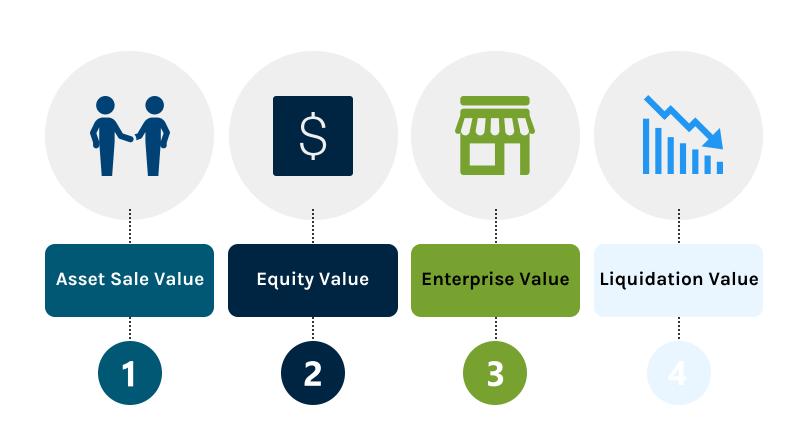


The Four Estimates of Value

Each BizEquity report includes four business valuation estimates. Business owners and their advisors should understand what each estimate represents, how they're calculated and when they should be used.





Asset Sale Value

Definition:

This common, transaction-oriented, fair market value conclusion includes the business's inventory, furniture, fixtures and equipment, as well as all intangible assets ranging from customer base to goodwill. Excludes all liquid financial assets and liabilities.

The seller keeps the cash and receivables but

Application:

delivers the business free and clear of all debt. Buyer operates from a newly formed legal entity.

Value of Inventory + Value of Furniture, Fixtures & Equipment + Value of Intangibles

Calculating Asset Sale Value:

Key Points:

In practice, owner-operated businesses are either sold on an asset sale basis or on a "stock sale" (equity value) basis with

the purchase agreement reflecting the unique aspects of each scenario. The majority of smaller, owner-operated private firms are sold as asset sales while the majority of middle-market transactions involve the sale of equity. The asset sale value will always differ from the equity value due to the specific

group of assets and liabilities that are included or excluded in each format.

• To monitor and optimize the operational value of the subject company over time and facilitate "apples to apples" comparisons of value

• Negotiating the purchase or sale of a business via asset sale

When Asset Sale Value is Used:





Equity Value

This fair market value conclusion is the value of

shareholders and incorporates all of the assets included in the asset value, plus the firm's liquid financial assets (cash, A/R, deposits) and minus its liabilities. Calculating Equity Value:

the company available to its owners or

tax attributes. The buyer acquires all assets and liabilities, on and off the balance sheet, and operates

Application:

the business from the historical legal entity.

The full transfer of the legal entity includes current

Asset Sale Value + Liquid Financial Assets — Long- and Short-Term Liabilities **Key Points:**

Business brokers and owners most commonly value businesses using asset sale value, while valuations for divorce or

a middle-market merger will typically be based on **equity value**. Sellers typically prefer a "stock sale" using **equity value** due to application of capital gains tax (sale price vs. current

"basis" in stock) rather than a combination of capital gains and higher ordinary income tax rates. Buyers typically prefer an asset sale due to the avoidance of liabilities and the ability to depreciate fixed assets based on the allocation of purchase price.

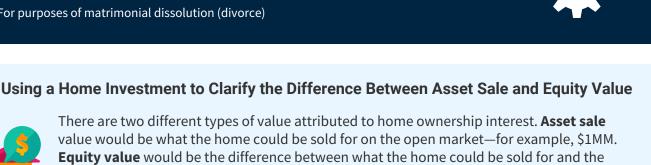
When Equity Value is Used: • Determining a buy/sell agreement among shareholders

• If a sale involves the transfer of licenses, contracts or other key rights that belong to the business • For purposes of matrimonial dissolution (divorce)

• Filing estate/gift tax return

- There are two different types of value attributed to home ownership interest. **Asset sale**

current mortgage balance—for example, \$400K.





Definition:

of long-term debt.

Enterprise value can be greater than equity value when the amount of cash on the balance sheet is greater than the amount

Application:

This value perspective is most relevant in the case of

to meet ongoing financial obligations). Insolvency and

bankruptcy usually occur after one or more periods of

cash flow from day-to-day operations.

accounting or taxable losses and the inability to generate

insolvency (liabilities exceed assets) or bankruptcy (inability

Asset Sale Value: \$1MM. Equity Value: \$600K (\$1MM - \$400K).

Application:

total value of the business, or the value of the business's equity plus its long-term debt. It

This fair market value estimate is equal to the

reflects the value of the entire capital structure

(equity holders and debt holders) or "enterprise."

Key Points:

Calculating Enterprise Value:

of debt.

Enterprise value reflects the business's value

as a functioning entity and helps facilitate the

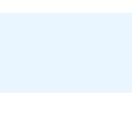
comparison of companies with varying levels

Equity Value + Long-Term Debt - Cash

When Enterprise Value is Used:

Liquidation Value

• When evaluating middle-market companies (100 - 2,000 employees with earnings between \$10 - 500 M) for M&A purposes



Liquidation value is based on the key assumption of insolvency and the immediate

Definition:

or near "fire sale" level, coupled with the nearly simultaneous retirement of all liabilities. This value estimate does not include accounts receivable.

Calculating Liquidation Value:

sale of all assets (on or off the balance sheet) at

Fair Market Value of Identifiable Tangible Assets — Long- and Short-Term Liabilities

Liquidation value can be determined on either a forced or planned basis. Planned will lead to a higher net value due to ability to identify willing and able buyers for company assets. BizEquity's liquidation value estimate is closer to a forced

liquidation value.

Key Points:

- In cases of insolvency or bankruptcy
- If a business is rapidly deteriorating and the owner is considering reorganization

When Liquidation Value is Used:





What's Your Business Worth?™