SAMPLE CALCULATIONS LETTER

February 7, 2019

Mr. Bob Smith
c/o XYZ Auto Repair, Inc.[1]
100 Main Street
Salem, OR 12345

RE: Business Valuation Services

Dear Mr. Smith,

You requested that that I determine the fair market value of a 100% ownership interest in XYZ Auto Repair, Inc. (the "Company"), an Oregon Corporation. The appraisal is being conducted on a fully controlling, fully marketable interest basis as of January 1, 2019 (the "Valuation Date"). It is my understanding that the valuation will be used for potential sale purposes.

In keeping with your request not to prepare a detailed comprehensive report, I have set out my findings in this letter and the attached schedules.

The scope of this assignment is "calculations," defined by the American Society of Appraisers as providing an approximate indication of value based on the performance of limited procedures agreed upon by the appraiser and the client. This analysis provides only an estimate of value based on limited procedures. The value conclusion may be different if the assignment scope were expanded to include additional information and analysis. Therefore, this analysis should not be relied upon as a definitive indication of value.

Also based on the understood purpose of the appraisal, I have assumed "fair market value" standard of value. Fair market value is the standard used in all income and transfer tax appraisals, and is defined by the American Society of Appraisers as:

> *"The price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm's length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts."*

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[1] XYZ Auto Repair, Inc. is a fictitious entity. Any similarities to an actual operating company is purely coincidental.

BACKGROUND & HISTORY

The Company was incorporated as an Oregon Corporation in 1989 as XYZ Auto Repair, Inc. It originally offered auto service and repair, and eventually expanded to include auto body work. As of the Valuation Date it operated from two locations, one in Keizer and a second in downtown Salem, Oregon. The two locations are approximately five miles apart.

The Company's locations and services have evolved over the last 30 years. In 1999, after operating from its original location in Keizer at 123 Main Street for a decade, the Company relocated approximately two miles away, to 789 Main Street. Two years later, the Company added the downtown Salem location at Broadway Avenue to serve the downtown population. In 2009, the Company added 2,500 square feet at the Keizer location, including a paint booth and related equipment, and began offering auto body and paint services.

The services offered differ by location. The Keizer location offers auto service and repair, and includes a full collision department ("Collision Department") with painting and body work. The downtown Salem location only offers auto service and repair, but no collision repairs.

Management indicated that vehicle reliability trends have affected revenue trends and Company operations. In the 1980's and 1990's, vehicles were less dependable and required more repairs. As vehicle reliability increased, the Company had a marked decrease in the number of vehicles serviced per day. The most recent recession that began in 2008 also changed the way customers view car repairs and customer service expectations. Management implemented new software to help offset these trends by increasing communication and customer service measures with existing customers.

Additionally, management noted that shortage of skilled labor is another significant challenge the Company faces, due to the lack of available labor that is current on technical requirements. The Company has focused on finding its own candidates in the form of an apprenticeship program with paid training as a way of attracting quality employees.

SERVICES

The Company performs services on electric, hybrid, and diesel vehicles including vans, trucks, SUVs, and other vehicles. It offers a local courtesy shuttle, has pick up, and drop off available.

Auto Service and Repair

The Company has an extensive list of services on its website, including:

- Diagnostics and inspections
- Brake and tire service, replacement, and repair
- Head light/ tail light replacement
- Power steering repair
- Transmission replacement and service
- Cooling system service and repair
- A/C repair
- Emissions
- Window and door lock replacement;
- Preventative maintenance
- Timing belt replacement and repair
- Engine repair

Collision Services

The Company offers collision services ranging from repair of minor dings to heavy collision and frame damage. Before the Company technicians begin to work on a vehicle, comprehensive estimates are provided to customers through a vehicle examination and computerized estimating. Relationships with insurance companies are an integral part of this portion of business.

ADVERTISING

The Company primarily advertises within the immediate area including advertisements in two neighborhood newspapers, gift certificates to fundraising auctions when requested by the community or customers, its website and Facebook.

The Company also uses Demand Force, an automated marketing and communication software, to gather feedback, remind customers of services needed and to make online appointments. Overall, management feels the cost of Demand Force is productive and eliminates the staff expense related to performing these functions in-house.

COMPETITORS

According to management, the primary competitor is Jones Automotive. Jones Automotive has four locations in the area, all in close proximity to the Company. The Company also has moderate competition from automobile dealerships.

MANAGEMENT AND EMPLOYEES

The duties of management are as follows:

- *Bob Smith*, President, is the founder of the Company and the owner/operator. As of the Valuation Date, his duties consisted primarily of working with the online marketing team for web presence and customer retention. He also ensures that all equipment and software are up to date and functional. He has minimal involvement in daily operational management, and works approximately 30 hours per week.
- *Steve Jobs*, Controller, was hired in October 2001 and reports to Bob Smith.
- *Miley Cyrus,* is the Service and Operations Manager for the Salem location. She was hired in June 2004.
- *Jason Bourne* is the Service Manager for the Keizer auto repair. He has been an employee of the Company since January 2001.
- *Patrick Ryan* is the Auto Body Manager for the Keizer collision center. He began his employment with the Company in January 2015.

At the Valuation Date, the Company had 13 employees at the Salem location. The Keizer auto repair segment had seven employees including the service manager, one service advisor, three technicians, and two customer service employees. The Keizer auto body and paint segment had five employees.

FACILITIES AND BUSINESS HOURS

The Keizer auto service and collision center is located at 789 Main Street in Keizer, Oregon. The facility was constructed in 1992, with additions and renovations in 2002 and 2009. It is under common ownership to the Company and is leased for $9,167 per month, or $110,000. Real Estate Appraisal Services appraised the building as of January 1, 2019 and concluded that the rental rate is reflective of market level.

The Salem auto service facility is located 123 Broadway Avenue. It was built in 2002 and includes 4,000 sf of office space split between two levels and 7,000 sf of shop space. It had 11 service bays at the Valuation Date. This facility is located on a 0.8-acre site and is under common ownership to the Company. It is leased for $9,500 per month, or $114,000 annually. The real property was also appraised by Real Estate Appraisal Services as of January 1, 2019 and confirmed that the rental expense is reflective of market level.

Business hours for both locations are Monday through Friday from 7:30 a.m. to 5:30 p.m.

2019 Projection

Management projected a sales increase of 7% for the Company in 2019. This sales growth is attributed to the new efforts in marketing and customer service strategies.

FINANCIAL ANALYSIS

The Company's historical income statements and balance sheets for the five years ending December 31, 2014 through 2018 are presented in Schedules 1 through 4. Historical ratios are shown in Schedule 5 and a historical working capital analysis is shown in Schedule 6.

Common size statements are used to eliminate the effect of size differences and to provide additional insight into the financial ratios. On the common size income statement, all items are stated as a percentage of sales while on the common size balance sheet, all accounts are stated as a percentage of total assets.

Industry comparisons are from 2018/2019 Annual Statement Studies, published by RMA. This publication contains financial statement ratio benchmarks derived directly from more than 260,000 statements of various private (majority) and public companies. The industries are broken down by the NAICS code. The averages shown are for NAICS 81111, *General Automotive Repair*.

ADJUSTMENTS TO HISTORICAL CASH FLOWS

Certain adjustments have been made to the Company's historical financial statements for the purpose of reaching a valuation conclusion. These adjustments are made to "normalize" earnings by eliminating non-recurring or extraordinary income or expense. The goal is to estimate the level of net cash flow the company is expected to generate prospectively for its owners. These adjustments do not reflect any opinion with respect to the accuracy of the Company's financial statements.

As shown in Schedule 7, I made the following adjustments to the Company's financial results:

- **Depreciation expense, interest expense, and amortization expense** were each reclassified from operating expenses to separate categories. This had no impact on profitability.
- **Discretionary charitable contributions** were removed from each historical period. This improved profitability in each period.
- **Owner compensation** in closely held businesses must often be adjusted, up or down, to industry guidelines. The goal is to estimate a market level of compensation appropriate for management, assuming the business owner hired qualified management from the open marketplace.

  Owner compensation in historical periods was as follows:

	2014	2015	2016	2017	2018
Officer Compensation	168,200	168,200	163,800	174,000	178,100
as a % of sales	6.1%	6.1%	6.8%	6.5%	5.6%

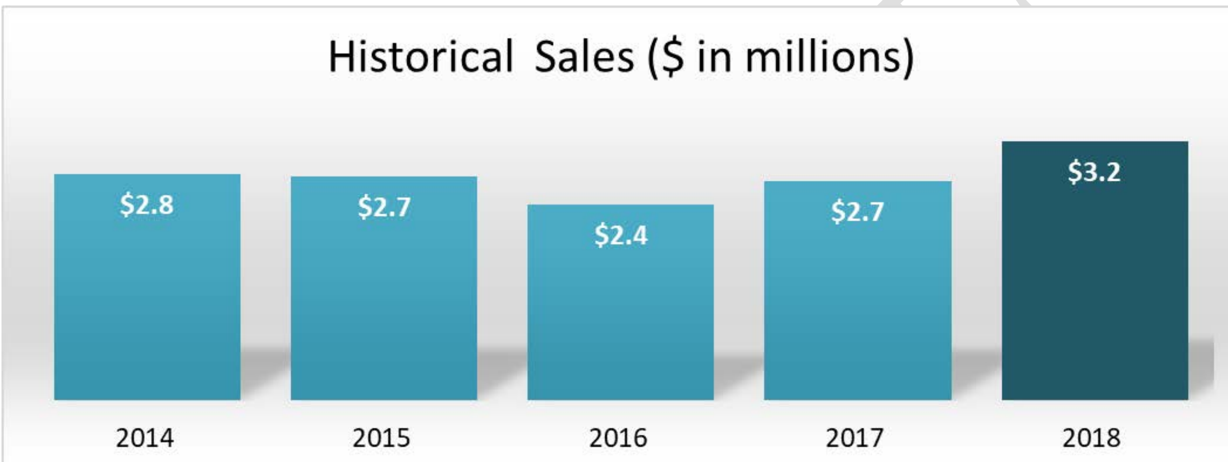
  As a standard of measure, I considered the Annual Statement Studies – Financial Ratio Benchmarks by RMA. The ratio % Officers', Directors', Owners' Comp/Sales includes total salaries, bonuses, commissions, and other monetary remuneration to all officers, directors, and/or owners of the firm during the year covered by the statement. Based on this source, average officer/owner compensation in NAICS 81111, *General Automotive Repair for companies* *with $1-$3 million in sales* was equal to 3.6% of sales. Using this industry benchmark for each historical period increased reported profitability.

Adjusted historical results are presented in Schedule 8.

GROWTH

Historical growth rates provide information about the Company's future growth prospects.

As shown in Schedule 1 and the accompanying graph, sales grew from $2.8 million in 2014 to $3.2 million in 2018, equal to a compound annual growth rate (CAGR) of 3.5%.



Most of the sales growth was in the Keizer collision operations, which had sales growth of 11.0% during the five years reviewed. In contrast, the CAGR for downtown Salem was 1.9% and the CAGR for Keizer's repair operations was negative 0.7%. The improvement in the sales count per location had a positive impact on the downtown Salem sales levels in 2018.

Sales were weaker in 2016 due to a change in management, which impacted the relationship with insurance adjusters, and a point of sale system (POS) change that caused an interruption in marketing to existing customers for six months. Both factors had significant negative impact on sales and it took almost a year for sales to recover to 2015 levels.

BALANCE SHEET REVIEW

As shown in Schedule 3, the Company's total assets grew by a CAGR of 7.2% during the period under review, from $706,000 in 2014 to $931,000 in 2018. The increase in assets was primarily due to an increase in cash from $213,000 in 2014 to $279,000 in 2018. At the Valuation Date, current assets were $373,000, and consisted of in cash, accounts receivable of $37,000, inventory of $54,000 and $3,000 of prepaid expenses and payroll advances.

The Company's fixed assets had a cost basis of $1,674,000 with accumulated depreciation of $1,159,000.

Intangible assets included goodwill of $99,000 and accumulated amortization of $56,000.

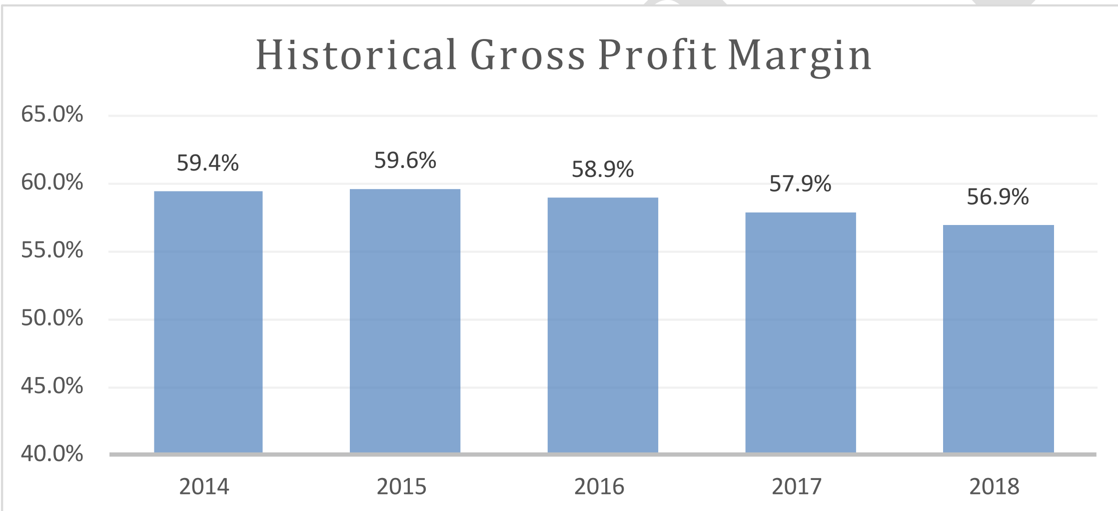
The Company's liabilities increased by a CAGR of 8.6% during the period under review, from $194,000 in 2014 to $270,000 in 2018. The increase was primarily due to an increase in accounts payable from $89,000 in 2014 to $111,000 in 2018 as well as an increase in long term debt from $8,000 in 2014 to $50,000 in 2018.

At the Valuation Date, the Company's current liabilities included accounts payable, accrued payroll and related taxes of $83,000 and excise taxes payable of $26,000.

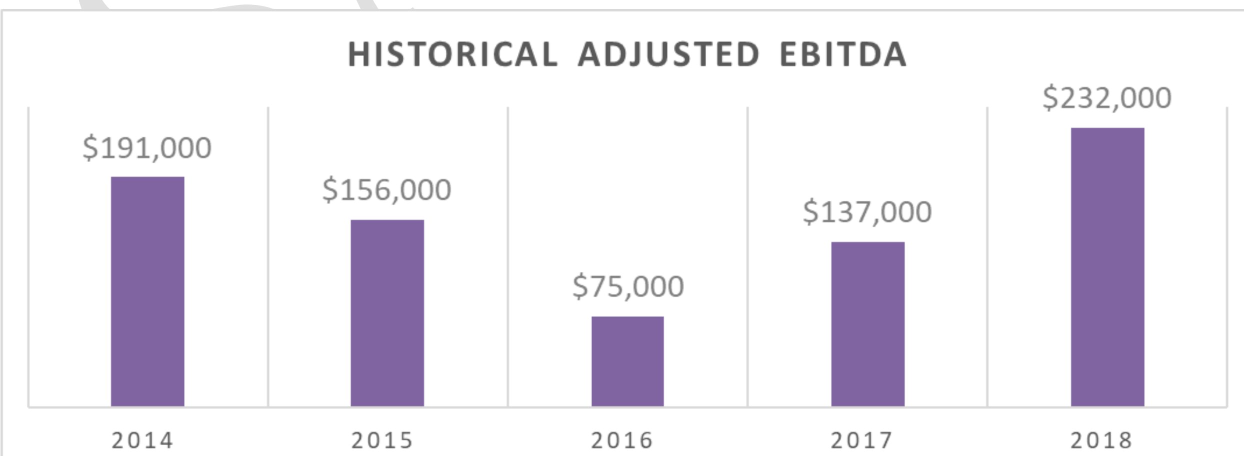
PROFITABILITY

Profitability ratios measure the Company's return on sales.

The gross profit margin for the collision department historically was much lower than for repair operations. During 2014-2018, as the collision sales levels grew relative to the repair operations, the Company's adjusted gross profit margin trended downward as shown in Schedule 8 and the following graph.



As presented in Schedule 8 and in the following graph, on an adjusted basis, the Company's cash flow, as measured by earnings before interest, taxes, depreciation & amortization (EBITDA), declined during 2014-2016, before recovering in 2017 and then peaking in 2018.



WORKING CAPITAL

Working capital is a financial metric which represents operating liquidity available to a business. It is calculated as current assets less current liabilities. Positive working capital is required to ensure that a firm is able to continue its operations and that it has sufficient funds to satisfy both maturing short-term debt and upcoming operational expenses.

As shown in Schedule 6, working capital averaged 4.5% of sales during 2014-2018. The Company had sufficient working capital to repay its long-term debt liabilities, so I adjusted net working capital to account for repayment. On an adjusted basis, the Company's adjusted net working capital was equal to 3.2% at the Valuation Date, which was above the industry average of 2.4% of sales.

LEVERAGE

Leverage ratios measure the Company's vulnerability to business downturns by indicating whether or not there are sufficient assets to pay off debt in the event of liquidation.

As shown in Schedule 5, the debt-to-worth ratio was 0.4 in 2017 and 2018, which was below the industry average of 2.4. Similarly, long term debt to total capital was 4.5% in 2017 and 11.0% in 2018 as compared to the industry average of 76.6%.

EFFICIENCY

Efficiency ratios are used to assess management's performance and to further analyze the Company's profitability. They measure how efficiently the Company is employing its assets as well as the equity capital used to finance those assets.

As shown in Schedule 5, on an adjusted basis the Company's efficiency as measured by pretax return on assets (ROA) was equal to 4.9% in 2017 and 11.5% in 2018 which was weaker than the industry benchmark of 19.0%. Similarly, the Company's pretax return on equity (ROE) was weaker than the industry benchmarks in the reviewed periods.

LIQUIDITY

Liquidity ratios measure the Company's ability to meet its current obligations as they come due.

The current ratio measures whether or not a firm has enough resources to meet its short-term obligations. It compares a Company's current assets to current liabilities. The quick ratio measures the degree to which the firm's current liabilities are covered by the most liquid current assets.

As shown in Schedule 6, the Company's current ratio remained steady during historical periods and was equal to 1.7 at the Valuation Date. The current ratio was stronger than the industry average of 1.6. The quick ratio increased slightly from 1.2 in 2014 to 1.4 at the Valuation Date. The Company's quick ratio was higher than the industry average of 1.0.

SUMMARY

The financial condition of the Company can be characterized as strong. Sales grew during the period under review, with significant improvement in profitability in 2018. The Company's balance sheet was strong, it had adequate working capital for operations, strong liquidity and relatively low leverage.

VALUATION APPROACHES

Valuation of a business ownership interest requires consideration of all pertinent factors bearing upon its investment merits. The following three valuation approaches were considered:

- Income Approach: In this approach, estimated future cash flows are discounted to present value at an appropriate rate of return for the investment.

- Market Approach: This approach utilizes valuation ratios derived from market trading prices involving companies that are similar to the subject business. Acquisitions of entire companies are also considered.

- Asset Approach: In this approach, the assets and liabilities of the business are restated from historical cost to fair market value.

Application of the three approaches to the subject Company are described in the following sections of this report.

INCOME APPROACH

The Income Approach to valuation determines the expected future cash flows from an investment and then discounts those cash flows to present value at an appropriate rate of return. The selected discount rate or rate of return should reflect the degree of uncertainty or risk associated with realizing the future cash flows compared to cash flows available from alternative investments. Higher uncertainty or risk leads to a higher expected rate of return, which produces a lower value for the investment.

Income approach valuation methods include *Discounted Cash Flow (DCF)* and *Capitalization of Single Period Cash Flow*. In the *DCF method*, future cash flows are discounted to present value using an appropriate discount rate. It is best to use the *DCF* method when a company anticipates a change in its cash flows over the near term. When current cash flows are consistent with expected future cash flows, it is best to use the *Capitalization of Single Period Cash Flow method*.

Based on information provided by management, future performance is expected to be comparable to recent results. I therefore chose to use the *Capitalization of Single Period Cash Flow method* as presented in Schedule 9.

VALUE OF FREE CASH FLOWS TO EQUITY

In the Income Approach, free cash flow is estimated, as follows:

	Pretax Earnings
-	Income Taxes
+	Depreciation & Amortization
+/-	Adjusted Working Capital Changes
-	Capital Expenditures
=	Free Cash Flow to Equity

The assumptions used in the analysis are summarized as follows:

- Income taxes were calculated at effective corporate state and federal rates.
- Required working capital additions are calculated assuming future working capital remains constant at the industry benchmark level of 3.2% of sales.
- Capital expenditures were set equal to depreciation expense.

As shown in Schedule 9, future expected pretax income was equal to $187,000 (rounded). After deducting taxes, subtracting working capital additions and growing the balance to the next period, I arrived at free cash flow to equity of $139,000 (rounded).

DISCOUNT RATE AND CAPITALIZATION RATE

The discount rate is a market-driven rate, representing the rate of return necessary to induce investors to commit funds to an investment given its level of risk. I relied on the "build-up" method to develop the discount rate. The following basic formula calculates the discount rate for the Company:

$$K_e = R_f + R_e + R_i + R_s + R_c$$

where:

K_e	=	Cost of Equity Capital
R_f	=	Risk free rate is equal to 3.5%, reflecting the recommended risk-free rate as determined by the Duff & Phelps Cost of Capital Navigator.
R_e	=	Equal to the Duff & Phelps recommended risk premium of 5.0% as published by the Duff & Phelps Cost of Capital Navigator. The equity risk premium reflects that an investment in common stock, as represented by the Standard and Poor's 500 (S&P 500) Stock Composite Index, has historically provided an additional 5.0% return above the yield of long-term (20-year) government bonds.
R_i	=	Industry risk premium in SIC 75 – Automotive Repair, as reported in Duff & Phelps Cost of Capital Navigator.
R_s	=	Small stock risk premium as published in the Duff & Phelps Cost of Capital Navigator. The study indicates that an investment in small stocks (the 10th decile) of stocks traded on the New York Stock Exchange (NYSE), has historically provided an additional return (after an adjustment for beta) of 5.37% over the S&P 500 stocks.
R_c	=	Subject company risk premium to account for the unique risk factors of the business including is relatively high level of leverage.

The computation of the discount rate is presented in Schedule 10. Based on this analysis, I selected an equity discount rate of 17.6%.

The capitalization rate is equal to the discount rate minus the expected long-term growth rate of cash flows which I estimated at 3.0%. Therefore, it is my opinion that a capitalization rate of 14.6% is appropriate for the Company's future cash flows.

CONCLUSION – INCOME APPROACH

Schedule 9 summarizes the Income Approach. Dividing the future expected cash flows by the capitalization rate results in a present value of the Company's future cash flows of **<u>$949,000</u>** (rounded). This represents the value of the Company on a 100% controlling interest basis under the Income Approach.

MARKET APPROACH

The Market Approach to valuation rests on the premise that a business can be valued with reference to what comparable companies have sold for in an open and unrestricted market. This approach uses comparable or "*guideline*" company data to assess the value of the subject entity. The challenge in valuing a business using this approach, and particularly when valuing a small or unusual operating entity, is finding true market comparables. It is unlikely that any two businesses or ownership interests will be alike even with respect to their core competencies.

The Market Approach involves the analysis of market data from comparable transactions to derive pricing indications for the subject company or asset. When valuing entities, such as a company or cash flow generating asset, three methods are generally used:

- **Publicly Traded Guideline Companies Method** involves the identification and analysis of publicly traded companies that are comparable to the subject entity. Pricing multiples of the publicly traded companies are applied to representative financial metrics of the subject entity.

- **Mergers and Acquisitions Method ("M&A Method")** includes the identification of transactions in which the targets are comparable to the subject entity. This method can also include identification of transactions completed by the most likely buyers in the subject entity's industry. Transaction multiples from the identified transactions are applied to the representative financial metrics of the subject entity.

- **Prior Transaction Method** uses prior transactions of the subject Company or ownership interests in the subject Company as the basis for determining current market value.

For the valuation of the Company, I applied the *M&A Method*. I did not use the Public Company Analysis Method because the relatively small size of the Company does not lend itself well to a public company analysis. I did not use the Prior Transaction Analysis Method because there have been no recent arms-length transactions of ownership interests in the Company.

M&A METHOD

Using BIZCOMPS® and DealStats®, databases that contain transactional information on small businesses, I searched for acquisitions of non-franchise auto repair shops. I included transactions that closed between January 1, 2017 and the Valuation Date for companies that had more than $700,000 and less than $3.0 million in sales. As shown in Schedule 11, I identified 17 transactions.

The acquired companies had the following characteristics:

- **Smaller Size**. The acquired companies, with average sales of $1.2 million, were smaller than the subject Company with sales of $3.2 million in 2018.
- **Higher Profitability**. The acquired companies, with an average EBITDA margin of 11.7%, were more profitable than the subject Company with an EBITDA margin of 7.3% in 2018.

Using the market data for the acquired companies, I calculated the following valuation multiples as shown in Schedule 12:

- Price-to-Revenues
- Price-to-Revenue
- Price-to-EBITDA

CONCLUSION – M&A METHOD

As can be seen in Schedule 12, I multiplied the average valuation ratio by the subject Company's indicated revenue or cash flow figure, using adjusted 2018 results as the basis. I gave equal weight to each value indication.

Based on the foregoing, I arrived at a weighted average of **$977,000** (rounded). This represents the value of the Company on a 100% controlling interest basis under the Market Approach.

ASSET APPROACH

In the Asset Approach, value is estimated by restating the value of assets and liabilities from historical cost to fair market value. This approach considers the value of the underlying assets used in the business without consideration of any unrecorded intangible assets. For an operating company, the Asset Approach is usually viewed as the lower bound of value since it does not include the value of goodwill or other intangible assets.

Book value of equity is not an appropriate measure of value for most businesses because assets and liabilities are generally stated at historical cost and not fair market value. Under the Asset Approach, all assets and liabilities are stated at fair market value and the difference reflects value under this approach.

I present the Asset Approach analysis in Schedule 13. As shown in the schedule, I used the December 31, 2018 balance sheet as the starting point for this approach. I made the following adjustments:

- Equipment was adjusted to market value based upon information provided by management.
- Accumulated depreciation was removed.
- Intangible assets were removed.

CONCLUSION – ASSET APPROACH

As shown in Schedule 13, the Company's adjusted net book value was equal to **$553,000**. This represents the value of the Company under the Asset Approach.

CONCLUDED VALUE

The final step in the valuation process requires a review of each valuation approach and a reconciliation of these approaches to reach a final value conclusion. As shown in Schedule 14, I gave weight to the Income and Market Approaches in arriving at a value conclusion.

The Income Approach was given the weight because it represents the amount an investor would pay for the Company's expected *future* cash flows based on current market rates of return and the Company's specific risks. In this analysis, the Income Approach considers management's projections for improved sales and profitability in the several years following the Valuation Date.

The M&A Method in the Market Approach was given weight because it reflects prices paid for similar companies that represent alternative investment opportunities.

I did not give the Asset Approach any weight in arriving at a value indication because it reflects only the value of tangible assets. Given the Company's successful operating history, reputation, and customer relationships, I believe that the Company has some unrecorded goodwill and that it should be valued on the basis of its cash flow rather than on the basis of its assets.

Based on the foregoing, it is therefore my opinion that the fair market value of a 100% controlling interest in the Company as of January 1, 2019 was equal to:

NINE HUNDRED SIXTY-THREE THOUSAND DOLLARS
$963,000

Signed,

[SIGNATURE REMOVED]

Laura Markee, CFA, ASA

APPRAISER QUALIFICATIONS

Laura Markee, CFA, ASA has specialized in business valuation for over twenty years. She is a Chartered Financial Analyst through the CFA Institute and also holds an Accredited Senior Appraiser (ASA) designation from the American Society of Appraisers. She received her MBA from the University of Washington and her B.A. in Economics from Wheaton College. She was on the Board of the Portland Chapter of the ASA for six years and filled the role of Chapter President during 2012-2014. She is currently a Board Member for the Southwest Washington Estate Planning Council. She also belongs to several professional associations including the CFA Institute and the American Society of Appraisers. Laura has prepared over 1,500 appraisals since 1998 and has testified as an expert in business valuations and financial damages on approximately thirty occasions in courts in Washington, Oregon, Kansas and Michigan.

Laura has worked in finance-related positions in banking and financial consulting for the past thirty years. She was employed by Moss Adams Advisory Services for six years and was a partner in a small business valuation and forensic accounting firm in Portland, Oregon for seven years. Since 2012, she has worked independently in business valuations through her own firm, Markee Valuations LLC.

Markee Valuations performs business valuations under the *Business Valuation Standards* and *Principles of Appraisal Practice and Code of Ethics* as adopted by the American Society of Appraisers.

The American Society of Appraisers has a mandatory reaccreditation program for all of its Designated Members. Laura Markee is in compliance with that program.

SCHEDULES

XYZ Auto Repair, Inc.

Schedule 1

Historical Income Statement
Valuation as of January 1, 2019

Fiscal Year Ended December 31	Compiled 2014	Compiled 2015	Compiled 2016	Compiled 2017	Compiled 2018	Growth Rates 2014-2018
Total Sales	2,764,400	2,738,100	2,396,100	2,681,700	3,171,300	3.5%
Total Cost of Goods Sold	1,122,000	1,106,000	983,700	1,129,400	1,366,100	5.0%
Gross Profit	1,642,400	1,632,100	1,412,400	1,552,300	1,805,200	2.4%
Officer Compensation	168,200	168,200	163,800	174,000	178,100	
Salaries & Wages	409,300	413,800	374,100	389,100	462,400	
Health Insurance	29,500	44,900	42,900	43,700	54,000	
401K Expense	1,500	1,600	0	0	600	
Company Functions	(100)	(900)	3,100	1,800	2,900	
Training	6,400	2,600	1,100	2,000	6,600	
Interest Expense	17,700	9,500	9,600	200	400	
Depreciation	79,700	46,700	36,400	34,000	27,800	
Vacation Pay	35,100	33,600	34,900	28,600	26,300	
Charitable Contributions	900	5,000	300	400	26,000	
Payroll Tax Exp Old	141,500	127,800	122,700	116,500	138,500	
Amortization	6,900	7,100	6,600	7,200	6,500	
Advertising	92,700	106,600	105,000	135,200	102,200	
Bad Debt	300	5,200	0	2,100	(100)	
Bank Charges	300	500	1,300	1,600	1,100	
Rent	232,800	207,500	195,500	199,000	223,800	
Taxes - Real Estate	27,700	28,300	30,000	27,300	25,100	
Insurance - Shop	22,400	22,100	23,300	24,100	23,400	
Repairs & Maintenance	17,600	37,100	14,100	18,800	28,100	
Consulting	4,600	5,400	4,100	9,100	15,000	
Shop Supplies	14,000	14,500	13,100	13,500	16,400	
Credit Card Fees	41,900	38,900	34,700	38,100	45,100	
Dues & Subscriptions	29,800	29,700	39,500	43,200	41,700	
Employee Recruitment	200	200	700	1,400	1,100	
Entertainment	800	400	700	400	2,000	
Equipment	45,900	37,800	20,000	26,200	36,800	
Miscellaneous	3,600	100	100	400	400	
Gen. Med. Service	200	200	400	800	800	
Landscape	6,200	19,200	9,400	9,900	15,600	
Laundry/Uniforms	15,500	8,700	10,600	9,900	11,200	
Legal	800	1,500	2,000	1,500	600	
Accounting	6,100	5,900	6,900	5,600	6,500	
License & Permits	4,100	2,500	2,700	2,400	3,000	
Manuals	13,200	13,800	7,900	9,400	9,300	
Office Equipment & Supplies	12,300	23,100	11,600	21,100	23,000	
Postage & Freight	3,100	2,600	2,300	1,500	800	
Sales - Warranty Expense	17,300	17,500	18,000	17,500	21,200	
Small Tools	2,000	5,400	2,300	2,400	6,300	
Taxes - Miscellaneous	13,500	15,100	12,000	13,900	13,900	
Telephone	27,600	30,200	23,600	24,100	31,300	
Utilities	39,600	39,600	41,600	37,300	39,200	
Vehicle Expense	28,700	27,500	17,000	24,800	22,900	
Total Operating Expenses	1,621,400	1,607,000	1,445,900	1,520,000	1,697,800	1.2%
Operating Income/(Loss)	21,000	25,100	(33,500)	32,300	107,400	50.4%
Gain/loss on Sale of Asset	(1,646)	(55)	(2,590)	0	0	
Total Other Income (Exp.)	(1,646)	(55)	(2,590)	0	0	nmf
Pretax Profit	19,354	25,045	(36,090)	32,300	107,400	53.5%
Income Taxes	0	0	0	0	0	
Net Income	19,354	25,045	(36,090)	32,300	107,400	53.5%

na = not available; nmf = not meaningful

XYZ Auto Repair, Inc.

Schedule 2

Historical Common Size Income Statement

Common Size ratios stated as a percent of total sales

Valuation as of January 1, 2019

Fiscal Year Ended December 31	*Compiled 2014*	*Compiled 2015*	*Compiled 2016*	*Compiled 2017*	*Compiled 2018*	*Average* 2014-2018	**Industry RMA NAICS 811111***
Total Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total Cost of Goods Sold	40.6%	40.4%	41.1%	42.1%	43.1%	41.4%	0.0%
Gross Profit	59.4%	59.6%	58.9%	57.9%	56.9%	58.6%	100.0%
Officer Compensation	6.1%	6.1%	6.8%	6.5%	5.6%	6.2%	
Salaries & Wages	14.8%	15.1%	15.6%	14.5%	14.6%	14.9%	
Health Insurance	1.1%	1.6%	1.8%	1.6%	1.7%	1.6%	
401K Expense	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	
Company Functions	(0.0%)	(0.0%)	0.1%	0.1%	0.1%	0.1%	
Training	0.2%	0.1%	0.0%	0.1%	0.2%	0.1%	
Interest Expense	0.6%	0.3%	0.4%	0.0%	0.0%	0.3%	
Depreciation	2.9%	1.7%	1.5%	1.3%	0.9%	1.7%	
Vacation Pay	1.3%	1.2%	1.5%	1.1%	0.8%	1.2%	
Charitable Contributions	0.0%	0.2%	0.0%	0.0%	0.8%	0.2%	
Payroll Tax Exp Old	5.1%	4.7%	5.1%	4.3%	4.4%	4.7%	
Amortization	0.2%	0.3%	0.3%	0.3%	0.2%	0.3%	
Advertising	3.4%	3.9%	4.4%	5.0%	3.2%	4.0%	
Bad Debt	0.0%	0.2%	0.0%	0.1%	(0.0%)	0.1%	
Bank Charges	0.0%	0.0%	0.1%	0.1%	0.0%	0.0%	
Rent	8.4%	7.6%	8.2%	7.4%	7.1%	7.7%	
Taxes - Real Estate	1.0%	1.0%	1.3%	1.0%	0.8%	1.0%	
Insurance - Shop	0.8%	0.8%	1.0%	0.9%	0.7%	0.8%	
Repairs & Maintenance	0.6%	1.4%	0.6%	0.7%	0.9%	0.8%	
Consulting	0.2%	0.2%	0.2%	0.3%	0.5%	0.3%	
Shop Supplies	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	
Credit Card Fees	1.5%	1.4%	1.4%	1.4%	1.4%	1.4%	
Dues & Subscriptions	1.1%	1.1%	1.6%	1.6%	1.3%	1.3%	
Employee Recruitment	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%	
Entertainment	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	
Equipment	1.7%	1.4%	0.8%	1.0%	1.2%	1.2%	
Miscellaneous	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	
Gen. Med. Service	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Landscape	0.2%	0.7%	0.4%	0.4%	0.5%	0.4%	
Laundry/Uniforms	0.6%	0.3%	0.4%	0.4%	0.4%	0.4%	
Legal	0.0%	0.1%	0.1%	0.1%	0.0%	0.0%	
Accounting	0.2%	0.2%	0.3%	0.2%	0.2%	0.2%	
License & Permits	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	
Manuals	0.5%	0.5%	0.3%	0.4%	0.3%	0.4%	
Office Equipment & Supplies	0.4%	0.8%	0.5%	0.8%	0.7%	0.7%	
Postage & Freight	0.1%	0.1%	0.1%	0.1%	0.0%	0.1%	
Sales - Warranty Expense	0.6%	0.6%	0.8%	0.7%	0.7%	0.7%	
Small Tools	0.1%	0.2%	0.1%	0.1%	0.2%	0.1%	
Taxes - Miscellaneous	0.5%	0.6%	0.5%	0.5%	0.4%	0.5%	
Telephone	1.0%	1.1%	1.0%	0.9%	1.0%	1.0%	
Utilities	1.4%	1.4%	1.7%	1.4%	1.2%	1.4%	
Vehicle Expense	1.0%	1.0%	0.7%	0.9%	0.7%	0.9%	
Total Operating Expenses	58.7%	58.7%	60.3%	56.7%	53.5%	57.6%	93.8%
Operating Income/(Loss)	0.8%	0.9%	(1.4%)	1.2%	3.4%	1.0%	6.2%
Gain/loss on Sale of Asset	(0.1%)	(0.0%)	(0.1%)	0.0%	0.0%	(0.0%)	
Total Other Income (Exp.)	(0.1%)	(0.0%)	(0.1%)	0.0%	0.0%	(0.0%)	0.8%
Pretax Profit	0.7%	0.9%	(1.5%)	1.2%	3.4%	0.9%	5.5%
Income Taxes	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Net Income	0.7%	0.9%	(1.5%)	1.2%	3.4%	0.9%	

na = not available; nmf = not meaningful

* NAICS 811111 - General Automotive Repair

XYZ Auto Repair, Inc.

Historical Balance Sheet

Valuation as of January 1, 2019

Fiscal Year Ended December 31	*Compiled 2014*	*Compiled 2015*	*Compiled 2016*	*Compiled 2017*	*Compiled 2018*	**Growth Rates 2014-2018**
Current Assets:						
Cash	213,000	177,000	118,000	198,000	279,000	
Accounts Receivable - Trade	16,000	17,000	41,000	41,000	37,000	
Inventory	81,000	74,000	89,000	65,000	54,000	
Prepaid Expenses and Payroll Advances	0	18,000	0	5,000	3,000	
Total Current Assets	310,000	286,000	248,000	309,000	373,000	*4.7%*
Fixed Assets:						
Building Improvements	375,000	368,000	368,000	368,000	395,000	
Machinery and Equipment	870,000	880,000	864,000	825,000	1,044,000	
Furniture and Fixtures	77,000	73,000	51,000	30,000	30,000	
Vehicles	212,000	212,000	205,000	205,000	205,000	
Total Gross Fixed Assets	1,534,000	1,533,000	1,488,000	1,428,000	1,674,000	*2.2%*
Accumulated Depreciation (-)	(1,203,000)	(1,240,000)	(1,227,000)	(1,132,000)	(1,159,000)	*(0.9%)*
Net Fixed Assets	331,000	293,000	261,000	296,000	515,000	*11.7%*
Intangible Assets:						
Goodwill	94,000	96,000	96,000	99,000	99,000	
Accumulated Amortization (-)	(29,000)	(36,000)	(43,000)	(49,000)	(56,000)	
Net Intangible Assets	65,000	60,000	53,000	50,000	43,000	*nmf*
Total Assets	706,000	639,000	562,000	655,000	931,000	*7.2%*
Current Liabilities:						
Accounts Payable	89,000	87,000	78,000	80,000	111,000	
Current Portion LTD	0	0	2,000	0	0	
Accrued Payroll and Related Taxes	77,000	64,000	60,000	59,000	83,000	
Excise Taxes Payable	20,000	21,000	20,000	21,000	26,000	
Total Current Liabilities	186,000	172,000	160,000	160,000	220,000	*4.3%*
Long Term Liabilities:						
Long Term Debt, Net of Current	8,000	9,000	0	0	50,000	
Total Long-Term Liabilities	8,000	9,000	0	0	50,000	*58.1%*
Total Liabilities	194,000	181,000	160,000	160,000	270,000	*8.6%*
Equity:						
Capital Stock	1,000	1,000	1,000	1,000	1,000	
Paid in Surplus	1,485,000	1,485,000	1,485,000	1,567,000	1,770,000	
Retained Earnings	(974,000)	(1,028,000)	(1,084,000)	(1,073,000)	(1,110,000)	
Total Equity	512,000	458,000	402,000	495,000	661,000	*6.6%*
Total Liabilities & Equity	706,000	639,000	562,000	655,000	931,000	*7.2%*

na = not available; nmf = not meaningful

XYZ Auto Repair, Inc.

Schedule 4

Historical Common Size Balance Sheet (with ratios stated as a percent of total assets)

Valuation as of January 1, 2019

Fiscal Year Ended December 31	*Compiled 2014*	*Compiled 2015*	*Compiled 2016*	*Compiled 2017*	*Compiled 2018*	*Average 2014-2018*	**Industry RMA NAICS 811111***
Current Assets:							
Cash	30.2%	27.7%	21.0%	30.2%	30.0%	*27.8%*	25.9%
Accounts Receivable - Trade	2.3%	2.7%	7.3%	6.3%	4.0%	*4.5%*	10.5%
Inventory	11.5%	11.6%	15.8%	9.9%	5.8%	*10.9%*	14.5%
Prepaid Expenses and Payroll Advances	0.0%	2.8%	0.0%	0.8%	0.3%	*0.8%*	
Total Current Assets	43.9%	44.8%	44.1%	47.2%	40.1%	*44.0%*	53.5%
Fixed Assets:							
Building Improvements	53.1%	57.6%	65.5%	56.2%	42.4%	*55.0%*	
Machinery and Equipment	123.2%	137.7%	153.7%	126.0%	112.1%	*130.6%*	
Furniture and Fixtures	10.9%	11.4%	9.1%	4.6%	3.2%	*7.8%*	
Vehicles	30.0%	33.2%	36.5%	31.3%	22.0%	*30.6%*	
Total Gross Fixed Assets	217.3%	239.9%	264.8%	218.0%	179.8%	*224.0%*	
Accumulated Depreciation (-)	(170.4%)	(194.1%)	(218.3%)	(172.8%)	(124.5%)	*(176.0%)*	
Net Fixed Assets	46.9%	45.9%	46.4%	45.2%	55.3%	*47.9%*	28.4%
Intangible Assets:							
Goodwill	13.3%	15.0%	17.1%	15.1%	10.6%	*14.2%*	
Accumulated Amortization (-)	(4.1%)	(5.6%)	(7.7%)	(7.5%)	(6.0%)	*(6.2%)*	
Net Intangible Assets	9.2%	9.4%	9.4%	7.6%	4.6%	*8.1%*	
Total Assets	100.0%	100.0%	100.0%	100.0%	100.0%	*100.0%*	100.0%
Current Liabilities:							
Accounts Payable	12.6%	13.6%	13.9%	12.2%	11.9%	*12.8%*	
Current Portion LTD	0.0%	0.0%	0.4%	0.0%	0.0%	*0.1%*	
Accrued Payroll and Related Taxes	10.9%	10.0%	10.7%	9.0%	8.9%	*9.9%*	
Excise Taxes Payable	2.8%	3.3%	3.6%	3.2%	2.8%	*3.1%*	
Total Current Liabilities	26.3%	26.9%	28.5%	24.4%	23.6%	*26.0%*	44.9%
Long Term Liabilities:							
Long Term Debt, Net of Current	1.1%	1.4%	0.0%	0.0%	5.4%	*1.6%*	
Total Long-Term Liabilities	1.1%	1.4%	0.0%	0.0%	5.4%	*1.6%*	38.9%
Total Liabilities	27.5%	28.3%	28.5%	24.4%	29.0%	*27.5%*	83.8%
Equity:							
Capital Stock	0.1%	0.2%	0.2%	0.2%	0.1%	*0.1%*	
Paid in Surplus	210.3%	232.4%	264.2%	239.2%	190.1%	*227.3%*	
Retained Earnings	(138.0%)	(160.9%)	(192.9%)	(163.8%)	(119.2%)	*(155.0%)*	
Total Equity	72.5%	71.7%	71.5%	75.6%	71.0%	*72.5%*	16.2%
Total Liabilities & Equity	100.0%	100.0%	100.0%	100.0%	100.0%	*100.0%*	100.0%

* NAICS 811111 - General Automotive Repair

XYZ Auto Repair, Inc.

Schedule 5

Historical Financial Ratios

Valuation as of January 1, 2019

	2014	*2015*	*2016*	*2017*	*2018*	**Average 2014-2018**	**Industry RMA NAICS 811111***
Growth Rates:							
Sales Growth	na	(1.0%)	(12.5%)	11.9%	18.3%	*3.5%*	**na**
Pretax Income Growth	na	29.4%	(244.1%)	(189.5%)	232.5%	*53.5%*	**na**
Total Asset Growth	na	(9.5%)	(12.1%)	16.5%	42.1%	*7.2%*	**na**
Efficiency Ratios:							
Sales to Assets	3.9	4.3	4.3	4.1	3.4	*4.0*	**5.0**
Times: Pretax Margin	0.7%	0.9%	(1.5%)	1.2%	3.4%	*0.9%*	**3.8%**
Equals: Pretax Return on Assets	2.7%	3.9%	(6.4%)	4.9%	11.5%	*3.8%*	**19.0%**
Times: Assets to Equity	1.6	1.6	1.6	1.5	1.5	*1.6*	**3.2**
Equals: Pretax Return on Equity	4.3%	6.3%	(10.3%)	7.3%	17.4%	*5.8%*	**60.3%**
Liquidity Ratios:							
Current Ratio	1.7	1.7	1.6	1.9	1.7	*1.7*	**1.6**
Quick Ratio	1.2	1.1	1.0	1.5	1.4	*1.3*	**1.0**
Leverage Ratios:							
Debt to Worth	0.4	0.5	0.5	0.4	0.4	*0.4*	**2.4**
Long-Term Debt to Total Capital	5.9%	7.0%	5.9%	4.5%	11.0%	*7.1%*	**76.6%**
Interest Coverage	2.1	3.6	(2.8)	162.5	269.5	*87.0*	**5.3**
Cash Flow to Current Debt	5.3	3.8	0.3	3.5	5.5	*3.7*	

na = not available; nmf = not meaningful

* NAICS 811111 - General Automotive Repair

XYZ Auto Repair, Inc.

Schedule 6

Historical Working Capital Analysis

Valuation as of January 1, 2019

	2014	2015	2016	2017	2018		
Sales	2,764,400	2,738,100	2,396,100	2,681,700	3,171,300		
Current Assets	310,000	286,000	248,000	309,000	373,000		
Less: Current Liabilities	186,000	172,000	160,000	160,000	220,000		
Net Working Capital (NWC)	124,000	114,000	88,000	149,000	153,000		
Reclassify: Long-Term Liabilities	(8,000)	(9,000)	-	-	(50,000)		
Adjusted Net Working Capital (ANWC)	116,000	105,000	88,000	149,000	103,000		
Working Capital Ratios:						**Average 2014-2018**	**Industry RMA NAICS 811111***
Sales/Net Working Capital	22.3	24.0	27.2	18.0	20.7	*22.5*	41.5
Net Working Capital/Sales	4.5%	4.2%	3.7%	5.6%	4.8%	*4.5%*	2.4%
Sales/Adjusted Net Working Capital	23.8	26.1	27.2	18.0	30.8	*25.2*	41.5
Adjusted Net Working Capital/Sales	4.2%	3.8%	3.7%	5.6%	3.2%	*4.1%*	2.4%

na = not available

* NAICS 811111 - General Automotive Repair

XYZ Auto Repair, Inc.

Schedule 7

Earnings Analysis And Adjustments

Valuation as of January 1, 2019

	2014	2015	2016	2017	2018
Sales	$2,764,400	$2,738,100	$2,396,100	$2,681,700	$3,171,300
Cost of Sales	1,122,000	1,106,000	983,700	1,129,400	1,366,100
Operating Expenses	1,621,400	1,607,000	1,445,900	1,520,000	1,697,800
Reclassify: Depreciation Expense to a separate category	(79,700)	(46,700)	(36,400)	(34,000)	(27,800)
Reclassify: Amortization Expense to a separate category	(6,900)	(7,100)	(6,600)	(7,200)	(6,500)
Reclassify: Interest Expense to a separate category	(17,700)	(9,500)	(9,600)	(200)	(400)
Remove: Discretionary Contributions Expense	(900)	(5,000)	(300)	(400)	(26,000)
Remove: Owner Compensation[a]	(168,200)	(168,200)	(163,800)	(174,000)	(178,100)
Adjusted Operating Expenses	1,348,000	1,370,500	1,229,200	1,304,200	1,459,000
Owner Compensation at Market Level					
Add: Owner Compensation at market level[a]	103,429	106,015	108,666	111,382	114,167
Total: Owner Compensation	103,429	106,015	108,666	111,382	114,167
Other Income (Expense)	(1,646)	(55)	(2,590)	0	0
Remove: Non-recurring gains/loss on sale of asset	1,646	55	2,590	0	0
Adjusted Other Income (Expense)	0	0	0	0	0
Depreciation Expense Summary					
Reclassify: Depreciation from Operating Expenses	79,700	46,700	36,400	34,000	27,800
Total Depreciation Expense	79,700	46,700	36,400	34,000	27,800
Amortization Expense Summary					
Reclassify: Amortization from Operating Expenses	6,900	7,100	6,600	7,200	6,500
Total Amortization Expense	6,900	7,100	6,600	7,200	6,500
Interest Expense Summary					
Reclassify: Interest Expense from Operating Expenses	17,700	9,500	9,600	200	400
Total Interest Expense	17,700	9,500	9,600	200	400

a. Officer compensation removed and restated at a market level equal to RMA industry benchmark of 3.6% of sales.

XYZ Auto Repair, Inc.

Schedule 8

Adjusted & Restated Financial Results

Valuation as of January 1, 2019

	2014		**2015**		**2016**		**2017**		**2018**		**Average 2014-2018**	
	$	%	**$**	%	**$**	%	**$**	%	**$**	%	**$**	%
Sales	2,764,400	100.0%	2,738,100	100.0%	2,396,100	100.0%	2,681,700	100.0%	3,171,300	100.0%	2,750,320	100.0%
Cost of Sales	1,122,000	40.6%	1,106,000	40.4%	983,700	41.1%	1,129,400	42.1%	1,366,100	43.1%	1,139,879	41.4%
Gross Profit	1,642,400	59.4%	1,632,100	59.6%	1,412,400	58.9%	1,552,300	57.9%	1,805,200	56.9%	1,610,441	58.6%
Operating Expenses	1,348,000	48.8%	1,370,500	50.1%	1,229,200	51.3%	1,304,200	48.6%	1,459,000	46.0%	1,346,312	49.0%
Owner Compensation	103,429	3.7%	106,015	3.9%	108,666	4.5%	111,382	4.2%	114,167	3.6%	109,473	4.0%
Depreciation Expense	79,700	2.9%	46,700	1.7%	36,400	1.5%	34,000	1.3%	27,800	0.9%	45,393	1.7%
Total Operating Expenses	1,531,129	55.4%	1,523,215	55.6%	1,374,266	57.4%	1,449,582	54.1%	1,600,967	50.5%	1,501,178	54.6%
Operating Income	111,271	4.0%	108,885	4.0%	38,134	1.6%	102,718	3.8%	204,233	6.4%	109,263	4.0%
Other Income	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Amortization Expense	(6,900)	(0.2%)	(7,100)	(0.3%)	(6,600)	(0.3%)	(7,200)	(0.3%)	(6,500)	(0.2%)	(6,919)	(0.3%)
Interest Expense	(17,700)	(0.6%)	(9,500)	(0.3%)	(9,600)	(0.4%)	(200)	(0.0%)	(400)	(0.0%)	(7,745)	(0.3%)
Pretax Income	86,671	3.1%	92,285	3.4%	21,934	0.9%	95,318	3.6%	197,333	6.2%	94,599	3.4%
EBITDA [a]	*190,971*	*6.9%*	*155,585*	*5.7%*	*74,534*	*3.1%*	*136,718*	*5.1%*	*232,033*	*7.3%*	*154,656*	*5.6%*
Owner's Compensation	103,429	3.7%	106,015	3.9%	108,666	4.5%	111,382	4.2%	114,167	3.6%	108,732	4.0%
SDE [b]	294,400	10.6%	261,600	9.6%	183,200	7.6%	248,100	9.3%	346,200	10.9%	263,387	9.6%

Notes

a. EBITDA equals earnings before interest, taxes, depreciation and amortization.

b. SDE equals seller's discretionary cash flow (= EBITDA plus one owners' compensation).

XYZ Auto Repair, Inc.

Schedule 9

Income Approach: Single Period Capitalization Method

Valuation as of January 1, 2019

I. Cash Flow	Expected Future	Notes
Sales	3,171,300	Reflects 2018 sales which are best indication of future results
Cost of Sales	1,366,100	
Gross Profit	1,805,200	See gross profit margin analysis below
Operating Expenses	1,459,000	Reflects 2018 adjusted results
Owner Compensation	114,167	Reflects RMA industry benchmark of 3.6% of sales
Depreciation Expense	45,393	Depreciation expense set equal to average 2014-2018 results
Total Operating Expenses	1,618,559	
Operating Income	186,641	
Other Income	0	Other income/(expense) set equal to zero in future periods
Amortization Expense	0	Amortization expense set equal to zero in future periods
Earnings Before Interest & Taxes (EBIT)	$186,641	
Interest Expense	0	Existing debt can be repaid with working capital, interest expense zero in future periods
Pretax Income	$186,641	
Income Taxes	48,900	Income taxes at effective corporate state and federal rates.
Net Income	$137,741	
Plus: Depreciation & Amortization	45,393	
Gross Cash Flow	**$183,133**	
Gross Profit Margin	*56.9%*	Gross profit margin equal to 2018 results
Operating Expenses as a % of Sales	*48.6%*	
Depreciation Expense as a % of Sales	*1.3%*	
Operating Income Margin	*5.9%*	
Other Income/(Expense) as a % of Sales	*0.0%*	
Pretax Income Margin	*5.9%*	
Income Tax Rate	*26.2%*	
EBITDA	*$232,033*	
EBITDA Margin	*7.3%*	
II. Net Working Capital Calculations		
Adjusted Net Working Capital	103,000	
Adjusted Net Working Capital as a % of sales	3.2%	
III. Capital Expenditures		
Capital Expenditures	45,393	Capital expenditures set equal to depreciation expense.
Capital Expenditures as a % of Sales	1.4%	
IV. Net Free Cash Flows		
Gross Cash Flow	$183,133	
Change in Net Working Capital	(3,090)	Future working capital set equal to 3.2% of sales
Capital Expenditures	(45,393)	
Net Free Cash Flows	134,651	
Grow to Next Period (1+growth rate)	*103.0%*	See Schedule 10
Expected Future Cash Flows	**$138,690**	
V. Value Indication		
Expected Free Cash Flow to Equity	138,690	
Divided by: Capitalization Rate	*14.6%*	See Schedule 10
Present Value of Future Cash Flows	948,634	
Total Equity Value (rounded)	**949,000**	

XYZ Auto Repair, Inc. **Schedule 10**

Equity Discount Rate: Build-Up Method

Valuation as of January 1, 2019

Equity Build-Up Method Cost of Equity = $K_e = R_f + R_e + R_s + R_i + R_c$ 17.6% = 3.5% + 5.0% + 5.4% + 0.8%+ 3.0%		
R_f	3.5%	R_f = Recommended Risk free rate of return[a]
R_e	5.0%	R_e = Long-horizon expected large company equity risk premium[b]
R_s	5.4%	R_s = Equity size premium[c]
R_i	0.8%	R_i = industry risk premium[d]
R_c	3.0%	R_c = specific company risk
K_e	**17.6%**	**K_e = Cost of Equity**

[a] *Recommended risk free rate per Duff & Phelps Cost of Capital Navigator as of the valuation date.*

[b] *Equity Risk Premium per Duff & Phelps Cost of Capital Navigator*

[c] *Small stock risk premium for companies in 10th decile, Duff & Phelps Cost of Capital Navigator*

[d] *Industry Risk premium in SIC 75, Automotive Repair, Duff & Phelps Cost of Capital Navigator*

Capitalization Rate Capitalization Rate = K_e - G 14.6% = 17.6% - 3.0%		
K_e	17.6%	Cost of Equity
G	3.0%	Long-Term Growth Rate
Capitalization Rate	14.6%	

XYZ Auto Repair, Inc.

Schedule 11

M&A Method: Financial Data & Valuation Multiples

Valuation as of January 1, 2019

Asset Deals - sales of non-franchise locations with $700k to $3.0 million that closed between January 1, 2017 and the Valuation Date

					Financial Information of Acquired Companies					Valuation Multiples		
				Reported		SDE[a]		EBITDA[b]				
	Acquisition			Deal Price			*% of*		*% of*	Deal Price to		
	Date	Description	Location	($)	Sales ($)	$	*Sales*	$	*Sales*	Sales	SDE	EBITDA
DealStats												
1	4/30/2018	Automotive|Auto General Repair	FL	860,000	2,945,505	224,826	*7.6%*	108,976	*3.7%*	0.29	3.83	7.89
2	4/30/2018	General Automotive Repair Shop	Milton, GA	700,000	1,996,338	216,000	*10.8%*	119,000	*6.0%*	0.35	3.24	5.88
3	11/24/2017	General Automotive Repair Shop	Barstow, CA	310,000	1,065,541	60,118	*5.6%*	35,118	*3.3%*	0.29	5.16	8.83
4	7/22/2017	Auto General Repair	FL	423,000	983,057	185,000	*18.8%*	160,000	*16.3%*	0.43	2.29	2.64
5	1/1/2018	Automotive Repair	Virginia Beach, VA	166,000	952,456	130,720	*13.7%*	80,720	*8.5%*	0.17	1.27	2.06
6	9/2/2018	Auto Repair	CA	250,000	951,750	125,000	*13.1%*	60,000	*6.3%*	0.26	2.00	4.17
7	8/8/2017	Auto General Repair	FL	290,000	851,693	310,860	*36.5%*	290,860	*34.2%*	0.34	0.93	1.00
8	3/10/2018	Auto Repair	CA	130,000	813,206	56,730	*7.0%*	51,730	*6.4%*	0.16	2.29	2.51
9	6/22/2018	Automotive|Auto General Repair	FL	155,000	792,264	70,263	*8.9%*	54,263	*6.8%*	0.20	2.21	2.86
10	7/23/2017	Auto General Repair	FL	550,000	791,000	207,000	*26.2%*	180,000	*22.8%*	0.70	2.66	3.06
11	12/30/2017	Auto Service Center	CA	379,000	776,900	155,324	*20.0%*	151,439	*19.5%*	0.49	2.44	2.50
12	6/26/2018	Automotive|Auto General Repair	FL	172,000	768,656	67,339	*8.8%*	51,339	*6.7%*	0.22	2.55	3.35
13	5/29/2018	Full Service Auto Repair	CA	399,900	743,347	92,625	*12.5%*	(5,562)	*nmf*	0.54	4.32	nmf
14	4/30/2017	Auto Repair	CA	125,000	715,372	84,907	*11.9%*	(2,044)	*nmf*	0.17	1.47	nmf
BIZCOMPs												
15	10/1/2017	Auto Repair Shop	Los Angeles, CA	150,000	1,810,000	120,000	*6.6%*	na	na	0.08	1.25	na
16	7/14/2018	Auto Repair Shop	Denver Metro	610,000	1,403,000	230,000	*16.4%*	na	na	0.43	2.65	na
17	5/14/2017	Auto Repair Shop	Los Angeles, CA	420,000	1,225,000	267,000	*21.8%*	na	na	0.34	1.57	na
		Average		*358,229*	*1,152,064*	*153,160*	*14.5%*	*95,417*	*11.7%*	*0.32*	*2.48*	*3.90*

na = not available; nmf = not meaningful

a. SDE equals seller's discretionary cash flow (= EBITDA plus owner's compensation).

b. EBITDA equals earnings before interest, taxes, depreciation & amortization.

XYZ Auto Repair, Inc.

M&A Method: Valuation Summary

Valuation as of January 1, 2019

Valuation Ratios	Market Derived Valuation Ratio		Subject Company Financial Basis[a]		Indicated Asset Value		Plus/(Minus) Adjustment[b]		Indicated Equity Value	Weight
Revenues	0.32	×	$3,171,300	=	$1,021,707	+	$49,000	=	$1,070,707	33%
SDE	2.48	×	346,200	=	857,871	+	49,000	=	906,871	33%
EBITDA	3.90	×	232,033	=	903,834	+	49,000	=	952,834	33%
Weighted Average Value									976,804	
Equity Value - 100% Controlling Interest (Rounded)									**$977,000**	

na=not applicable; nmf=not meaningful

a. Reflects adjusted 2018 results (see Schedule 8)

b. To adjust asset deals to equity deals, the following adjustments need to be made from the 12/31/18 balance sheet as presented in Schedule 3.

Current Assets		*373,000*	*Current Assets*
Inventory	-	*54,000*	*Inventory is excluded*
Liabilities	-	*270,000*	
Adjustment		*49,000*	

XYZ Auto Repair, Inc.

Schedule 13

Asset Approach

Valuation as of January 1, 2019

	Book Value[a] 12/31/2018	Adjustment	Adjusted Book Value[b]	Notes
Current Assets				
Cash	$279,000	-	$279,000	
Inventory	54,000	-	54,000	
Accounts Receivable	37,000	-	37,000	
Prepaid Expenses and Payroll Advances	3,000	-	3,000	
Fixed Assets:				
Gross Fixed Assets	1,674,000	(1,224,000)	450,000	c
Accumulated Depreciation (-)	(1,159,000)	1,159,000	-	d
Intangible Assets:				
Net Intangible Assets	43,000	(43,000)	-	e
Total Assets	$931,000	($108,000)	$823,000	
Total Liabilities	270,000	-	270,000	
Total Equity	$661,000	($108,000)	$553,000	

Asset Approach Conclusion	**$553,000**

Notes:

a. 12/31/18 balance sheet, per Schedule 3.

b. Equal to book value unless noted.

c. Equipment adjusted to market value based upon information provided by management.

d. Accumulated depreciation removed.

e. Intangible assets removed, no sale value.

XYZ Auto Repair, Inc.

Valuation Summary

Valuation as of January 1, 2019

VALUE CONCLUSION		
	Indicated Value	**Weight**
Concluded Income Approach Value	$949,000	50%
Concluded M&A Method Value	977,000	50%
Concluded Asset Approach Value	553,000	0%
Concluded Equity Value (rounded)	**$963,000**	100%