

# **Fair Market Asset Valuation**

**Limited Scope Report**

## **Valuation of a 100% Asset Interest in:**

**The John X. Jones Company, Inc.  
15000 Company Drive  
Toms River, NJ 08755**

**As of March 1, 2017**

**Prepared by:**



**MR Valuation Consulting, LLC**

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**MR Valuation Consulting, LLC**  
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March 1, 2017

Mr. John Jones  
President  
The John X. Jones Company, Inc.  
15000 Company Drive  
Toms River, NJ 08755

Dear Mr. Jones:

We have been engaged to determine the Fair Market Value of the Assets of The John X. Jones Company, Inc. The valuation was prepared to determine the market value of the company to prepare the business for sale. The valuation was prepared as of March 1, 2017, which is the most recent date that financial information was available. This report is a limited scope valuation and is subject to the Statement of Contingent and Limiting Conditions.

The term "Fair Market Value" is defined by the American Society of Appraisers as "the amount at which property would change hands between a willing seller and a willing buyer when neither is acting under compulsion and when both have reasonable knowledge of the relevant facts". The value takes into consideration that reasonable time is allowed for exposure in the open market.

Based on review of the financial information provided, it is our estimate that the Fair Market Value of the assets of The John X. Jones Company, Inc. as of March 1, 2017 is:

<b>Breakdown of Tangible and Intangible Assets</b>	
Tangible Assets	\$1,309,000
Intangible Assets	\$528,000
Fair Market Value of Assets	\$1,837,000

The Fair Market Value was determined based on the assets included with the sale and the normalization of the income statements provided. The information provided in this report by management, employees and third parties was believed to be reliable.

## Certification:

We hereby certify to the best of our knowledge and belief:

The statements of fact contained in this report are true and correct.

The reported analysis, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and is the personal, impartial, unbiased and professional opinions and conclusions of the undersigned.

We have no personal interest or bias with respect to the subject matter of this report or the parties involved.

Our compensation for the engagement is no way contingent upon the value reported or upon a predetermined value.

Joseph Caputo provided professional assistance to the person (s) signing this report.

Sincerely,

Scott C. McMahon, ASA, MBA, MRICS  
Accredited Senior Appraiser in Business Valuation  
MR Valuation Consulting, LLC

## Purpose and Objective

We have been engaged to estimate the Fair Market Value of 100% ownership interest in the tangible and intangible assets of The John X. Jones Company, Inc. as of March 1, 2017. This valuation was performed for the purpose of providing an independent valuation to assist the client in the potential sale of the company. Our report is subject to the attached Statement of General Assumptions and Limiting Conditions. The report is intended for the use by the subject company, its owners and professional advisors and shall not be disseminated to any party other than the client or an intended user. This report is not to be used as a basis for financial loans, estate planning or any other purpose other than a sale or purchase of a company.

## Definition of Fair Market Value

The most widely recognized and accepted standard of value is Fair Market Value. For purposes of this valuation, we define Fair Market Value as “the amount at which the property would change hands between a willing seller and a willing buyer when neither is acting under compulsion and when both have reasonable knowledge of the relevant facts.” This definition comports to that found in the tax code and in Revenue Ruling 59-60.

## Scope of the Engagement

This valuation is a summary report providing an estimate of value of the Fair Market Value of The John X. Jones Company, Inc. At the request of the client; we have foregone a Comprehensive Narrative Report under Revenue Ruling 59-60. We have not performed a site survey; however we have been provided sufficient information from our client with respect to the facilities and characteristics of the subject company and we did not include a formal industry analysis. There were no restrictions or limitations on the scope of work or data available for our analysis. We have relied on the financial information and normalization adjustments provided by the client. We have not audited the ledgers, journals and financial data supporting the financial statements. In preparing the summary report we reviewed the following financial information, documents and websites:

- Federal Tax Returns for 2013 through 2016
- Balance Sheet as of December 31, 2016
- Income Statement as of December 31, 2016
- Tax Asset Detail for 2016
- National and Regional Federal District Reserve Report at <http://www.federalreserve.gov/FOMC/BeigeBook/2016/>
- Duff and Phelps 2016 Valuation Handbook – Guide to Cost of Capital
- SIC and NAICS Description at <http://www.census.gov/epcd/naics02/N02TOS87.HTM>
- Twenty year treasury rate at <http://www.ustreas.gov/offices/domestic-finance/debt-management/interest-rate/ltcompositeindex.shtml>
- Prime rate per <http://www.nfsn.com/library/prime.htm#chart>
- Comparable sales data from Pratt’s Stats at <http://www.bvmarketdata.com/>

## **Pertinent Company Information**

The company has been in existence since 1960. The company develops marketing, platemaking, and stamping products. The company's primary SIC code is: 2796 Platemaking and Related Services.

### **U.S. Census Bureau**

#### **2796 Platemaking and Related Services**

Establishments primarily engaged in making plates for printing purposes and in related services. Also included are establishments primarily engaged in making positives or negatives from which offset lithographic plates are made. These establishments do not print from the plates which they make, but prepare them for use by others.

The company has 25 full time employees and 3 part time employees. The company offers their services Monday through Friday from 8:00 AM to 8:00 PM.

The company's Fiscal Year End is December 31. There are no tax liens, or lawsuits reported.

## Summary of Indicated Value by Asset Classification

Our opinion of Fair Market Value was determined on a going concern basis stated as the gross asset value of the company's Tangible and Intangible Assets. Value as a going concern is defined as a mass assemblage of income producing assets valued in continued use. However, the actual value can only be determined by bona fide negotiations between a willing buyer and seller in an arms length transaction. Our analysis is based upon accepted valuation approaches as well as economic conditions present at the date of the valuation. It is our opinion that the Fair Market Value of 100% of the Tangible and Intangible Assets of The John X. Jones Company, Inc. as of March 1, 2017 are:

Breakdown of Tangible and Intangible Assets	
Tangible Assets	\$1,309,000
Intangible Assets	\$528,000
Fair Market Value of Assets	\$1,837,000

The Tangible Assets included in the sale are presented on page 11 of this report. These assets consist of inventory, furniture and fixtures, and equipment owned by the company. Intangible Assets can be defined as technology related, customer related, contract related, as well as having a competent employee base. These consist of identifiable assets such as trademarks, patents and copyrights as well as other types of intangible assets related to the employee base, customer base, suppliers, or proprietary knowledge that create additional enterprise value.

## Value Synthesis and Summary of Indicated Values

In the Fair Market Valuation Analysis section of the report, there are detailed explanations of the methodologies used to derive the value conclusion. We considered the Asset, Income and Market Approaches in estimating the value of the subject company. A summary of the various methods used in the valuation and the respective weighting of each approach is presented below:

Summary of Valuation Approaches & Methods			
	Indicated Value	Weighted	Weighted Value
<b>Asset Based Approach</b>			
Book Value Method	N/A	0.0%	\$0
Fair Market Value of Tangible	\$1,309,000	5.0%	\$65,450
<b>Income Based Approach</b>			
Single Period Capitalization Method	\$1,747,353	40.0%	\$698,941
Excess Earnings Method	\$1,878,109	10.0%	\$187,811
<b>Market Based Approach</b>			
MVIC/Revenue Indicated Value	\$2,197,926	15.0%	\$329,689
MVIC/SDCF Indicated Value	\$1,750,309	15.0%	\$262,546
MVIC/Normalized EBITDA Value	\$1,953,264	15.0%	\$292,990
<b>Fair Market Value of Total Assets</b>		100.0%	\$1,837,427
<b>Fair Market Value of Total Assets Rounded</b>			\$1,837,000



## Indicated Value and Hypothetical Financial Structure

The financial structure can be broken down into five distinct components including a down payment by the purchaser, seller financing, assumed payables, assumed debt, and newly created Commercial Financing. Any payables or debt assumed by the buyer in the transaction will reduce the net proceeds received by the seller. Seller financing can contribute to successfully closing the transaction. Normally, the owner will provide some level of seller financing and the financing will consist of both seller and bank financing. Additionally, buyers may assume existing debt or accounts payable of the seller. Below is a proposed structure for the transaction:

<b>Financial Structure:</b>	
Equity Down Payment	\$459,250
Seller Financing	\$459,250
Commercial Financing	\$309,700
Assumption of Payables & Other	\$608,800
<b>Indicated Value</b>	<b>\$1,837,000</b>

## Price Validation & Analysis of Return on Down Payment

We tested the final indication of value with a Price Validation & Analysis of the Return on Down Payment to determine if the buyer can actually afford to purchase the business under the proposed structure. The Price Validation compares the expected sustainable cash flow of the company with the debt service on the proposed financing, capital expenditures, and a normal replacement salary to determine if there is a reasonable return on the purchaser's down payment. This is a means of testing if the indicated value is reasonable. If the cash flow remaining after debt service provides what a buyer believes to be a reasonable return on the down payment required, then a buyer will feel justified in taking on the risk of owning the new business. If a buyer cannot pay for the business out of the operational cash flows of the company and receive a reasonable return, the business will not be attractive to a typical buyer.

The following projections are based upon the indicated Fair Market Value of the subject assets. Certain assumptions were made with respect to a hypothetical down payment and debt structure as well as estimating a term and interest rate to determine the debt service on the proposed financing. The chart below shows the estimated Return on Down Payment available to a buyer after the required debt service, capital expenditures and a normal salary are met:

### Price Validation & Analysis of Return on Down Payment

#### Debt Service Assumptions:

Interest Rate:	7.0%
Weighted Average Term in Years	10

#### Structure of Financing

Fair Market Value of Assets	\$1,837,000
Less: Down Payment	\$459,250
Less: Assumed Payables	\$608,800
Total Seller and Commercial Finance Debt	\$768,950

#### Analysis of Cash Outflow

Estimated Annual Sustainable Cash Flow:	\$509,552
Less: Annual Debt Service	\$109,481
Less: Annual Capital Expenditures	\$50,000
Less: Owner/ Manager Salary	\$150,000
Total Cash Outflow Requirements	\$309,481

<b>Cash Flow Remaining</b>	<b>\$200,070</b>
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<b>Annual Return on Down Payment (1st Year)</b>	<b>43.6%</b>
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Presented below is a chart showing the estimated cash remaining after the proposed Debt Service is paid as well as a Loan Amortization schedule for the proposed debt. The cash available after debt service can be used for capital expenditures, working capital needs and a salary for the new owner:

## Debt Service and Loan Amortization

### Debt Service and Loan Amortization Analysis

#### Debt Service Assumptions:

Annual Interest Rate	7.0%
Weighted Average Finance Term in Years	10
Estimated Annual Sustainable Cash Flow	\$509,552
Estimated Annual Growth in Cash Flow	3%
Monthly Payment	\$9,123
Annual Payment	\$109,481

#### Structure of Financing:

Buyer Cash Down Payment	25.0%	\$459,250
Commercial Financing	16.9%	\$309,700
Seller Financing	25.0%	\$459,250
Fair Market Value of Assets:	100.0%	\$1,837,000

Total Debt Financed:	41.9%	\$768,950
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#### Debt Service

#### Ten Year Amortization

Year:	1	2	3	4	5
Estimated Cash Flow	\$509,552	\$524,838	\$540,583	\$556,801	\$573,505
Annual Debt Service	\$109,481	\$109,481	\$109,481	\$109,481	\$109,481
Capital Expenditures	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
Cash Flow After Debt & CAPEX	\$350,070	\$365,357	\$381,102	\$397,320	\$414,024

Beginning Principal Balance	\$768,950	\$713,295	\$653,745	\$590,026	\$521,846
Annual Principal Payments	\$55,655	\$59,551	\$63,719	\$68,179	\$72,952
Ending Principal Balance	\$713,295	\$653,745	\$590,026	\$521,846	\$448,894

Year:	6	7	8	9	10
Estimated Cash Flow	\$590,710	\$608,431	\$626,684	\$645,485	\$664,849
Annual Debt Service	\$109,481	\$109,481	\$109,481	\$109,481	\$102,319
Capital Expenditures	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
Cash Flow After Debt & CAPEX	\$431,229	\$448,950	\$467,203	\$486,003	\$512,530

Beginning Principal Balance	\$448,894	\$370,836	\$287,313	\$197,944	\$102,319
Annual Principal Payments	\$78,059	\$83,523	\$89,369	\$95,625	\$102,319
Ending Principal Balance	\$370,836	\$287,313	\$197,944	\$102,319	\$0

## Normalization of Historical Financial Information

Financial Statement Adjustments, frequently called “normalization adjustments” are intended to adjust the company’s Balance Sheets and Income Statements from a tax or accounting perspective to an economic basis.

To normalize the Balance Sheet, non-operating assets are typically removed from the assets to be transferred in a sale. The tangible assets must be converted from a book basis to their respective Fair Market Value. Current Assets, such as Accounts Receivable and Inventory (assuming a FIFO method), are typically stated at market value; however, adjustments may be needed for uncollectable accounts receivable or obsolete inventory. Fixed assets and other depreciable assets create a more complex task in trying to estimate Fair Market Value and may require the services of an Equipment Appraiser to determine the market value if they are significant to the transaction. For this report, the business owner estimated the Fair Market Value of the tangible assets.

The normalization process of the Income Statement involves adjusting items that are not considered to be normal operating expenses (non recurring expenses). Additionally, adjustments are made for discretionary expenses such as Owner’s perquisites and compensation, over or under payment of Rent and excess Family Salaries. The discretionary cash flow items are then added to the Earnings before tax, interest and depreciation to determine Seller’s Discretionary cash flow.

Once the financial statements have been normalized, the appraiser uses the adjusted information as a basis for the valuation. This information can then be used to forecast the future operating results of the business as well as analyze the economic return of the owner.

Presented on the next page is an analysis of the Tangible Assets and Liabilities Included in the Sale. On the following page normalized Income Statements are presented showing comparative Revenue, Seller Discretionary Cash Flow and EBITDA analysis.

## Tangible Assets and Liabilities Included in the Sale

<b>Tangible Asset Information as of:</b>		<b>March 1, 2017</b>
<b>Book Value of Assets Transferred</b>		N/A
<b>Assets:</b>		<b>Estimated Fair Market Value</b>
Accounts Receivable		\$330,000
Inventory		\$190,000
Fixed Assets		\$789,000
<b>Total Assets Transferred</b>		<b>\$1,309,000</b>
<b>Liabilities to be Assumed or Refinanced</b>		
Accounts Payable		\$83,000
Bank Debt Line of Credit		\$75,000
Loan Payable PIDC		\$6,800
Loan Payable Team Capital EQ		\$313,500
Loan Payable Team Capital 2016		\$122,500
Loan Payable Auto, Mercury Milan		\$8,000
<b>Total Liabilities Assumed</b>		<b>\$608,800</b>
<b>Net Tangible Assets Transferred</b>		<b>\$700,200</b>

## Historical Operating Results with Normalization of Earnings

### Historical Operating Results with Normalization of Earnings

	FYE	FYE	FYE	Proj <sup>(1)</sup>
Fiscal Years Ending	2014	2015	2016	2017
Sales	\$2,106,215	\$2,062,084	\$2,358,537	\$2,483,858
Growth Rate	N/A	-2.1%	14.4%	5.3%

#### Historical Cash Flows:

Earnings Before Tax (EBT)	\$201,335	\$102,493	(\$44,411)	\$99,504
Depreciation & Amortization	\$69,781	\$90,750	\$217,138	\$197,000
Interest	\$18,143	\$19,196	\$35,715	\$35,306
EBITDA (Accounting Basis)	\$289,259	\$212,439	\$208,442	\$331,810

#### Normalization Adjustments:

Owner's Salary and Bonus	\$144,879	\$213,164	\$195,135	\$200,000
Non-Working Family Member Salaries	\$104,425	\$107,313	\$110,299	\$107,000
Owner's Vehicle Lease, Insurance, Maintenance	\$2,631	\$2,837	\$1,896	\$2,500
Owner's Medical and Retirement	\$5,000	\$5,000	\$5,000	\$5,000
Owner's Legal and Accounting	\$21,645	\$13,900	\$15,920	\$16,000
Rent Adjustments	-\$75,000	-\$75,000	-\$75,000	-\$75,000

Total Add Backs:

\$291,504	\$377,160	\$506,103	\$487,806
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#### Seller's Discret. Cash Flow (SDCF)

\$492,839	\$479,653	\$461,692	\$587,310
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Less: Normalized Owner/MGR Salary

\$150,000	\$150,000	\$150,000	\$150,000
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#### Normalized EBITDA

\$342,839	\$329,653	\$311,692	\$437,310
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Actual Results for FYE 2016:

Revenue	SDCF	Normalized EBITDA
\$2,358,537	\$461,692	\$311,692

Values Used in the Report <sup>(2)</sup>:

\$2,301,493	\$509,552	\$359,552
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SDCF = Seller's Discretionary Cash Flow is EBITDA plus all normalization adjustments.

EBITDA = Earnings before interest, income tax, depreciation and amortization.

(1) Projected Values

(2) Values used in this report are averages of 2015 - 2017 projected financials.

## **Qualifications of the Valuator**

### **Scott McMahon, ASA, MBA, MRICS**

#### ***Professional Background:***

**MR Valuation Consulting, LLC**  
**Senior Manager – Business Valuation**

**March 2002 to Present**

Scott McMahon is a Senior Manager in the Business Valuation Services group of MR Valuation Consulting, LLC. Mr. McMahon is an Accredited Senior Appraiser with the American Society of Appraisers designed in the discipline of Business Valuation. Scott is also a Member of the Royal Institute of Chartered Surveyors. Scott also holds a MBA with a concentration in Finance.

Scott performs valuation consulting and appraisal services for businesses, specific interests, intangible assets, and commercial real estate. These assignments serve a variety of purposes, which include due diligence for acquisitions and divestitures, litigation support, purchase price allocations, property tax disputes, gift and transfer tax purposes, merger & acquisition, bankruptcies, dispositions, recapitalizations, divorces, estate tax planning, financing and refinancing, syndicated loans, highest and best use analysis, feasibility study, and other corporate finance consulting assignments.

These valuations and appraisals are performed for financial and management reporting, and federal tax reporting under FASB Accounting Standards Codification; ASC 805, 350, 410 and 360 (formerly known as FAS 141R, 142, 143 and 144 respectively), IFRS 3, IRC Section 45 and 1060.

Mr. McMahon's business valuation specializations include services to the major industries including hospitality, entertainment, real estate, finance, public utilities, telecommunications, manufacturing, service, oil and gas, electricity and water, healthcare, food and beverage, aerospace and defense, high technology, chemical, retail, legal, software related companies and other large industrial related clients.

His technical skills include business and intangible asset valuations, competitive and risk analysis, and financial modeling.

#### ***Professional Affiliations:***

- American Society of Appraisers, Accredited Senior Appraiser
  - ASA designation in Business Valuation
- Appraisal Institute: Associate Member

***Education:***

- M.B.A. concentration in Finance – Rider University 2002
- Bachelor of Science in Economics – Stockton College 2000
- ASA – American Society of Appraisers – Discipline in Business Valuation
  - BV204: Advanced Business Valuation Topics
  - BV203: Business Valuation Case Study
  - BV202: Introduction to Business Valuation, Part II
  - BV201: Introduction to Business Valuation, Part I
  - Principles of Appraisal Practice and Code of Ethics
- Appraisal Institute Required Courses / Exams Passed
  - Appraisal Institute Exam I410: Standards of Professional Practice (USPAP)
  - Appraisal Institute Exam 110, Appraisal Principles
  - Appraisal Institute Exam 410, Appraisal Procedures
  - Appraisal Institute Exam 310, Basic Income Capitalization
  - Appraisal Institute Exam 320, General Applications
  - Appraisal Institute Exam 510, Advanced Income Capitalization
  - Appraisal Institute Exam 550, Advanced Applications

***Speaking Engagements (Lecturer, Speaker):***

- American Society of Appraisers
  - Princeton Chapter 2004 – Presentation Topic “The Valuation of Wind Farms and Related Intangible Assets”
  - Northern New Jersey Chapter 2003 – Presentation Topic “The Appraisal of Wind Farms and Related Intangible Assets”



## **Qualifications of the Valuator**

### **Joseph Caputo**

#### ***Professional Background:***

**MR Valuation Consulting, LLC**  
**Business Valuation Analyst**

**2014 to Present**

Joseph Caputo is a business valuation analyst within the business valuation services group of MR Valuation Consulting, LLC. Mr. Caputo holds a Bachelor of Science degree in Business Administration with a concentration in Finance from The College of New Jersey. Mr. Caputo has successfully completed the 15-hour National Uniform Standards of Professional Appraisal Practice course.

Joseph performs valuation consulting and appraisal services with a focus on the valuation of business entities, specific interests, and assets. These assignments serve a variety of purposes, which include due diligence for acquisitions and divestitures, marital dissolution, bankruptcy, financial and management reporting purposes, federal tax reporting, estate planning, property tax and transfer tax, litigation support.

Mr. Caputo specializes in business valuations including income approach analyses such as discounted cash flow models and direct capitalization models and the market approach. His experience includes the valuation of both tangible and intangible assets for business interests, as well as company and economic research across multiple industry sectors.

Joseph's business valuation experience also includes the valuation of family limited partnerships and limited liability companies for financial and tax planning. These business valuations involve the assessment of partnership interests and the application of minority and marketability discounts, as well as control premiums.

#### ***Education:***

- Bachelor of Science in Business Administration, concentration in Finance – The College of New Jersey, New Jersey
- 15-Hour National Uniform Standards of Professional Practice course (USPAP)

## **General Assumptions and Limiting Conditions**

1. Information on the financial, legal, and physical condition of the subject property or assets, provided by the Client, or its representatives, directly to us or to the public through various public disclosure methods is assumed to be reliable. Other materials and information obtained from various professionally appropriate public and private sources are assumed to be reliable.
2. The information contained within this report was obtained from sources deemed to be reliable. Reasonable efforts, given the intended use, purpose, and scope of the appraisal, have been made to verify such information; however, no warranty and responsibility is given as to its accuracy.
3. If substantive issues are later discovered in data relied upon, then the reported opinions in this study may need to be revised accordingly.

## **Property Specific Assumptions and Limiting Conditions**

4. This report analyzes the fee simple interest of the subject property or assets, free and clear of any or all liens or encumbrances. This appraisal is subject to the restrictions imposed by this agreement.
5. MRV Consulting does not provide legal, accounting, audit, engineering, architectural, or environmental sciences services. MRV Consulting assumes no responsibility for matters of a legal nature, matters of title, matters of audit, matters of engineering, matters of environmental science, or matters of architecture. It is assumed that any legal, engineering, architectural, environment, accounting, and financial information as provided by Client, representatives, and management or obtained from public records are correct and assumed to be reliable.
6. MRV Consulting assumes that there are no hidden or unapparent conditions at the subject land and/or improvements, which would render the subject property or assets more or less valuable, except as noted herein. MRV Consulting assumes no responsibility for such conditions, or for engineering, environmental, legal, or architectural counseling which might be required to discover such conditions. It is assumed that the subject property or assets are not adversely affected by contaminants or health risks and that no contamination or health risks exist on or near the Property. MRV Consulting assumed that there were no ADA issues sufficient to significantly render the subject property or assets more or less valuable.
7. It is assumed that there are no zoning or building code issues, or other federal, state, or local regulation compliance issues concerning the subject property or assets that would significantly increase or decrease the value of the subject property or assets being appraised.
8. Competent and responsible management and ownership are assumed.
9. Since MRV Consulting is not an engineering or architectural firm, it makes no representation as to quality, functionality, condition, limitations and size of the subject property or assets, except that 1) MRV Consulting has relied upon what has been reported to MRV Consulting as the best available data, where said data was provided by others to MRV Consulting who MRV

Consulting believes to be an appropriate source of said data given the specific purpose, intended use and scope of work of this study, and 2) if a visual inspection was conducted by MRV Consulting then MRV Consulting has relied upon the visual inspection. Given the inherent limitations of MRV Consulting's visual inspection, if conducted, important issues at the Property may not be uncovered. MRV Consulting's visual inspection of the Property is not an engineering, architectural, or environmental inspection, and does not test building operations and does not cover 100 percent of the building(s), machinery and equipment, or the site.

10. This study assumes that, unless specifically noted elsewhere in the report, the subject property or assets suffers no environmental or hazard issues, and that there are no contamination or health risks existing at or near the Property.

### **Study Analysis and Format Assumptions**

11. This report has been prepared in accordance with the requirements of USPAP of the Appraisal Foundation, and the American Society of Appraisers. Jurisdictional exceptions may apply.
12. MRV Consulting has determined the scope of work, based on its discussions with the Client, and their reported needs, their reported purposes and intended use of the appraisal. The appraisal scope is limited to the work necessary to provide for the Client's purpose and use of the report, and as such this report is not recommended for any other use. The scope of this appraisal is not so confined as to result in misleading or unsupported opinions of value.
13. Extraordinary Assumptions and Hypothetical Conditions, as defined by USPAP, will be disclosed at various points in this report, if applicable.

### **Publication, Distribution, Use of Report**

14. The opinions proffered in this report are as of a specific date, for a specific use and purpose, and made under specific assumptions and limiting conditions. Possession of this report, or a copy thereof, does not give the holder the right of publication, nor may the report or any part thereof be used by anyone other than the Client and intended users for the intended use. Using the opinions proffered herein for any other use or purpose is inappropriate and unwise, and is prohibited, unless authorized in written by MRV Consulting. The Client agrees that:
  - a) Any advice or recommendations, written or oral, provided by MRV Consulting in connection with this engagement is exclusively for the Client and any other intended user specifically identified by MRV Consulting.
  - b) Client will not refer to MRV Consulting by name or otherwise, or their services in any written materials relating to the report, including without limitation, any publicly filed documents without their prior written consent for each requested use or reference;
  - c) Neither all nor part of the contents of this report, or copy thereof, shall be conveyed to the public through advertising, public relations, news, sales or any other media without prior written consent of MRV Consulting;
  - d) Nor shall MRV Consulting or any professional organization of which MRV Consulting are a member or candidate, be identified without the prior written consent of MRV Consulting.

- e) This report may not be utilized in any present or proposed, public or private syndication or public offering of any of the interests in the Property unless prior written agreement has been obtained from MRV Consulting; and
  - f) This report is intended to be utilized as a whole, and may not be used in parts.
15. Any party receiving a copy of this report in order to satisfy disclosure requirements, does not become an intended user of the appraisal unless MRV Consulting identifies such party as an intended user.
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## National Economic Outlook



<http://www.federalreserve.gov/monetarypolicy/beigebook/beigebook201611.htm>

**November 30, 2016**

### Summary

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Prepared at the Federal Reserve Bank of Kansas City and based on information collected before November 18, 2016. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of the Federal Reserve officials.

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Reports from the twelve Federal Reserve Districts indicate that the economy continued to expand across most regions from early October through mid-November. Activity in the Boston, Minneapolis, and San Francisco Districts grew at a moderate pace, while Atlanta, Chicago, St. Louis, and Dallas cited modest growth. Philadelphia, Cleveland, and Kansas City cited a slight pace of growth. Richmond characterized economic activity as mixed, and New York said activity has remained flat since the last report. Outlooks were mainly positive, with six Districts expecting moderate growth.

Demand for manufactured products was mixed during the current reporting period, with the strong dollar being cited as a headwind to more robust demand in a few Districts. Modest to moderate increases in capital investment are expected in several other Districts. Business service firms saw rising activity, especially for high-tech and information technology services. Reports from ground freight carriers were mixed, while port cargo increased. A majority of Districts reported higher retail sales, especially for apparel and furniture. New motor vehicle sales declined in most Districts, with a few Districts noting a shift in demand toward used vehicles. Tourism was mostly positive relative to year-ago levels. Residential real estate activity improved across most Districts. Single-family construction starts were higher in a majority of Districts, while multifamily construction reports were mixed. Activity in nonresidential real estate expanded in many Districts. Banking conditions were largely stable, with some improvement seen in loan demand. Farmers across reporting Districts were generally satisfied with this year's harvests. However, low commodity prices continue to weigh on farm income. Investment in oil and gas drilling increased slightly, while reports on coal production were mixed. A tightening in labor market conditions was reported by seven Districts, with modest employment growth on balance. Districts noted slight upward pressure on overall prices.



## **Manufacturing**

Demand for manufactured products was mixed during the current reporting period. Boston, New York, Atlanta, Chicago, and St. Louis reported modest or moderate growth, while Richmond noted that factory activity declined. The remaining Districts said that production was mixed or grew slightly. Gains in activity among chemical firms were reported in Boston, Philadelphia, and Dallas. The auto industry was a source of strength in Cleveland, Richmond, Chicago, and St. Louis. Machinery manufacturing rose in Philadelphia, St. Louis, and Kansas City, but it declined in Chicago and Dallas. Aerospace-related manufacturers saw improving activity in Chicago, St. Louis, and Kansas City, while their counterparts in San Francisco saw orders decline. Philadelphia and Dallas noted weakening in fabricated metal products manufacturing, while producers in St. Louis are expanding capacity. The electronics industry expanded in Kansas City and San Francisco, while firms in Philadelphia noted weaker activity. The strong dollar remains a key concern for exporters in the Boston, Dallas, and San Francisco Districts. In contrast, Kansas City reported that export orders continued to expand. Modest to moderate increases in capital investment are expected in the Philadelphia, Richmond, St. Louis, Minneapolis, and Kansas City Districts, with several companies announcing facility expansion plans in St. Louis and Minneapolis. The overall outlook by manufacturers in New York, Philadelphia, Atlanta, St. Louis, Kansas, and Dallas is positive, with most expecting growth in new orders and production during the next several months.

## **Nonfinancial Services**

Most Districts experienced growth in nonfinancial services since the previous reporting period. New York was an exception, with reports of flat to declining activity among service-sector firms. Nevertheless, New York service contacts remained positive about the near-term outlook. High-tech and information technology services expanded in Richmond, St. Louis, Kansas City, Dallas, and San Francisco. Most healthcare contacts anticipated future growth; however, San Francisco expressed concerns about potential changes to the Affordable Care Act.

Reports on transportation services were mixed. Kansas City reported a moderate decline in activity, while Atlanta reported little change and Dallas reported mixed cargo volumes. On the other hand, Cleveland, Richmond, St. Louis, and San Francisco experienced varying degrees of expansion. Atlanta and San Francisco noted continued strength in e-commerce shipments, while Cleveland contacts noted that Internet retailers are transitioning to on-demand delivery service providers for shipping as opposed to traditional ground carriers. Atlanta reported growth in port cargo shipments and a decline in trucking activity. Richmond noted stronger port traffic in recent weeks, and a national trucking firm in that District reported downward rate pressures because of excess capacity. Dallas noted steady truck and seaport cargo volumes.

## **Consumer Spending and Tourism**

The Boston, Minneapolis, and San Francisco Districts reported that retail sales expanded at a moderate pace on balance. Retailers in New York, Chicago, St. Louis, and Kansas City reported that sales were mixed to slightly higher, while their counterparts in Philadelphia, Richmond, and Atlanta characterized sales as unchanged. Weakening sales were seen in Cleveland and Dallas.



Apparel sales were doing well in Boston, Philadelphia, Minneapolis, and San Francisco, while contacts in Cleveland and Dallas suggested that the unusually warm weather may have hurt apparel sales. Boston, Cleveland, and Chicago saw an increase in furniture purchases. Cleveland and San Francisco noted declining sales at brick-and-mortar stores, a situation which they attributed to a consumer shift toward online purchasing. Contacts in Cleveland and Atlanta noted that sellers have little control over product pricing. Retailers in Boston, Cleveland, Atlanta, and Kansas City expect modest positive sales growth during the rest of the year and remain optimistic for the holiday season. Dallas suggested that retail demand may not increase in the near term, driven partially by low sales in border cities because of the strong value of the dollar.

Motor vehicle sales declined slightly in most reporting Districts during the period. Kansas City saw sales decline well below year-earlier levels. In contrast, new vehicle sales in Chicago were characterized as strong, a circumstance which dealers attributed in part to aggressive incentives. Philadelphia indicated that light vehicle sales were plateauing at high levels, while Cleveland reported modest growth in motor vehicle sales but noted that this was driven by the used vehicle market. The New York and St. Louis Districts also noticed a shift in demand toward used vehicles. Richmond and St. Louis contacts suggested that softening vehicle sales might be attributed to uncertainty surrounding the presidential election, while contacts in Dallas point to energy-related weaknesses as a factor in the sales decline. Respondents in St. Louis and Kansas City expected a modest pickup in vehicle sales during the next several months, while contacts in Dallas were less confident for future growth.

Tourism was mostly positive relative to year-earlier levels: Boston, Minneapolis, and San Francisco experienced strong growth, while Philadelphia and Kansas City reported modest growth in activity. Respondents in Boston noticed continued strong international travel, although some contacts expressed uncertainty about the trend's continuing in 2017 if the dollar remains strong. New York reported that attendance at Broadway theaters slumped in October; however, revenues have increased and are on par with those of a year earlier.

### **Real Estate and Construction**

Residential real estate activity improved across Districts. Reports about existing- and new-home sales were mixed, but most Districts noted a slight to modest increase during the period. Residential construction was up in the Cleveland, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas Districts. Home prices grew in many Districts, including Boston, Philadelphia, Cleveland, Atlanta, St. Louis, Kansas City, and San Francisco. Philadelphia reported that the strength of the single-family market is in high-end housing. In contrast, Kansas City reported that sales of low- and medium-priced homes continued to outpace sales of higher-priced homes. Dallas reported that the sales of lower-priced homes remained solid. Home inventories were generally reported to be low or declining and restraining sales growth. Boston, Philadelphia, Cleveland, Richmond, and Minneapolis reported low or decreasing inventories. Reports on inventory levels varied in Atlanta, while inventories held steady in Kansas City. Commercial construction activity moved higher in the New York, Cleveland, Richmond, Atlanta, St. Louis, Kansas City, and San Francisco Districts. In contrast, Minneapolis noted a slowing in commercial construction. The Boston, Richmond, Minneapolis, and San Francisco Districts reported increases in leasing activity, while Philadelphia noted a lull in nonresidential

leasing growth compared with the prior period. Dallas reported leasing activity as mostly unchanged. Commercial sales activity continued to be robust in Minneapolis and grew modestly in Kansas City. Ongoing multifamily construction has been steady at a fairly high level in New York. Multifamily construction varied in the Atlanta District and slowed somewhat in Richmond, Minneapolis, and San Francisco.

### **Banking and Financial Services**

District reports indicated that the demand for credit varied widely. On the commercial side, New York, Philadelphia, and St. Louis experienced strong demand for commercial and industrial loans, while C&I lending was slower in Dallas. Commercial real estate lending was strong in the New York, Philadelphia, and Cleveland Districts. In Atlanta, some small businesses had trouble obtaining credit, and St. Louis reported slightly lower credit worthiness for agricultural customers only. Residential mortgage activity was steady in New York and Kansas City; higher in Philadelphia, Richmond, Chicago, and Dallas; and strong in Cleveland and St. Louis. Auto lending was unchanged in St. Louis, up in Philadelphia and Dallas, and strong in Cleveland and Chicago. Credit quality was unchanged across most Districts, though improvements were seen in New York, Philadelphia, and Chicago. Credit standards tightened in select loan categories in the Boston, New York, and Philadelphia Districts, but they loosened slightly in Richmond, where contacts reported facing competition that used more aggressive loan structures.

### **Agriculture and Natural Resources**

Although agricultural conditions varied widely, farmers across reporting Districts were generally satisfied with this year's harvests. However, low commodity prices continue to weigh on farm income. Atlanta, Chicago, Minneapolis, and Dallas reported strong yields of corn and soybeans. Cotton harvests were above year-ago levels in Atlanta, St. Louis, and Dallas. The Richmond District reported that the biggest impact on international trade was in the poultry industry, with the loss of four million to five million birds killed by Hurricane Matthew and related floods. San Francisco noted that the strong dollar continued to hold back exports of agricultural products, particularly apples and pears. Contacts in St. Louis, Minneapolis, Kansas City, and Dallas said that farm incomes are flat or lower compared to those of a year ago. There were scattered reports about issues surrounding loan repayment and crop financing for 2017.

The energy sector continued to improve slowly across many of the reporting Districts. Cleveland, Minneapolis, Kansas City, and Dallas saw a slight increase in oil and gas drilling. Contacts in Dallas re-affirmed that oil and gas activity will pick up gradually in 2017. However, these expectations have moderated in light of recent revisions to the global oil demand and supply outlooks. An oversupply of crude oil and gasoline continued in the Atlanta District, a situation which perpetuated a high demand for inventory storage. Coal production increased slightly in the Cleveland and Richmond Districts, but declined in St. Louis. The Minneapolis District noted that shipments of iron ore on the Great Lakes in September were more than 5 percent below levels of a year earlier. Contacts in Minneapolis and Atlanta reported expansion of renewable energy projects, particularly solar and wind.

## Employment, Wages, and Prices

Employment continued to expand during the period. The Richmond, Chicago, St. Louis, and San Francisco Districts all reported moderate increases, while Boston and Minneapolis saw employment rise at a modest pace. Overall, employment increased slightly in Philadelphia, was little changed in Cleveland, and held steady or increased in Dallas. Manufacturing employment reports were mixed, with four Districts reporting flat or declining payrolls and two Districts reporting increases in manufacturing employment. The Boston, Philadelphia, and Cleveland Districts noted increases in retail employment or hours, while the Richmond District noted decreases. Most Districts saw increases in staffing activity. Boston reported fairly strong activity, with most staffing firms' revenues increasing 10 percent to 25 percent year-over-year. Staffing firms in Cleveland attributed a modest decline in the number of job openings and placements to uncertainty stemming from the presidential election.

As in the past four *Beige Books*, wage growth was characterized generally as modest, on balance, by district contacts. The St. Louis, Minneapolis, and San Francisco Districts all reported moderate wage growth. Wage growth was modest in six of the twelve Districts: Boston, New York, Philadelphia, Atlanta, Kansas City, and Dallas. In the Richmond District, wages increased slightly. Cleveland reported that wage pressures were more evident for select occupations, while Dallas noted that wage pressures were more widespread. Seven districts--Boston, New York, Philadelphia, Atlanta, Chicago, St. Louis, and Dallas--noted that labor markets were tightening. Staffing services reported rising wages or difficulty filling positions without wage increases in a majority of the Districts.

Overall, there was slight price growth during the period. The Philadelphia, Chicago, St. Louis, and Minneapolis Districts reported modest price increases, while most of the remaining Districts reported slight or limited price increases. The retail and services sectors reported slight to modest price increases, while agricultural product prices have stabilized at low levels. Contacts in the Philadelphia, Cleveland, Atlanta, St. Louis, and Minneapolis Districts reported increases in the cost of building materials, and contacts in the Atlanta and Dallas Districts noted downward pressure on freight transportation prices.

## Fair Market Value as the Standard of Value

Without defining the term value, the conclusions reached in the valuation report are meaningless. First, we must determine the standard of value used for the appraisal. The most widely recognized and accepted standard of value is Fair Market Value. For purposes of this valuation, we define Fair Market Value as “the amount at which the property would change hands between a willing seller and a willing buyer when neither is acting under compulsion and when both have reasonable knowledge of the relevant facts”. Court decisions also state that the hypothetical buyer and seller are assumed to be able to, as well as willing to, trade and to be well informed about the property. This definition comports to that found in the tax code and in Revenue Ruling 59-60. Additionally, the definition of Fair Market Value utilized in this report assumes a covenant not to compete between the seller and a willing buyer.

Economic analysis is necessary at the valuation date in order to determine how the investing public feels about future income of the business. Uncertainty about future income increases the risk and could affect the value of the business. The risk assessment will be used to adjust multiples derived from guideline companies (comps) or to adjust discount or capitalization rates. Revenue Ruling 59-60 cites eight factors influencing the value of a business:

1. The nature of the business and the history of the enterprise from its inception.
2. The economic outlook in general and the condition and outlook of the specific industry in particular.
3. The book value of the stock and the financial condition of the business.
4. The earnings capacity of the company.
5. The dividend paying capacity of the company.
6. Whether or not the enterprise has goodwill or other intangible business value.
7. Prior sales of stock and the size and block of stock to be valued.
8. The market price of stocks of corporations engaged in the same or similar line of business having their stocks actively traded in a free and open market, either on an exchange or over the counter.

Additionally, we have appraised the company’s assets in continued use as a going concern. This premise assumes the business will continue to operate as an income producing entity. Our opinion of value has taken into consideration the relevant financial risks inherent to the business. These risks have been evaluated to produce a value that provides a reasonable return on investment to a prospective buyer. We have analyzed systematic risks inherent in the current business climate such as competition and general market conditions as well as risks specific to the subject business such as its customer base, asset management and operating history.

Fair Market Value speaks to a value that is appropriate to the market in general and does not take into consideration a value to a particular investor referred to as “Investment Value” or value to a strategic buyer often referred to as a “Synergistic Buyer”. Synergistic buyers may pay a premium for the company due to the ability to reduce duplicated overhead or marketing efforts. An acquisition premium can only be quantified if a specific investor is known and their motivations for purchasing the business are examined. However, in determining the Fair Market Value of the company certain expenses were eliminated or adjusted by the business owner.

## **Valuation Theory and Approaches to Value**

Theory surrounding the valuation of an interest in a business depends on the future benefits that will accrue to its owner. The value of the business interest depends upon an estimate of the future benefits and the required rate of return at which the future benefits are discounted or capitalized. Thus, determining the appropriate economic income or cash flow to capitalize is critical to the valuation. Review of historical financial data as well as the current trends and future prospects of the business are required to determine the appropriate economic income to capitalize in the single period income, capitalization of excess earnings and market approaches to value.

The American Society of Appraisers recognizes the Asset-Based Approach, the Income Approach and the Market Approach as the three generally accepted valuation approaches. In many ways these three approaches are interrelated. For instance, the Income Approach requires the estimate of a required discount or capitalization rate that is driven by forces in the market place. The appropriateness of each method is dependent on the appraiser's judgment and the relationship of the level of assets relative to the company's ability to generate cash flow. In the final value conclusion we have weighted the various approaches used to determine a final value estimate.

### **Asset-Based Approach**

The Asset-Based approach is often called the "Cost Approach" or the "Replacement Cost Approach". In this approach, each component of the business is valued separately and the asset values are totaled. The Asset-Based Approach provides the appraiser with the cost of duplicating or replacing the assets of the company and is based on the assumption that a prudent investor would pay no more for an asset than its replacement cost. The Asset-Based Approach can be a reliable method for valuing tangible assets; however, the Asset-Based Approach may not recognize the full earning power of the total business enterprise.

Based on a review of the Company's operations, financial performance and the tangible assets included with the sale, we have determined that the highest and best use of the assembled assets is value in continued use as a going concern.

We will examine the Book Value Method and the Adjusted Book Value Method under the Asset-Based Approach

### **Book Value Method**

Business Financial statements are normally prepared in accordance with Generally Accepted Accounting Principles, which are prepared on the historical cost principle. After the assets are acquired, fixed assets are depreciated and goodwill, patents and other intangible assets are amortized. This method of accounting is typically for tax purposes and may or may not give an accurate estimate of the fair market value of the assets. As such, Book Value is not a conceptually sound Asset-Based valuation method. Additionally, a well run profitable business enterprise will be valued in excess of its underlying asset value.

For the Book Value Method, we reviewed the net asset values for the assets to be transferred with the sale as of the most recent balance sheet date.

### **Adjusted Book Value Method**

The theory behind the Adjusted Book Value Method is that a buyer would not pay more for the business than the Fair Market Value of its underlying assets. Under this method the assets to be transferred with the sale are restated from their historical cost basis to Fair Market Value. This typically involves the identification and valuation of assets that may have been previously written off or expensed. Accounts receivable will need to be adjusted to net realizable value and inventory should be adjusted for obsolete or slow moving items. Additionally, work in process inventory should be valued. For example the work in process of a professional firm is essentially unbilled receivables, whereas for a construction company there may be cost incurred in excess of billings. If machinery and equipment or real estate is a significant portion of the value of the business an appraisal of those assets may be necessary.

With regard to valuing the individual assets, the appraiser must select the appropriate premise of value. The four premises of value are:

1. Value in continued use as a going concern.
2. Value in place, as a part of a mass assemblage of assets.
3. Value in exchange as part of an orderly liquidation.
4. Value in exchange as part of a forced liquidation.

We have determined that the appropriate premise of value is value in continued use as a going concern. This method assumes that the assets are sold in place as part of an income producing, going concern business enterprise. This approach is applicable to the identifiable assets of the business; however it may not recognize the full earning power of the business enterprise.

The Adjusted Book Value Method, as presented on page 11, indicates a value of \$700,200.



## **Income Based Approach**

The income approach estimates the value of a company based on the anticipated risk and return inherent in the investment. When a buyer purchases a business, what is being bought is a stream of prospective economic income. Economic income can be defined as any cash flow or benefit accruing to a business enterprise in exchange for goods, services or capital. The forecasted economic benefit or cash flow is capitalized or discounted at an appropriate rate to determine the estimated value of the business. Time in business, asset utilization, operating results and customer and supplier relationships all influence the amount of risk relative to a particular entity. Anticipated benefits are then converted to a value taking into consideration the expected growth, timing of benefits, risk profile and the time value of money. In determining the appropriate discount or capitalization rates, the appraiser should consider factors such as prevailing interest rates, expected rates of return required by investors on comparable investments and the specific risk characteristics of the subject company.

### **Single Period Capitalization Method**

Capitalization is a process of converting economic income for a single period into a present value estimate of the enterprise value. This is performed by dividing the economic income by an estimated capitalization rate or a risk adjusted rate of return. Current, historical or expected economic income can be capitalized under this method. For the purpose of this valuation we capitalized the normalized earnings before interest, income tax, depreciation and amortization (EBITDA) for the most current Fiscal Year End. Accuracy under this method is dependent on current income levels being indicative of future results. The steps involved in using this method are:

1. Selection of the economic income benefit to be capitalized.
2. Estimating the capitalization rate.
3. Capitalize the economic income stream to determine the estimated value of the business.
4. Add non-operating assets such as real estate to determine the Fair Market Value of the entire business enterprise.

### **Selection of the Appropriate Economic Income Stream**

The first step in the Single Period Capitalization Method is to determine the appropriate economic income stream to capitalize. Since we are valuing the gross assets of the company or “the business enterprise value” it is appropriate to add back the interest expense and normalize the earnings of the company. For the purpose of this valuation we capitalized the normalized earnings before interest, income tax, depreciation and amortization (EBITDA) for the most current Fiscal Year End. The selected Economic Income stream is presented on the next page:

## **Selection of an Appropriate Capitalization Rate**

Next, we must estimate an appropriate capitalization rate so that we can convert the economic income to estimate the Fair Market Value of the business. The rates used to capitalize the benefit stream are determined from alternative investments in the market based on the risk factors attributable to the stream of economic income being capitalized. The capitalization rate is the required rate of return that an investor would demand, based on the risk associated with the benefit stream under consideration, to induce him or her to make the investment decision. This is based on the principle of substitution, which is based on the theory that no person will pay more for a property than he or she would have to pay for an equally desirable substitute. We have calculated a capitalization rate that reflects the rate of return available in the marketplace based on the risk characteristics inherent to the subject company.

The capitalization rate includes a “Risk Free” rate, “Systematic Risk” as determined by the marketplace and “Unsystematic Risk” inherent to the subject company. These components can be broken down further into a “Risk Free” rate, an “Equity Risk Premium”, an element reflecting a “Small Stock Risk Premium” and a final adjustment reflecting judgments about the “Specific Company Risk Premium”. These are discussed in further detail on the next page.

### **Risk Free Rate**

The “Risk Free” rate, or safe rate, is a rate of return that an investor would receive when there is no risk of default. Typically the rate of return on U.S. Treasury Bonds is used as a “Risk Free” rate. For the purpose of this valuation we have used a normalized 20 year Treasury Bond rate of 4.00%.

### **Equity Risk Premium**

Investors expect a higher rate of return to induce them to invest in Equity securities compared to treasury bonds. The “Equity Risk Premium” represents the premium that common stockholders require in the public marketplace over investors in long-term government bonds. Since equity securities are considered to be more risky by the investor, a higher rate of return is required. The “Equity Risk Premium” of 5.0% was derived from Duff and Phelps 2016 Valuation Handbook.

### **Small Company Risk Premium**

Investors in the public market place perceive that there is additional risk in small cap companies and research studies demonstrate evidence that smaller companies have higher rates of return than larger companies. The “Small Company Risk Premium” is the risk premium measured in the public marketplace for small publicly traded companies. For the purpose of this report we used a “Small Company Risk Premium” of 3.0%.



### Specific Company Risk Premium

The “Specific Company Risk Premium” takes into consideration the analysis performed by the appraiser, including the operating performance, ratio analysis, industry risk, customer and supplier relationships, size of the company, management structure and other factors considered in assessing the risk related to the specific company. For the purpose of this report we used a “Specific Company Risk Premium” of 3.0%.

Lastly, adjustments are made to convert the pre-tax earnings to net income to eliminate the tax effect and a long-term sustainable growth rate adjustment is factored into the capitalization rate. The capitalization rate for the subject company is presented on the next page:

#### Build-Up Method to Estimate the Capitalization Rate

Risk-Free Rate	4.0%
Equity Risk Premium	5.0%
Small Company Risk Premium	3.0%
Specific Company Risk Premium	3.0%
After Tax Cap Rate	15.0%
Pre-Tax to Net Income Adjustment	23.1%
Less: Long Term Sustainable Growth Rate	-2.5%
<b>Pre-Tax Capitalization Rate adjusted for Growth</b>	<b>20.6%</b>

### Single Period Capitalization Method Indicated Value

Next, we use the Capitalization Rate to convert the anticipated level of sustainable Economic Income into the indicated value. The indicated value under the Single Period Capitalization Method is presented below:

#### Single Period Capitalization Value

Normalized EBITDA to Capitalize	\$359,552
Pre-Tax Capitalization Rate	20.6%
<b>Single Period Capitalized Value</b>	<b>\$1,747,353</b>

## Excess Earnings Method

The “Excess Earnings Method”, also referred to as the “Formula” Method or “Treasury” Method, is one of the most widely used appraisal methods for small businesses. The “Excess Earnings Method” involves valuing the company’s tangible assets at Fair Market Value and adding an amount that represents the company’s intangible value. The intangible value of the business is estimated by deducting a reasonable return on the company’s tangible assets from the economic income of the company and capitalizing the “Excess Earnings”. We used the same Economic Income as was used in the Single Period Capitalization method presented on page 12. Below is an explanation of the steps involved in estimating the intangible value of the business using the Excess Earnings Method:

### Methodology in Calculating the “Excess Earnings Method”

1. Estimate the Tangible Asset value of the company at Fair Market Value.
2. Estimate a normalized level of economic income. For the purpose of this valuation we capitalized the normalized earnings before interest, income tax, depreciation and amortization (EBITDA) for the most current Fiscal Year End.
3. Estimate a reasonable rate of return to support the Tangible Assets of the company. This can equate to the company’s borrowing rate plus a small premium for the equity investment and the risk associated with owning the assets. Multiply the tangible asset value from step 1 by the reasonable rate of return to estimate the amount of economic income attributable to the tangible assets. Subtract the amount of economic income attributable to the Tangible Assets from the normalized economic income estimated in step 2. The result of this step is called the “Excess Earnings”
4. Estimate an appropriate capitalization rate to apply to the excess earnings, which is the amount of earnings attributable to Intangible Assets. Then capitalize the “Excess Earnings” by the estimated capitalization rate to determine the intangible value of the business.
5. Add the tangible assets in step 1 to the intangible assets calculated in step 4. The result is the estimated value of the company.

### Appropriate Rate of Return on Tangible Assets

The reasonable rate of return on the Tangible Assets should be based on the level of risk associated with the assets as well as returns available in the market. The more liquid the asset is the less risk there is in the ownership and a lower return would be justified. Conversely, under utilized fixed assets create a higher risk profile and would require a higher return. Thus, the estimated return on tangible assets is determined by reviewing the companies borrowing rates, the risk in ownership of the assets and the risk associated with the equity investment in acquiring the assets. Based on our analysis we used a 12.0% rate.

## Excess Earnings Capitalization Rate

There is substantially less risk in the Tangible Assets of the company since they can be converted into cash, as in the case of accounts receivable, or liquidated in the case of inventory or fixed assets. However, in the absence of earnings, goodwill and other intangible assets have no liquidation value. Thus, a premium must be added when capitalizing the economic earnings attributable to intangible assets. A premium of 15.0% was added to the capitalization rate determined in the build-up method (presented in the Selection of an Appropriate Capitalization Rate section on pages 29 through 31). Thus, a 35.6% rate was used to capitalize the excess earnings.

## Calculation of Excess Earnings Method Indicated Value

Presented below is a summary of the calculation of the indicated value under the Excess Earnings Method:

Excess Earnings Method Indicated Value		
Fair Market Value of Tangible Assets		\$1,309,000
Normalized Annual Economic Income	\$359,552	
Less: Earnings attributable to Tangible Assets		
\$1,309,000 in Tangible Assets at 12%	\$157,080	
Equals: Excess Economic Earnings	\$202,472	
Capitalization Rate for Excess Earnings	35.6%	
Indicated Value of Excess Earnings		\$569,109
Excess Earnings Method Indicated Value		\$1,878,109

## Market Approach: The Guideline Transaction Method

The use of comparable sales of closely held businesses as a guide to business valuation is one of the most important techniques for valuing privately held businesses. The purpose of the Market Approach is to compare the subject company with sales of similar businesses to estimate the value of the subject company relative to its peers. Under The Guideline Transaction Method we compared the subject company's fundamental financial data with the guideline companies to determine the subject company's market value. The timing of the sale, size of the comparable companies, SIC code and the structure of the transaction must be analyzed and compared with the subject company financial data. The market approach emphasizes the principle of substitution, which assumes that an investor would gravitate toward the business with the lowest price if all other financial fundamentals and risks were the same.

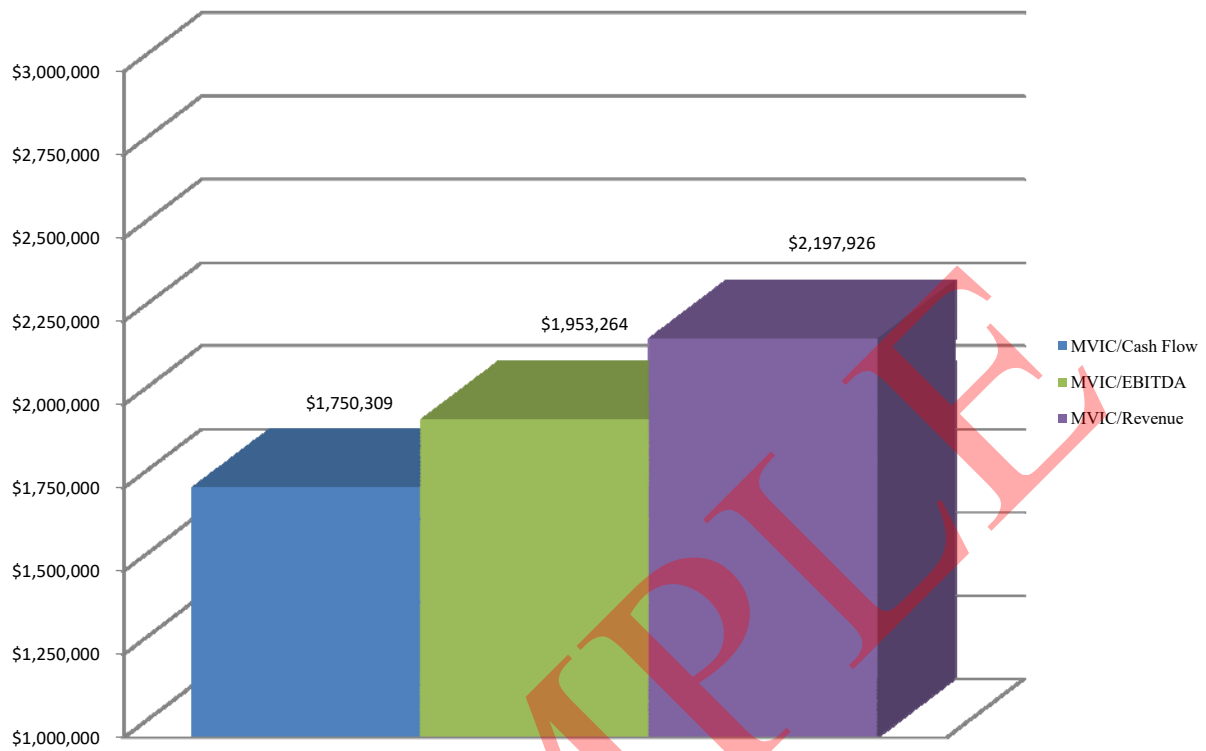
Private market transactions typically involve the sale of the entire entity so the values derived are on a control marketable basis. Additionally, the majority of private transactions are asset sales as opposed to stock sales. Thus, these transactions are reported based on the company's Market Value of Invested Capital (MVIC), which includes the equity and debt of the company. MVIC can also be referred to as "aggregate market value of capital structure" or "enterprise value". When valuing the Asset Value of the company it is appropriate to capitalize the interest as a component of the economic income.

MVIC to Revenue, MVIC to Seller Discretionary Cash Flow and MVIC to Normalized EBITDA (earnings before interest, income tax, depreciation and amortization) are the three most commonly used multiples. The Seller Discretionary Cash Flow and Normalized EBITDA multiples provide a more consistent approach in estimating the Asset Value of a company since they include interest and non-cash expenses. These methods eliminate inconsistencies in depreciation policies and differences in the capital structure from one business to another.

We utilized the Pratt's Stats database to obtain comparable private sale information. The results of our research and analysis are shown below:

Market Based Valuation			
	MVIC/Revenue	MVIC/Cash Flow	MVIC/EBITDA
Revenue	\$2,301,493		
SDCF		\$509,552	
Normalized EBITDA			\$359,552
Multiple:	0.96	3.44	5.43
Indicated Value	\$2,197,926	\$1,750,309	\$1,953,264

## Guideline Transaction Method



## **Definitions**

### **Adjusted Book Value**

The book value that results after one or more asset or liability amounts are added, deleted or changed from their respective book amounts.

### **Appraisal**

The act or process of determining value. It is synonymous with valuation.

### **Appraisal Approach**

A general way of determining value using one or more specific appraisal methods. See Asset Based, Income Approach and Market Approach.

### **Appraisal Method**

Within approaches, a specific way to determine value.

### **Asset Based Approach**

A general way of determining a value indication of a business's assets and or equity interest using one or more methods based directly on the value of the assets.

### **Asset Sale**

A form of business transfer where certain assets of the company are sold to a purchaser. The stock in the business is not transferred.

### **Book Value**

With respect to assets, the capitalized cost of an asset less accumulated depreciation, depletion or amortization as it appears on the books of the enterprise. With respect to a business enterprise, the difference between total assets (net of depreciation, depletion and amortization) and total liabilities of an enterprise as they appear on the balance sheet. It is synonymous with net book value, net worth and shareholder's equity.

### **Business Appraiser**

A person, who by education, training and experience is qualified to make an appraisal of a business enterprise and/or its intangible assets.

### **Business Enterprise**

A commercial, industrial or service organization pursuing an economic activity.

## **Business Valuation**

The act or process of arriving at an opinion or determination of the value of a business or enterprise or an interest therein.

## **Capitalization**

1) The conversion of income into value. 2) The capital structure of a business enterprise. 3) The recognition of expenditures as a capital asset rather than a period expense.

## **Capitalization Rate**

Any divisor (usually expressed as a percentage) that is used to convert income into value.

## **Capital Structure**

The composition of a business entity's invested capital.

## **Cash Flow**

Cash that is generated over a period of time by an asset, group of assets, or business enterprise. It may be used in a general sense to encompass various levels of specifically defined cash flows. When the term is used, it should be supplemented with a qualifier (for example "Discretionary" or "Operating") and be accompanied by a definition.

## **Control**

The power to direct the management and policies of a business enterprise.

## **Cost Approach**

A general way of estimating a value of an asset by quantifying the amount of money that would be required to replace the asset.

## **Cost of Capital**

The expected rate of return (discount rate) that the market requires in order to attract funds in a particular investment.

## **Deal Structure**

The break down of the consideration paid for a business. The components could include a cash down payment, assumption of liabilities, newly created debt, consulting agreements, covenants not to compete and any earn out provisions.

**Discount Rate**

A rate of return (cost of capital) used to convert a monetary sum, payable or receivable in the future, into its present value.

**EBT**

Earnings before income tax.

**EBIT**

Earnings before interest and income taxes.

**EBITDA**

Earnings before interest, income taxes, depreciation, and amortization.

**Economic Life**

The period of time which property may generate economic benefits.

**Enterprise**

See Business Enterprise.

**Equity**

The owner's interest in the business after deducting the liabilities of the company.

**Equity Risk Premium**

The Equity Risk Premium represents the premium that common stockholders require in the public marketplace over investors in long-term government bonds.

**Excess Earnings**

The amount of anticipated economic income that exceeds a fair rate of return on the tangible assets of the business.

**Excess Earnings Method**

A specific way of determining the value of a business by capitalizing the excess earnings of the business and adding the tangible assets.



### **Forecasted Financial Results**

The business owner's estimates of future performance with certain assumptions regarding revenue growth, gross profit margins and related expenses.

### **Forced Liquidation Value**

Liquidation value where the assets are sold as quickly as possible with less than normal exposure to the market.

### **Going Concern**

An operating business enterprise.

### **Going Concern Value**

The value of a business as an operating entity. This includes intangible elements of the business resulting from having a trained work force, operational plant and the necessary licenses, systems and procedures in place.

### **Goodwill**

An intangible asset which arises as a result of name, reputation, customer patronage, location, products and similar factors that have not been separately identified that contribute economic benefits.

### **Income Approach**

A general way of determining value indication of a business, business ownership interest or security using one or more methods wherein a value is determined by converting anticipated benefits.

### **Intangible Assets**

Non-physical assets such as franchises, trademarks, patents, copyrights, goodwill, mineral rights and contracts that grant rights, privileges or economic benefits to the owner.

### **Investment Risk**

The degree of uncertainty as to the realization of expected returns.

### **Investment Value**

The value to a particular investor based on their individual requirements and expectations. For example, synergies in a merger will create higher investment values. Synergies are not considered in Fair Market Value.

### **Liquidation Value**

The net amount that can be realized if the business is terminated and the assets are sold piecemeal. Liquidation can be either “orderly” or “forced”.

### **Liquidity**

The ability to convert an asset into cash.

### **Market Approach**

A general way of determining a value of a business, business ownership or security using one or more methods that compare the subject to similar businesses or business ownership interests that have been sold.

### **Market Multiple**

A factor that can be applied to the subject company's operating performance indicators such as revenues, EBT, EBIT, EBITDA or SDCF to determine an indicated value. The subject company financial data is compared with transactions observed in the market to determine an appropriate multiplier.

### **Market Value of Invested Capital (MVIC)**

MVIC includes the equity and debt of the company. MVIC can also be referred to as “aggregate market value of capital structure” or “enterprise value”.

### **Non-Operating Assets**

Assets not necessary to ongoing operations of the business enterprise.

### **Normalization Adjustments**

Adjusting items in the financial statements that are not considered to be normal operating expenses. This includes adding back non-recurring expenses and eliminating non-operating income. These also include discretionary adjustments for expenses booked that are perks or benefits accruing to the business owner. Normalization creates economic financial statements that allow for comparisons with other investment opportunities.

### **Orderly Liquidation Value**

Liquidation value where the assets are sold individually and enjoy normal exposure to the market.

### **Premise of Value**

An assumption as to the set of actual or hypothetical transactional circumstances applicable to the subject valuation. For example, going concern versus a liquidation premise of value.

### **Present Value**

The value today of a future stream of economic income discounted at a reasonable rate of return for the risk associated with the investment.

### **Rate of Return**

An amount of income (loss) and/or change in value realized or anticipated on an investment, expressed as a percentage of that investment.

### **Replacement Cost New**

The current cost of a similar new item having the nearest equivalent utility as the item being appraised.

### **Report Date**

Date the conclusions were communicated to the client and the report was issued.

### **Residual Value**

The prospective value as of the end of a discrete projection period in a discounted economic income model.

### **Return on Down Payment**

The rate of return determined as the Normalized Seller Discretionary Cash Flow less Debt Service, less a normal owner/manager, less estimated capital expenditures divided by the hypothetical down payment. This estimates the annual return to the business owner on their down payment.

### **Risk Free Rate**

The rate is a rate of return that an investor would receive when there is no risk of default. Typically the rate of return on U.S. Treasury Bonds is used as for a “Risk Free” rate.

### **Seller Discretionary Cash Flow**

All of the cash flow accruing to a business owner that can be used to pay debt or to be taken as salaries, perks or benefits. This includes expenses that are considered non-recurring as well as above market rent paid to the business owner and above market salaries paid to the business owner's family.

### **Standard of Value**

The identification of the type of value being utilized in a specific engagement. For example, Fair Market Value, Investment Value, Fair Value or Intrinsic Value.

### **Statement of Changes in Cash Flow**

A financial statement that shows the changes that affect the cash account. These include both cash generated or used from the income statement as well the balance sheet and are categorized as operating, investing and financing.

### **Stock Sale**

A form of acquisition where all or a portion of the capital stock in a corporation is sold to the purchaser. The purchaser of the stock enjoys all of the rights and contractual relationships of the seller and assumes all of the assets, liabilities and contingent liabilities of the company.

### **Systematic Risk**

The risk that is inherent to the investment in a security as defined by the market in general.

### **Tangible Assets**

The physical assets of the business included a sale including accounts receivable, inventory, fixed assets, prepaid expenses, deposits etc.

### **Terminal Value**

The prospective value as of the end of a discrete projection period in a discounted economic income model.

### **Unsystematic Risk**

The risk associated with the subject company in addition to the risk in investing in publicly traded securities. This can also be referred to as the "Specific Company Risk Premium".

**Valuation Date**

The specific point in time that the opinion of value applies. Typically, this is the date of the estimated fair market value of the tangible assets as reported by the business owner or the date of the most recent financial data.

**Valuation Approach**

A general way of determining a value indication of a business, business ownership interest, security, or intangible asset using one or more valuation methods. Asset Based Approach, Market Approach and the Income Approach were used in this report.

**Valuation Ratio**

A factor wherein a value or price serves as the numerator and financial, operating or physical data serve as the denominator.

**Working Capital**

The amount by which current assets exceed current liabilities.