central tendency of SP/SDE ratios within the different regions of the country are immaterial and therefore we can use comparable transaction data from different regions without a need to make any adjustments to the data for this reason.

As a final comment regarding adjusting the data, I have been asked more than once just how reliable is the raw data in the Bizcomps data base—in particular the veracity of the reported Seller’s Discretionary Earnings since this is a metric that the business brokers must formulate via adjusting the subject company’s actual income statements. For the most part I think this concern is spurious. From my experience as a main street business broker I can attest to the fact that all of the other business brokers with whom I do business do a very credible job of honestly and accurately making the necessary adjustment and there is no reason to suspect that they subsequently submit different values to Bizcomps. According to Shannon Pratt:

[All of] the databases are compiled by people and organizations that are well regarded for honesty and competence, with much of the data coming from members of the International Business Brokers Association and some from members of the Institute of Certified Business Counselors. There is no reason to consider the data to be biased, and the databases are well accepted by appraisers and the courts.<sup>33</sup>

<sup>33</sup> Shannon Pratt, *The Market Approach to Valuing A Business, Second Edition*, copyright 2005 by John Wiley & Sons, p.40

### Eliminating statistical outliers

The final source of error in the analysis of comparable transaction data is “statistical outliers.” That is, reported transactions with selling price to earnings ratios that lie far outside the normal range. There is no way to tell why these selling prices were so high (and on rare occasions so low). Nevertheless, by no more than common sense, it is safe to assume that these selling prices are not representative of transactions that reasonably comport with the definition of fair market value and therefore it is appropriate to eliminate them from the analysis. “Just keep in mind that the market [i.e., comparable transactions] should represent a rational, knowledgeable buyer and not the biggest sucker who will pay the most for the property. Suckers don’t count!”<sup>34</sup>

The process of elimination I recommend should be in two stages. In the first stage, all SP/SDE ratios greater than three standard deviations from the mean should be eliminated. Given this first-stage scrubbed data, the median SP/SDE ratio of the array should be employed in an analysis of the data. The second stage is the exclusion of any comparable whose SP/SDE ratio lays more than two standard deviations from the mean of the array. This second stage of scrubbed data should be used to determine the array’s weighted harmonic mean of the SP/SDE ratio. Because the weighted harmonic mean value lies much farther to the right of the right-skewed distribution than the median I think that defining outliers as SP/SDE ratios greater than two standard deviations alleviates the appearance of striving for a value indication biased to the high side. In any case, however, the selection of the range beyond which an SP/SDE ratio constitutes an outlier is an analyst’s subjective decision.

The scrubbing is done by computing each SP/SDE ratio’s “z-score” which is the number of standard deviations the SP/SDE ratios for a fully selling price-adjusted comparable differs from the array’s average SP/SDE ratio. In the analysis to follow you will see that there is no value greater than + or – 2.00 in the second-stage scrubbing. This means that any comparable with an SP/SDE ratio included in the initial sample selection with a z-score of + or – 2.01 or more—i.e., greater than two standard deviations from the sample mean value have been discarded.<sup>35</sup>

---

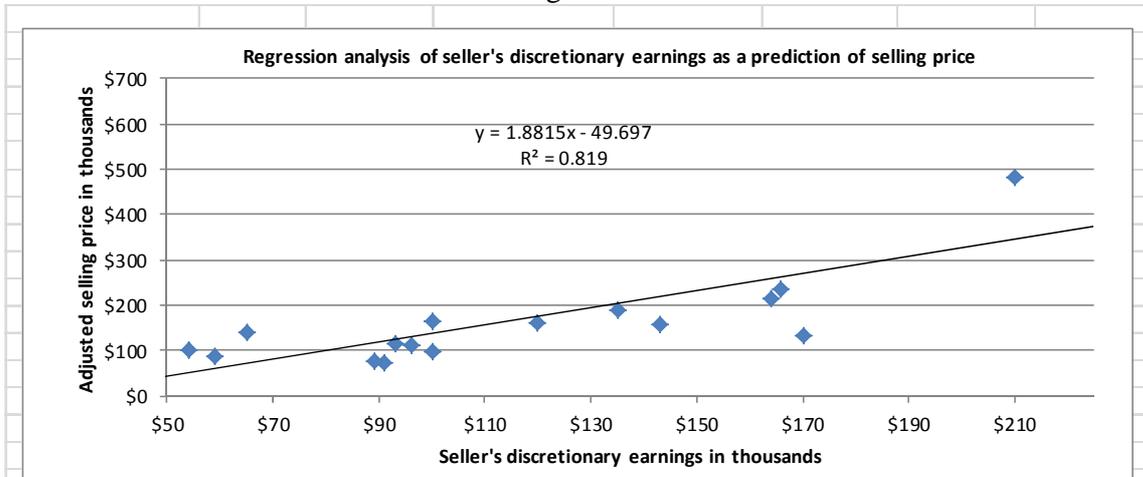
<sup>34</sup> Gary R. Trugman, *Understanding Business Valuation: A Practical Guide to Valuing Small to Medium Sized Businesses*, Third Edition, copyright 2008 by the American Institute of Certified Public Accountants, Inc., p. 725.

<sup>35</sup> To calculate the z-score, use Excel’s *Standardize* function: =Standardize(x,mean,standard\_dev) where x = each record’s SP/SDE ratio and mean = the arithmetic average of the array’s SP/SDE ratios and standard\_dev = the array’s SP/SDE ratio standard deviation.

Figure 13  
Analysis of the data

SIC	Business Description	Revenue	SDE	Price	Down Pmt	Sale Date	Sales date adjustment	All cash equivalent	Adjusted Selling Price	SP/SDE	z-score	FF&E
5812.03	Restr-Barbecue	917	170	180	86%	11/15/2006	80.69%	92.44%	\$134.262	0.790	-1.435	125
5812.03	Restr-Barbeque	175	91	90	11%	5/3/2010	87.27%	92.44%	\$72.605	0.798	-1.420	50
5812.03	Restr-Barbeque	376	89	95	100%	8/11/2005	81.68%	100.00%	\$77.596	0.872	-1.227	85
5812.03	Restr-Barbeque	4543	100	119	75%	1/7/2008	89.80%	92.44%	\$98.783	0.988	-1.051	50
5812.03	Restr-Barbeque	1258	143	199	50%	3/20/2000	85.08%	92.44%	\$156.509	1.094	-0.845	68
5812.03	Restr-Barbeque	246	96	138	100%	2/27/2006	80.69%	100.00%	\$111.352	1.160	-0.652	20
5812.03	Restr-Barbeque	247	48	73	73%	3/29/1999	87.09%	92.44%	\$58.769	1.224	-0.593	35
5812.03	Restr-Barbeque	660	93	132	100%	10/8/2010	87.27%	100.00%	\$115.196	1.239	-0.495	125
5812.03	Restr-Barbeque	1360	164	260	73%	12/3/2009	89.88%	92.44%	\$216.021	1.317	-0.413	388
5812.03	Restr-Barbeque	802	120	193	25%	9/1/2009	89.88%	92.44%	\$160.354	1.336	-0.376	79
5812.03	Restr-Barbeque	596	166	314	24%	11/3/2005	81.68%	92.44%	\$237.086	1.428	-0.198	85
5812.03	Restr-Barbeque	700	135	218	100%	4/30/1999	87.09%	100.00%	\$189.856	1.406	-0.160	106
5812.03	Restr-Barbeque	1400	275	482	50%	2/10/2008	89.80%	92.44%	\$400.114	1.455	-0.146	125
5812.03	Restr-Barbeque	845	59	110	27%	7/25/2010	87.27%	92.44%	\$88.740	1.504	-0.051	33
5812.03	Restr-Barbeque	500	100	205	25%	4/30/1999	87.09%	92.44%	\$165.037	1.650	0.233	80
5812.03	Restr-Barbeque	1594	254	560	20%	8/27/2004	81.95%	92.44%	\$424.226	1.670	0.271	703
5812.03	Restr-Barbeque	2145	251	560	20%	7/27/2004	81.95%	92.44%	\$424.226	1.690	0.310	510
5812.03	Restr-Barbeque	380	45	115	50%	6/30/2006	80.69%	92.44%	\$85.778	1.906	0.729	75
5812.03	Restr-Barbecue	403	54	114	100%	5/9/2002	88.79%	100.00%	\$101.221	1.874	0.774	30
5812.03	Restr-Barbecue	485	65	160	100%	7/5/1999	87.09%	100.00%	\$139.344	2.144	1.312	
5812.03	Restr-Barbecue	2261	254	707	100%	8/23/2005	81.68%	100.00%	\$577.478	2.274	1.571	670
5812.03	Restr-Barbeque	1310	210	589	100%	10/27/2004	81.95%	100.00%	\$482.686	2.299	1.620	511
5812.03	Restr-Barbeque	523	70	235	64%	5/31/2001	86.52%	92.44%	\$187.951	2.685	2.239	175
									Median =	1.428		

Figure 14



Subject company's Seller's Discretionary Earnings	\$166,081
Subject company's adjusted current assets	\$39,256

Regression equation data entry

x=	1.8815
Constant =	-\$49,697.000

Weighted Harmonic Mean = 1.51

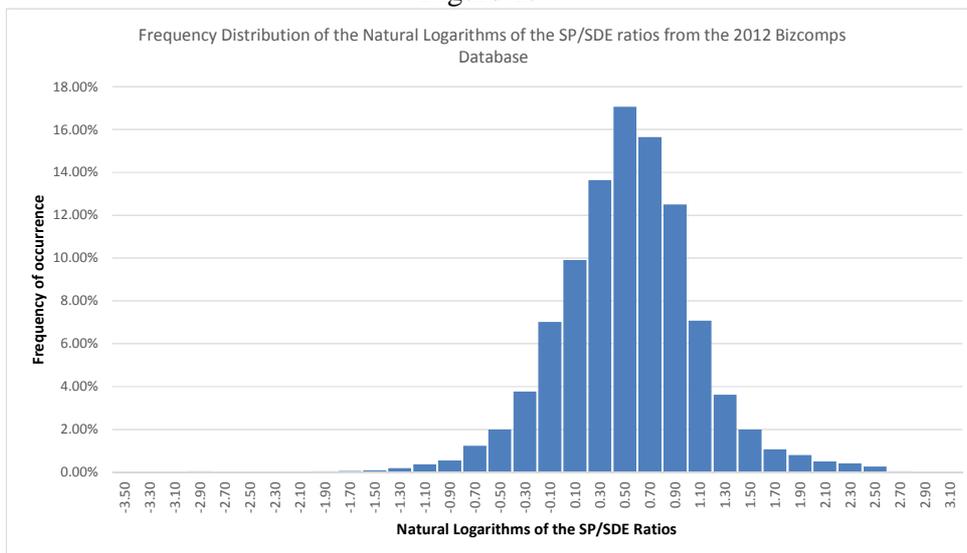
	Value indication of FF&E +Goodwill	Value of tangible assets & goodwill
Median	\$237,201.36	\$276,457
weighted harmonic mean	251,585.34	\$290,841
Liner regression of SP to SDE	\$262,784.40	\$302,040
Multiple Linear Regression	\$261,310.64	\$300,567

So far we have four value indications for the subject company's total assets including goodwill based on a multiple of the sample data's median SP/SDE ratio, its weighted harmonic mean SP/SDE ratio a linear regression analysis of the data and a multiple linear regression of the data (presented on the following page). The R-squared coefficient of the regression analysis is .819 which is well above the "highly acceptable" threshold of .70. On the following page, the comparable data is subjected to a multiple linear regression analysis.



Clearly, this is a right-skewed frequency distribution as expected. Statistical theory also tells us that if each data point is transformed into its natural logarithm that the frequency distribution should be approximately normal. Figure 17 presents the frequency distribution of the natural logarithms of the SP/SDE ratios appearing in Figure 16.

Figure 17



As expected, this distribution is indeed nearly normal. This exercise allows us to develop yet another value indication but this time from a nearly normal distribution. A perfect normal curve has a skewed coefficient of zero and kurtosis coefficient of 3.00. The frequency distribution in Figure 17 has a skewed coefficient of -.1344 and a kurtosis coefficient of 2.209. Compare this to these values in Figure 16 with a skewed coefficient of 3.446 and a kurtosis coefficient of 18.684. For all practical purposes, we are working with a normal distribution in Figure 17. Now all that is left is to transform the average and median logarithm values back into usable SP/SDE ratios.

The arithmetic average value of Figure 17's distribution is .620 and its median value (which would be identical to the average in a perfectly normal distribution) is .632. The Excel function that converts the natural logarithm back to its actual value is =Exp(value). So the average SP/SDE ratio determined via this methodology is 1.86 and the median value is 1.88.

Figure 18

LogNormal Valuation					
LogNormal Median Multiple	Conversion back to actual SP/SDE Ratio	Subject Company's SDE	Value of Goodwill & FF&E	Add Current Assets	Enterprise Value
0.35	1.417	\$166,081	\$235,377	\$39,256	\$274,633
LogNormal Average Multiple	Conversion back to actual SP/SDE Ratio	Subject Company's SDE	Value of Goodwill & FF&E	Add Current Assets	Enterprise Value
0.33	1.395	\$166,081	\$231,625	\$39,256	\$270,881

Figure 18 presents the application of this methodology to our subject company's adjusted SP/SDE ratios. Because this analysis employs the natural logarithms of the SP/SDE ratios it is estimating the central tendency of a population with a normal distribution. In this case the average natural logarithm is .31 and the median value is .33.

The resulting average SP/SDE ratio obtained is 1.369 and the median value is 1.397. Given these multiples we now have two additional enterprise value indications of \$345,898 and \$350,496.

#### Establishing the value conclusion

At this point we have six different value indications and an average of all six resulting from six different estimates for the central tendency of an industry's SP/SDE ratios:

From Figure 19

	Value indication of FF&E +Goodwill	Value of tangible assets & goodw ill
Median	\$237,201.36	\$276,457
weighted harmonic mean	251,585.34	\$290,841
Liner regression of SP to SDE	\$262,784.40	\$302,040
Multiple Linear Regression	\$261,310.64	\$300,567
Log Normal Median	\$235,377.03	\$274,633
Log Normal Average	\$231,625.12	\$270,881
Average of six calculations	\$246,647	\$285,903
Add Current Assets	\$39,256.05	Enterprise value \$325,159
Average Multiple of SDE	1.49	

Early in this presentation I noted that the valuation process based on the Bizcomps data ultimately results in an indication of the central tendency for private company selling prices *within a specific industry*. Thus what we have up to this point are six different estimates of the central tendency for the SP/SDE multiple within the subject company's industry within an annual sales range of \$246,000 and \$2,261,000.

Whatever multiple is ultimately synthesized from our six candidates, we can, but we don't necessarily have to let that multiple stand as the multiple at which the hypothetical typical buyer and seller will consummate the purchase and sale of the subject business. Keep in mind that up to this point all that we have been doing is developing an estimate of the central tendency for the subject company's industry's SP/SDE ratio (with the industry defined by the comparables employed in the analysis).

Based on my experience it is very common for appraisers to use the industry's estimated central tendency for the SP/SDE ratio as the appropriate metric upon which to estimate the value of the subject company. This average value is presented as Figure 19. However, I submit that it is okay to tailor our ultimately calculated multiple to reflect exceptional strengths and/or weaknesses in our subject company relative industry norms.

In the case of the subject company, in several ways it is superior to the average barbecue restaurant. It has a higher EBITDA than the industry average (Figure 5 in the Financial Analysis section). The company has been in profitable operation for over 25 years and is well known within the community. And, this restaurant has significantly differentiated itself from its competition by way of its excellent (and costly) unique exterior

and interior design and fixtures. For these reasons I am subjectively positioning the industry average selling multiple of 1.49 by 15% as reflected in Figure 20.

Figure 20

Subjective adjustment to the average SP/SDE Multiple	15.00%
Adjusted value of goodwill and FF&D	\$283,644.41
Plus current assets	\$39,256.05
Subject company's enterprise value indication	\$322,900

## THE INCOME APPROACH

### Private Enterprise Pricing Model (PEPM)

As the profession of business appraisal has matured over the years it has become increasingly evident that there is an ever growing discomfort employing the Capital Asset Pricing Model (CAPM)<sup>36</sup> for the valuation of privately owned business and especially for the valuation of small and very small businesses. According to Jay B. Abrams, "...many appraisers seriously overvalue small companies using discount rates appropriate for large firms only." [i.e., small companies with market values below the ranges published in Morningstar's SBBI Yearbook].<sup>37</sup> The same sentiment is expressed by Eric Nath in a more visual way when he states that:

Even if enhanced with size premiums and other adjustments, the historical market return analysis proposed in SBBI and Cost of Capital falls far short of where we ultimately need to be. For a hypothetical investor in a small middle market company, the difference between correlating long-term price movements in specific industries or company stocks against a completely diversified equity portfolio with a holding period equal to half a lifetime, and trying to understand the risk/required return dynamic for the potential acquisition is something like the difference between sailing to Cape Horn on an aircraft carrier versus doing the same trip in a twenty-four foot Catalina.<sup>38</sup>

As a result of this growing discomfort with the CAPM, we have seen in the relatively recent past the appearance of the Pepperdine Capital Markets Project and accompanying effort to develop a pre-tax, private enterprise cost of capital based on that research and very recently the appearance of the Implied Private Company Price Line (IPCPL)<sup>39</sup> and the most recently, the *Private Enterprise Pricing Model (PEPM)*.

The *Private Enterprise Pricing Model (PEPM)* is based on data obtained from the Bizcomps Database, the Bizminer Database, [www.CareerOneStop](http://www.CareerOneStop) salary data and Tom West's small business value rules of thumb as published in his annual *Business Reference Guide*. It was developed specifically for the valuation of small and very small privately owned businesses.

The fundamental objective of this model is to develop a pre-tax weighted average cost of capital discount rate intended for the user to apply to the expected future pre-tax cash flow to invested capital for the subject company.

---

<sup>36</sup> Of course, the original or, if you will, "pure" CAPM was not designed nor intended as a valuation methodology for privately owned businesses. For this reason appraisers have come to make various modifications or adjustment to the original CAPM in order to adapt it to the valuation of privately owned businesses. Thus the modified CAPM is frequently referred to as the MCAPM (for "modified") or the ACAPM (for "adjusted") or simply as the "Build Up Method," aka "BUM." Therefore, wherever the acronym CAPM appears in this presentation that term can also be interpreted to mean the MCAPM or the ACAPM or the BUM.

<sup>37</sup> Jay B. Abrams, *Quantitative Business Valuation*, copyright 2001 by McGraw-Hill, p. 154.

<sup>38</sup> Eric Nath, ASA, *The Biggest Business Valuation Myth*, *Business Valuation Review*, Volume 30 Number3 2011, American Society of Appraisers, p. 92.

<sup>39</sup> <http://biz-app-solutions.com/IPCPL.asp>

There are two key values on which this analysis is based; the Pre-Tax Net Cash Flow to Invested Capital and the Present Value of Invested Capital for a hypothetical company which serves as the baseline from which a discount rate for pre-tax cash flow to invested capital is developed. This is accomplished by developing value indications for two hypothetical companies—one via the rules of thumb combined with the Bizminer data and one via the Bizcomps and BizMiner data. These two value indications are then averaged and it is the average values for the two calculations of cash flow and value of invested capital from which our desired discount rate is created.

Figure 1 presents the rules of thumb data input for our subject company’s industry.

Figure 1

Input Rules of Thumb in the blue cells	Full Service Restaurant				
	Business Value based on Rules of Thumb				
1.80	Discretionary Cash Flow Multiplier. Price Includes	SDE	Low	Average	High
2.15		\$288,378	1.80	2.15	2.50
2.50	goodwill & FF&E	Selling Price Indication	\$519,080	\$620,013	\$720,945
Add Inventory?	Plus Inventory		\$37,910	\$37,910	\$37,910
Add FF&E?					
	Total		\$556,990	\$657,923	\$758,855
2.50	EBITDA Multiplier. Price Includes	EBITDA	Low	Average	High
2.75		\$238,378	2.50	2.75	3.00
3.00	goodwill, FF&E and Inventory	Selling Price Indication	\$595,945	\$655,540	\$715,134
Add Inventory?					
Add FF&E?					
	Total		\$595,945	\$655,540	\$715,134
0.25	Gross Sales Multiplier. Price Includes	Sales	Low	Average	High
0.30		\$3,009,841	0.25	0.30	0.35
0.35	goodwill & FF&E	Selling Price Indication	\$752,460	\$902,952	\$1,053,444
Add Inventory?	Plus Inventory		\$37,910	\$37,910	\$37,910
Add FF&E?					
	Total		\$790,370	\$940,862	\$1,091,354
	Averages		Low \$647,769	Average \$751,442	High \$855,114
					Number of Rules considered 3

Figure 2 presents the BizMiner data, Bizcomps data and fair market value wage data upon which our two hypothetical company values are based.

Figure 2

<b>BizMiner Data</b>	
9 Barbecue Restaurants in Reno	
Sales Revenue	\$3,009,841
EBITDA	\$238,378
Interest Expense	\$30,207
Pre-tax Net Profit	\$167,978
State & Federal Income Tax	\$48,761
Inventory value	\$37,910
Total Current Assets Value	\$332,682
Total Current Liabilities	\$250,493
Total Long-term debt	\$631,035
Original cost of Fixed Assets	\$1,207,913
Average life for fixed operating equipment	30.0
Inventory's % of Sales Revenue	1.26%
Net Working Capital	\$82,189
Average fair market value of FF&E	\$603,957
Average annual FF&E replacement & adds	\$85,965
Average annual increase in working capital	\$3,109.63
State & Federal Income Tax % of pre-tax net	29.03%
State & Federal Income Tax % of revenue	1.62%
<b>BizComps Data</b>	
Average Revenue	\$1,092,000
Average Sellers Discretionary Earnings	\$135,545
Weighted Harmonic Selling Price ÷ SDE	1.515
Fair Market Value Salary Estimate	\$50,000
Earnings growth rate estimate years 1-5	3.00%
Long-term earnings growth rate past year 5	3.83%
Geometric average annual growth rate	3.78%
Valuation date	December 31, 2013

Figure 3 presents the first of two hypothetical business values and cash flows and is based on the Bizminer and rule of thumb data presented in Figure 2. Figure 4 presents the second hypothetical business' value and cash flow based on the Bizcomps and BizMiner data. In Figures 3 and 4 the value of the inventory, remaining current assets, current liabilities, fixed asset replacements and increase in working capital are based on the BizMiner's percentages of sales revenue.

Figure 3

<b>Private Enterprise Pricing Model</b>		<b>PEPM</b>		
<b>Rules of Thumb</b>				
<b>Full Service Restaurant</b>				
Sales Revenue	\$3,009,841			
Discretionary Cash Flow	\$288,378			
FMV Owner/Mgr. Salary	\$50,000	1.66%		
EBITDA	\$238,378	7.92%	of sales	
Most probable selling price for goodwill plus FF&E	\$751,442			
Plus Inventory	\$37,910	1.26%		Percentage of Sales Revenue
Plus remaining current assets	\$294,772	9.79%		
Minus total current liabilities	-\$250,493	-8.32%		
Market Value of Invested Capital	\$833,631	27.70%		
EBITDA	\$238,378	7.92%		
Less fixed asset replacement and additions	-\$85,965	-2.86%		
less additions to working capital	-\$3,110	-0.10%		
Pre-Tax Net Cash Flow To Invested Capital	\$149,303	4.96%		

Figure 4

<b>Bizcomps</b>				
<b>Full Service Restaurant</b>				
Sales Revenue	\$1,092,000			
Discretionary Cash Flow	\$135,545			
FMV Owner/Mgr. Salary	\$50,000	4.58%		
EBITDA	\$85,545	7.83%	of sales	
Most probable selling price for goodwill plus FF&E	\$205,329	1.515	SDE Multiplier	
Plus inventory	\$13,754	1.26%		Percentage of Sales Revenue
Plus remaining current assets	\$106,946	9.79%		
Minus total current liabilities	-\$90,881	-8.32%		
Market Value of Invested Capital	\$235,148	21.53%		
EBITDA	\$85,545	7.83%		
Less fixed asset replacement and additions	-\$31,189	-2.86%		
less additions to working capital	-\$1,128	-0.10%		
Pre-Tax Net Cash Flow To Invested Capital	\$53,228	4.87%		

Figure 5

Average of 2 Market Value of Invested Capital	Average of 2 Pre-tax cash flow to invested capital
<b>\$534,389</b>	<b>\$101,266</b>

Figure 5 presents the average of the two independently calculated values of invested capital and pre-tax cash flow to invested capital presented in Figures 3 and 4.

Figure 6

Full Service Restaurant			
<b>Pre-Tax Weighted Average Cost of Capital Discount Rate =</b>			<b>25.23%</b>
Earnings growth rate estimate years 1-5		3.00%	
Long-term earnings growth rate past year 5		3.83%	
<b>Pre-Tax Weighted Average Cost of Capital Capitalization Rate =</b>			<b>21.45%</b>
	Year #	0	0.5
Pre-Tax Net Cash Flow To Invested Capital	<b>\$101,266</b>	\$104,304	\$107,433
Present Value of Pre-Tax Cash Flow to Invested Capital for 100 years		\$93,206	\$76,661
Present Market Value of Invested Capital	\$534,389	<b>\$534,389</b>	

Figure 6 presents the next to last step in the development of our discount rate for pre-tax weighted average cost of capital. In this case it is 25.23%. The discount rate is determined via a “back-solving” methodology which is to find the discount rate that renders the present value of the next 100 years’ pre-tax cash flow to invested capital equal to our valuation model’s value of invested capital of \$534,389.

Figure 7

Private Enterprise Pricing Model	2013
<b>Bill Bob's Barbecue</b>	Tuesday, December 31, 2013
Annual sales revenue	\$1,036,759.00
EBIDA	\$116,081.00
Owner's Discretionary Cash Flow	\$166,081.00
Interest expense on long-term debt	<b>\$4,050.10</b>
Total Current Assets	\$39,256.05
Value of Inventory	\$11,123.00
Total Current Liabilities	\$29,456.48
Total Interest Bearing Debt	\$81,003.00
Original Cost of Fixed Assets	\$255,443.00
Average life for fixed operating equipment	30.00
Current Fair Market Value of Fixed Operating Equipment	\$194,404.00
Less Fixed Asset Reserve for Replacements and Additions	-\$8,514.77
less additions to working capital	-\$123.18
Pre-Tax Cash Flow to Invested Capital	\$107,443.05
Estimated after-tax cash flow to inveted capial	\$90,647.01
Estimated after tax cash flow to equity	\$86,662.53
Earnings growth rate estimate years 1-5	3.00%
Long-term earnings growth rate past year 5	3.83%

At this point we initiate the valuation of our subject company by entering its financial performance metrics as illustrated in Figure 7

The present value of invested capital for our subject company as presented in Figure 8 is determined by forcing each of our subject company's valuation multiples to match the hypothetical multiples, one at a time. So, first we force our subject company's multiple of discretionary cash flow of 3.372 to equal the BizComps multiple of 1.515. We do this via Solver by making the value of in the cell indicating 3.372 equal 1.515 by changing the Company Specific Risk Adjustment.

Next, we repeat this process of forcing our subject company's remaining two multiples, one at a time, to equal our comparables' multiples. When this step is repeated forcing our subject's multiple of EBITDA to equal 2.75 and finally, when we set our subject's multiple of  $MVIC \div EBITDA$  to equal 3.

The final step is to calculate the average value of the three different Company Specific Risk Adjustments. This value becomes our "official" Company Specific Risk Adjustment. Thus with the value of minus 17.490% inserted we get our final value indication as presented in Figure 8 of 42.08%.

Figure 8

<b>Valuation of Bill Bob's Barbecue</b>	
	31-Dec-13
Average Discount Rate for Pre-Tax Cash Flow to Invested Capital	25.23%
Company Specific Risk Adjustment	16.851%
Subject company's discount rate for pre-tax cash flow to invested capital	42.08%
Present Value of Pre-tax Cash Flow to Invested Capital (100 years)-->	
Sum of the Present Values =Market Value of Invested Capital (MVIC)	\$339,558.20
Plus Current Liabilities	\$29,456.48
Subject Company's Enterprise Value (value of total assets including goodwill)	\$369,014.68
Preliminary Value of Owner's Equity (Enterprise value minus total liabilities)	\$258,555.20
Plus excess assets & plus or minus other adjustments	\$0.00
<b>Value of Owner's Equity</b>	<b>\$258,555.20</b>
Value of Subject Company's Goodwill	\$24,895.15

Now the difference between our subject's valuation multiples and our comparables' corresponding multiples are in optimum balance as we see in Figure 9.

Figure 9

Comparison of Valuation Multiples		
	Subject Company Multiple	Bizcomps Multiple
Multiple of Discretionary Cash flow for goodwill and FF&E only	1.986	1.515
	Subject Company Multiple	Rule of Thumb Multiple
Multiple of EBITDA for goodwill + inventory + FF&E	1.985	2.75
		a
	Subject Company Multiple	Model Composit MVIC/EBITDA
Multiple MVIC ÷ EBITA	2.925	3.299

Figure 10 presents the *implied* after-tax weighted average cost of capital and the owner's cost of equity capital. These two implied costs of capital were calculated by solving for the cost of capital that would make the present value of the after-tax cash flow to invested capital and after-tax cash flow to equity equal to the values obtained in Figure 8.

Figure 10

Implied after-tax weighted average cost of capital for the subject company	36.69%
Sum of present values of the estimated after-tax return on invested capital	\$324,023.00
Implied after-tax cost of equity capital for the subject company	46.30%
Sum of present values of the estimated after-tax return on owner's equity	\$250,548.60

## THE ASSET APPROACH (USING THE EXCESS EARNINGS METHOD)

### Introduction

The Excess Earnings valuation method is sometimes referred to as an “asset valuation approach” and sometimes as a “hybrid asset/income valuation approach.” Either way, this valuation method is one of the most widely used (and abused) methods in the practice of business appraisal. It is also known as the “formula method” and the “Treasury method” because it was developed by the federal government to determine the value of goodwill that breweries and distilleries would lose as a result of prohibition in the 1920’s. It owes its continued existence to IRS Revenue Ruling 68-609. It is being included in this report because most business appraisal clients expect it. However, a word to the wise: this method can progress from one seemingly logical step to the next and conclude with a completely absurd estimate of value. Either due to a lack of skill in its application or an intentional effort at deception on the part of a valuation practitioner, the end user of a business valuation is cautioned not to rely exclusively on this method. This fact is well recognized within the appraisal literature and the method has been largely discredited by its developers, the Internal Revenue Service. To wit:

From Revenue Ruling 68-609:

Preamble:

“The ‘formula’ approach may be used in determining the fair market value of a business only if there is no better basis for making the determination.”

From *Valuing Small Businesses and Professional Practices, 3<sup>rd</sup> Edition*

“The capitalized excess earnings method is one of the most widely used and misused methods of valuation for small businesses and professional practices. This is because analysts often naively apply the mechanics of this “formula method” without considering the sophisticated nuances of this conceptually elegant methodology. In addition, analysts often ignore the guidance regarding the proper implementation of this method contained in the IRS implementation rulings. Therefore, the result is a plethora of misapplications of a fundamentally sound (and potentially analytically rigorous) valuation method.”<sup>40, 41</sup>

These stern warnings about the efficacy of the Excess Earnings Method notwithstanding, the underlying premise of this valuation method holds that there are really two streams of cash which flow from a business. One stream is the cash flow attributable to the business’s tangible assets—the inventory, machinery and other tangible assets it utilizes. Once a determination has been made as to how much of a business’s cash flow is attributable to the tangible assets employed, any additional cash flow—i.e., any “excess earnings”—must therefore be attributable to the company’s goodwill.

The following valuation utilizes this technique. The simple mechanics and logic of the “Excess Earnings” valuation method makes it very appealing. However, determining what the appropriate rate of return on a

---

<sup>40</sup> Shannon Pratt, *Valuing Small Businesses and Professional Practices, Third Edition*, copyright 1998 by McGraw-Hill, p. 422.

<sup>41</sup> “Also called the formula or hybrid method, this method is somewhat controversial. For whatever reasons, some appraisers will not use it, while others (and I am one) find it very useful and applicable.” Stanley L. Pollock, BS, DMD, MS, PhD, JD, MCBA, MCMEA, ABAR, *BVR’s Guide to Valuing Dental Practices, First Edition*, p. 19.

company’s tangible assets should be and what an appropriate multiplier should be for a company’s “goodwill cash flow” is highly subjective. However, according to Shannon Pratt, “as long as all of the capitalized excess earnings method variables are applied consistently, this method will provide a valid estimate of value.”<sup>42, 43</sup>

Another feature of this method is that very often the calculations will produce a value conclusion wherein a company will have *negative* “goodwill.” What this means is that the *total* cash flow stream produced by the business is insufficient to justify its current investment in tangible assets. In these frequent instances, the good name and reputation and all the loyal customers of the business notwithstanding, no cash flow is available to allocate to them and therefore, the market says they have no value and the business has no “goodwill.”

Application of the Excess Earning Method

Figure 1

<b>Bill Bob's Barbecue</b>	<b>12/31/2013</b>
<b>Excess Earning Valuation Analysis</b>	
After-tax cash flow to invested capital	\$90,647.01
Adjusted Long Term Liabilities	\$81,003.00
Adjusted Current Liabilities	\$29,456.48
Adjusted Total Liabilities	\$110,459.48

The initial point of departure is to begin with the after-tax cash flow to invested capital first presented in Figure 7 in the PEPM section of this report of \$90,647.01 .

In order to estimate the required rates of return attributable to the subject company’s tangible assets, I employed a required rate of return “build-up” methodology.

The first step in this process is to assign each class of *tangible* assets their own unique required rate of return. This step is based on a buyer’s estimated cost of capital from the three fundamental sources:

<sup>42</sup> Shannon Pratt, et. al, *Valuing Small Businesses & Professional Practices, 3<sup>rd</sup> Edition.*, p. 410

<sup>43</sup> There is no generally accepted method by which to develop the capitalization rates used in this method. “Unfortunately for business appraisers, Internal Revenue Ruling 68-609 contains many ambiguities and leaves many unanswered questions. Various valuation practitioners have adopted a wide variety of interpretations to these ambiguities and a wide variety of answers to the unanswered questions.” (Pratt, *Valuing Small Business & Professional Practices, 3<sup>rd</sup> Edition*, p. 408). About the only issue regarding how best to develop appropriate required rates of return where there is universal agreement within the valuation literature is that the rates used for illustration purposes in Revenue Ruling 68-609 itself are clearly erroneous and, if used, will yield value estimates for most small businesses that are far too high.

1. Current liabilities (adjusted)
2. A third-party lender
3. The buyer's or owner's capital contribution (i.e., the FMV return on equity)

In this valuation model, the cost of capital in the form of current liabilities is assumed to be zero. In other words, it is assumed that all current liabilities are indeed current and that there will be no interest charged by vendors on balances due that are paid on time—typically within approximately 30 days.

In the case of the subject company, the value of total adjusted current assets is \$39,256.05 and the value of total adjusted current liabilities is \$29,456.48 as presented in Figure 2. Thus the first \$29,456.48 of total current assets has no carrying cost which means that the buyer's required rate of return on this amount is zero. However, there is a carrying cost, meaning there is a required rate of return for the balance of the net working capital totaling \$9,799.57 as well as for the value of the fixed assets adjusted to an estimate of their fair market value in use of \$194,404.00 a grand total of \$233,660.05.

Figure 2

Wall Street Journal Prime Lending Rate on valuation date	3.25%	Amount financed with current liabilities	Owner or bank financed
<b>Current Assets</b>			
	Amount		
Cash in bank and on Premises	\$13,654.73	\$13,654.73	\$0.00
Accounts Receivable	\$1,119.70	\$1,119.70	\$0.00
Inventory	\$11,123.00	\$11,123.00	\$0.00
Prepaid Insurance	\$4,557.00	\$3,559.05	\$997.95
Other current assets	\$8,801.62	\$0.00	\$8,801.62
		\$0.00	\$0.00
	\$0.00	\$0.00	\$0.00
		\$0.00	\$0.00
		\$0.00	\$0.00
Total Current Assets	\$39,256.05	\$29,456.48	\$9,799.57
<b>Adjusted Fixed Assets</b>		Fair Market Value	
Lease deposit	\$10,000.00		
Food service operating equipment	\$179,994.00		
Office equipment	\$4,410.00		
Total Fixed Assets	\$194,404.00		
Total Tangible Assets	\$233,660.05		

Figure 3

**Table 27. Standard Advance Rate (or LTV ratio) for Assets (%)**

	Typical Loan			Upper Limit		
	1st quartile	Median	3rd quartile	1st quartile	Median	3rd quartile
Marketable securities	78%	85%	93%	85%	88%	98%
Accounts receivable	75%	85%	85%	85%	85%	90%
Inventory - low quality	10%	23%	29%	25%	30%	48%
Inventory - intermediate quality	29%	48%	50%	45%	50%	65%
Inventory - high quality	50%	60%	63%	56%	63%	75%
Equipment	58%	68%	76%	68%	75%	80%
Real estate	54%	65%	71%	60%	70%	76%
Land	35%	48%	53%	25%	43%	56%

The next step is to determine what portion of \$298,997.86 can be financed with third-party debt and what portion must be financed with equity. This determination is based on the Pepperdine University’s survey of 64 lenders published in the 2013 Capital Market Report shown in Figure 3.

For the purpose of this analysis, the typical loan median values are used. We see in Figure 3 that the percentage of accounts receivable a lender will finance is 85%, for inventory, 48% and for equipment, 68%. These are the values that have been employed in the analysis as illustrated in Figure 4. The remaining percentage of the value of these assets must be financed with buyer equity capital.

Figure 4

Bill Bob's Barbecue	Total financed portion	Bank financed % and amount	
Cash in bank and on Premisis	\$0.00	0%	\$0.00
Accounts Receivable	\$0.00	0%	\$0.00
Inventory	\$0.00	0%	\$0.00
Prepaid Insurance	\$997.95	0%	\$0.00
Other current assets	\$8,801.62	0%	\$0.00
	\$0.00	0%	\$0.00
	\$0.00	0%	\$0.00
0	\$0.00	0%	\$0.00
Total Fixed Operating Equipment	\$194,404.00	68%	\$132,194.72

Figure 5

	<b>\$1M</b>	<b>\$5M</b>	<b>\$10M</b>	<b>\$25M</b>	<b>\$50M</b>	<b>\$100M</b>	<b>\$500M</b>
Cash flow loan	6.8%	6.5%	6.5%	5.8%	5.5%	5.5%	5.5%
Working capital loan	6.3%	5.1%	4.3%	4.3%	3.7%	3.0%	3.0%
Equipment loan	5.5%	4.9%	4.5%	4.0%	3.7%	3.5%	3.5%
Real estate loan	4.9%	4.7%	4.8%	4.0%	4.0%	n/a	3.8%
Typical Fixed-Rate Loan Term (months)	63	57	60	60	60	n/a	60

The next step is to determine the cost of the money that can be borrowed from a third-party lender or, put another way, the buyer’s required rate of return on these portions of these assets. Again, the data published by Pepperdine University presented in Figure 5 is used.

Figure 6, shows the percentage of assets that can be bank financed and the dollar amount. The required fair market value return on these assets is the Pepperdine study’s All-in-Rates for a \$1 million loan times 1 minus the 29.03% income tax rate = 4.95% for inventory and 3.90% for equipment. (The estimated income tax rate in this analysis is next year’s estimated income tax (See Figure 2 in the PEPM section of this report).

Figure 6

Bank financing after-tax cost	
Pep U All In Rate	After-tax cost
5.50%	3.90%
Weighted average =	3.90%

The final phase of this next-to-last step in the process is to determine the weighted average cost of third-party debt. This is the sum of the loan capacity for each of the asset categories times their respective after-tax interest rates divided by the total loan capacity—in this case, as we see in Figure 7 it is \$132,194.72 divided by \$204,203.57 which equals 64.74%.

The final step in this phase of the process is to calculate the buyer’s weighted average required rate of return on total tangible assets. This will be the sum of the cost of bank financed tangible assets and investor/buyer financed tangible assets.

From Figure 7 we see that the total value of financed tangible assets is \$204,203.57 and that 64.74% of this amount can be bank financed. So the bank financed portion of the total required rate of return on tangible assets is 5.50% times 64.74% of the total. Thus the after-taxes weighted average cost of bank financing equals 3.90% (see Figure 7).

The value of buyer financed tangible assets is \$72,008.85 or 35.26% of the total amount. The required rate of return on this amount is the buyer's cost of equity capital expressed as a capitalization rate. This is estimated to be 46.30% . Thus 46.30% times 35.26% = 16.33%

Therefore the weighted average required rate of return on tangible assets is the sum of the two weighted averages of 2.53% plus 16.33% = 18.85% as summarized in Figure 7.

Figure 7

64.74%	<b>Bank Financed</b> \$132,194.72 \$204,203.57	3.90%	2.53%
<b>Bank Financed</b>			
35.26%	<b>Owner Financed</b> \$72,008.85 \$204,203.57	46.30%	16.33%
<b>Owner Financed</b>			
Weighted average required rate of return on net tangible assets			18.85%

For an explanation of this calculated weighted average required rate of return on net tangible assets, see James R. Hitchner, *Financial Valuation Applications and Models, 2nd Edition*, page 138

The wild card in the preceding analysis is the estimated cost of investor/buyer equity capital. Hitchner recommends using the capitalization rate developed via the income approach which is the value employed here as determined in Figure 11 in the PEPM section of this report.

The second half of this entire valuation process is to determine the appropriate required rate of return to apply to the cash flow emanating from subject company's excess earnings. Once again, a subjective "build-up" method has been employed. In this case, I developed a list of key value drivers for the company and then created a required rate of return range for each expressed as a capitalization rate, presented as Figure 8. There is no limit to how high or low a rate may be assigned to each value driver in the analysis, but generally I established rates between 18% and 90%. As a second step, the individual capitalization rates computed for the list of value drivers has been subjectively weighted to reflect their relative importance, one to the other. The result of this dynamic matrix analysis is an overall capitalization rate for the subject company's "excess earnings."

The development of the excess earnings capitalization rate is the most problematic element of the Excess Earnings valuation method. This is because its development is entirely subjective. There is no authoritative source or empirical data upon which it can be based. In this report, an attempt is made to develop this capitalization rate in the most objective way possible. And that is by disaggregating the intangible elements of the subject company into approximately 75 component parts and assigning a subjective capitalization rate to each component, then weighting each of those rates to reflect their relative importance to one another.<sup>44</sup> The ultimately produced capitalization rate is the weighted average of all of the weighted intangible asset component-part capitalization rates which in this analysis was determined to be 46.96%.

---

<sup>44</sup> This method is an adaptation of the *Build-Up Summation Method* presented by Shannon Pratt in *Business Valuation Body of Knowledge*, copyright 1998 by John Wiley & Sons, Inc., pp. 124-125.

Figure 8

Intangible Asset Value Drivers		Page 2		
Note: any positive number will work. Go below 1 for conditions beyond terrible or above 5 for exceptionally superior conditions.		Score	Cap Rate	Weight
General Desirability of Business 1=terrible/2=below avg/3=average/4=above agv/5=outstanding		3	45.00%	50.00
		Weight		
Degree of Difficulty in Managing Business 1=very difficult/2=fairly difficult/3=average/4=fairly easy agv/5=very easy		2.5	54.00%	50.00
		Weight		
SIZE OF BUSINESS answer <b>yes</b> or <b>na</b> for these questions		Weight		
1=tiny. No full time employees beyond owner		na		
No supervisory employees beyond owners		na		
1 or 2 supervisory employees beyond owners		yes	45.00%	20.00
2 or more full time supervisory employees		na		
20 or more employees + 2 or more salaried management		na		
30 or more employees + professional management +owner		na		
30 or more employees w/professional mgt w/absentee ownership		na		
Company Trends 1=terrible/2=not good/3=flat/4=good/5=outstanding OR na if not applicable		Weight		
Historical (3 to 5 year) Sales Trend		2	67.50%	50.00
Historical (3 to 5 year) ODCF Trend		1.5	90.00%	50.00
Historical (3 to 5 year) Sales Volatility		4	33.75%	50.00
Historical (3 to 5 year) ODCF Volatility		4	33.75%	50.00
Other		na		
External Environment 1=terrible/2=not good/3=flat/4=good/5=outstanding OR na if not applicable		Weight		
National Economic Outlook		2.5	54.00%	30.00
Local/Regional Economic Outlook		2.5	54.00%	50.00
Business's Trade Area Economic Outlook		2.5	54.00%	50.00
Lack of Actual or Potential Competitive Threat		2	67.50%	50.00
Desirability of Geographic Location		5	27.00%	50.00
Vulnerability to Recession/Economic Downturns		1.5	90.00%	50.00
Vulnerability to Government Intervention		na		

Continued on next page

Figure 8 (continued)

Management		Page 3	
1=terrible/2=below avg/3=average/4=above agv/5=outstanding OR na if not applicable		Weight	
Quality of Financial Record Keeping	3	45.00%	30.00
Quality of Employees	4	33.75%	50.00
Lack of Labor Turnover	3	45.00%	30.00
Formal staff and management training materials & systems	3	45.00%	30.00
General Quality of Management	3	45.00%	50.00
Other	na		
Other	na		
Other	na		
Marketing		Page 3	
1=terrible/2=below avg/3=average/4=above agv/5=outstanding OR na if not applicable		Weight	
General Quality of Marketing	3	45.00%	30.00
Sales Growth Potential	3	45.00%	50.00
Patents, copyrights & other proprietary products & services	na		
Long term service and/or supply contracts	na		
	na		
	na		
Franchisor		Page 3	
1=terrible/2=below avg/3=average/4=above agv/5=outstanding OR na if not applicable		Weight	
Franchisor Years in Business	na		
Number of Franchisee Failures/Closures	na		
Territory Rights	na		
Number of Franchisees	na		
Franchise Assignability	na		
General Quality of Franchise Agreement	na		
Other	na		
Lease Terms		Page 3	
1=terrible/2=below avg/3=average/4=above agv/5=outstanding OR na if not applicable		Weight	
Years Remaining On Lease	na		
General Quality of Lease	na		
Ease of Lease Assignability	na		
Rent Escalation upon assignment	na		
Realistic Extension Options Available	na		
	na		
Other	na		
Other	na		
Other	na		

Continued on next page

Figure 8 (continued)

Physical Location of Business		Page 4	
1=terrible/2=below avg/3=average/4=above avg/5=outstanding OR na if not applicable		Weight	
Physical Location relative to Competition	4	33.75%	40.00
Visibility of Premises	5	27.00%	30.00
Visibility of Exterior Signage	5	27.00%	30.00
Ease of Ingress and Egress	3	45.00%	30.00
Physical Appearance of Building Exterior	5	27.00%	30.00
Physical Appearance of Building Interior	5	27.00%	30.00
Adequacy of Premises for nature of business	5	27.00%	30.00
Other	na		
Years in Business		Weight	
answer <b>yes</b> or <b>na</b> for these questions			
Business owned & operated by same owner/family for over 20 years	na		
Business owned & operated by same owner/family for 10 to 20 years	yes	27.00%	25.00
Business owned & operated by same owner/family for 5 to 10 years	na		
Business owned & operated by same owner/family for less than 5 years	na		
Business established more than 5 years ago	na		
Business established 3 to 5 years ago	na		
Business established less than 3 years ago	na		
Negative Intangible Asset Value Drivers		Weight	
1=extreme/2=strong/3=moderate/4=weak/5=not at all OR na if not applicable			
High concentration of sales revenue in a limited number of customers	na		
Limited access to alternative suppliers for key production inputs	na		
Jobs and revenue obtained through competitive bidding process	na		
Difficult to find trained & experience employees for key positions	na		
Highly seasonal business	na		
Other	na		
Total weighted required rate of return			52357.50%
Total weight			1115.00
Excess earnings capitalization rate (total weighted return divided by total weight)=			46.96%

Once the two key variables, the required rate of return on tangible assets and the capitalization rate for the subject company's excess earnings have been determined, all that is left to do is plug them into the valuation model presented below as Figure 9.

Figure 9

<b>Baskow &amp; Associates, Excess Earning Valuation</b>	
Employing the weighted average cost of capital	
Total value of tangible assets net of current liabilities	\$204,204
Weighted average required % annual return on assets	18.85%
Required Return on Tangible Assets net of current liabilities	\$38,500
After tax net cash flow to invested capital next year	\$90,647
Net cash flow in excess of required return on tangible assets	\$52,148
Capitalization Rate for Excess Earnings	46.96%
Value of Excess Earnings ("Goodwill" value)	\$134,625
Plus FMV of Tangible Assets net of current liabilities	\$204,204
Market value of Invested Capital (Total assets value minus current liabilities)	\$338,828
Plus Current liabilities	\$29,456
Enterprise Fair Market Value (value of current assets + fixed assets + goodwill)	\$368,285
Fair market value of owner's equity (Enterprise value minus total liabilities)	\$257,825
Capitalization rate on Invested Capital	26.75%

This value conclusion is based on the generally accepted application of the Excess Earnings method which employs the weighted average cost of capital. For this reason, this version of this model specifically indicates that it employs the weighted average cost of capital.

## VALUATION SYNTHESIS

The various methods employed to estimate the fair market value of the subject company are summarized below. Each method resulted in a different value conclusion, which is to be expected. There is no such thing as the “perfect” or “most reliable” method. For this reason, multiple valuation methods have been employed where each approaches the task from a different perspective. A value estimated has been developed for the subject company under the Income Approach, the Asset Approach and the Market Approach.

At this final stage of the valuation process, it is left to the appraiser to make a determination as to the relative reliability of the various valuation methodologies as they relate to this specific company. For example, sometimes the Market Approach will appear to be the most reliable and sometimes it will appear to be the least reliable—it all depends on how great or how small the dispersion is among the transaction ratios in the sample data selected to represent the subject company’s industry. For this reason, as the final step, each value conclusion has been weighted so as to reflect the appraiser’s opinion of the relative reliability of the valuation methods employed in this particular case. Thus the final conclusion of value is the weighted average of the various methods.

	Enterprise Value (value of total assets excluding excess assets & liabilities)	Weighting of the method	Weighted value
Income Approach via PEPM	\$369,015	45.00%	\$ 166,057
Excess Earnings	\$368,285	10.00%	\$ 36,828
Market Approach with Bizcomps	\$322,900	45.00%	\$ 145,305
			\$ -
			\$ -
			\$ -
	Sum of the weights		\$ 348,190
	<b>Enterprise Value</b> (value of total assets excluding excess assets & liabilities)		<b>\$ 348,200</b>
	Minus adjusted liabilities		\$ 110,284
	Fair market value of owner's equity (excluding excess assets & liabilities)		\$ 237,916
	Plus excess assets		<b>\$ 25,000</b>
	Minus excess liabilities		
	Fair market value of owner's equity		<b>\$ 262,916</b>

In this case, I believe that the value indications via the income approach and the market approach are equally compelling and therefore I have weighted them equally. I have given the value indication via the Excess Earnings method minimal weight because of the well-known lack of empirical evidence to offer in support of the excess earnings capitalization rate.

Toby Tatum

## **Appraiser Qualifications**

### **Management Skills and Experience**

Experienced Leader, Manager, Strategic Planner

- Former President, CEO and CFO of a multiple-location franchised restaurant business. Built the company from 1 unit grossing \$300,000 a year to 6 restaurants, employing 275 people, grossing approximately \$9 million a year. Managed company finances and financial record keeping. Developed and implemented unit-level cost analyses and control systems plus extensive employee training program incorporating handbooks, manuals, audio-visual programs, seminars and performance evaluations. Created comprehensive system of company policies and procedures as well as management and hourly employee compensation programs, including financial and non-financial incentive programs.

Former member of:

- California Restaurant Association Board of Directors, 1992 - 1994
- Sonoma National Bank Advisory Board, 1991 - 1995
- National Sizzler Franchise Association Board of Trustees, 1979 - 1994
- Sizzler Restaurant International's Strategic Planning Committee, 1993
- Bay Area Sizzler Advertising Cooperative, 1973 - October 1994

### **Financial and Statistical Analysis Skills and Experience**

Substantial knowledge, skill and experience in Profit & Loss Statement and Balance Sheet analysis plus operating cost analysis and control as well as sales, costs and earnings forecasting. Experienced in capital project budget planning and control.

- **Certified Business Appraiser (CBA)** conferred by the Institute of Business Appraisers. The second of only four people in Nevada to obtain this very-difficult-to-earn credential.
- **Certified Valuation Analyst (CVA)** Conferred by the National Association of Certified Valuators and Analysts
- **Master Analyst in Financial Forensics** with a specialty in Matrimonial Litigation conferred by the National Association of Certified Valuators and Analysts
- Business appraiser for Andersen & Company, LLC, Santa Rosa, California.
- Former Assistant Chief of Fiscal Services for the Nevada Department of Corrections.
- Expert in multi-unit retail labor cost analysis and control. Author of "Labor Productivity's Relationship to the Cost of Labor and Profitability in the Restaurant Industry," article in *National Productivity Review*, Winter Edition 1987-88

### **Writing Skills and Experience**

- Author of four books
- Former columnist for the Reno-Gazette Journal. Wrote the semi-monthly column *Small Businesses* that provided financial management advice to small business owners.
- Former columnist for *Northbay Biz* magazine. Wrote the monthly column *Business Beat* that provided financial management advice to small business owners.
- Author of numerous articles for the Institute of Business Appraisers' quarterly journal *Business Appraisal Practice* and Thomson/Reuter's bimonthly journal *Appraisal Strategies*

## **Business Mergers & Acquisitions Skills and Experience**

Highly knowledgeable regarding the mergers and acquisitions of privately owned businesses.

- Certified Business Intermediary (CBI) conferred by the International Business Brokers Association. (resigned from the IBBA in 2007)
- Currently the owner of Alliance Business Appraisal & Tatum Business Brokerage, LLC, Reno Nevada
- Currently one of only two people approved by the Nevada Real Estate Division to teach the Division's mandated 24-hour course for the Business Opportunity Brokerage Permit.
- Author of *Anatomy of a Business Purchase Offer: step-by-step instructions to successfully close a deal*
- Author of *Transaction Patterns: Obtaining Maximum Knowledge from the Bizcomps Database*. This book on applied statistical analysis for the valuation of small businesses is on the recommended reading list of the National Association of Certified Valuation Analysts and the American Society of Appraisers.
- Author of *Pricing A Small Business For Sale: A Practical Guide for Business Owners, Business Brokers, Buyers and Their Advisors*, published by the Institute of Business Appraisers in 2009. Awarded Best Publication of the Year by the IBA.
- Currently a licensed real estate broker in Nevada & California
- Member of the Northern Nevada chapter of Mensa

## **Public Speaking and Training Skills and Experience**

- Former Guest Lecturer, Sonoma State University, 1976-1994
- Former Guest Lecturer, University of Nevada, Reno 1997-1999
- Former Associate Professor of Management, Sonoma State University, (taught Small Business Management)
- Former Faculty, University of Phoenix, Reno Campus, (taught Strategic Thinking)
- Former Adjunct Professor of Business Administration at the Sierra Nevada College, Incline Village, Nevada (taught Principles of Management)
- Current Business Broker Trainer, Pioneer School of Real Estate, Carson City, Nevada (I am the first person the Nevada Real Estate Division's has approved to teach this course that was mandated by SB 315 in 2005)
- Toastmasters for about two years and the Dale Carnegie public speaking course

## **Technical Skills**

- Expert in Excel, Word.
- Experienced using Power Point, Minitab and Data Desk statistical analysis, Survey Pro market research, Crystal Ball Monte Carlo Simulation software

## **Education**

- MBA, San Francisco State University 4.0 GPA
- BA, Management, Sonoma State University 3.9 GPA

## **Veteran**

Formerly Sergeant Tatum, First Air Cavalry Division, U.S. Army, Republic of Vietnam  
Decorated: Vietnam Service Medal, Vietnam Cross of Gallantry, Bronze Star

### **JOURNAL ARTICLES BY TOBY TATUM**

Valuing a Business via the CAPM and Monte Carlo Simulation

*Business Appraisal Practice* published by the Institute of Business Appraisers April 2014

Valuing a Small Business via the Bizcomps Database

*Valuation Strategies* published by Thomson/Reuters Press January 2014

The Danger in the Selling Price-to-Gross Multiple Revisited

*Business Appraisal Practice* published by the Institute of Business Appraisers January 2014

Analysis of the Bizcomps Database: Past and Present

*Business Appraisal Practice* published by the Institute of Business Appraisers 2013

Adjusting Seller-Financed Selling Prices to Their All-Cash Equivalent Value

*Business Appraisal Practice* published by the Institute of Business Appraisers 2012

Some Observations on Statistical Sample Size

*Business Appraisal Practice* published by the Institute of Business Appraisers January 2012

The Danger in the Selling Price-to-Gross Multiple

*Business Appraisal Practice* published by the Institute of Business Appraisers 2011

A new method for building a CAPM discount rate for small businesses based on SBBI data

*Business Appraisal Practice* published by the Institute of Business Appraisers 2010

### **BOOKS BY TOBY TATUM**

*Transaction Patterns: Obtaining Maximum Knowledge From the Bizcomps Database*; published by Toby Tatum, 2000

*Anatomy of a Business Purchase Offer: Step-by-Step Procedures to Preparing a Successful Offer, Second Edition*; published by Business Book Press, 2007

*Pricing A Small Business For Sale: A Practical Guide for Business Owners, Business Brokers, Buyers and Their Advisors*; Awarded **Best Publication of the Year** by the Institute of Business Appraisers; published by the Institute of Business Appraisers, 2009

*Turning Black Ink Into Gold: How to increase your company's profitability and market value through excellent financial performance reporting, analysis and control*; published by Toby Tatum, 2011

### **PRESENTATIONS BY TOBY TATUM**

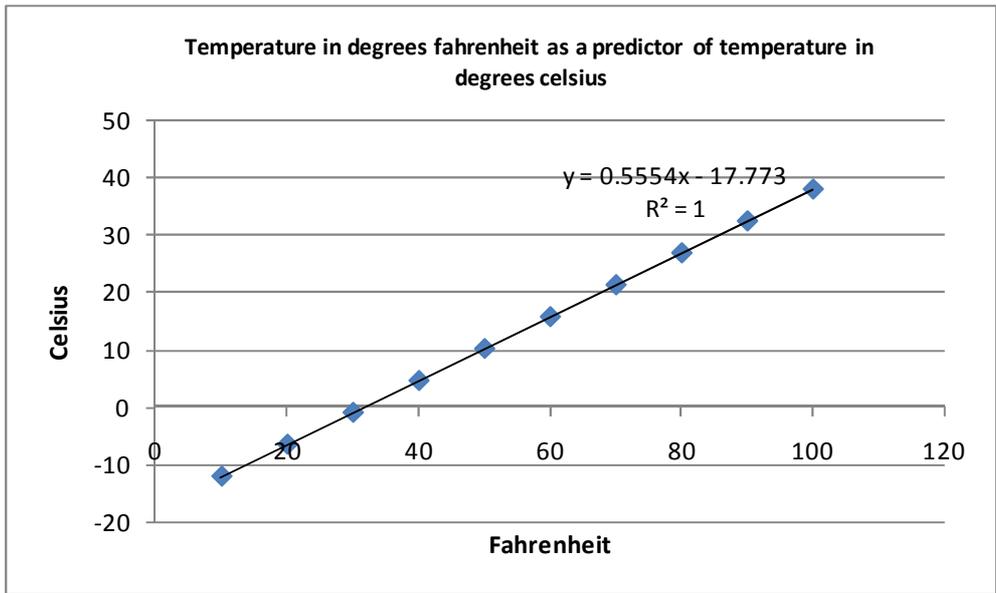
Guest speaker at the Michigan Society of CPA's annual Business Valuation Conference, 2012

Guest speaker at the New York Society of CPA's annual Business Valuation Conference, 2013

APPENDIX I

**Explanation of Regression Analysis**

The r-squared coefficient of the regression equation is significant. Essentially, it “explains” how well the predictor variable, in this case Seller’s Discretionary Earnings, explains or accounts for the outcome of the response variable which in this analysis is the business’s selling price. For example, if the r-squared coefficient of the regression equation is 1.0, then the predictor variable is said to account for 100% of the reason why the predicted variable is what it is. To illustrate this concept, assume the predictor variable of a regression analysis is temperature measured in degrees Fahrenheit and the response variable is temperature measured in degrees Celsius. If we take 10 different temperature readings in degrees Fahrenheit—say 100°, 90°, 80°, 70°, 60°, 50°, 40°, 30°, 20° & 10°, and note that the corresponding temperature in degrees Celsius in each instance respectively is 37.77, 32.22, 26.66, 21.11, 15.55, 10.00, 4.44, -1.11, -6.66 & -12.22 and submit the data to regression analysis, we would get the following results:



In this example, the r-squared coefficient is 1.0, meaning that the temperature readings taken in degrees Fahrenheit account for 100% of the reason why the corresponding temperatures in degrees Celsius are what they are. Moreover, the regression equation enables us to predict with absolute certainty what any temperature in degrees Celsius will be if we know the temperature in degrees Fahrenheit. For example, if the temperature in degrees Fahrenheit is 75 degrees, the temperature in degrees Celsius will be  $.5554 * 75^\circ - 17.773^\circ$  which equals 23.88 degrees Celsius.

In the analysis of business transaction data, there will never be a case where the predictor variables in the comparable sample data, Seller’s Discretionary Earnings, will account for 100% of the reason why the observed response variables, Selling Prices, are what they are. Depending on the industry under study, the r-

squared coefficients of the regression equations can range anywhere from around .15, meaning that only 15% of the reason selling prices in that industry are explained by seller's discretionary earnings to r-squared coefficients as high as 98%, meaning that 98% of the reason why selling prices in that industry can be accounted for based on observed seller's discretionary earnings.

Therefore, when estimating the fair market value of a company based on the market approach via the submission of comparable transaction data to regression analysis, the reliability of the value conclusion developed thereby can be quite reasonably assessed by the r-squared coefficient (assuming a minimum sample size of 30 comparables). The closer the r-squared coefficient is to 1.0, the greater the weight that may be accorded that value estimate. Conversely the lower the r-squared coefficient is relative to 1.0, the less reliable will be that value estimate.

APPENDIX II  
ACTUAL AND ADJUSTED FINANCIAL STATEMENTS FOR THE SUBJECT COMPANY

Billy Bob's Barbecue				
	2009			2009
Sales Revenue	Actual	Adjustment	Footnote	Adjusted
Food & Beverage Sales	\$1,019,575.43			\$1,019,575.43
Less Sales Tax	-\$66,701.24			-\$66,701.24
Total Revenue (net of sales tax)	\$952,874.19			\$952,874.19
Cost of Goods Sold				
Food cost	\$362,092.19			\$362,092.19
Beer & Wine	\$50,502.33			\$50,502.33
Total Cost of Goods Sold	\$412,594.53			\$412,594.53
Gross Profit	\$540,279.67			\$540,279.67
Direct Labor Cost				
Direct Labor	\$171,517.35			\$171,517.35
Overtime Labor	\$11,434.49			\$11,434.49
Vacation Pay	\$8,575.87			\$8,575.87
Employer's SSN	\$14,364.58			\$14,364.58
State Unemployment Insurance	\$2,058.21			\$2,058.21
Federal Unemployment Insurance	\$1,372.14			\$1,372.14
Worker's Comp Insurance	\$5,145.52			\$5,145.52
Total Direct Labor Cost	\$214,468.16			\$214,468.16
Total Direct Conversion Costs	\$627,062.68			\$627,062.68
Gross Margin	\$325,811.51			\$325,811.51
Marketing				
Newspaper Advertising	\$19,057.48			\$19,057.48
Radio Advertising	\$18,104.61			\$18,104.61
Yellow Pages	\$476.44			\$476.44
Direct Mail Advertising	\$1,905.75			\$1,905.75
Total Marketing Expenses	\$39,544.28			\$39,544.28
Other Variable Costs				
Cleaning Materials	\$5,907.82			\$5,907.82
Small Wares	\$2,668.05			\$2,668.05
Outside Maintenance	\$6,670.12			\$6,670.12
Repairs	\$4,764.37			\$4,764.37
Total Other Variable Costs	\$20,010.36			\$20,010.36
Total Variable Costs	\$686,617.32			\$686,617.32
Contribution Margin	\$266,256.87			\$266,256.87

Continued on the following page

Contribution Margin	\$266,256.87			\$266,256.87
<b>Non-Discretionary Fixed Costs</b>				
Rent	\$66,000.00			\$66,000.00
Depreciation & Amortization Expense	\$25,727.60	-\$25,727.60	1	\$0.00
Utilities	\$18,104.61			\$18,104.61
Property & Liability Insurance	\$4,764.37			\$4,764.37
Bookeeping & Accounting	\$0.00	\$3,000.00	2	\$3,000.00
<b>Total Non-Discretionary Fixed Costs</b>	<b>\$114,596.58</b>			<b>\$91,868.98</b>
<b>Discretionary Fixed Costs</b>				
Owner's Salary	\$62,740.00	-\$62,740.00	3	\$0.00
Overhead on Owner's Salary	\$22,456.24	-\$22,456.24	3	\$0.00
Owner's Health & Life Insurance	\$18,647.75	-\$18,647.75	3	\$0.00
Owner's Automobile Expenses	\$4,907.30	-\$4,907.30	3	\$0.00
Travel & Entertainment	\$0.00	\$0.00		\$0.00
Dues & Subscriptions	\$0.00			\$0.00
Interest on Bank Loan	\$0.00			\$0.00
Charitable Contributions	\$0.00			\$0.00
<b>Total Discretionary Fixed Costs</b>	<b>\$108,751.29</b>			<b>\$0.00</b>
Total Fixed Costs	\$223,347.88			\$91,868.98
Total Operating Costs	\$909,965.20			\$778,486.30
Net Operating Income (Loss)	\$42,908.99			\$174,387.89
<b>Other Income</b>				
Gain on sale of equipment	\$400.00	-\$400.00	5	\$0.00
Total Other Income	\$400.00			\$0.00
<b>Other Expenses</b>				
Loss on sale of assets	\$0.00			\$0.00
Total Other Expenses	\$0.00			\$0.00
Pre-Tax Income (Loss)	\$43,308.99			\$174,387.89
State Income Tax	\$0.00			\$0.00
Federal Income Tax	\$5,677.29	-\$5,677.29	6	\$0.00
Total Income Tax	\$5,677.29			\$0.00
Net After Tax Income (Loss)	\$37,631.71			
<b>Owner's Discretionary Cash Flow</b>				<b>\$174,387.89</b>
Minus FMV Owner Salary				\$62,000.00
Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA)				\$112,387.89

Continued on the following page

Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA)				\$112,387.89
---	--	--	--	--------------

Footnotes

1. Depreciation & Amortization expense is added back as a non-cash expense to compute Seller's Discretionary Earnings
2. The owner's son is a CPA and does not charge the company for his bookkeeping, accounting and tax preparation services. This is an expense the typical buyer would have to pay.
3. These are all discretionary owner expenses and prerequisites that are added back to cash flow to compute Seller's Discretionary Earnings.
4. Interest expense is added back as a discretionary expense and not a cost of doing business
5. The gain on sale is a non-recurring source of income
6. Income tax is added back to cash flow to compute Seller's Discretionary Earnings.

Continued on the following page

Billy Bob's Barbecue				
<b>Assets</b>	2009			2009
Current Assets	Actual	Adjustment	Footnote	Adjusted
Cash in banks & on-premises change bank	\$15,003.01			\$15,003.01
Accounts Receivable	\$1,236.55			\$1,236.55
Inventory	\$9,875.99			\$9,875.99
Prepaid Insurance	\$4,002.03			\$4,002.03
Other Current Assets	\$8,546.61			\$8,546.61
Total Current Assets	\$38,664.19			\$38,664.19
Fixed Assets				
Lease Deposit	\$10,000.00			\$10,000.00
Food Service operating equipment	\$223,534.00	-\$49,002.00	2	\$174,532.00
Office Equipment	\$16,210.16	-\$12,037.00	2	\$4,173.16
Owner's Automobile	\$25,000.00	-\$25,000.00	1	\$0.00
Accumulated Depreciation	-\$79,940.40	\$79,940.40	3	\$0.00
Total Fixed Assets	\$194,803.76			\$188,705.16
Total Assets	\$233,467.95			\$227,369.35

<b>Liabilities</b>				
Current Liabilities				
Wages Payable	\$6,987.68			\$6,987.68
Accounts payable	\$12,001.35			\$12,001.35
Sales Tax Payable	\$3,998.98			\$3,998.98
Unredeemed Gift Certificates	\$300.00			\$300.00
Other Current Liabilities	\$4,123.68			\$4,123.68
Total Current Liabilities	\$27,411.69			\$27,411.69
Long Term Liabilities				
Bank of America Equipment Loan	\$98,000.00			\$98,000.00
Loan from Owner	\$10,000.00	-\$10,000.00	3	\$0.00
Total Long Term Liabilities	\$108,000.00			\$98,000.00
Total Liabilities	\$135,411.69			\$125,411.69
Owner's Equity				
Retained earnings this year	\$37,631.71			\$37,631.71
Original Capital Investment	\$75,000.00			\$75,000.00
Retained earnings prior years	\$35,203.20			\$35,203.20
Owner Draws (dividends)	-\$10,847.00			-\$10,847.00
Cash Adjustment	\$0.00			\$0.00
Bank of American Loan Adjustment	\$0.00			\$0.00
Loan from Owner	\$0.00			\$0.00
Additional Balancing Adjustments	-\$38,931.65	\$3,901.40	4	-\$35,030.25
Total Owner's Equity	\$98,056.26			\$101,957.66
Total Owner's Equity & Liabilities	\$233,467.95			\$227,369.35

Billy Bob's Barbecue				
	2010			2010
<b>Sales Revenue</b>	Actual	Adjustment	Footnote	Adjusted
Food & Beverage Sales	\$1,048,551.43			\$1,048,551.43
Less Sales Tax	-\$68,576.31			-\$68,576.31
Total Revenue (net of sales tax)	\$979,975.12			\$979,975.12
<b>Cost of Goods Sold</b>				
Food cost	\$357,683.42			\$357,683.42
Beer & Wine	\$54,387.48			\$54,387.48
Total Cost of Goods Sold	\$412,070.90			\$412,070.90
Gross Profit	\$567,904.22			\$567,904.22
<b>Direct Labor Cost</b>				
Direct Labor	\$185,211.41			\$185,211.41
Overtime Labor	\$8,819.59			\$8,819.59
Vacation Pay	\$9,309.57			\$9,309.57
Employer's SSN	\$15,250.54			\$15,250.54
State Unemployment Insurance	\$2,222.54			\$2,222.54
Federal Unemployment Insurance	\$1,481.69			\$1,481.69
Worker's Comp Insurance	\$5,556.34			\$5,556.34
Total Direct Labor Cost	\$227,851.69			\$227,851.69
Total Direct Conversion Costs	\$639,922.58			\$639,922.58
Gross Margin	\$340,052.54			\$340,052.54
<b>Marketing</b>				
Newspaper Advertising	\$24,498.86			\$24,498.86
Radio Advertising	\$21,559.00			\$21,559.00
Yellow Pages	\$489.98			\$489.98
Direct Mail Advertising	\$1,371.94			\$1,371.94
Total Marketing Expenses	\$47,919.78			\$47,919.78
<b>Other Variable Costs</b>				
Cleaning Materials	\$5,095.76			\$5,095.76
Small Wares	\$1,959.91			\$1,959.91
Outside Maintenance	\$5,389.75			\$5,389.75
Repairs	\$2,939.86			\$2,939.86
Total Other Variable Costs	\$15,385.29			\$15,385.29
Total Variable Costs	\$703,227.65			\$703,227.65
Contribution Margin	\$276,747.47			\$276,747.47

Continued on the following page

Contribution Margin	\$276,747.47			\$276,747.47
Non-Discretionary Fixed Costs				
Rent	\$67,980.00			\$67,980.00
Depreication & Amortization Expense	\$26,499.43	-\$26,499.43	1	\$0.00
Utilities	\$18,647.75			\$18,647.75
Property & Liability Insurance	\$4,907.30			\$4,907.30
Bookeeping & Accounting	\$0.00	\$3,000.00	2	\$3,000.00
Total Non-Discretionary Fixed Costs	\$118,034.48			\$94,535.05
Discretionary Fixed Costs				
Owner's Salary	\$67,980.00	-\$67,980.00	3	\$0.00
Overhead on Owner's Salary	\$26,499.43	-\$26,499.43	3	\$0.00
Owner's Health & Life Insurance	\$18,647.75	-\$18,647.75	3	\$0.00
Owner's Automobile Expenses	\$4,907.30	-\$4,907.30	3	\$0.00
Travel & Entertainment	\$0.00			\$0.00
Dues & Subscriptions	\$0.00			\$0.00
Interest on Bank Loan	\$0.00			\$0.00
Charitable Contributions	\$0.00			\$0.00
Total Discretionary Fixed Costs	\$118,034.48			\$0.00
Total Fixed Costs	\$236,068.96			\$94,535.05
Total Operating Costs	\$939,296.61			\$797,762.70
Net Operating Income (Loss)	\$40,678.51			\$182,212.42
Other Income				
Gain on sale of equipment	\$0.00			\$0.00
Total Other Income	\$0.00			\$0.00
Other Expenses				
Loss on sale of assets	\$0.00			\$0.00
Total Other Expenses	\$0.00			\$0.00
Pre-Tax Income (Loss)	\$40,678.51			\$182,212.42
State Income Tax				
Federal Income Tax	\$2,488.07	-\$2,488.07	5	\$0.00
Total Income Tax	\$2,488.07			\$0.00
Net After Tax Income (Loss)	\$38,190.44			
Owner's Discretionary Cash Flow				\$182,212.42
Minus FMV Owner Salary				\$50,000.00
Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA)				\$132,212.42

Continued on the following page

1. Depreciation & Amortization expense is added back as a non-cash expense to compute Seller's Discretionary Earnings

2. The owner's son is a CPA and does not charge the company for his bookkeeping, accounting and tax preparation services. This is an expense the typical buyer would have to pay.

3. These are all discretionary owner expenses and prerequisites that are added back to cash flow to compute Seller's Discretionary Earnings.

4. Interest expense is added back as a discretionary expense and not a cost of doing business

5. Income tax is added back to cash flow to compute Seller's Discretionary Earnings.

Billy Bob's Barbecue				
<b>Assets</b>	2010			2010
Current Assets	Actual	Adjustment	Footnote	Adjusted
Cash in banks & on-premises change bank	\$10,258.73			\$10,258.73
Accounts Receivable	\$1,568.32			\$1,568.32
Inventory	\$12,003.66			\$12,003.66
Prepaid Insurance	\$4,879.25			\$4,879.25
Other Current Assets	\$8,058.22			\$8,058.22
Total Current Assets	\$36,768.18			\$36,768.18
Fixed Assets				
Lease Deposit	\$10,000.00			\$10,000.00
Food Service operating equipment	\$222,447.75	-\$49,002.00	2	\$173,445.75
Office Equipment	\$15,883.00	-\$12,037.00	2	\$3,846.00
Owner's Automobile	\$25,000.00	-\$25,000.00	1	\$0.00
Accumulated Depreciation	-\$79,168.57	\$79,168.57	3	\$0.00
Total Fixed Assets	\$194,162.18			\$187,291.75
Total Assets	\$230,930.36			\$224,059.93

<b>Liabilities</b>				
<b>Current Liabilities</b>				
Wages Payable	\$10,010.37			\$10,010.37
Accounts payable	\$8,964.64			\$8,964.64
Sales Tax Payable	\$4,001.01			\$4,001.01
Unredeemed Gift Certificates	\$125.00			\$125.00
Other Current Liabilities	\$3,998.59			\$3,998.59
<b>Total Current Liabilities</b>	<b>\$27,099.61</b>			<b>\$27,099.61</b>
<b>Long Term Liabilities</b>				
Bank of America Equipment Loan	\$94,555.00			\$94,555.00
Loan from Owner	\$10,000.00	-\$10,000.00	3	\$0.00
<b>Total Long Term Liabilities</b>	<b>\$104,555.00</b>			<b>\$94,555.00</b>
<b>Total Liabilities</b>	<b>\$131,654.61</b>			<b>\$121,654.61</b>
<b>Owner's Equity</b>				
Retained earnings this year	\$25,856.37			\$25,856.37
Original Capital Investment	\$75,000.00			\$75,000.00
Retained earnings prior years	\$35,203.20			\$35,203.20
Owner Draws (dividends)	-\$10,847.00			-\$10,847.00
Cash Adjustment	\$0.00			\$0.00
Bank of American Loan Adjustment	\$0.00			\$0.00
Loan from Owner	\$0.00			\$0.00
Additional Balancing Adjustments	-\$25,936.82	\$3,129.57	4	-\$22,807.25
<b>Total Owner's Equity</b>	<b>\$99,275.75</b>			<b>\$102,405.32</b>
<b>Total Owner's Equity &amp; Liabilities</b>	<b>\$230,930.36</b>			<b>\$224,059.93</b>

Billy Bob's Barbecue				
	2011			2011
<b>Sales Revenue</b>	Actual	Adjustment	Footnote	Adjusted
Food & Beverage Sales	\$943,588.20			\$943,588.20
Less Sales Tax	-\$61,730.11			-\$61,730.11
Total Revenue (net of sales tax)	\$881,858.09			\$881,858.09
<b>Cost of Goods Sold</b>				
Food cost	\$317,468.91			\$317,468.91
Beer & Wine	\$50,265.91			\$50,265.91
Total Cost of Goods Sold	\$367,734.83			\$367,734.83
Gross Profit	\$514,123.27			\$514,123.27
<b>Direct Labor Cost</b>				
Direct Labor	\$163,143.75			\$163,143.75
Overtime Labor	\$16,755.30			\$16,755.30
Vacation Pay	\$8,113.09			\$8,113.09
Employer's SSN	\$14,100.91			\$14,100.91
State Unemployment Insurance	\$1,957.72			\$1,957.72
Federal Unemployment Insurance	\$1,305.15			\$1,305.15
Worker's Comp Insurance	\$4,894.31			\$4,894.31
Total Direct Labor Cost	\$210,270.24			\$210,270.24
Total Direct Conversion Costs	\$578,005.07			\$578,005.07
Gross Margin	\$303,853.02			\$303,853.02
<b>Marketing</b>				
Newspaper Advertising	\$10,582.30			\$10,582.30
Radio Advertising	\$19,400.88			\$19,400.88
Yellow Pages	\$440.93			\$440.93
Direct Mail Advertising	\$1,851.90			\$1,851.90
Total Marketing Expenses	\$32,276.01			\$32,276.01
<b>Other Variable Costs</b>				
Cleaning Materials	\$5,026.59			\$5,026.59
Small Wares	\$2,733.76			\$2,733.76
Outside Maintenance	\$8,818.58			\$8,818.58
Repairs	\$3,615.62			\$3,615.62
Total Other Variable Costs	\$20,194.55			\$20,194.55
Total Variable Costs	\$630,475.63			\$630,475.63
Contribution Margin	\$251,382.47			\$251,382.47

Continued on the following page

Contribution Margin	\$276,747.47			\$276,747.47
Non-Discretionary Fixed Costs				
Rent	\$67,980.00			\$67,980.00
Depreciation & Amortization Expense	\$26,499.43	-\$26,499.43	1	\$0.00
Utilities	\$18,647.75			\$18,647.75
Property & Liability Insurance	\$4,907.30			\$4,907.30
Bookkeeping & Accounting	\$0.00	\$3,000.00	2	\$3,000.00
Total Non-Discretionary Fixed Costs	\$118,034.48			\$94,535.05
Discretionary Fixed Costs				
Owner's Salary	\$67,980.00	-\$67,980.00	3	\$0.00
Overhead on Owner's Salary	\$26,499.43	-\$26,499.43	3	\$0.00
Owner's Health & Life Insurance	\$18,647.75	-\$18,647.75	3	\$0.00
Owner's Automobile Expenses	\$4,907.30	-\$4,907.30	3	\$0.00
Travel & Entertainment	\$0.00			\$0.00
Dues & Subscriptions	\$0.00			\$0.00
Interest on Bank Loan	\$0.00			\$0.00
Charitable Contributions	\$0.00			\$0.00
Total Discretionary Fixed Costs	\$118,034.48			\$0.00
Total Fixed Costs	\$236,068.96			\$94,535.05
Total Operating Costs	\$939,296.61			\$797,762.70
Net Operating Income (Loss)	\$40,678.51			\$182,212.42
Other Income				
Gain on sale of equipment	\$0.00			\$0.00
Total Other Income	\$0.00			\$0.00
Other Expenses				
Loss on sale of assets	\$0.00			\$0.00
Total Other Expenses	\$0.00			\$0.00
Pre-Tax Income (Loss)	\$40,678.51			\$182,212.42
State Income Tax				
Federal Income Tax	\$2,488.07	-\$2,488.07	5	\$0.00
Total Income Tax	\$2,488.07			\$0.00
Net After Tax Income (Loss)	\$38,190.44			
Owner's Discretionary Cash Flow				\$182,212.42
Minus FMV Owner Salary				\$50,000.00
Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA)				\$132,212.42

Continued on the following page

1. Depreciation & Amortization expense is added back as a non-cash expense to compute Seller's Discretionary Earnings

2. The owner's son is a CPA and does not charge the company for his bookkeeping, accounting and tax preparation services. This is an expense the typical buyer would have to pay.

3. These are all discretionary owner expenses and prerequisites that are added back to cash flow to compute Seller's Discretionary Earnings.

4. Interest expense is added back as a discretionary expense and not a cost of doing business

5. Income tax is added back to cash flow to compute Seller's Discretionary Earnings.

Continued on the following page

Billy Bob's Barbecue				
<b>Assets</b>	2011			2011
Current Assets	Actual	Adjustment	Footnote	Adjusted
Cash in banks & on-premises change bank	\$15,987.25			\$15,987.25
Accounts Receivable	\$987.50			\$987.50
Inventory	\$9,875.99			\$9,875.99
Prepaid Insurance	\$39,874.20			\$39,874.20
Other Current Assets	\$7,896.28			\$7,896.28
Total Current Assets	\$74,621.22			\$74,621.22
Fixed Assets				
Lease Deposit	\$10,000.00			\$10,000.00
Food Service operating equipment	\$226,409.00	-\$49,002.00	2	\$177,407.00
Office Equipment	\$15,593.00	-\$12,037.00	2	\$3,556.00
Owner's Automobile	\$25,000.00	-\$25,000.00	1	\$0.00
Accumulated Depreciation	-\$78,373.59	\$78,373.59	3	\$0.00
Total Fixed Assets	\$198,628.41			\$190,963.00
Total Assets	\$273,249.63			\$265,584.22

<b>Liabilities</b>				
<b>Current Liabilities</b>				
Wages Payable	\$9,008.11			\$9,008.11
Accounts payable	\$7,582.68			\$7,582.68
Sales Tax Payable	\$4,569.64			\$4,569.64
Unredeemed Gift Certificates	\$200.00			\$200.00
Other Current Liabilities	\$5,008.92			\$5,008.92
<b>Total Current Liabilities</b>	<b>\$26,369.35</b>			<b>\$26,369.35</b>
<b>Long Term Liabilities</b>				
Bank of America Equipment Loan	\$90,052.00			\$90,052.00
Loan from Owner	\$10,000.00	-\$10,000.00		\$0.00
<b>Total Long Term Liabilities</b>	<b>\$100,052.00</b>			<b>\$90,052.00</b>
<b>Total Liabilities</b>	<b>\$126,421.35</b>			<b>\$116,421.35</b>
<b>Owner's Equity</b>				
Retained earnings this year	\$38,956.71			\$38,956.71
Original Capital Investment	\$75,000.00			\$75,000.00
Retained earnings prior years	\$35,203.20			\$35,203.20
Owner Draws (dividends)	-\$10,847.00			-\$10,847.00
Cash Adjustment	\$0.00			\$0.00
Bank of American Loan Adjustment	\$0.00			\$0.00
Loan from Owner	\$0.00			\$0.00
Additional Balancing Adjustments	\$8,515.37	\$2,334.59	4	\$10,849.96
<b>Total Owner's Equity</b>	<b>\$146,828.28</b>			<b>\$149,162.87</b>
<b>Total Owner's Equity &amp; Liabilities</b>	<b>\$273,249.63</b>			<b>\$265,584.22</b>

Billy Bob's Barbecue				
	2012			2012
<b>Sales Revenue</b>	Actual	Adjustment	Footnote	Adjusted
Food & Beverage Sales	\$1,039,450.68			\$1,039,450.68
Less Sales Tax	-\$68,001.49			-\$68,001.49
Total Revenue (net of sales tax)	\$971,449.19			\$971,449.19
<b>Cost of Goods Sold</b>				
Food cost	\$380,808.08			\$380,808.08
Beer & Wine	\$47,601.01			\$47,601.01
Total Cost of Goods Sold	\$428,409.09			\$428,409.09
Gross Profit	\$543,040.10			\$543,040.10
<b>Direct Labor Cost</b>				
Direct Labor	\$194,289.84			\$194,289.84
Overtime Labor	\$6,800.14			\$6,800.14
Vacation Pay	\$7,868.74			\$7,868.74
Employer's SSN	\$15,671.90			\$15,671.90
State Unemployment Insurance	\$2,331.48			\$2,331.48
Federal Unemployment Insurance	\$1,554.32			\$1,554.32
Worker's Comp Insurance	\$5,828.70			\$5,828.70
Total Direct Labor Cost	\$234,345.12			\$234,345.12
Total Direct Conversion Costs	\$662,754.21			\$662,754.21
Gross Margin	\$308,694.98			\$308,694.98
<b>Marketing</b>				
Newspaper Advertising	\$25,257.68			\$25,257.68
Radio Advertising	\$10,685.94			\$10,685.94
Yellow Pages	\$485.72			\$485.72
Direct Mail Advertising	\$971.45			\$971.45
Total Marketing Expenses	\$37,400.79			\$37,400.79
<b>Other Variable Costs</b>				
Cleaning Materials	\$4,662.96			\$4,662.96
Small Wares	\$1,748.61			\$1,748.61
Outside Maintenance	\$3,885.80			\$3,885.80
Repairs	\$2,914.35			\$2,914.35
Total Other Variable Costs	\$13,211.71			\$13,211.71
Total Variable Costs	\$713,366.71			\$713,366.71
Contribution Margin	\$258,082.48			\$258,082.48

Continued on the following page

Billy Bob's Barbecue				
<b>Assets</b>	2012			2012
Current Assets	Actual	Adjustment	Footnote	Adjusted
Cash in banks & on-premises change bank	\$14,883.66			\$14,883.66
Accounts Receivable	\$1,018.93			\$1,018.93
Inventory	\$11,679.15			\$11,679.15
Prepaid Insurance	\$4,329.15			\$4,329.15
Other Current Assets	\$9,505.75			\$9,505.75
<b>Total Current Assets</b>	<b>\$41,416.63</b>			<b>\$41,416.63</b>
<b>Fixed Assets</b>				
Lease Deposit	\$10,000.00			\$10,000.00
Food Service operating equipment	\$228,626.56	-\$49,002.00	2	\$179,624.56
Office Equipment	\$16,572.00	-\$12,037.00	2	\$4,535.00
Owner's Automobile	\$25,000.00	-\$25,000.00	1	\$0.00
Accumulated Depreciation	-\$77,554.75	\$77,554.75	3	\$0.00
<b>Total Fixed Assets</b>	<b>\$202,643.81</b>			<b>\$194,159.56</b>
<b>Total Assets</b>	<b>\$244,060.44</b>			<b>\$235,576.19</b>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Wages Payable	\$7,896.33			\$7,896.33
Accounts payable	\$9,258.25			\$9,258.25
Sales Tax Payable	\$4,998.22			\$4,998.22
Unredeemed Gift Certificates	\$50.00			\$50.00
Other Current Liabilities	\$3,987.16			\$3,987.16
<b>Total Current Liabilities</b>	<b>\$26,189.96</b>			<b>\$26,189.96</b>
<b>Long Term Liabilities</b>				
Bank of America Equipment Loan	\$81,003.00			\$81,003.00
Loan from Owner	\$10,000.00	-\$10,000.00		\$0.00
<b>Total Long Term Liabilities</b>	<b>\$91,003.00</b>			<b>\$81,003.00</b>
<b>Total Liabilities</b>	<b>\$117,192.96</b>			<b>\$107,192.96</b>
<b>Owner's Equity</b>				
Retained earnings this year	\$38,310.02			\$38,310.02
Original Capital Investment	\$75,000.00			\$75,000.00
Retained earnings prior years	\$35,203.20			\$35,203.20
Owner Draws (dividends)	-\$8,453.25			-\$8,453.25
Cash Adjustment	\$0.00			\$0.00
Bank of American Loan Adjustment	\$0.00			\$0.00
Loan from Owner	\$0.00			\$0.00
Additional Balancing Adjustments	-\$13,192.49	\$1,515.75	4	-\$11,676.74
<b>Total Owner's Equity</b>	<b>\$126,867.48</b>			<b>\$128,383.23</b>
<b>Total Owner's Equity &amp; Liabilities</b>	<b>\$244,060.44</b>			<b>\$235,576.19</b>

Billy Bob's Barbecue				
	2013			2013
<b>Sales Revenue</b>	Actual	Adjustment	Footnote	Adjusted
Food & Beverage Sales	\$1,109,331.78			\$1,109,331.78
Less Sales Tax	-\$72,573.15			-\$72,573.15
Total Revenue (net of sales tax)	\$1,036,758.63			\$1,036,758.63
<b>Cost of Goods Sold</b>				
Food cost	\$425,071.04			\$425,071.04
Beer & Wine	\$44,580.62			\$44,580.62
Total Cost of Goods Sold	\$469,651.66			\$469,651.66
Gross Profit	\$567,106.97			\$567,106.97
<b>Direct Labor Cost</b>				
Direct Labor	\$189,726.83			\$189,726.83
Overtime Labor	\$12,441.10			\$12,441.10
Vacation Pay	\$7,775.69			\$7,775.69
Employer's SSN	\$15,745.77			\$15,745.77
State Unemployment Insurance	\$2,276.72			\$2,276.72
Federal Unemployment Insurance	\$1,517.81			\$1,517.81
Worker's Comp Insurance	\$5,691.80			\$5,691.80
Total Direct Labor Cost	\$235,175.74			\$235,175.74
Total Direct Conversion Costs	\$704,827.39			\$704,827.39
Gross Margin	\$331,931.23			\$331,931.23
<b>Marketing</b>				
Newspaper Advertising	\$13,477.86			\$13,477.86
Radio Advertising	\$22,808.69			\$22,808.69
Yellow Pages	\$518.38			\$518.38
Direct Mail Advertising	\$3,006.60			\$3,006.60
Total Marketing Expenses	\$39,811.53			\$39,811.53
<b>Other Variable Costs</b>				
Cleaning Materials	\$5,909.52			\$5,909.52
Small Wares	\$3,524.98			\$3,524.98
Outside Maintenance	\$6,324.23			\$6,324.23
Repairs	\$13,080.34	-\$7,896.55	1	\$5,183.79
Total Other Variable Costs	\$28,839.07			\$20,942.52
Total Variable Costs	\$773,478.00			\$765,581.45
Contribution Margin	\$263,280.63			\$271,177.18

Continued on the following page

Contribution Margin	\$263,280.63			\$271,177.18
Non-Discretionary Fixed Costs				
Rent	\$74,283.58			\$74,283.58
Depreciation & Amortization Expense	\$28,956.64	-\$28,956.64	2	\$0.00
Utilities	\$20,376.90			\$20,376.90
Property & Liability Insurance	\$5,362.34			\$5,362.34
Bookeeping & Accounting	\$0.00	\$3,000.00	3	\$3,000.00
Total Non-Discretionary Fixed Costs	\$128,979.46			\$103,022.82
Discretionary Fixed Costs				
Owner's Salary	\$62,205.52	-\$62,205.52	4	\$0.00
Overhead on Owner's Salary	\$10,367.59	-\$10,367.59	4	\$0.00
Owner's Health & Life Insurance	\$6,220.55	-\$6,220.55	4	\$0.00
Owner's Automobile Expenses	\$6,220.55	-\$6,220.55	4	\$0.00
Travel & Entertainment	\$4,147.03	-\$2,073.52	4	\$2,073.52
Dues & Subscriptions	\$829.41	-\$829.41	4	\$0.00
Interest on Bank Loan	\$12,441.10	-\$12,441.10	5	\$0.00
Charitable Contributions	\$3,524.98	-\$3,524.98	4	\$0.00
Total Discretionary Fixed Costs	\$105,956.73			\$2,073.52
Total Fixed Costs	\$234,936.20			\$105,096.34
Total Operating Costs	\$1,008,414.20			\$870,677.79
Net Operating Income (Loss)	\$28,344.43			\$166,080.84
Other Income				
Gain on sale of equipment	\$0.00			\$0.00
Total Other Income	\$0.00			\$0.00
Other Expenses				
Loss on sale of assets	\$0.00			\$0.00
Total Other Expenses	\$0.00			\$0.00
Pre-Tax Income (Loss)	\$28,344.43			\$166,080.84
State Income Tax				
Federal Income Tax	\$2,488.07	-\$2,488.07	6	\$0.00
Total Income Tax	\$2,488.07			\$0.00
Net After Tax Income (Loss)	\$25,856.37			
Owner's Discretionary Cash Flow				\$166,080.85
Minus FMV Owner Salary				\$50,000.00
Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA)				\$116,080.85

Continued on the following page

1. This adjustment is for a one-time, non-recurring expense to repair a broken sewer line under the storage room
2. Depreciation & Amortization expense is added back as a non-cash expense to compute Seller's Discretionary Earnings
3. The owner's son is a CPA and does not charge the company for his bookkeeping, accounting and tax preparation services. This is an expense the typical buyer would have to pay.
4. These are all discretionary owner expenses and prerequisites that are added back to cash flow to compute Seller's Discretionary Earnings.
5. Interest expense is added back as a discretionary expense and not a cost of doing business
6. Income tax is added back to cash flow to compute Seller's Discretionary Earnings.

Continued on the following page

Billy Bob's Barbecue				
<b>Assets</b>	2013			2013
Current Assets	Actual	Adjustment	Footnote	Adjusted
Cash in banks & on-premises change bank	\$13,654.73			\$13,654.73
Accounts Receivable	\$1,119.70			\$1,119.70
Inventory	\$11,123.00			\$11,123.00
Prepaid Insurance	\$4,557.00			\$4,557.00
Other Current Assets	\$8,801.62			\$8,801.62
<b>Total Current Assets</b>	<b>\$39,256.05</b>			<b>\$39,256.05</b>
<b>Fixed Assets</b>				
Lease Deposit	\$10,000.00			\$10,000.00
Food Service operating equipment	\$228,996.00	-\$49,002.00	2	\$179,994.00
Office Equipment	\$16,447.00	-\$12,037.00	2	\$4,410.00
Owner's Automobile	\$25,000.00	-\$25,000.00	1	\$0.00
Accumulated Depreciation	-\$105,668.00	\$105,668.00	3	\$0.00
<b>Total Fixed Assets</b>	<b>\$174,775.00</b>			<b>\$194,404.00</b>
<b>Total Assets</b>	<b>\$214,031.05</b>			<b>\$233,660.05</b>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Wages Payable	\$8,564.35			\$8,564.35
Accounts payable	\$11,003.55			\$11,003.55
Sales Tax Payable	\$5,648.33			\$5,648.33
Unredeemed Gift Certificates	\$175.00			\$175.00
Other Current Liabilities	\$4,065.25			\$4,065.25
<b>Total Current Liabilities</b>	<b>\$29,456.48</b>			<b>\$29,456.48</b>
<b>Long Term Liabilities</b>				
Bank of America Equipment Loan	\$81,003.00			\$81,003.00
Loan from Owner	\$10,000.00	-\$10,000.00	4	\$0.00
<b>Total Long Term Liabilities</b>	<b>\$91,003.00</b>			<b>\$81,003.00</b>
<b>Total Liabilities</b>	<b>\$120,459.48</b>			<b>\$110,459.48</b>
<b>Owner's Equity</b>				
Retained earnings this year	\$25,856.37			\$25,856.37
Original Capital Investment	\$75,000.00			\$75,000.00
Retained earnings prior years	\$35,203.20			\$35,203.20
Owner Draws (dividends)	-\$10,847.00			-\$10,847.00
Cash Adjustment	\$0.00			\$0.00
Bank of American Loan Adjustment	\$0.00			\$0.00
Loan from Owner	\$0.00			\$0.00
Additional Balancing Adjustments	-\$31,641.00	\$29,629.00	5	-\$2,012.00
<b>Total Owner's Equity</b>	<b>\$93,571.57</b>			<b>\$123,200.57</b>
<b>Total Owner's Equity &amp; Liabilities</b>	<b>\$214,031.05</b>			<b>\$233,660.05</b>

Continued on following page

Footnotes				
1. The lease deposit is a non-operating asset. It will remain the same for the term of the lease. For this reason it is removed from the balance sheet in order to better estimate the required annual reinvestment and additional investment in fixed operating equipment. Similarly, the owner's personal automobile is a non-operating asset, and will not be included in the sale of the company. Therefore it is removed. The dollar value of both of these assets will be added back to the balance sheet as the last step in calculating the company's equity value.				
2. The fixed assets have been adjusted to their estimated fair market value. In conjunction with these adjustments, accumulated depreciation is added back since the adjustments to the assets are in lieu of depreciation				
3. The loan from owner has been restated as additional capital investment because it is money he owns himself and therefore will not have to repay upon sale of the company.				
4. This is the countervailing adjustment for all of the adjustments to assets and liabilities not previously entered into the equity section of the balance sheet.				
5. This is the countervailing adjustment for all of the adjustments to assets and liabilities not previously entered into the equity section of the balance sheet.				

Billy Bob's Barbecue		2009	2010	2011	2012	2013
Sales Revenue		Actual	Actual	Actual	Actual	Actual
Food & Beverage Sales		\$1,019,575.43	\$1,048,551.43	\$943,588.20	\$1,039,450.68	\$1,109,331.78
Less Sales Tax		-\$66,701.24	-\$68,576.31	-\$61,730.11	-\$68,001.49	-\$72,573.15
Total Revenue (net of sales tax)		\$952,874.19	\$979,975.12	\$881,858.09	\$971,449.19	\$1,036,758.63
Cost of Goods Sold						
Food cost		\$362,092.19	\$357,683.42	\$317,468.91	\$380,808.08	\$425,071.04
Beer & Wine		\$50,502.33	\$54,387.48	\$50,265.91	\$47,601.01	\$44,580.62
Total Cost of Goods Sold		\$412,594.53	\$412,070.90	\$367,734.83	\$428,409.09	\$469,651.66
Gross Profit		\$540,279.67	\$567,904.22	\$514,123.27	\$543,040.10	\$567,106.97
Direct Labor Cost						
Direct Labor		\$171,517.35	\$185,211.41	\$163,143.75	\$194,289.84	\$189,726.83
Overtime Labor		\$11,434.49	\$8,819.59	\$16,755.30	\$6,800.14	\$12,441.10
Vacation Pay		\$8,575.87	\$9,309.57	\$8,113.09	\$7,868.74	\$7,775.69
Employer's SSN		\$14,364.58	\$15,250.54	\$14,100.91	\$15,671.90	\$15,745.77
State Unemployment Insurance		\$2,058.21	\$2,222.54	\$1,957.72	\$2,331.48	\$2,276.72
Federal Unemployment Insurance		\$1,372.14	\$1,481.69	\$1,305.15	\$1,554.32	\$1,517.81
Worker's Comp Insurance		\$5,145.52	\$5,556.34	\$4,894.31	\$5,828.70	\$5,691.80
Total Direct Labor Cost		\$214,468.16	\$227,851.69	\$210,270.24	\$234,345.12	\$235,175.74
Total Direct Conversion Costs		\$627,062.68	\$639,922.58	\$578,005.07	\$662,754.21	\$704,827.39
Gross Margin		\$325,811.51	\$340,052.54	\$303,853.02	\$308,694.98	\$331,931.23
Marketing						
Newspaper Advertising		\$19,057.48	\$24,498.86	\$10,582.30	\$25,257.68	\$13,477.86
Radio Advertising		\$18,104.61	\$21,559.00	\$19,400.88	\$10,685.94	\$22,808.69
Yellow Pages		\$476.44	\$489.98	\$440.93	\$485.72	\$518.38
Direct Mail Advertising		\$1,905.75	\$1,371.94	\$1,851.90	\$971.45	\$3,006.60
Total Marketing Expenses		\$39,544.28	\$47,919.78	\$32,276.01	\$37,400.79	\$39,811.53
Other Variable Costs						
Cleaning Materials		\$5,907.82	\$5,095.76	\$5,026.59	\$4,662.96	\$5,909.52
Small Wares		\$2,668.05	\$1,959.91	\$2,733.76	\$1,748.61	\$3,524.98
Outside Maintenance		\$6,670.12	\$5,389.75	\$8,818.58	\$3,885.80	\$6,324.23
Repairs		\$4,764.37	\$2,939.86	\$3,615.62	\$2,914.35	\$13,080.34
Total Other Variable Costs		\$20,010.36	\$15,385.29	\$20,194.55	\$13,211.71	\$28,839.07
Total Variable Costs		\$686,617.32	\$703,227.65	\$630,475.63	\$713,366.71	\$773,478.00
Contribution Margin		\$266,256.87	\$276,747.47	\$251,382.47	\$258,082.48	\$263,280.63

Contribution Margin	\$266,256.87	\$276,747.47	\$251,382.47	\$258,082.48	\$263,280.63
Non-Discretionary Fixed Costs					
Rent	\$66,000.00	\$67,980.00	\$70,019.40	\$72,119.98	\$74,283.58
Depreication & Amortization Expense	\$25,727.60	\$26,499.43	\$27,294.41	\$28,113.25	\$28,956.64
Utilities	\$18,104.61	\$18,647.75	\$19,207.18	\$19,783.40	\$20,376.90
Property & Liability Insurance	\$4,764.37	\$4,907.30	\$5,054.52	\$5,206.16	\$5,362.34
Bookeeping & Accounting	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Non-Discretionary Fixed Costs	\$114,596.58	\$118,034.48	\$121,575.52	\$125,222.78	\$128,979.46
Discretionary Fixed Costs					
Owner's Salary	\$62,740.00	\$67,980.00	\$52,029.63	\$46,629.56	\$62,205.52
Overhead on Owner's Salary	\$22,456.24	\$26,499.43	\$9,700.44	\$9,714.49	\$10,367.59
Owner's Health & Life Insurance	\$18,647.75	\$18,647.75	\$5,379.33	\$5,828.70	\$6,220.55
Owner's Automobile Expenses	\$4,907.30	\$4,907.30	\$3,439.25	\$6,800.14	\$6,220.55
Travel & Entertainment	\$0.00	\$0.00	\$4,409.29	\$9,228.77	\$4,147.03
Dues & Subscriptions	\$0.00	\$0.00	\$881.86	\$874.30	\$829.41
Interest on Bank Loan	\$0.00	\$0.00	\$10,582.30	\$11,657.39	\$12,441.10
Charitable Contributions	\$0.00	\$0.00	\$1,940.09	\$3,497.22	\$3,524.98
Total Discretionary Fixed Costs	\$108,751.29	\$118,034.48	\$88,362.18	\$94,230.57	\$105,956.73
Total Fixed Costs	\$223,347.88	\$236,068.96	\$209,937.70	\$219,453.35	\$234,936.20
Total Operating Costs	\$909,965.20	\$939,296.61	\$840,413.32	\$932,820.07	\$1,008,414.20
Net Operating Income (Loss)	\$42,908.99	\$40,678.51	\$41,444.77	\$38,629.13	\$28,344.43
Other Income					
Gain on sale of equipment	\$400.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Other Income	\$400.00	\$0.00	\$0.00	\$0.00	\$0.00
Other Expenses					
Loss on sale of assets	\$0.00	\$0.00	\$0.00	-\$2,168.96	\$0.00
Total Other Expenses	\$0.00	\$0.00	\$0.00	-\$2,168.96	\$0.00
Pre-Tax Income (Loss)	\$43,308.99	\$40,678.51	\$41,444.77	\$40,798.09	\$28,344.43
State Income Tax	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Federal Income Tax	\$5,677.29	\$2,488.07	\$2,488.07	\$2,488.07	\$2,488.07
Total Income Tax	\$5,677.29	\$2,488.07	\$2,488.07	\$2,488.07	\$2,488.07
Net After Tax Income (Loss)	\$37,631.71	\$38,190.44	\$38,956.71	\$38,310.02	\$25,856.37

Billy Bob's Barbecue		2009	2010	2011	2012	2013
Sales Revenue		Adjusted	Adjusted	Adjusted	Adjusted	Adjusted
Food & Beverage Sales		\$1,019,575.43	\$1,048,551.43	\$943,588.20	\$1,039,450.68	\$1,109,331.78
Less Sales Tax		-\$66,701.24	-\$68,576.31	-\$61,730.11	-\$68,001.49	-\$72,573.15
<b>Total Revenue (net of sales tax)</b>		<b>\$952,874.19</b>	<b>\$979,975.12</b>	<b>\$881,858.09</b>	<b>\$971,449.19</b>	<b>\$1,036,758.63</b>
<b>Cost of Goods Sold</b>						
Food cost		\$362,092.19	\$357,683.42	\$317,468.91	\$380,808.08	\$425,071.04
Beer & Wine		\$50,502.33	\$54,387.48	\$50,265.91	\$47,601.01	\$44,580.62
<b>Total Cost of Goods Sold</b>		<b>\$412,594.53</b>	<b>\$412,070.90</b>	<b>\$367,734.83</b>	<b>\$428,409.09</b>	<b>\$469,651.66</b>
<b>Gross Profit</b>		<b>\$540,279.67</b>	<b>\$567,904.22</b>	<b>\$514,123.27</b>	<b>\$543,040.10</b>	<b>\$567,106.97</b>
<b>Direct Labor Cost</b>						
Direct Labor		\$171,517.35	\$185,211.41	\$163,143.75	\$194,289.84	\$189,726.83
Overtime Labor		\$11,434.49	\$8,819.59	\$16,755.30	\$6,800.14	\$12,441.10
Vacation Pay		\$8,575.87	\$9,309.57	\$8,113.09	\$7,868.74	\$7,775.69
Employer's SSN		\$14,364.58	\$15,250.54	\$14,100.91	\$15,671.90	\$15,745.77
State Unemployment Insurance		\$2,058.21	\$2,222.54	\$1,957.72	\$2,331.48	\$2,276.72
Federal Unemployment Insurance		\$1,372.14	\$1,481.69	\$1,305.15	\$1,554.32	\$1,517.81
Worker's Comp Insurance		\$5,145.52	\$5,556.34	\$4,894.31	\$5,828.70	\$5,691.80
<b>Total Direct Labor Cost</b>		<b>\$214,468.16</b>	<b>\$227,851.69</b>	<b>\$210,270.24</b>	<b>\$234,345.12</b>	<b>\$235,175.74</b>
Total Direct Conversion Costs		\$627,062.68	\$639,922.58	\$578,005.07	\$662,754.21	\$704,827.39
<b>Gross Margin</b>		<b>\$325,811.51</b>	<b>\$340,052.54</b>	<b>\$303,853.02</b>	<b>\$308,694.98</b>	<b>\$331,931.23</b>
<b>Marketing</b>						
Newspaper Advertising		\$19,057.48	\$24,498.86	\$10,582.30	\$25,257.68	\$13,477.86
Radio Advertising		\$18,104.61	\$21,559.00	\$19,400.88	\$10,685.94	\$22,808.69
Yellow Pages		\$476.44	\$489.98	\$440.93	\$485.72	\$518.38
Direct Mail Advertising		\$1,905.75	\$1,371.94	\$1,851.90	\$971.45	\$3,006.60
<b>Total Marketing Expenses</b>		<b>\$39,544.28</b>	<b>\$47,919.78</b>	<b>\$32,276.01</b>	<b>\$37,400.79</b>	<b>\$39,811.53</b>
<b>Other Variable Costs</b>						
Cleaning Materials		\$5,907.82	\$5,095.76	\$5,026.59	\$4,662.96	\$5,909.52
Small Wares		\$2,668.05	\$1,959.91	\$2,733.76	\$1,748.61	\$3,524.98
Outside Maintenance		\$6,670.12	\$5,389.75	\$8,818.58	\$3,885.80	\$6,324.23
Repairs		\$4,764.37	\$2,939.86	\$3,615.62	\$2,914.35	\$5,183.79
<b>Total Other Variable Costs</b>		<b>\$20,010.36</b>	<b>\$15,385.29</b>	<b>\$20,194.55</b>	<b>\$13,211.71</b>	<b>\$20,942.52</b>
<b>Total Variable Costs</b>		<b>\$686,617.32</b>	<b>\$703,227.65</b>	<b>\$630,475.63</b>	<b>\$713,366.71</b>	<b>\$765,581.45</b>
<b>Contribution Margin</b>		<b>\$266,256.87</b>	<b>\$276,747.47</b>	<b>\$251,382.47</b>	<b>\$258,082.48</b>	<b>\$271,177.18</b>

Contribution Margin	\$266,256.87	\$276,747.47	\$251,382.47	\$258,082.48	\$271,177.18
Non-Discretionary Fixed Costs					
Rent	\$66,000.00	\$67,980.00	\$70,019.40	\$72,119.98	\$74,283.58
Depreciation & Amortization Expense	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Utilities	\$18,104.61	\$18,647.75	\$19,207.18	\$19,783.40	\$20,376.90
Property & Liability Insurance	\$4,764.37	\$4,907.30	\$5,054.52	\$5,206.16	\$5,362.34
Bookeeping & Accounting	\$3,000.00	\$3,000.00	\$3,000.00	\$3,000.00	\$3,000.00
Total Non-Discretionary Fixed Costs	\$91,868.98	\$94,535.05	\$97,281.10	\$100,109.53	\$103,022.82
Discretionary Fixed Costs					
Owner's Salary	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Overhead on Owner's Salary	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Owner's Health & Life Insurance	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Owner's Automobile Expenses	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Travel & Entertainment	\$0.00	\$0.00	\$2,204.65	\$0.00	\$2,073.52
Dues & Subscriptions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Interest on Bank Loan	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Charitable Contributions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Discretionary Fixed Costs	\$0.00	\$0.00	\$2,204.65	\$0.00	\$2,073.52
Total Fixed Costs	\$91,868.98	\$94,535.05	\$99,485.75	\$100,109.53	\$105,096.34
Total Operating Costs	\$778,486.30	\$797,762.70	\$729,961.37	\$813,476.25	\$870,677.79
Net Operating Income (Loss)	\$174,387.89	\$182,212.42	\$151,896.72	\$157,972.94	\$166,080.84
Owner's Discretionary Cash Flow	\$174,387.89	\$182,212.42	\$151,896.72	\$157,972.94	\$166,080.85
Minus FMV Owner Salary	\$50,000.00	\$50,000.00	\$50,000.00	\$50,000.00	\$50,000.00
Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA)	\$124,387.89	\$132,212.42	\$101,896.72	\$107,972.94	\$116,080.85

Billy Bob's Barbecue		2009	2010	2011	2012	2013
<b>Sales Revenue</b>		Adjusted	Adjusted	Adjusted	Adjusted	Adjusted
Food & Beverage Sales		107.0%	107.0%	107.0%	107.0%	107.0%
Less Sales Tax		-7.0%	-7.0%	-7.0%	-7.0%	-7.0%
Total Revenue (net of sales tax)		100.0%	100.0%	100.0%	100.0%	100.0%
<b>Cost of Goods Sold</b>						
Food cost		38.0%	36.5%	36.0%	39.2%	41.0%
Beer & Wine		5.3%	5.5%	5.7%	4.9%	4.3%
Total Cost of Goods Sold		43.3%	42.0%	41.7%	44.1%	45.3%
Gross Profit		56.7%	58.0%	58.3%	55.9%	54.7%
<b>Direct Labor Cost</b>						
Direct Labor		18.0%	18.9%	18.5%	20.0%	18.3%
Overtime Labor		1.2%	0.9%	1.9%	0.7%	1.2%
Vacation Pay		0.9%	0.9%	0.9%	0.8%	0.8%
Employer's SSN		1.5%	1.6%	1.6%	1.6%	1.5%
State Unemployment Insurance		0.2%	0.2%	0.2%	0.2%	0.2%
Federal Unemployment Insurance		0.1%	0.2%	0.1%	0.2%	0.1%
Worker's Comp Insurance		0.5%	0.6%	0.6%	0.6%	0.5%
Total Direct Labor Cost		22.5%	23.3%	23.8%	24.1%	22.7%
Total Direct Conversion Costs		65.8%	65.3%	65.5%	68.2%	68.0%
Gross Margin		34.2%	34.7%	34.5%	31.8%	32.0%
<b>Marketing</b>						
Newspaper Advertising		2.0%	2.5%	1.2%	2.6%	1.3%
Radio Advertising		1.9%	2.2%	2.2%	1.1%	2.2%
Yellow Pages		0.1%	0.0%	0.1%	0.1%	0.1%
Direct Mail Advertising		0.2%	0.1%	0.2%	0.1%	0.3%
Total Marketing Expenses		4.2%	4.9%	3.7%	3.9%	3.8%
<b>Other Variable Costs</b>						
Cleaning Materials		0.6%	0.5%	0.6%	0.5%	0.6%
Small Wares		0.3%	0.2%	0.3%	0.2%	0.3%
Outside Maintenance		0.7%	0.5%	1.0%	0.4%	0.6%
Repairs		0.5%	0.3%	0.4%	0.3%	0.5%
Total Other Variable Costs		2.1%	1.6%	2.3%	1.4%	2.0%
Total Variable Costs		72.1%	71.8%	71.5%	73.4%	73.8%
Contribution Margin		27.9%	28.2%	28.5%	26.6%	26.2%

Contribution Margin	27.9%	28.2%	28.5%	26.6%	26.2%
Non-Discretionary Fixed Costs					
Rent	6.9%	6.9%	7.9%	7.4%	7.2%
Depreciation & Amortization Expense	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	1.9%	1.9%	2.2%	2.0%	2.0%
Property & Liability Insurance	0.5%	0.5%	0.6%	0.5%	0.5%
Bookeeping & Accounting	0.3%	0.3%	0.3%	0.3%	0.3%
Total Non-Discretionary Fixed Costs	9.6%	9.6%	11.0%	10.3%	9.9%
Discretionary Fixed Costs					
Owner's Salary	0.0%	0.0%	0.0%	0.0%	0.0%
Overhead on Owner's Salary	0.0%	0.0%	0.0%	0.0%	0.0%
Owner's Health & Life Insurance	0.0%	0.0%	0.0%	0.0%	0.0%
Owner's Automobile Expenses	0.0%	0.0%	0.0%	0.0%	0.0%
Travel & Entertainment	0.0%	0.0%	0.3%	0.0%	0.2%
Dues & Subscriptions	0.0%	0.0%	0.0%	0.0%	0.0%
Interest on Bank Loan	0.0%	0.0%	0.0%	0.0%	0.0%
Charitable Contributions	0.0%	0.0%	0.0%	0.0%	0.0%
Total Discretionary Fixed Costs	0.0%	0.0%	0.3%	0.0%	0.2%
Total Fixed Costs	9.6%	9.6%	11.3%	10.3%	10.1%
Total Operating Costs	81.7%	81.4%	82.8%	83.7%	84.0%
Net Operating Income (Loss)	18.3%	18.6%	17.2%	16.3%	16.0%
Owner's Discretionary Cash Flow	18.3%	18.6%	17.2%	16.3%	16.0%
Minus FMV Owner Salary	5.2%	5.1%	5.7%	5.1%	4.8%
Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA)	13.1%	13.5%	11.6%	11.1%	11.2%

Billy Bob's Barbecue					
<b>Assets</b>	2009	2010	2011	2012	2013
Current Assets	Actual	Actual	Actual	Actual	Actual
Cash in banks & on-premises change bank	\$15,003.01	\$10,258.73	\$15,987.25	\$14,883.66	\$13,654.73
Inventory	\$9,875.99	\$12,003.66	\$9,875.99	\$11,679.15	\$11,123.00
Prepaid Insurance	\$4,002.03	\$4,879.25	\$39,874.20	\$4,329.15	\$4,557.00
Other Current Assets	\$8,546.61	\$8,058.22	\$7,896.28	\$9,505.75	\$8,801.62
<b>Total Current Assets</b>	<b>\$38,664.19</b>	<b>\$36,768.18</b>	<b>\$74,621.22</b>	<b>\$41,416.63</b>	<b>\$39,256.05</b>
<b>Fixed Assets</b>					
Lease Deposit	\$10,000.00	\$10,000.00	\$10,000.00	\$10,000.00	\$10,000.00
Food Service operating equipment	\$223,534.00	\$222,447.75	\$226,409.00	\$228,626.56	\$228,996.00
Office Equipment	\$16,210.16	\$15,883.00	\$15,593.00	\$16,572.00	\$16,447.00
Owner's Automobile	\$25,000.00	\$25,000.00	\$25,000.00	\$25,000.00	\$25,000.00
Accumulated Depreciation	-\$79,940.40	-\$79,168.57	-\$78,373.59	-\$77,554.75	-\$105,668.00
<b>Total Fixed Assets</b>	<b>\$194,803.76</b>	<b>\$194,162.18</b>	<b>\$198,628.41</b>	<b>\$202,643.81</b>	<b>\$174,775.00</b>
<b>Total Assets</b>	<b>\$233,467.95</b>	<b>\$230,930.36</b>	<b>\$273,249.63</b>	<b>\$244,060.44</b>	<b>\$214,031.05</b>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Wages Payable	\$6,987.68	\$10,010.37	\$9,008.11	\$7,896.33	\$8,564.35
Accounts payable	\$12,001.35	\$8,964.64	\$7,582.68	\$9,258.25	\$11,003.55
Sales Tax Payable	\$3,998.98	\$4,001.01	\$4,569.64	\$4,998.22	\$5,648.33
Unredeemed Gift Certificates	\$300.00	\$125.00	\$200.00	\$50.00	\$175.00
Other Current Liabilities	\$4,123.68	\$3,998.59	\$5,008.92	\$3,987.16	\$4,065.25
<b>Total Current Liabilities</b>	<b>\$27,411.69</b>	<b>\$27,099.61</b>	<b>\$26,369.35</b>	<b>\$26,189.96</b>	<b>\$29,456.48</b>
<b>Long Term Liabilities</b>					
Bank of America Equipment Loan	\$98,000.00	\$94,555.00	\$90,052.00	\$81,003.00	\$81,003.00
Loan from Owner	\$10,000.00	\$10,000.00	\$10,000.00	\$10,000.00	\$10,000.00
<b>Total Long Term Liabilities</b>	<b>\$108,000.00</b>	<b>\$104,555.00</b>	<b>\$100,052.00</b>	<b>\$91,003.00</b>	<b>\$91,003.00</b>
<b>Total Liabilities</b>	<b>\$135,411.69</b>	<b>\$131,654.61</b>	<b>\$126,421.35</b>	<b>\$117,192.96</b>	<b>\$120,459.48</b>
<b>Owner's Equity</b>					
Retained earnings this year	\$37,631.71	\$25,856.37	\$38,956.71	\$38,310.02	\$25,856.37
Original Capital Investment	\$75,000.00	\$75,000.00	\$75,000.00	\$75,000.00	\$75,000.00
Retained earnings prior years	\$35,203.20	\$35,203.20	\$35,203.20	\$35,203.20	\$35,203.20
Owner Draws (dividends)	-\$10,847.00	-\$10,847.00	-\$10,847.00	-\$8,453.25	-\$10,847.00
Additional Balancing Adjustments	-\$38,931.65	-\$25,936.82	\$8,515.37	-\$13,192.49	-\$31,641.00
<b>Total Owner's Equity</b>	<b>\$98,056.26</b>	<b>\$99,275.75</b>	<b>\$146,828.28</b>	<b>\$126,867.48</b>	<b>\$93,571.57</b>
<b>Total Owner's Equity &amp; Liabilities</b>	<b>\$233,467.95</b>	<b>\$230,930.36</b>	<b>\$273,249.63</b>	<b>\$244,060.44</b>	<b>\$214,031.05</b>

Billy Bob's Barbecue					
<b>Assets</b>	2009	2010	2011	2012	2013
Current Assets	Adjusted	Adjusted	Adjusted	Adjusted	Adjusted
Cash in banks & on-premises change bank	\$15,003.01	\$10,258.73	\$15,987.25	\$14,883.66	\$13,654.73
Inventory	\$9,875.99	\$12,003.66	\$9,875.99	\$11,679.15	\$11,123.00
Prepaid Insurance	\$4,002.03	\$4,879.25	\$39,874.20	\$4,329.15	\$4,557.00
Other Current Assets	\$8,546.61	\$8,058.22	\$7,896.28	\$9,505.75	\$8,801.62
<b>Total Current Assets</b>	<b>\$38,664.19</b>	<b>\$36,768.18</b>	<b>\$74,621.22</b>	<b>\$41,416.63</b>	<b>\$39,256.05</b>
<b>Fixed Assets</b>					
Lease Deposit	\$10,000.00	\$10,000.00	\$10,000.00	\$10,000.00	\$10,000.00
Food Service operating equipment	\$174,532.00	\$173,445.75	\$177,407.00	\$179,624.56	\$179,994.00
Office Equipment	\$4,173.16	\$3,846.00	\$3,556.00	\$4,535.00	\$4,410.00
Owner's Automobile	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Accumulated Depreciation	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
<b>Total Fixed Assets</b>	<b>\$188,705.16</b>	<b>\$187,291.75</b>	<b>\$190,963.00</b>	<b>\$194,159.56</b>	<b>\$194,404.00</b>
<b>Total Assets</b>	<b>\$227,369.35</b>	<b>\$224,059.93</b>	<b>\$265,584.22</b>	<b>\$235,576.19</b>	<b>\$233,660.05</b>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Wages Payable	\$6,987.68	\$10,010.37	\$9,008.11	\$7,896.33	\$8,564.35
Accounts payable	\$12,001.35	\$8,964.64	\$7,582.68	\$9,258.25	\$11,003.55
Sales Tax Payable	\$3,998.98	\$4,001.01	\$4,569.64	\$4,998.22	\$5,648.33
Unredeemed Gift Certificates	\$300.00	\$125.00	\$200.00	\$50.00	\$175.00
Other Current Liabilities	\$4,123.68	\$3,998.59	\$5,008.92	\$3,987.16	\$4,065.25
<b>Total Current Liabilities</b>	<b>\$27,411.69</b>	<b>\$27,099.61</b>	<b>\$26,369.35</b>	<b>\$26,189.96</b>	<b>\$29,456.48</b>
<b>Long Term Liabilities</b>					
Bank of America Equipment Loan	\$98,000.00	\$94,555.00	\$90,052.00	\$81,003.00	\$81,003.00
Loan from Owner	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Phantom Debt	\$0.00				
<b>Total Long Term Liabilities</b>	<b>\$98,000.00</b>	<b>\$94,555.00</b>	<b>\$90,052.00</b>	<b>\$81,003.00</b>	<b>\$81,003.00</b>
<b>Total Liabilities</b>	<b>\$125,411.69</b>	<b>\$121,654.61</b>	<b>\$116,421.35</b>	<b>\$107,192.96</b>	<b>\$110,459.48</b>
<b>Owner's Equity</b>					
Retained earnings this year	\$37,631.71	\$25,856.37	\$38,956.71	\$38,310.02	\$25,856.37
Original Capital Investment	\$75,000.00	\$75,000.00	\$75,000.00	\$75,000.00	\$75,000.00
Retained earnings prior years	\$35,203.20	\$35,203.20	\$35,203.20	\$35,203.20	\$35,203.20
Owner Draws (dividends)	-\$10,847.00	-\$10,847.00	-\$10,847.00	-\$8,453.25	-\$10,847.00
Cash Adjustment	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Bank of American Loan Adjustment	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Loan from Owner	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Additional Balancing Adjustments	-\$35,030.25	-\$22,807.25	\$10,849.96	-\$11,676.74	-\$2,012.00
<b>Total Owner's Equity</b>	<b>\$101,957.66</b>	<b>\$102,405.32</b>	<b>\$149,162.87</b>	<b>\$128,383.23</b>	<b>\$123,200.57</b>
<b>Total Owner's Equity &amp; Liabilities</b>	<b>\$227,369.35</b>	<b>\$224,059.93</b>	<b>\$265,584.22</b>	<b>\$235,576.19</b>	<b>\$233,660.05</b>

<b>Billy Bob's Barbecue</b>					
<b>Assets</b>	2009	2010	2011	2012	2013
Current Assets	Actual	Actual	Actual	Actual	Actual
Cash in banks & on-premises change	6.43%	4.44%	5.85%	6.10%	6.38%
Inventory	4.23%	5.20%	3.61%	4.79%	5.20%
Prepaid Insurance	1.71%	2.11%	14.59%	1.77%	2.13%
Other Current Assets	3.66%	3.49%	2.89%	3.89%	4.11%
<b>Total Current Assets</b>	<b>16.56%</b>	<b>15.92%</b>	<b>27.31%</b>	<b>16.97%</b>	<b>18.34%</b>
<b>Fixed Assets</b>					
Lease Deposit	4.28%	4.33%	3.66%	4.10%	4.67%
Food Service operating equipment	95.75%	96.33%	82.86%	93.68%	106.99%
Office Equipment	6.94%	6.88%	5.71%	6.79%	7.68%
Owner's Automobile	10.71%	10.83%	9.15%	10.24%	11.68%
Accumulated Depreciation	-34.24%	-34.28%	-28.68%	-31.78%	-49.37%
<b>Total Fixed Assets</b>	<b>83.44%</b>	<b>84.08%</b>	<b>72.69%</b>	<b>83.03%</b>	<b>81.66%</b>
<b>Total Assets</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Wages Payable	2.99%	4.33%	3.30%	3.24%	4.00%
Accounts payable	5.14%	3.88%	2.78%	3.79%	5.14%
Sales Tax Payable	1.71%	1.73%	1.67%	2.05%	2.64%
Unredeemed Gift Certificates	0.13%	0.05%	0.07%	0.02%	0.08%
Other Current Liabilities	1.77%	1.73%	1.83%	1.63%	1.90%
<b>Total Current Liabilities</b>	<b>11.74%</b>	<b>11.73%</b>	<b>9.65%</b>	<b>10.73%</b>	<b>13.76%</b>
<b>Long Term Liabilities</b>					
Bank of America Equipment Loan	41.98%	40.95%	32.96%	33.19%	37.85%
Loan from Owner	4.28%	4.33%	3.66%	4.10%	4.67%
Phantom Debt	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Total Long Term Liabilities</b>	<b>46.26%</b>	<b>45.28%</b>	<b>36.62%</b>	<b>37.29%</b>	<b>42.52%</b>
<b>Total Liabilities</b>	<b>58.00%</b>	<b>57.01%</b>	<b>46.27%</b>	<b>48.02%</b>	<b>56.28%</b>
<b>Owner's Equity</b>					
Retained earnings this year	16.12%	11.20%	14.26%	15.70%	12.08%
Original Capital Investment	32.12%	32.48%	27.45%	30.73%	35.04%
Retained earnings prior years	15.08%	15.24%	12.88%	14.42%	16.45%
Owner Draws (dividends)	-4.65%	-4.70%	-3.97%	-3.46%	-5.07%
Cash Adjustment	0.00%	0.00%	0.00%	0.00%	0.00%
Bank of American Loan Adjustment	0.00%	0.00%	0.00%	0.00%	0.00%
Loan from Owner	0.00%	0.00%	0.00%	0.00%	0.00%
Additional Balancing Adjustments	-16.68%	-11.23%	3.12%	-5.41%	-14.78%
<b>Total Owner's Equity</b>	<b>42.00%</b>	<b>42.99%</b>	<b>53.73%</b>	<b>51.98%</b>	<b>43.72%</b>
<b>Total Owner's Equity &amp; Liabilities</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

<b>Billy Bob's Barbecue</b>					
<b>Assets</b>	2009	2010	2011	2012	2013
Current Assets	Adjusted	Adjusted	Adjusted	Adjusted	Adjusted
Cash in banks & on-premises change	6.60%	4.58%	6.02%	6.32%	5.84%
Inventory	4.34%	5.36%	3.72%	4.96%	4.76%
Prepaid Insurance	1.76%	2.18%	15.01%	1.84%	1.95%
Other Current Assets	3.76%	3.60%	2.97%	4.04%	3.77%
<b>Total Current Assets</b>	<b>17.01%</b>	<b>16.41%</b>	<b>28.10%</b>	<b>17.58%</b>	<b>16.80%</b>
<b>Fixed Assets</b>					
Lease Deposit	4.40%	4.46%	3.77%	4.24%	4.28%
Food Service operating equipment	76.76%	77.41%	66.80%	76.25%	77.03%
Office Equipment	1.84%	1.72%	1.34%	1.93%	1.89%
Owner's Automobile	0.00%	0.00%	0.00%	0.00%	0.00%
Accumulated Depreciation	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Total Fixed Assets</b>	<b>82.99%</b>	<b>83.59%</b>	<b>71.90%</b>	<b>82.42%</b>	<b>83.20%</b>
<b>Total Assets</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Wages Payable	3.07%	4.47%	3.39%	3.35%	3.67%
Accounts payable	5.28%	4.00%	2.86%	3.93%	4.71%
Sales Tax Payable	1.76%	1.79%	1.72%	2.12%	2.42%
Unredeemed Gift Certificates	0.13%	0.06%	0.08%	0.02%	0.07%
<b>Total Current Liabilities</b>	<b>12.06%</b>	<b>12.09%</b>	<b>9.93%</b>	<b>11.12%</b>	<b>12.61%</b>
<b>Long Term Liabilities</b>					
Bank of America Equipment Loan	43.10%	42.20%	33.91%	34.39%	34.67%
Loan from Owner	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Total Long Term Liabilities</b>	<b>43.10%</b>	<b>42.20%</b>	<b>33.91%</b>	<b>34.39%</b>	<b>34.67%</b>
<b>Total Liabilities</b>	<b>55.16%</b>	<b>54.30%</b>	<b>43.84%</b>	<b>45.50%</b>	<b>47.27%</b>
<b>Owner's Equity</b>					
Retained earnings this year	16.55%	11.54%	14.67%	16.26%	11.07%
Original Capital Investment	32.99%	33.47%	28.24%	31.84%	32.10%
Retained earnings prior years	15.48%	15.71%	13.26%	14.94%	15.07%
Owner Draws (dividends)	-4.77%	-4.84%	-4.08%	-3.59%	-4.64%
Cash Adjustment	0.00%	0.00%	0.00%	0.00%	0.00%
Bank of American Loan Adjustment	0.00%	0.00%	0.00%	0.00%	0.00%
Loan from Owner	0.00%	0.00%	0.00%	0.00%	0.00%
Additional Balancing Adjustments	-15.41%	-10.18%	4.09%	-4.96%	-0.86%
<b>Total Owner's Equity</b>	<b>44.84%</b>	<b>45.70%</b>	<b>56.16%</b>	<b>54.50%</b>	<b>52.73%</b>
<b>Total Owner's Equity &amp; Liabilities</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

# Bizimmer

## Industry Financial Report

release date: December 2013

Reno, NV

[722511.05] Barbecue Restaurants (Full-Serve) Sector:

Accommodation-Food Services

Sales Class: industry-wide

### Contents

Income-Expense statement - dollar-based

Income-Expense statement - percentage-based

Balance Sheet - dollar-based

Balance Sheet - percentage-based

Sources-Uses of Funds

Financial Ratios - Cash Flow-Solvency

Financial Ratios - Profitability

Financial Ratios - Efficiency-Debt-Risk

Financial Ratios - Turnover

About the Data

### Firms Analyzed

2008	0
2009	9
2010	9
2011	9
2012	9
2013a2	9

**Sales Classes Applied:** \$1 - \$499,999, \$500,000 - \$999,999, \$1m - \$2.49m, \$2.5m - \$4.99m, \$5m - \$9.99m, \$10m - \$24.99m

### Average Annual Sales

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013q2</b>
Business Revenue	3,074,783	2,871,813	3,279,133	3,400,783	3,360,438	3,009,841
Cost of Sales	1,266,577	1,243,276	1,389,328	1,413,281	1,377,733	1,236,104
Gross Margin	1,808,206	1,628,537	1,889,805	1,987,502	1,982,705	1,773,737
Officers Comp.	66,329	69,799	76,450	57,323	63,200	58,488
Salary-Wages	603,192	547,094	607,469	591,821	609,371	547,760
Rent	204,310	182,813	212,950	240,559	232,286	209,758
Taxes Paid	115,195	108,033	110,524	110,527	124,974	112,538
Advertising	98,009	84,789	93,708	107,252	105,207	94,055
Benefits-Pensions	29,423	28,921	24,354	20,676	33,606	30,066
Repairs	59,407	53,265	61,520	65,930	59,156	53,147
Bad Debt	561	698	430	395	1,913	1,682
D. A. Depreciation	483,973	419,436	475,091	507,589	476,705	427,866
EBITDA	147,807	133,689	227,307	285,429	276,285	238,378
Amortization						
Depletion	70,732	65,861	98,443	95,454	102,639	91,591
Operating Expenses	1,731,131	1,560,709	1,760,941	1,797,527	1,809,059	1,626,949
Operating Income	77,076	67,827	128,865	189,975	173,646	146,788
Interest Income	768	2,139	614	582	1,249	1,135
Interest Expense	39,057	36,113	46,712	22,293	34,204	30,207
Other Income	38,239	65,064	50,012	42,993	57,615	50,263
Pre-Tax Net Profit	77,026	98,918	132,779	211,256	198,307	167,978
Income Tax	14,439	21,882	35,034	65,640	60,590	48,761
After Tax Net Profit	62,588	77,036	97,745	145,616	137,717	119,217
Discretionary Owner Earnings	199,649	212,695	272,638	298,393	303,557	269,296

<b>Income and Expense- Profit and Loss %</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013q2</b>
Business Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Sales	41.19%	43.29%	42.37%	41.56%	41.00%	41.07%
Gross Margin	58.81%	56.71%	57.63%	58.44%	59.00%	58.93%
Officers Comp.	2.16%	2.43%	2.33%	1.69%	1.88%	1.94%
Salary-Wages	19.62%	19.05%	18.53%	17.40%	18.13%	18.20%
Rent	6.64%	6.37%	6.49%	7.07%	6.91%	6.97%
Taxes Paid	3.75%	3.76%	3.37%	3.25%	3.72%	3.74%
Advertising	3.19%	2.95%	2.86%	3.15%	3.13%	3.12%
Benefits-Pensions	0.96%	1.01%	0.74%	0.61%	1.00%	1.00%
Repairs	1.93%	1.85%	1.88%	1.94%	1.76%	1.77%
Bad Debt	0.02%	0.02%	0.01%	0.01%	0.06%	0.06%
Sales, General, Admin & Misc.	15.74%	14.61%	14.49%	14.93%	14.19%	14.22%
EBITDA	4.81%	4.66%	6.93%	8.39%	8.22%	7.92%
Amortization Depreciation Depletion	2.30%	2.29%	3.00%	2.81%	3.05%	3.04%
Operating Expenses	56.30%	54.35%	53.70%	52.86%	53.83%	54.05%
Operating Income	2.51%	2.36%	3.93%	5.59%	5.17%	4.88%
Interest Income	0.02%	0.07%	0.02%	0.02%	0.04%	0.04%
Interest Expense	1.27%	1.26%	1.42%	0.66%	1.02%	1.67%
Other Income	1.24%	2.27%	1.53%	1.26%	1.71%	5.58%
Pre-Tax Net Profit	2.51%	3.44%	4.05%	6.21%	5.90%	1.62%
Income Tax	0.47%	0.76%	1.07%	1.93%	1.80%	3.96%
After Tax Net Profit	2.04%	2.68%	2.98%	4.28%	4.10%	8.95%
Discretionary Owner Earnings	6.49%	7.41%	8.31%	8.77%	9.03%	

Dollar-based sales and other dollar-based data in this report reflect averages for sales of the industry segment, not total industry-wide averages. As a result, sales levels may vary from year to year, depending on the mix of firms that fall within the selected segment.

In local Industry Financial reports, the "Other Income" line item percentage is applied directly from US averages for this industry. Local percentages may differ. Other P&L percentages and all dollar calculations are based on actual local data.

**Business Revenue** includes receipts from core business operations. Interest Income and Other income (such as rents and royalties) are generally detailed separately below Operating Income. While Business Revenue is separated from Interest Income for most classifications, Business Revenue includes interest income from the private sector where it is central to financial industry operations, including Finance and Insurance (NAICS 52xxxx except NAICS 5242xx Insurance Brokers and Other Insurance Activities); Real Estate-Rental-Leasing (53xxxx); and Management of Companies and Enterprises (55xxxx).

**Cost of Sales** includes materials and labor involved in the direct delivery of a product or service. Other costs are included in the cost of sales to the extent that they are involved in bringing goods to their location and condition ready to be sold. Non-production overheads such as development costs may be attributable to the cost of goods sold. The costs of services provided will consist primarily of personnel directly engaged in providing the service, including supervisory personnel and attributable overhead.

**Gross Margin** represents direct operating expenses plus net profit. In addition to the labor portion of Cost of Sales, wage costs are reflected in the **Officers Compensation** and **Wages-Salary** line items. In many cases, SG&A (Sales, General and Administrative) costs also include some overhead, administrative and supervisory wages.

**Rent** covers the rental cost of any business property, including land, buildings and equipment.

The **Taxes Paid** line item includes payroll other paid-in tax items, but not business income taxes due for the period. Although it can be calculated in many ways and is a controversial measure, the **EBITDA line item (Earnings before Interest Expense, income tax due, Depreciation and Amortization)** adds back interest payments, depreciation, amortization and depletion allowances, and excludes income taxes due to reduce the effect of accounting decisions on the bottom line of the Profit and Loss Statement. Since some firms utilize EBITDA to "add back" non-cash and flexible expenses which may be altered through credits and accounting procedures (such as income tax), paid-in income taxes from the Taxes Paid line item are not added back in the EBITDA calculation.

**Advertising** includes advertising, promotion and publicity for the reporting business, but not on behalf of others.

**Benefits-Pension** includes, but is not limited to, employee health care and retirement costs. In addition to varying proportions of overhead, administrative and supervisory wages, some generally more minor expenses are aggregated under **SG&A (Sales, General and Administrative)**.

**Operating Expenses** sums the individual expense line items above, yielding the **Operating Income** or net of core business operations, when subtracted from the Gross Margin.

**Pre-Tax Net Profit** represents net profit before income tax due. **Income Tax** calculates the federal corporate tax rate before credits, leaving **After-Tax Profit** at the bottom line.

**Discretionary Owner Earnings** sums Officer Compensation, Depreciation and related non-cash expenses and Net Profit after business taxes to represent a practical measure of total return to owners. The D.O.E. metric is mainly used for small businesses.

## Balance Sheet - dollar-based

Assets	2008	2009	2010	2011	2012	2013q2
Cash	168,422	152,443	176,010	300,400	201,046	180,453
Receivables	41,811	43,342	64,123	64,603	60,352	54,153
Inventory	38,055	33,004	41,004	52,775	42,314	37,910
Other Current Assets	46,434	55,727	51,549	66,783	67,015	60,166
Total Current Assets	294,666	284,505	332,687	484,561	370,727	332,682
Gross Fixed Assets	1,060,637	924,664	1,257,858	1,998,558	1,350,576	1,207,913
Accum. Depreciation- Amortization-vegan.	443,988	387,069	526,545	836,606	565,357	505,638
Net Fixed Assets	706,906	643,777	832,082	1,337,031	896,493	807,868
RitssNon-Current	145,268	121,493	233,873	383,075	229,734	207,259
Total Assets	1,146,855	1,049,788	1,398,642	2,204,668	1,496,874	1,347,810
<b>Liabilities</b>						
Accounts Payable	93,721	86,395	90,888	125,505	86,538	74,228
Loans/Notes Payable	53,503	36,495	47,933	82,875	77,981	67,754
Stalmarrent	117,554	93,748	128,465	213,978	119,539	108,510
Total Current Liabilities	264,777	216,637	267,286	422,358	284,058	250,493
Total Long Term	525,677	498,024	656,318	1,048,494	693,076	631,035
Total Liabilities	790,455	714,661	923,605	1,470,852	977,134	881,527
Net Worth	356,401	335,127	475,037	733,816	519,739	466,283
Total Liabilities & Net Worth	1,146,855	1,049,788	1,398,642	2,204,668	1,496,874	1,347,810

**Cash:** Money on hand in checking, savings or redeemable certificate accounts.

**Receivables:** A short-term asset (to be collected within one year) in the form of accounts or notes receivable, and usually representing a credit for a completed sale or loan.

**Inventory:** The stockpile of unsold products.

**Current Assets:** The sum of a firm's cash, accounts and notes receivable, inventory, prepaid expenses and marketable securities which can be converted to cash within a single operating cycle.

**Fixed Assets:** Long-term assets such as building and machinery, net of accumulated amortization-depreciation-depletion.

**print-onlyTotal Assets:** The sum of current assets and fixed assets such as plant and equipment.

**Note:** Some legacy year asset line items are blended with the closest four digit industry segment. In local Industry Financial report, some legacy year asset line item percentages are applied directly from US averages for this industry. Local percentages may differ. Other balance sheet percentages and all balance sheet dollar calculations are based on actual local data.

**Accounts Payable:** Invoices due to suppliers within the current business cycle.

**Loans/Notes Payable:** Loan amounts due to suppliers within the current business cycle.

**Current Liabilities:** Measurable debt owed within one year, including accounts, loans and notes payable, accrued liabilities and taxes due.

**Long Term Liabilities:** Debt which is due in more than one year, including the portion of loans and mortgages that become due after the current business cycle.

**Total Liabilities:** Current Liabilities plus Long Term Liabilities such as notes and mortgages due over more than one year.

**Net Worth:** Current assets plus fixed assets minus current and long-term liabilities.

Balance Sheet - percentage-based

Assets	2008	2009	2010	2011	2012	2013q2
Cash	14.69%	14.52%	12.58%	13.63%	13.43%	13.39%
Receivables	3.65%	4.13%	4.58%	2.93%	4.03%	4.02%
Inventory	3.32%	3.14%	2.93%	2.39%	2.83%	2.81%
Other Current Assets	4.05%	5.31%	3.69%	3.03%	4.48%	4.46%
<b>Total Current Assets</b>	<b>25.69%</b>	<b>27.10%</b>	<b>23.79%</b>	<b>21.98%</b>	<b>24.77%</b>	<b>24.68%</b>
Gross Fixed Assets	92.48%	88.08%	89.93%	90.65%	90.23%	89.62%
■ RITZ RS - Ugi Win.	38.71%	36.87%	37.65%	37.95%	37.77%	37.52%
Net Fixed Assets	61.64%	61.32%	59.49%	60.65%	59.89%	59.94%
Other Non-Current Assets	12.67%	11.57%	16.72%	17.38%	15.35%	15.38%
<b>Total Assets</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
<b>Liabilities</b>						
Accounts Payable	8.17%	8.23%	6.50%	5.69%	5.78%	5.51%
Loans/Notes Payable	4.67%	3.48%	3.43%	3.76%	5.21%	5.03%
Other Current Liabilities	10.25%	8.93%	9.18%	9.71%	7.99%	8.05%
<b>Total Current Liabilities</b>	<b>23.09%</b>	<b>20.64%</b>	<b>19.11%</b>	<b>19.16%</b>	<b>18.98%</b>	<b>18.59%</b>
Total Long Term Liabilities	45.84%	47.44%	46.93%	47.56%	46.30%	46.82%
<b>Total Liabilities</b>	<b>68.92%</b>	<b>68.08%</b>	<b>66.04%</b>	<b>66.72%</b>	<b>65.28%</b>	<b>65.40%</b>
Net Worth	31.08%	31.92%	33.96%	33.28%	34.72%	34.60%
<b>Total Liabilities &amp; Net Worth</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

**Note:** Some legacy year asset line items are blended with the closest four digit industry segment. In local Industry Financial report, some legacy year asset line item percentages are applied directly from US averages for this industry. Local percentages may differ. Other balance sheet percentages and all balance sheet dollar calculations are based on actual local data.

## About the Data

Raw data analyzed for BizMiner reports is sourced from an array of the nation's government and private statistical sources. None of these raw data sources creates the final measures reflected in BizMiner industry profiles. In total, BizMiner accesses over a billion sourced data points from 15 million business operations for each of its twice annual updates covering a 3-5 year time series. Historical data and BizMiner algorithms are used to inform and test projections for non-reporting firms. Data elements are sourced specifically from:

- IRS SOI Corporation Income Tax>Returns
- IRS SOI Corporation Tax Book
- IRS SOI 1040 Schedule C Income Tax Returns
- IRS SOI Statistics of Income
- Individual Tax Statistics
- US Economic Census of Manufactures
- US Census Economy Overview
- US Census Annual Survey of Manufactures
- US Census Annual Retail Trade Survey
- US Census Annual Wholesale Trade Survey
- US Census Quarterly Financial Reports
- US Census County Business Patterns
- Bureau of Labor Statistics Monthly Employment Reports
- Bureau of Labor Statistics Monthly Unemployment Reports
- US Census Wholesale Trade Report
- US Census Quarterly (New Housing) Sales by Price and Financing
- US Census Total Construction Spending
- US Census Retail Trade Report
- US Census Quarterly Services Survey
- Commercial Real Estate Survey
- Credit Reporting Agencies
- InfoGroup, Inc.
- Business Directories

While 100% firm coverage is desirable for analysis purposes, the greatest value of BizMiner reports rests in discerning patterns of activity, which are reflected in the large samples used to develop our reports. The overall current coverage of the databases surpasses 13 million active business operations at any point in time.

As is the case with any databases this large, some errors are inevitable. Some firms are missed and specific information on others is lacking from the database. Not all information received is uniform or complete, resulting in the need to develop projection algorithms for specific industry segments and metrics in some report series. No representation is made as to the accuracy of the databases utilized or the results of subsequent analyses. Neither the Brandow Company nor its resellers has undertaken independent primary research to confirm the accuracy of the data utilized in the Profile analyses. Neither the Brandow Company nor its resellers are responsible for conclusions drawn or decisions made based upon this data or analysis. In no event will the Brandow Company or its resellers be liable for any damages, direct, indirect, incidental or consequential resulting from the use of the information contained