

EXECUTIVE SUMMARY

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

Table 4.1
ABC Restaurant
Balance Sheets [1]

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

Notes:

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

Table 4.1.A
ABC Restaurant
Common Size Balance Sheets

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

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

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

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

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

Table 4.2
ABC Restaurant
Income Statements [1]

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

Assumptions:

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

Notes:

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

Table 5.1

ABC Restaurant

Capitalized Cash Flow Method

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

Assumptions:

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

Notes:

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

Table 5.1.B
Cash Flow Calculations

2021 Depreciation as % of Sales	Table 4.1.C	0.0%
Sales in 2021	Table 4.2	376,705
Estimated Depreciation		0

2021 Amortization as % of Sales	Table 4.1.C	0.0%
Sales in 2021	Table 4.2	376,705
Estimated Amortization		0

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

Table 5.1.C

ABC Restaurant

Cost of Equity Capital

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

12/31/20XX

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

Company Specific Risk Component

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

Notes:

[1] The Kroll Cost of Capital Navigator.

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

[3] Based on professional judgment.

Table 5.2

Guideline Transaction Method

DealStats--SIC #5812--Eating Places

DealStats contained 4305 transactions with the following criteria:

SIC was among 5800, 5812, 5813

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

Acquirer Type contains "Private"

Transaction Type contains "Asset"

This group of transactions displayed the following valuation multiples:

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

Valuation Using Invested-Capital Multiples

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

Notes

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

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

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