

NEW VALUATION ALGORITHM

Why Should You Start Using Your Estimate of Value?

You need to know where you are to know how to get there. There are many reasons and benefits to your business owners getting an Estimate of Value:

- Value gaps shown in scenario planning shows the actual value contribution of the Value Builder Score and how changing it can affect them.
- It shows the opportunity for incremental value (or the difference in their Estimate of Value) by improving their Value Builder Score.
- It reinforces the need for improvements.
- They can pinpoint the levers that will maximize their value and by how much.

Feeding on business desire to understand what they are worth.

- People want to know how much they are worth. This is the preliminary step to understanding what steps to take next.
- Think of this as the mortgage calculator at a banking site. Use it as a qualifier to sell future valuation improvements.
- If a business owner is considering options, this can be the first step before diving deep into a valuation.
- They'll need a rough Estimate of Value whether for inheritance, tax, investment planning, partner buy-in/ buyout, ESOP, recapitalization, and venture capital purposes.

You can focus the conversation on value building.

- Having a business owner understand their value is the first step in recognizing the importance of working with you to make changes.

Focus on metrics, not feelings. Make metrics-based decisions based on real numbers.

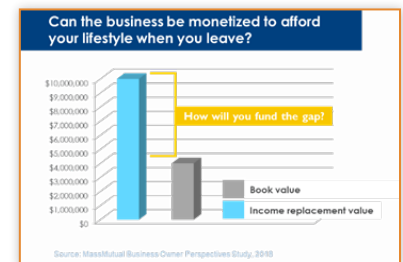
We made the valuation algorithm significantly more accurate!

- 33% more accurate
- 6-digit NAICS code level accuracy
- New data sources
- Better experimental measurements

Most owners don't understand the income replacement gap or that value is about what you need the business to be worth versus what you think it is worth.

- 3/4 of business owners have less than \$500,000 saved in their retirement accounts. That means business owners are underestimating their financial reliance on the business post-retirement. Many may be forced to rely on the proceeds from the sale of the business or will need to continue to receive income from the business to fund their retirements. This lack of financial independence may also lead to a business owner never truly exiting the business. Consider that 70% of business owners have not set any retirement date.
- If they don't have a retirement plan, you need to explore their options:

- » Reduce lifestyle
- » Reduce their business dependence so they don't have to exit (or never disentangle personal finances from the business)
- » Build the value of personal assets outside the business
- » Grow the value of the business



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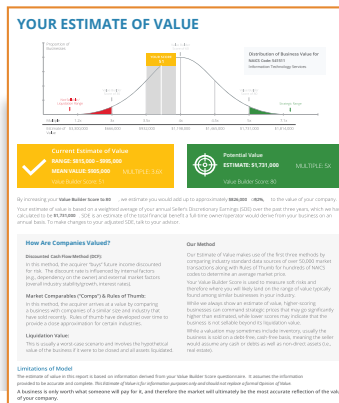
Key Highlights

NEW ALGORITHM

We made the valuation algorithm significantly more accurate! 33% more accurate to be exact, our algorithm leverages transaction data from our 55K+ business owner respondents to now provide 6-digit NAICS code level accuracy for a large selection of industries. The algorithm now makes use of Seller's Discretionary Earnings (SDE) or Adjusted EBITDA when available to provide a more accurate valuation.

VALUATION PAGE IN REPORT

Our valuation page allows Business Owner's to understand their Estimate of Value in a quick and intuitive way. The graph allows them to see how the score affects their multiple within their industry. Also showing a range allows the business owner to set realistic expectations.



UNDERSTANDING THE NEW ESTIMATE OF VALUE (EOV) ALGORITHM

Our new valuation algorithm incorporates market variation in valuations of companies. While one may think that two companies of

equal profits should be the same value, different industries may have wildly different valuations. This is due to the perceived growth projection of an industry (think cannabis versus dry cleaning) or other market conditions (certain industries with natural barrier to entry that create oligarchies, such as Telco's).

HOW ARE COMPANIES VALUED?

Discounted Cash Flow Method (DCF):

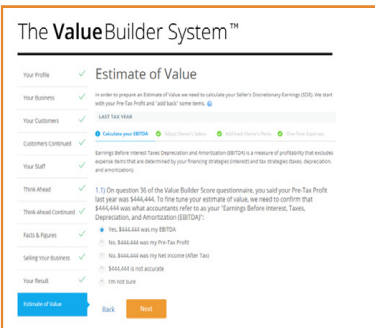
In this method, the acquirer "buys" future income discounted for risk. The discount rate is influenced by internal factors (e.g., dependency on the owner) and external market factors (overall industry stability/growth, interest rates, etc.).

Market Comparables (i.e., "Comps") & Rules of Thumb:

In this method, the acquirer arrives at a value by comparing a business with companies of a similar size and industry that have sold recently. Rules of thumb have developed over time to provide a close approximation for certain industries.

Liquidation Value:

This is usually a worst-case scenario and involves the hypothetical value of the business if it were to be closed and all assets liquidated.



Estimate of Value

In order to prepare an Estimate of Value we need to calculate your Seller's Discretionary Earnings (SDE). We start with your Tax Profits and "add back" some items.

	Last Tax Year EOI	3 Years Ago EOI	3 Years Ago EOI
Pre-tax Profit (or Loss)	\$800,000	\$750,000	\$650,000
Interest Costs	-	-	-
Taxes (Corporate)	-	-	-
Depreciation	-	-	-
Amortization	-	-	-
Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)	\$800,000	\$750,000	\$650,000
Owner's Salary	\$100,000	-	-
Owner's Perks	-	-	-
Market Rent Adjustment	-	-	-
Extraordinary One-Time Expenses	-	-	-
Seller's Discretionary Earnings (SDE)	\$900,000	\$750,000	\$650,000

Finish