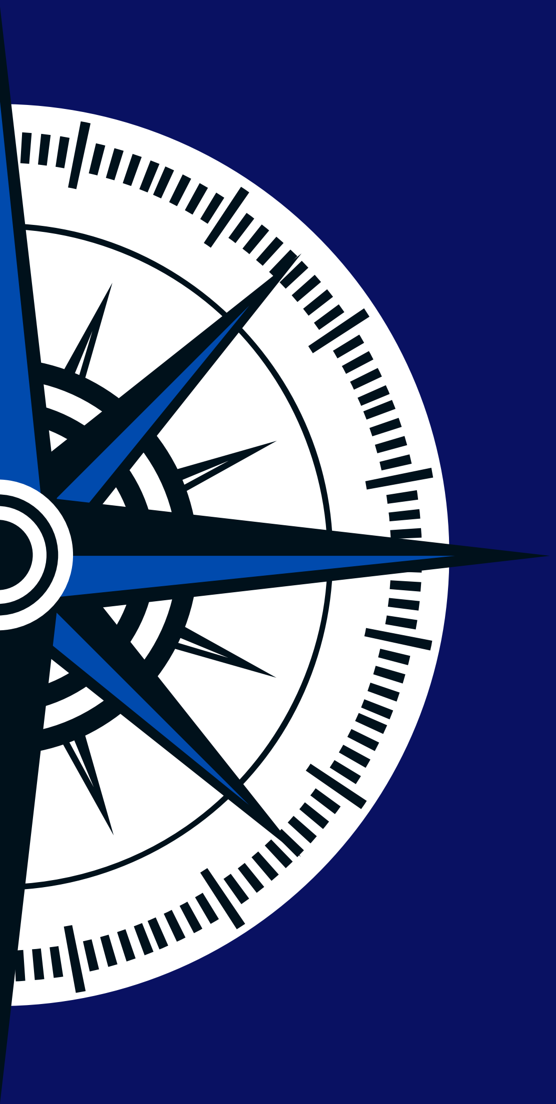
BENCHMARK
BUSINESS CONSULTING LLC

Business Valuation Fundamentals



KEY DISCUSSION POINTS

- Our Story
- What is Business Value?
- Standards of Value
- Formal Vs Informal
- The Valuation Formula
- Business Valuation Approaches
- Business Valuation Roadmap
- Performance, Risk and Business Value
- Conclusion

ABOUT THE COMPANY

OUR STORY

With A Combined 35+ Years of Entrepreneurship and Finance Experience, We Discovered We Could Intersect the Two. Sharing Our Passion of Helping Other Small Businesses Has Become Our Main Mission. Business Mentors Are A Key Ingredient to Success, That Is Why Being Selective with Our Clients Allows us to Add Maximum Value. Business Valuations Offer Clients Insight into Strategies That Will Lower Taxes, Maximize Returns and at Some Point Execute the Most Profitable Exit Available.

WORDS OF INSPIRATION

The difference between ordinary and extraordinary is that little extra.

JIMMY JOHNSON

WHAT IS BUSINESS VALUE?

In the simplest terms, “value” is an educated opinion of what someone will probably pay for something. In the case of a business,“value” it's what a seller will probably receive as consideration for transferring the rights of the business to the buyer. However, in the world of business valuation, there is more than one definition of “value” and it’simportant to know which definition of value should be used in different situations. Here are three common definitions of value called “Standards of Value”

STANDARDS OF VALUE:

Fair Market Value: This is the most commonly used and recognized valuation definition for formal valuations. Fair Value – This definition is subject to state law or legal precedent that may be used in shareholder disputes or divorce asset allocation.

Brokers' Opinion of Value or Most Probable Selling Price: This is when a business broker determines the value of a business and is not considered a formal valuation.

FORMAL VS INFORMAL VALUATION:

Formal (certified) valuations have a specific place in the business world. Formal valuations are required in situations like divorce, issuing stock options, death of a business owner, gifts of private company stock, and various other IRS actions. A formal valuation typically costs between $7,500 and $18,000, can take weeks to complete, and requires extensive data gathering from the business owner and the accountant.

VALUES CAN BE USED FOR THE FOLLOWING DECISIONS:

- **Financial, estate, and retirement planning.**
- **Planning a tax and/or exit strategy.**
- **Selling or buying a business.**
- **Determining the correct amount of life insurance and/or buy-sell insurance.**
- **Analyzing strategic business decisions like taking on an investor, buy-ins or acqusitions.**

THE VALUATION FORMULA:

The formula for all business valuations is Value = Future Cash flow / Risk to Achieve Future Cash flow. Cash flow is something all business owners understand. However, risk is very much overlooked and misunderstood. Which is why it is a common misconception amongst business owners that the value of their business is determined largely by revenue and cash flow. The truth is that business value is much more than simply the revenue and cash flow (i.e., “the financials”), it’s actually related to the overall ability of the business to produce revenue and free cash flow in the future. Businesses with the same sales and cash flow sell for significantly different amounts.

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BUSINESS VALUATION APPROACHES:

There are three main approaches to business valuation: the income, market, and asset approaches. Choosing which approach is best depends on the type of business being valued, and many times, multiple approaches are used to come to a final opinion of value. Every approach has advantages and disadvantages.

INCOME APPROACH

This is the preferred approach used for business valuation. It is based on calculating what the future cash flow to the owner of the business is worth today, also called the “present value”, or the “discounted cash flow”. The advantage is that the predicted cash flow and the risk to achieve that cash flow are related directly to the current operational state of the business and, therefore, directly values the business. The disadvantage is that both the cash flow and risk are simply predictions of the future - and of course predicting the future is challenging..

PART OF OUR JOB AS ADVISORS IS TO DIVE DEEP INTO HOW THE NUMBERS COMPARE WITH THEIR PEERS AND IN A SENSE, RANK THE BUSINESS AND IDENTIFY COMPARABLE STRENGTHS AND WEAKNESSES.

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MARKET APPROACH

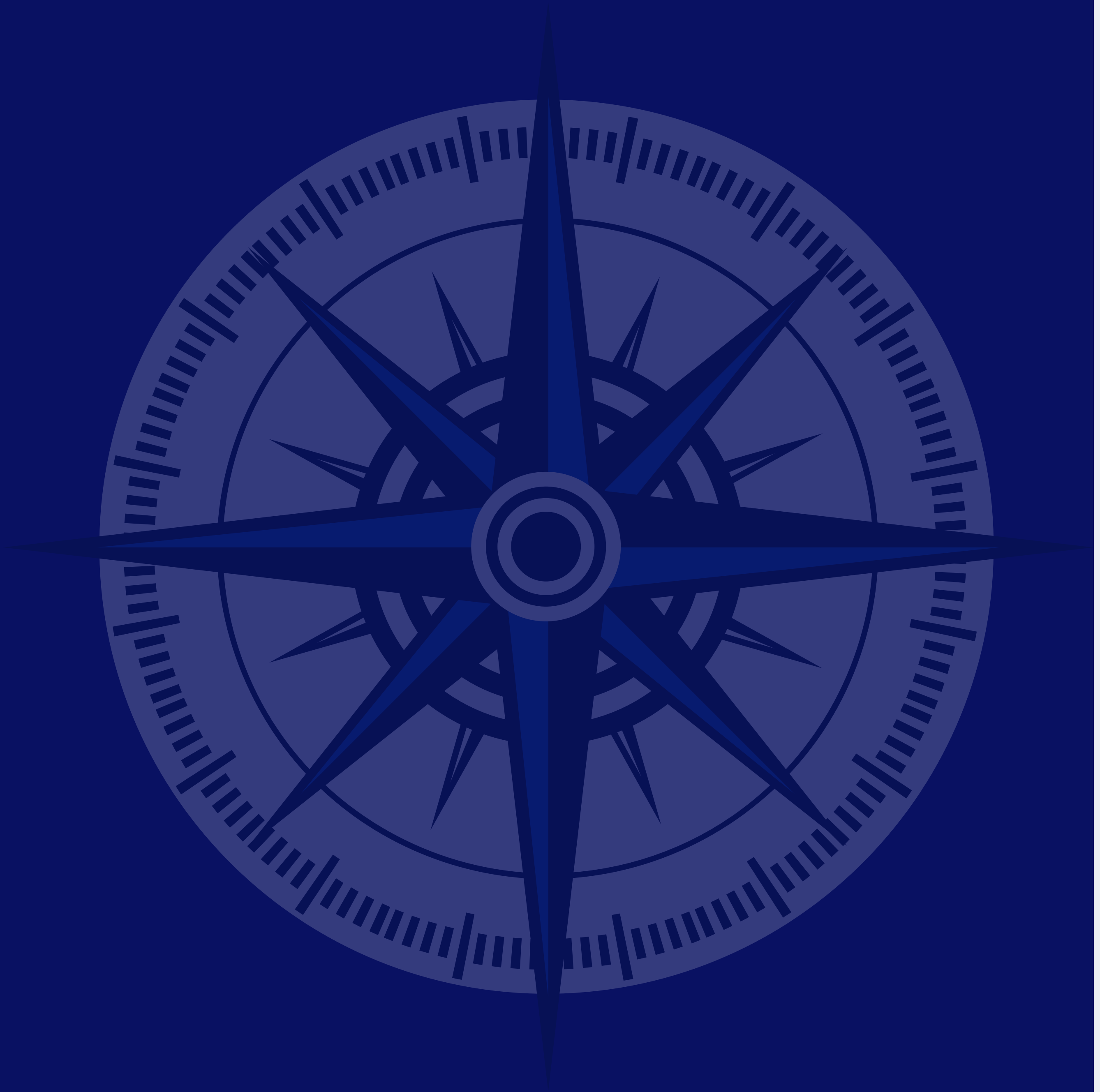
The market approach is the most common approach in valuation. The best evidence of the value of a business is the market, or what other similar businesses have sold for (think of the MLS® system for residential real estate). The market approach uses multiples (to adjust for size) to determine the value of a business. The advantage of the market approach is that it relates the current value of a business to what buyers have previously paid for a similar business. The disadvantage is that it is difficult to find a directly comparable business. Usually, businesses are compared as to product/service, size, and geography. However, it is very difficult to compare the competitive advantages of one business to another business even if both sell the same product, are the same size, and operate in the same geographic area. There are several databases that contain business sales data.

ASSET APPROACH

The asset approach looks at the value of the business in terms of the market value of its assets only. To accurately determine the value of the assets an appraiser may need to be hired. For most service-based businesses, the assets (furniture, fixtures, and equipment) are small, but other types of businesses like a manufacturing company may have substantial assets. Note that the value of real estate and buildings is usually excluded from the value of the operating entity. The advantage of the asset approach is that it will establish the lowest value of a business. The disadvantage is that it does not really establish the highest and best use value of the assets in the business.

THE BUSINESS VALUATION ROADMAP:

One important thing we strive to do is help business owners understand the business valuation “roadmap”, meaning the range of what businesses sell for and equally important, how their business compares to the competition. This means providing a range of values (ballpark figures) based on their specific business situation which includes tangible and intangible value drivers. Business owners can then understand what businesses like theirs actually sell for because they tend to substantially overestimate their own business value. It is a difficult conversation to tell a business owner that their sweat equity did not increase their company’s value as much as they expected, having accurate and substantiated data in hand helps with focusing the conversation on fact vs. opinion surrounding this charged topic.

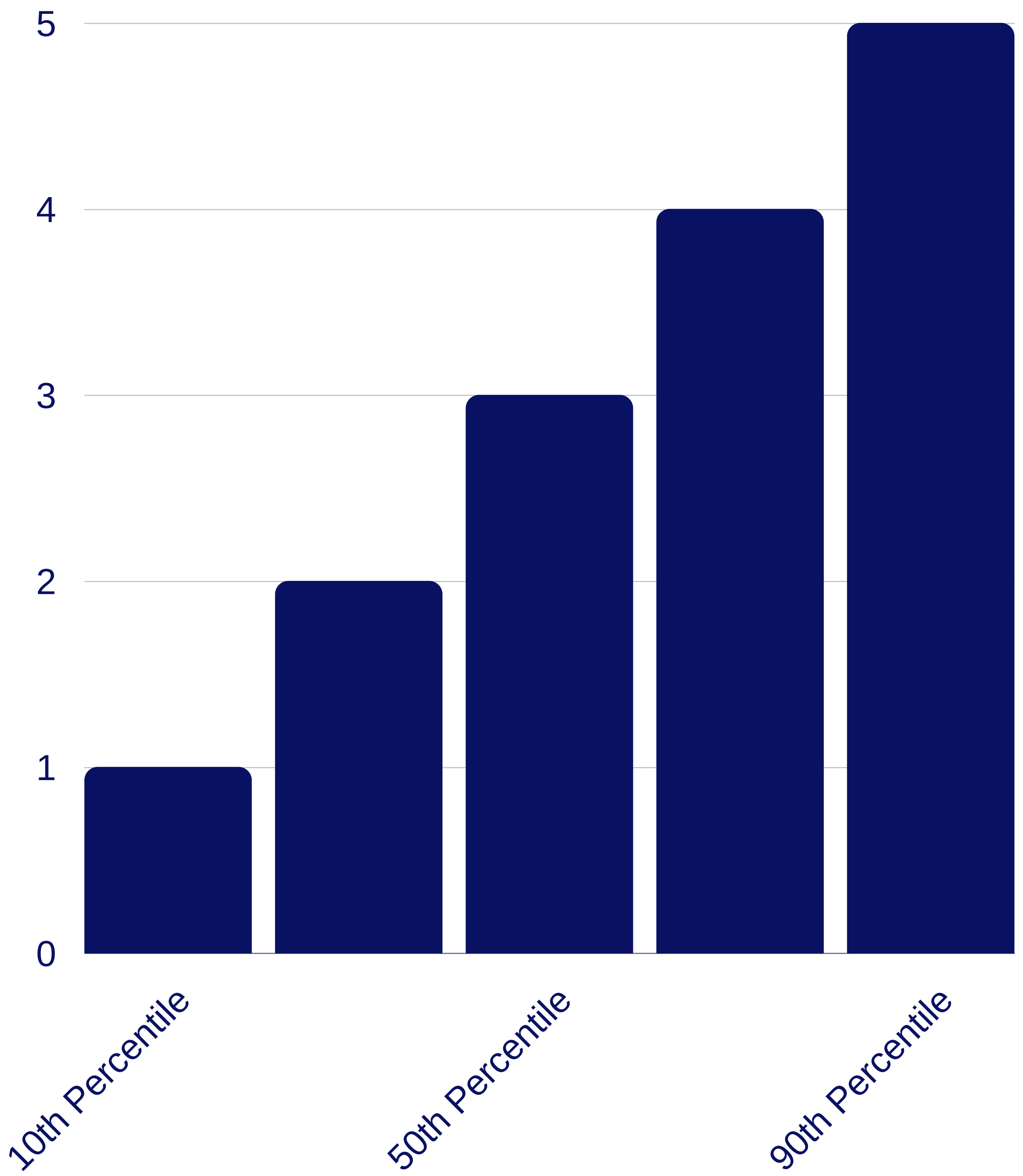


THE VALUATION ROADMAP DATA STORY:

Business sale data, tells a compelling story of what businesses sell for and how much more a better performing business is worth. A “better performing” business is a business with similar revenue and cash flow is selling for more (or even, much more) than its peers. What is normally not understood is that the range of what businesses sell for with the same revenue and cash flow is very large! Meaning there are two fundamental things a business owner can do to improve value: first is to improve revenue and cash flow; second is to improve “business performance”. An example of “business performance” is recurring revenue – a business with a higher percentage of recurring revenue will typically sell for more than one with a smaller percentage. This is one example and there are multiple value drivers to discuss and several that will be identified with a sound business valuation.

PERFORMANCE, RISK & BUSINESS VALUE:

In a recent study 6,185 restaurants with Price to Earnings Ratios performing in the 90th percentile sold for 5X more than one's in the 10th percentile.



IN CONCLUSION:

It is critical to significantly help existing business owners, by helping them understand the value of their business and the roadmap to improving that value. A Certified Valuation Analyst (CVA) can take the next step by helping you understand the importance of this information.

Fees for Service

VALUATION ENGAGEMENT

Reports are 50-150 pages long, require an extensive amount of documentation. Turnaround is 2-4 weeks after all necessary information is received. Valuations are approved by both SBA and the IRS.

FEE RANGE: $5,000-$18,000

CALCULATION ENGAGEMENT

Occurs when client and CVA agree to specific valuation approaches, methods and selected procedures resulting in a calculated value.

FEE RANGE: $2,500-$4,500

VALUE MAXIMIZATION

Procedure that bridges your current business value to a targeted business value. Uses valuation report to increase value drivers. Allows you to make numerous impactful decisions going forward with your business.

FEE RANGE: $1,500-$6,000

SALE FACILITATION

Facilitation of Buyers from our extensive database of buyers and investors. Members of our network will be matched to your business for either complete acquisition or other investment arrangement.

FEE RANGE: CONTINGENCY