

2020 BENCH-BAR CONFERENCE

SHORT-FORM VALUATION of SPRINKLE RITE, INC.

Sample

The viewpoint of Thomas Gillmore, CPA/ABV

Moderator, Honorable Donald Myers

Note: The methods and results of this business valuation sample are provided by the Appraiser for educational and discussion purposes only and do not reflect the opinion of the Judiciary or legal position of an attorney.



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October 2, 2020

Dear Conference Attendee:

In this sample, a divorcing couple and their respective counsel cooperatively hired a financial neutral to perform a business valuation. Everyone agreed to use the revenue-multiple valuation approach because the parties admittedly used the company to pay personal expenses, and they did not want to spend the time and money to unravel and correct the books.

Dear Jacqueline and Franklin,

At your request and according to our engagement letter, we have prepared our appraisal report of a 100% interest in Sprinkle Rite, Inc (“Sprinkle Rite”) as of August 31, 2020 (the Valuation Date).

Objective and Purpose of the Appraisal

The objective of this appraisal is to estimate the **fair market value** of a 100% interest in Sprinkle Rite, using industry-accepted valuation methods and approaches. The purpose of this appraisal is to arrive at an independent opinion of the fair market value for equitable distribution in a marital dissolution arrangement.

Standard of Value

In each valuation engagement, identifying the type of value utilized, such as fair value, fair market value, or investment value, is required. The standard of value for this engagement is “fair market value.” Investment Value is defined by the International Glossary of Business Valuation Terms 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 arms-length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have a reasonable knowledge of the relevant facts.”

Value Considerations

Among other factors, this appraisal considers all the considerations listed in Internal Revenue Service Ruling 59-60, which generally outlines the valuation of closely held company interests and includes the following:

- The nature of the business and history of the enterprise
- The economic outlook in general and the condition and outlook for the specific industry in particular

- The book value of the stock and the financial condition of the business
- The earning capacity of the enterprise
- The dividend-paying capacity
- Sales of stock and the size of the block to be valued
- The market prices of stocks of corporations engaged in the same or similar lines of business whose stocks are actively traded in a free and open market, either on an exchange or over the counter

Premise of Value

We adhered to Revenue Ruling 59-60, which outlines and reviews the general approaches, methods, and factors to be considered in the valuation of closely held companies and thinly traded public corporations. In addition, we conducted our analysis under the premise of value in continued use, as a going concern. This premise assumes that Sprinkle Rite will continue to operate as an income-producing entity. It further assumes that the partners and management of Sprinkle Rite will act rationally and will employ financial and operational strategies that are typical of the industry in which Sprinkle Rite operates.

Conclusion of Value – Controlling Interest Basis

Based upon our liquidity measurements and further analysis described herein, and in our independent professional opinion, the investment value of:

Conclusion of Value \$85,000 (rounded)

This letter and report are to be distributed only in their entirety. We appreciate the opportunity to provide valuation services to Sprinkle Rite. Our valuation is subject to the attached statement of assumptions and limiting conditions. Users of this evaluation report should be aware that business valuations are based on asset values and future earnings potential that may or may not materialize. Therefore, the actual results achieved and or asset values obtained will vary from the forecasts used in this report, and the variations might be material.

Assignment Overview

Type of Report

This report is an Appraisal Report defined by Rule 10-2 of the Uniform Standards of Professional Appraisal Practice (USPAP). This report is to be used by Sprinkle Rite for internal share transfers only and is not suitable for or any other purpose, including but not limited to estate planning, tax filing, loan acquisition, or divorce settlements.

Date of Appraisal

This appraisal report prepared on September 30, 2020, is valid only for the effective valuation date, which is August 31, 2020. We have no obligation to update the report or the opinion of value for information that comes to his attention after the date of the report.

Appraisal Personnel

See the appendices for the appraisal qualifications of:

- The Appraiser, CPA, ABV, CFE, CFF

Class of Stock, Equity, and Rights

As an S Corporation, Sprinkle Rite has a single class of stock issued to the following equity interest holders.

Current Allocation:

Jacqueline Best 100%

Appraisal Governance - USPAP

The Uniform Standards of Professional Appraisal Practice (“USPAP”) and the AICPA’s Statements on Standards for Valuation Services (SSVS) articulate the professional responsibilities valuation practitioners must consider and adhere to, such as but not limited to:

- Professional Competence
- Nature and Risks of the Valuation Services and Expectations of the Client
- Independence
- Establishing an Understanding with the Client
- Scope Restrictions or Limitations
- Using the Work of Specialists in the Engagement to Estimate Value.

Assumptions

We made the following assumptions in the execution of this assignment:

- a. Management statements made to The Appraiser were credible and accurate
- b. Management’s statement of historical financial results is credible and accurate
- c. Management’s statement of contingent assets (none) and liabilities (none) is credible and accurate.
- d. Management’s expectations regarding their ability to fund ongoing operations, pay for stock buybacks, achieve capital funding needs, revenue, and earnings forecasts are reasonable and achievable.
- e. Management’s estimated timeline to overcome regulatory obstacles is reasonable and attainable.

Extraordinary Assumptions

We made no extraordinary assumptions in this assignment.

Laws and Regulations

We are aware of no law or regulation which would materially influence the conclusion of value in this report.

Scope of Work

Our scope of work entailed collecting and analyzing published data relevant to the subject industry. In so doing, we ascertained the relevance of published industry-specific ratios on determining the fair value of companies in the subject industry. Where appropriate, we incorporated this information to provide meaningful comparison to other companies of a similar size operating in the subject industry. We have included an overview of economic conditions as of the valuation date, which indicates that hypothetical equity investors would most likely not have been dissuaded from making a purchase offer of Sprinkle Rite due to any apprehensions about the current business climate. A significant part of our report deals with discounting in value due to certain drawbacks in owning non-traded securities.

The scope of our work product meets the core requirements of the appraisal process, as outlined in the Uniform Standards of Professional Appraisal Practice (“USPAP”). We would expect that readers of this report should be able to follow the logical steps of the valuation process, but we can offer no assurance that they will fully understand our pricing analysis if they are unfamiliar with financial terms or appraisal methodologies. USPAP Standards 9 and 10, which pertain specifically to the valuation of closely-held businesses, seek to ensure that the supporting analyses and research data that underpin the intended use of the appraisal and the conclusion of value are sufficiently complete, accurate, adequate, relevant, reasonable, understandable, and credible.

Due Diligence

We conducted such reviews, analyses, and inquiries deemed reasonably necessary or appropriate under the circumstances. We have not audited this data reported herein as such work was outside the scope of our valuation analysis. Therefore, we express no opinion or other forms of assurance regarding this data. Among other things, we have:

- We conducted written and telephone interviews with Jacqueline and Franklin separately.
- Reviewed Sprinkle Rite's IRS form the 1120s for tax years 2015, 2016, 2017, 2018, and 2019.
- Reviewed Sprinkle Rite's unaudited Income Statement and Balance Sheet, dated August 31, 2020
- Reviewed the industry in which Sprinkle Rite operates, which included a review of research, data, and information concerning the current market conditions and outlook.
- Reviewed Federal Reserve Bank's suggested EBIDTA lending multiples (suggest 6x EBITDA maximum leverage).
 - <https://www.federalreserve.gov/supervisionreg/srletters/sr1303a1.pdf>
 - <https://som.yale.edu/blog/federal-reserve-announces-changes-to-main-street-lending-program>
- Relied on data gathered from the following publicly available sources, without independent verification:
 - Cost of Capital Analytics -BVR Resources | Cost of Capital
 - Guideline Public Company Data from EDGAR | U.S. Securities and Exchange Commission
 - Completed Transactions - Market Data Pricing Multiples - BVR Resources | Deal Stats
 - Industry data - Various internet-based journals and publications
 - Inflation data - Livingston Survey
 - Economic data - Federal Reserve Bank of New York

Company Overview

Company Background

Sprinkle Rite provides landscape design, well-drilling, and drainage engineering services to Central Florida residential and commercial properties.

Management states, "I developed the idea, the name, the logo, the marketing, incorporated the company and completed the vast majority of all aspects of the company's startup. From inception, I sold the jobs, completed the fieldwork, and handled all administrative, accounting, and taxes. Franklin was the first employee hired in September 1998."

Management states, "Sprinkle Rite is a minority-owned business, a small yet successful entity in what has historically been a male-dominated industry. I obtained multiple certifications and licenses for various water systems and landscape design to establish Sprinkle Rite as local experts. I encouraged some employees to obtain certifications to broaden our impact. Few competitors have followed or obtained these achievements. I believe the company's success is primarily due to our "educational sales" abilities – we provide a bit of education to prospective clients to assist them with making informed and wise investments in their projects."

Key Personnel -Current

Jacqueline Best, Owner

Management states, "My duties include oversight of all aspects of the company's activities: hiring and managing staff, sales, administrative duties, accounting and taxes, inventory, marketing, business planning and development, settling disputes (employees, clients, warranties), insurance policy selection and management, vendors, website development, advertising and promotions, contract bidding and management."

Key Personnel -Historical

Franklin Best terminated

Management states, "Franklin's title was Field Services Manager. Due to our inability to work well together and his previous experience in managing installation crews, this area was segmented to his duties. He assisted to a degree with inventory, crew members reported to him, and completed projects by his direction. Vehicle and equipment maintenance as part of his responsibilities. Franklin completed some sales with assistance from the office staff."

COVID-19 Impact

Management states, our sales declined by approximately 40% due to COVID-19. The largest impact is the lack of lower-level labor (\$11.00 - \$15.00 per hour) due to increased unemployment funding (Florida & Federal unemployment equaled \$877 per week or \$21.92 per hour for 40 hours. Current unemployment equals \$677 or \$16.925 per hour.) Finding adequate workers is the largest obstacle this year – we have been unable to secure adequate staff.

Corporate Goodwill

Corporate goodwill includes but is not limited to intangible items as company name familiarity, location, phone number, website, client lists, work-force-in place, and assemblage of assets. Management states, “The majority of our marketing materials indicate that we are a “minority-owned business enterprise” but does not include my name.”

Client Retention

Management states, “The company has always been fortunate to receive strong referrals from clients. At one time, I was able to track client retention, which exceeded 70% (now quite dated information). It is difficult to state if someone called in with a specific name (Jacqueline or Franklin) during the referral. However, we have tracked the “sales rep” for accounts previously. We do not have a method to quickly identify how many accounts are applied to a sales rep (Jacqueline or Franklin); however, we can track sales dollars by rep. Calls that come in – the vast majority are not identifying a specific person, and if they do, the majority have asked for Jacqueline with a portion mentioning Franklin. (This is all by memory, with very little to no tracking of this data.) Historically, if Franklin is speaking with a prospective client (say a next-door neighbor) in the field, he told them they need to call the office to schedule services instead of handling this at the time on his phone’s calendar app.”

Business Reputation

Sprinkle Rite has retained a strong reputation in the community for knowledgeable, professional services that provide excellent results. Examples of our accomplishments are noted online in multiple forums. It is company policy that all staff “represent” Sprinkle Rite and should do so to their utmost best. Each team member is a “salesperson,” by being personable and providing each client with adequate attention to detail. Therefore, all are responsible for the results, and the company’s reputation comprises everyone’s efforts, which can only be accomplished if we perform as a team.

Client List

The client list is a treasure trove if utilized properly. The company’s name recognition is strong. The services provided, if personalized and performed properly, engrains customer loyalty.

Recurring Revenue

Service contracts are an important part of any service business and can provide long term stability. Describe the importance of having recurring revenue from loyal customers. Repeat clients are a lifeline to small businesses and an integral factor for Sprinkle Rite.

Personal Goodwill

Personal goodwill is not saleable per se without an enforceable covenant not to compete. Ms. Best’s personal goodwill include her oversight of all aspects of the company’s activities: hiring and managing staff, sales, administrative duties, accounting and taxes, inventory, marketing, business planning and development, settling disputes (employees, clients, warranties), insurance policy selection and management, vendors, website development, advertising and promotions, contract bidding and management.

Ms. Best states, “My expertise in my industry has been recognized by local municipalities, three of the five water management districts, the Environmental Protection Agency, and my peers within the industry. My reputation in the industry and with our clients is very strong with good name recognition. I was very proactive in local and national industry organizations, recognized as a strong advocate of outdoor water conservation and environmentally friendly landscapes. I received honors from Osceola County Utilities (twice), St. Martin’s Water Management District, Environmental Protection Agency. I was a provider (teacher) of certification courses attended by my peers and respected for my efforts. I assisted the Florida Irrigation Society in obtaining voluntary state licensure and spoke to the Commissioners of the Department of Building and Professional Regulations.

Goodwill Analysis

We calculated the relative value of each goodwill component on a binary scale, i.e., yes, the attribute exists at a material level, or no, the attribute does not rise to the level of materiality as shown in this table:

<i>Enterprise Attributes</i>	Add to Scale (0,1)	<i>Personal Attributes</i>	Add to Scale (0,1)
Ancillary Services	0	Ability, Skills, Judgment	1
Assemblage of Assets	1	Age & Health of Owner	0
Barriers to Entry	0	Closeness of Contact	0
Business Locations	0	Comparative Professional Success	1
Business Name	1	Marketing, Branding of Person	0
Business Reputation	1	Personal Referrals	0
Marketing, Branding of Company	1	Personal Reputation Among Peers	0
Repeating Revenue Stream	1	Personalized Staff Recruit	0
Systems and Organization	1	Personalized Business Name	0
Workforce in Place	0	Work Habits	0
Total Enterprise Attributes	6	Total Personal Attributes	2
Ratio of Enterprise	75%	Ratio of Personal	25%

Revenue Sources

- 12.1% Water Work
- 4.8% Service Contracts
- 72.8% New irrigation systems

Competitors

- Dozens in the local area, e.g., many landscapers, do irrigation repair work.

Customer Analysis

- Management states that Sprinkle Rite has a list of a “few hundred” customer contacts.

Growth Rate

In our opinion, Sprinkle Rite’s growth rate is capped by the rate of inflation, which is forecast by the Federal Reserve Banks Livingston Survey, which is shown in the appendices to this report. The Livingston Survey estimates a 2% growth rate over the foreseeable near-term. On the low-side, we considered a 1.18% risk-free rate of return established by the U.S. 20-Year Treasury Constant Maturity Rate.

Resources:

- Livingston Survey - <https://www.philadelphiafed.org/-/media/research-and-data/real-time-center/livingston-survey/2020/livjun20.pdf?la=en>
- Federal Reserve bank of St. Louis - <https://fred.stlouisfed.org/series/DGS20>
- U.S. Treasury - <https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=realyieldYear&year=2020>

Industry and Economic Outlook

COVID-19 IMPACT

Industry

Management states that Sprinkle Rite encountered difficulty hiring qualified personnel during the COVID-19 while the Federal Government's \$600 per week unemployment enhancement was ongoing.

Financial Risk

We considered the financial risk associated with Sprinkle Rite's working capital, debt load, corporate goodwill, and whether Sprinkle Rite received Payroll Protection Plan (PPP) funds and whether or not those funds will be forgiven. Sprinkle Rite accepted the PPP loan and fully expects to qualify for loan forgiveness.

Industry Segmentation

We evaluated the following industries (by NAICS and SIC codes) to indicate historical trends, pricing multiples, and economic outlook.

- SIC code 4971
Water Supply and Irrigation Systems
- NAICS code 221310
Water Supply and Irrigation Systems - This industry comprises establishments primarily engaged in operating water treatment plants and operating water supply systems. The water supply system may include pumping stations, aqueducts, or distribution mains.

Industry Threats

Management states, the industry has changed drastically within the last 5-10 years due to changes in state regulations. Large pest control companies have a stronghold on the irrigation industry and competing against them as a small business is a huge disadvantage. The quality of the work is subpar compared to when irrigation contractors had a clear path as licensed contractors. Landscapers came into the irrigation industry about 20-25 years ago and “watered down” the results using unnecessary water. The industry is expansive and varied; to survive, one should have a “niche market” or stand out from competitors.”

Economic Outlook

The impact of COVID-19 on the nation’s economy is widely assumed to be negative but not well understood by even the most seasoned economic advisors and Wall Street Analysts. The DOW industrial average, NASDAQ, and the S&P 500 are leading indicators which have yet to turn negative since rebounding from the March 2020 falloff, and yet this could happen if COVID-19 the nation experiences an increase in hospitalizations and death rates. We consider the irrigation sales, service, and repair industry to be at risk should the Central Florida area experience a severe falloff in the economy. See the Appendices to this report for more information on this topic.

Financial Analysis

An essential step in the valuation of any company is an analysis of its performance over time. Past sales and earnings growth can indicate future growth and put a company's earnings into a historical context. Other things being equal, a company with rapidly rising sales and earnings is worth more than one with little or no growth.

Financial Statements

Sprinkle Rite's historic and projected balance sheets, profit, and loss statements, and statement of cash flows are incorporated in the Exhibits section of this report.

Financial Statement Adjustments

We made no adjustments to Sprinkle Rite's financial statements.

Valuation Framework

IRS Revenue Ruling 59–60 illustrates the techniques, rules, and factors governing three general approaches to valuing closely held companies. Professional appraisers use various methods under those three approaches in the appraisal process. Using more than one approach is to develop mutually supporting evidence of the conclusion of value.

While the specific titles of these three approaches may vary, the generic names are as follows:

- The market approach,
- The income approach, and
- The asset-based approach.

In approaching the valuation of Sprinkle Rite, a variety of factors were taken into consideration, including: (1) the nature and history of the business, its current position, and its outlook; (2) the general and relevant economic conditions prevailing at the valuation date; and (3) the conditions and outlook for the industry as of the valuation date.

After considering each of these three valuation approaches, we determined that the most approaches for Sprinkle Rite are the market and income-based approaches. We were unable to derive any meaningful indications of value from the asset-based approach because, as an operating company, the value of Sprinkle Rite's assets is represented most accurately by their ability to generate earnings. Therefore, the value of Sprinkle Rite's assets is best estimated through the selected market and income-based approaches.

The Asset Approach

Valuation Theory and Methodology

Sprinkle Rite's assets are represented most accurately by the earnings (cash flow) generated by those assets. Therefore, the value of Sprinkle Rite's assets is best estimated through the selected market and income-based approaches.

Operating Assets and Inventory (Included in Value)

- Calculated asset values (from Jacqueline's list of assets)
 - \$678 depreciated value (see the full list in the Exhibits to this report)
- Calculated asset values (from Franklin's list of assets)
 - \$7,798 depreciated value (see the full list in the Exhibits to this report)

Working Capital (Excluded from Value)

- Cash and Accounts Receivable
 - Neither cash nor accounts receivable are transferred to a buyer in an Asset Sale without further negotiation. Therefore, we construed the balance sheet cash and accounts receivable to be personal, included on the marital equitable distribution worksheet, and are excluded from our analysis of Sprinkle Rite's fair market value.
- Liabilities
 - Neither accounts payable nor credit card debt is transferred to a buyer in an Asset Sale without further negotiations. Therefore, we construed the balance sheet liabilities to be personal, included on the marital equitable distribution worksheet, and are excluded from our analysis of Sprinkle Rite's fair market value.

Result #1 of 2– The value of operating assets are **included** in our analysis of Sprinkle Rite's fair market value.

Result #2 of 2 – The value of working capital are **excluded** from our analysis of Sprinkle Rite's fair market value.

The Market Approach

Valuation Theory and Methodology

We considered three market- approach methods to test Sprinkle Rite’s value. These methods are referred to as (1) the guideline publicly traded company method, (2) previous share transaction method, and (3) the completed-transaction method as described below.

Previous Transactions Method

Method Considered and Rejected

Sprinkle Rite has not previously sold company stock. Therefore, this method was considered but rejected.

Completed Transactions

Included Method

Using a proprietary business broker database known as DealStats, we located nine private sales of companies operating within the irrigation sales and repair industry with revenues ranging from \$80,863 to \$482,305, indicating a median revenue multiple of .5x.

Revenue Multiple

Company Name or Description	Sale Date	Revenue	COGS	Gross Margin	Sales Price	EV/ Rev.	DealStat #
Lawn & Irrigation	Jan-17	363,678		100%	125,000	0.34 x	36760-1
Irrigation	May-17	154,188		100%	75,000	0.49 x	38355-1
Lawn & Irrigation	Jan-18	482,305	93,286	81%	110,000	0.23 x	43319-1
Irrigation	Apr-18	335,112	134,274	60%	200,000	0.60 x	43330-1
Lawn & Irrigation	Nov-19	360,398		100%	180,000	0.50 x	48547-1
Sprinkler & Irrigation Repair	Apr-03	80,863		100%	42,000	0.52 x	5236-1
Sprinkler & Irrigation Repair	Oct-04	330,750	43,569	87%	197,000	0.60 x	13386-1
Sprinkler & Irrigation Repair	May-08	105,844	34,318	68%	47,500	0.45 x	13507-1
Sprinkler & Irrigation Repair	Jan-16	117,350	39,155	67%	60,000	0.51 x	34711-1
	Low	80,863		60%		0.23 x	
	Max	482,305		100%		0.60 x	
	Median	330,750		87%		0.50 x	

Value by Market Approach – Sprinkle Rite

Based on the valuation multiple described above, we calculated Sprinkle Rite’s indication of value to be \$141,000 (rounded) under the market approach.

	LTM April
Time Periods	1.000
Gross Receipts	283,254
Less: Returns and Allowances	
Net Receipts	283,254
<i>Sales Growth</i>	3.17%
Less: Cost of Goods Sold	60,570
Gross Profit	222,684
<i>Gross Margin</i>	78.62%
Other Income	0
Total Income	222,684

Guideline Publicly Traded Company Method

Method Considered and Rejected

The result - Inappropriate method for this nano-size company

The Income Approach

Valuation Theory and Methodology

The Income Approach is based on the premise that the value of a closely held company is equivalent to the present value of the future economic income to the shareholders. To determine this value, we do an in-depth analysis of Sprinkle Rite's revenue, fixed and variable expenses, capital structure, and growth. The future net free cash flows of Sprinkle Rite are estimated, and the present value of these cash flows, along with a residual (or terminal) value, is calculated based upon an appropriate present value discount rate.

The result – We cannot determine the reliability of Sprinkle Rite's reported earnings (cash flow). As such, we rejected the valuation methods normally considered under the Income Approach.

Discounts and Premiums

Valuation Theory and Methodology

All things being equal, an investment is worth more if it is readily marketable or, conversely, diminished worth if it is not. Investors prefer liquidity to lack of liquidity, and interests in closely held companies are illiquid relative to most other investments. Accordingly, we estimated the liquidity and marketability of the subject interest in Sprinkle Rite to determine the economic impact (discount for lack marketability) to the investor.

Marketability Discount

In calculating the time and expense needed to sell Sprinkle Rite in an arm's length transaction, we calculate the various costs involved, including the cost of a business broker, legal, and accounting fees. We then compare those costs to empirical studies (shown in Appendix 5), showing the percentage discount reflected in historical transactions of companies before and after going public. Valuation analysts commonly rely solely on those empirical studies.

The Result - We applied a 20% marketability discount to Sprinkle Rite's valuation.

Control Premium or Discount

Control Premium

A control premium is appropriate in highly unusual situations where a hypothetical buyer is likely to bring specific enhancements to a subject company, which would optimize the subject in ways and manners not normally available to a minority investor. Specifically, this type of control premium associates with “know buyers” or “anticipated buyers” who would likely bring a specific and identifiable economic enhancement to the subject company’s earnings. Accordingly, we decline to increase Sprinkle Rite’s value on the premise that doing so would indicate a purpose other than the treasury stock purchase identified herein.

Control Discount

If valuing a minority interest in Sprinkle Rite, it would be appropriate to consider the economic impact to the investor who would be restricted from the following:

1. Control the day-to-day operations of the company
2. Change the company’s by-laws or amend the operating agreement
3. Set the general direction and investment policy of the company
4. Sell the underlying assets of the company
5. Liquidate the company
6. Borrow funds on behalf of the company
7. Determine the timing and amount of distributions
8. Appoint, replace, or remove management; and
9. Hire and fire employees.

Result: We made no change for control premium or discount

Personal Goodwill Discount

<i>Enterprise Attributes</i>	Add to Scale (0,1)	<i>Personal Attributes</i>	Add to Scale (0,1)
Ancillary Services	0	Ability, Skills, Judgment	1
Assemblage of Assets	1	Age & Health of Owner	0
Barriers to Entry	0	Closeness of Contact	0
Business Locations	0	Comparative Professional Success	1
Business Name	1	Marketing, Branding of Person	0
Business Reputation	1	Personal Referrals	0
Marketing, Branding of Company	1	Personal Reputation Among Peers	0
Repeating Revenue Stream	1	Personalized Staff Recruit	0
Systems and Organization	1	Personalized Business Name	0
Workforce in Place	0	Work Habits	0
Total Enterprise Attributes	6	Total Personal Attributes	2
Ratio of Enterprise	75%	Ratio of Personal	25%

>>> Conclusion and Valuation Synthesis<<<

Based on our professional judgment, we arrived at an indication of the value for Sprinkle Rite’s revenue stream using a valuation industry accepted pricing multiple, after which we removed the non-saleable personal goodwill component. In conclusion, we applied a reasonable marketability discount to determine our conclusion of value, as shown here:

Approach/ Method	Indication	Weight	Allocation
Market Approach - Revenues	\$141,627	100%	\$141,627
Market Approach - MVIC/ EBITDA		0%	\$0
Weighted Indications of Value		100%	\$141,627
Goodwill (Non Compete)	-25%		-\$35,407
Subtotal			\$106,220
Minority Discount	0%		\$0
Subtotal			\$106,220
Marketability / Liquidity	-20%		-\$21,244
Conclusion of Value			\$84,976

Conclusion of Value

\$85,000 (rounded)

Appendices

Appendix 1 – Certification and Representations (a)

The Appraiser now certifies the following statements regarding this appraisal:

1. The statements of fact contained in this report are believed to be true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported contingent and limiting conditions, and they represent our personal, impartial, and unbiased professional analyses, opinions, and conclusions
3. I have no present or prospective interest in the business interests that are the subject of this appraisal report, and we have nor personal interest with respect to the parties involved.
4. I performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three years immediately preceding acceptance of this assignment.
5. I did not personally inspect the subject of business interests encompassed by this appraisal.
6. I have no bias concerning the subject matter of this report or the parties involved.
7. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
8. My compensation is fee-based and is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
9. My analysis opinions and conclusions were developed, and this report has been prepared in conformity with the uniform standards of professional appraisal practice.

10. This valuation engagement was performed in accordance with the American Institute of Certified Public Accountants' Statement on Standards for Valuation Services, which is modeled after the Uniform Standards of Professional Appraisal Practice, as promulgated by The Appraisal Foundation.
11. No persons other than the individuals whose qualifications are included herein have provided significant professional assistance regarding the analyses, opinions, and conclusions outlined in this report.
12. Disclosure of the contents of this report is subject to the requirements of the American Society of Appraisers, and the other professional organizations of which we are members related to review by their duly authorized representatives.
13. The analyses, opinions, and conclusions of value included in this valuation report are subject to specified assumptions and limiting conditions identified in this report, and they are the personal analyses, opinions, and conclusions of the analyst.
14. The economic and industry data included in this report were obtained from various printed or electronic sources that the valuation analyst believes to be reliable. We have not performed any corroborating procedures to substantiate that data.
15. This assignment was neither an audit nor a review engagement, and as such, does not assure that the financial statements are reliable, true, or accurate.

Appendix 2 – Assumptions & Limiting Conditions

1. The conclusion of value arrived at herein is valid only for the stated purpose as of the date of the valuation.
2. Financial statements and other related information provided by Sprinkle Rite or its representatives, in the course of this engagement, have been accepted without any verification as fully and correctly reflecting the enterprise's business conditions and operating results for the respective periods under analysis, except as expressly noted herein. We have not audited, reviewed, or compiled the financial information provided, and, accordingly, I express no audit opinion or any other form of assurance on this information.
3. Public information and industry and statistical information were obtained from sources we believe to be reliable. However, we make no representation of the accuracy or completeness of such information and have performed no procedures to corroborate that information.
4. The Appraiser does not assure the achievability of results forecasted (if any) because events and circumstances frequently do not occur as expected; differences between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans, and assumptions of management.
5. The conclusion of value arrived at herein is based on the assumption that the current level of management expertise and effectiveness would continue to be maintained, and that the character and integrity of the enterprise through any sale, reorganization, exchange, or diminution of the owners' participation would not be materially or significantly changed.
6. This report and the conclusion of value arrived at herein are for the exclusive use of the requesting party for the sole and specific purposes as noted herein. They may not be used for any other purpose or by any other party for any purpose.
7. Furthermore, the report and conclusion of value are not intended by the author and should not be construed by the reader to be investment advice in any manner whatsoever. The conclusion of value represents the considered opinion of The Appraiser Accounting Practice, P.L., based on information furnished by Sprinkle Rite and other sources.
8. Neither all nor any part of the contents of this report (especially the conclusion of value, the identity of any valuation specialist(s), or any reference to any of their professional designations) shall be disseminated to the public through

advertising media, public relations, news media, sales media, mail, direct transmittal, or any other means of communication without the prior written consent and approval of The Appraiser Accounting Practice, P.L.

9. Future services regarding the subject matter of this report, including, but not limited to testimony or attendance in court, shall not be required of The Appraiser Accounting Practice, P.L. unless previous arrangements have been made in writing.
10. We have not made a specific compliance survey or analysis of the subject property to determine whether it is subject to or in compliance with the American Disabilities Act of 1990, and this valuation does not consider the effect, if any, of noncompliance.
11. No change of any item in this appraisal report shall be made by anyone other than The Appraiser Accounting Practice, P.L., and we shall have no responsibility for any such unauthorized change.
12. Unless otherwise stated, no effort has been made to determine the possible effect, if any, on the subject business due to future Federal, state, or local legislation, including any environmental or ecological matters or interpretations thereof.
13. If prospective financial information approved by management has been used in this work, we have not examined or compiled the prospective financial information and, therefore, do not express an audit opinion or any other form of assurance on the prospective financial information or the related assumptions. Events and circumstances frequently do not occur as expected, and there will usually be differences between prospective financial information and actual results, and those differences may be material.
14. The Appraiser interviewed the current management of Sprinkle Rite, concerning the past, present, and prospective operating results of the subject company.
15. Except as noted, we have relied on the representations of the owners, management, and other third parties concerning the value and useful condition of all equipment, real estate, investments used in the business, and any other assets or liabilities, except as specifically stated to the contrary in this report.
16. We have not attempted to determine whether all assets of the business are free and clear of liens and encumbrances or that the entity has a good title to all assets.

Appendix 3 – Economic Outlook

In the valuation of any business interest, the general economic outlook as of the valuation date should be considered, since the national economic outlook influences how investors perceive alternative investment opportunities at any given time. In our analysis, we considered the general economic climate that prevailed as of the valuation date.

U.S. Inflation

Inflation Estimated at 2%

We relied on the research department of the Federal Reserve bank of Philadelphia Livingston Survey dated September 2020, which estimated inflation during our forecast period for Sprinkle Rite earnings. The Livingston forecasters predict that real GDP will grow at an annual average rate of 2.20 percent over the next ten years, an upward revision from 2.00 in the survey six months ago. The forecasters now predict that inflation (measured by the CPI) will be 2.00 percent annually over the next ten years, a downward revision from 2.22 in the December 2019 survey.

The Result – In keeping with industry practices, we considered this data point to be the maximum sustainable growth rate for Sprinkle Rite.

U.S. Economic Forecast

Livingston Survey September 2020

Sharply Negative Growth in Real GDP and High Unemployment for First Half of 2020, Recovery Second Half of 2020
The participants in the September Livingston Survey predict sharply lower output growth for the first half of 2020. The forecasters surveyed by the Federal Reserve Bank of Philadelphia twice a year project that the economy's output (real GDP) will fall at an annual rate of -20.2 percent during the first half of 2020. The economy is expected to start recovering in the second half of 2020. Growth in the second half of 2020 is expected to rise to an annual rate of 9.6 percent. Growth will average an annual rate of 7.2 percent in the first half of 2021. The forecasters see a high unemployment rate in the first half of 2020, with recovery starting in the second half of 2020. The forecasters predict that the unemployment rate will be 17.4 percent in September 2020 and 10.6 percent in December 2020. The unemployment rate is expected to fall to 8.3 percent in September 2021.

Federal Reserve Beige Book July 15, 2020

The following are excerpts from the Federal Reserve Bank's National Summary report of economic conditions based on information collected on or about the valuation date. Commonly known as the Beige Book, this report is published eight times per year. Each Federal Reserve Bank gathers anecdotal information on current economic conditions in its District through

reports from Bank and Branch directors and interviews with key business contacts, economists, market experts, and other sources. The Beige Book summarizes this information by District and sector. A designated Federal Reserve Bank prepares an overall summary of the twelve district reports on a rotating basis. The following information was prepared by the Federal Reserve Bank of New York-based on information collected on or before July 6, 2020.

National Highlights

“Economic activity increased in almost all Districts but remained well below where it was before the COVID-19 pandemic. Consumer spending picked up as many nonessential businesses were allowed to reopen. Retail sales rose in all Districts, led by a rebound in vehicle sales and sustained growth in the food and beverage and home improvement sectors. Leisure and hospitality spending improved but was far below year-ago levels. Most Districts reported that manufacturing activity moved up, but from a very low level. Demand for professional and business services increased in most Districts but was still weak. Transportation activity rose overall on the higher truck and air cargo volumes. Construction remained subdued but picked up in some Districts. Home sales increased moderately, but commercial real estate activity stayed at a low level. Financial conditions in the agriculture sector continued to be poor, while energy sector activity fell further because of limited demand and oversupply. Loan demand was flat outside of some Paycheck Protection Program (PPP) activity and increased residential mortgages. The PPP and loan deferrals by private lenders reportedly provided many firms with sufficient liquidity for the near term. Outlooks remained highly uncertain, as contacts grappled with how long the COVID-19 pandemic would continue and the magnitude of its economic implications.”

The Appraiser’s Opinion on Economic Conditions

The impact of COVID-19 on the nation’s economy is widely assumed to be negative but not well understood by even the most seasoned economic advisors and Wall Street Analysts. The DOW industrial average, NASDAQ, and the S&P 500 are leading indicators which have yet to turn negative since rebounding from the March 2020 falloff, and yet this could happen if COVID-19 the nation experiences an increase in hospitalization and death rates. Nevertheless, non-discretionary (mandatory) consumer spending drives the day to day business of the poultry processing industry. As such, we believe Sprinkle Rite is sheltered from a severe falloff in the economy.

The Result: We made no financial adjustments regarding known and foreseeable economic conditions.

Appendix 5 – Restricted Stock Studies (DLOM)

All other things being equal, an equity investment in a company is worth more if it is readily marketable or possibly a lot less if it is not readily marketable. Because of these extreme contrasts between the ability to sell or hypothecate closely-held minority stock compared with publicly traded stock, empirical studies suggest that discounts for lack of marketability for minority interest, closely-held stocks tend to cluster in the range of 35 to 60 percent from their publicly traded counterparts. We analyzed two general types of recurring and ongoing empirical-study-protocols that are designed to quantify the discounts for lack of marketability for minority interests in closely held companies: (1) Restricted Stock Studies - discounts on sales of restricted share units of publicly traded companies, and (2) Pre-IPO Studies - discounts on private transactions prior to public offerings.

Restricted Stock Studies

In determining the market-derived discount for lack of marketability (DLOM), we began with the Restricted Stock Studies, which are based on **publicly traded companies**, known to issue restricted, or “letter,” stock in making acquisitions or raising capital. Restricted stock is quicker to execute and less costly to issue than registering a new stock with the SEC. Restricted stock cannot be sold on the public market until a time-period has lapsed. That holding period has decreased from an initial timeframe of two-years down to six-months where it is currently. After the initial holding period, unregistered securities could be sold in public transactions by complying with certain “dribble-out,” or volume-limit, provisions.

Appraisers “test the waters” of a DLOM by examining empirical evidence that closely resembles the market conditions for their subject company. In the case of Sprinkle Rite, we examined the restricted stock studies reflecting a multi-year holding period. The following table lists the studies we considered, the Rule 144 holding period, and the mean discount revealed by each study. In this section, we comment on historical market volatility, which may have impacted the discount studies:

“In 1966, the first empirical study was a harbinger of difficult times ahead. The market reached a few new highs in the late 1960s and early 1970s, but inflation was gathering steam, and the government was bleeding the reserves of gold that backed the dollar until August 15, 1971, when President Nixon renounced the gold standard. Then came the brutal market downturn and recession of 1973-75, another bout of inflation, and additional sharp recessions in 1980 and 1981. 1966 was the start of a 15-year period in which stocks barely advanced at all. If you were in the market back then, you were rewarded eventually, but only if you were extremely patient.

“October 1987 was the worst one-day stock market drop since 1929. The economy, however, was supported by easy credit policies under Federal Reserve Chairman Alan Greenspan, never faltered, and the market recovered all the lost ground within about a year. The crashes of 2001-2003 and 2008-2009 were different. A major recession accompanied each, and

each was triggered by a major imbalance in the economy (the overinvestment in technology stocks and infrastructure of the dot-com years and the overinvestment in debt backed by real estate in the mid-2000s). Correcting those imbalances took time and painful adjustments that threw millions of people out of work for extended periods. As with the two 21st century events, the well-remembered downturns of the mid-1970s and early 1980s had profound structural causes in the surging inflation of that era. The eventual adjustments were painful, but they set the stage for many years of growth that followed.” Source: The Forgettable Crash of 1966; Larry Elkin, CPA, CFP; Palisades Hudson Financial Group, LLC; January 28, 2014.

The market volatility of similar magnitude, aforementioned, may come about as a result of climate change, Global political unrest from China, Russia, and Iran, and it may come about as a result of political storms such as what is brewing at the time of this report, i.e., the 2020 election. In other words, yes, some of the restricted stock studies occurred during turbulent times, but those turbulent times are likely to exist once again, in our opinion. Thus, the results of the studies are meaningful in the instant case.

Study Name	Year Start	Year Stop	Holding Period	Trans Count	Mean Price Discount
SEC Overall Average	1966	1969	2 years		25.8%
SEC Nonreporting OTC	1966	1969	2 years		32.6%
Gelman	1968	190	2 years	89	33.0%
Trout	1968	1972	2 years	60	33.5%
Moroney	N/A	N/A	2 years	146	35.6%
Maher	1969	1973	2 years		35.4%
Standard Research Consult’s	1978	1982	2 years	28	45.0%
Willamette Management	1981	1984	2 years	33	31.2%
Silber	1981	1988	2 years	69	33.8%
Management Planning	1980	1996	2 years	53	27.0%
Columbia Financial	1996	1997	2 years	123	21.0%
Columbia Financial	1997	1998	1 year	15	9.0%
Harris/TVA	2007	2008	6 to 12mo		18.1%
FMV Opinions	1980	2010	6 to 12mo		20.7%
Pluris DLOM	2001	2012	6 to 12mo		22.4%

Stout Risius Ross	2005	2010	6 to 12mo		9.3%

The Appraiser’s Opinion on Restricted Stock Studies

The empirical evidence tabulated above shows that investors demand a greater return on their risk when holding the holding period increases. The studies revealed a median two-year holding period discount rate of 33% while the six to twelve month holding period discount rate came in at 18% (rounded), which indicates a fifteen percent change (33%-15%) for each additional year, all other things being equal.

Result: Recognizing the restricted stock studies mentioned above, and assuming a reasonable twelve-months-to-sell time frame, we applied a 20% marketability/ liquidity discount to the Sprinkle Rite valuation.

Exhibit "A" – Completed Transactions

COMPLETED TRANSACTIONS - DEAL STATS							
Company Name or Description	Sale Date	LTM		Gross Margin	Sales Price	EV/ Rev.	DealStat #
		Revenue	COGS				
Lawn & Irrigation	Jan-17	363,678		100%	125,000	0.34 x	36760-1
Irrigation	May-17	154,188		100%	75,000	0.49 x	38355-1
Lawn & Irrigation	Jan-18	482,305	93,286	81%	110,000	0.23 x	43319-1
Irrigation	Apr-18	335,112	134,274	60%	200,000	0.60 x	43330-1
Lawn & Irrigation	Nov-19	360,398		100%	180,000	0.50 x	48547-1
Sprinkler & Irrigation Repair	Apr-03	80,863		100%	42,000	0.52 x	5236-1
Sprinkler & Irrigation Repair	Oct-04	330,750	43,569	87%	197,000	0.60 x	13386-1
Sprinkler & Irrigation Repair	May-08	105,844	34,318	68%	47,500	0.45 x	13507-1
Sprinkler & Irrigation Repair	Jan-16	117,350	39,155	67%	60,000	0.51 x	34711-1
	Low	80,863		60%		0.23 x	
	Max	482,305		100%		0.60 x	
	Median	330,750		87%		0.50 x	

Exhibit "B" – Income

	2016	2017	2018	2019	LTM April
Gross Receipts	296,853	407,198	318,036	\$274,554	283,254
Less: Returns and Allowances					
Net Receipts	296,853	407,198	318,036	274,554	283,254
<i>Sales Growth</i>		37.17%	-21.90%	-13.67%	3.17%
Less: Cost of Goods Sold	31,164	50,811	68,598	66,576	60,570
Gross Profit	265,689	356,387	249,438	207,978	222,684
<i>Gross Margin</i>	89.50%	87.52%	78.43%	75.75%	78.62%

Exhibit "C" – Expenses

	2016	2017	2018	2019	LTM April
Officer Compensation	23,077	37,727	37,500		
Salaries and Wages	73,131	166,712	99,830	118,352	
Repairs and Maintenance	518	1,583	2,079		
Rents	30		11,146	11,474	
Taxes and Licenses	11,597	17,036	10,506		
Interest Expense - (LOC)	3,178	3,763	3,807	4,694	
Depreciation	3,962	3,163	2,196		
Advertising	9,273	11,961	13,481	9,698	
Employee Benefit	251	314	282		
Owner's Discretionary Spending					
Accounting	440	440	500		
Automobile and Truck	16,775	19,189	19,109	22,839	
Bank Charges	1,664	2,616	2,849	3,344	
Fuel	538	5,576	10,731		
Independent Contractor	8,117	2,824			
Dues & Subscriptions			3,712		
Liability Insurance	3,652	4,353	2,518		
Other Insurance	6,361		10,665	21,594	
Workers Comp	3,971	7,184	5,498		
Legal & Professional	1,527	1,550		520	
50% Meals & Ent	428	276	252	219	
Miscellaneous	1,010	698	5,482	878	
Office Expenses	7,184	5,349	3,196	4,444	
Parking Fees & Tolls	1,698	1,458			
Permits & Fees	105	651	1,903	3,450	
Postage & Shipping	553	840	648	606	
Printing	278				
Supplies	34,238	57,224	1,889	2,203	
Telephone	3,744	3,968	3,672	4,073	
Travel	1,808	1,243	1,410	1,747	
Utilities	3,517	2,172	2,706	2,604	
Other		2,260		-2,886	209,388
Total Expenses	222,625	362,130	257,567	209,850	209,388
Ordinary Income (EBT)	43,064	-5,743	-7,869	-1,871	13,296