

The BizEquity

Valuation Report Guide

Our guide to help you better interpret
and understand the 29-page
valuation report



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BIZ|EQUITY

Background

The 29 Page Business Valuation Report is a deep analytical dive into the value of the business providing much more than just a “valuation number” as you’ll be able to facilitate indepth discussions around the four conclusions of value as well as each KPI compared year over year and the industry average. Below is a breakdown of the contents of the report and how to present each subject.

Report Breakdown

Page 2: Provides background information on the report and contents

Page 3: Background on the importance of business valuation and events that drive this activity

Page 4: Definitions around Asset, Equity, Enterprise Values and which conclusion is most important

Page 5: Insight into BizEquity’s methodology

Page 6: Monetary values of each conclusion of valuation

- Before presenting to client determine which conclusion makes sense given the circumstance
- In most cases, the majority of time will be spent on this page

Pages 7-8: Financial summaries based on the data entered into the platform

Pages 9-11: KPI Breakdown comparing each KPI year over year

- Important to note that 3 years of financials must be entered for the year over year graph to populate

Pages 12-24: KPI’s compared graphically to the industry average

- Show you what each mean, why they matter, and give an example of each

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Key Performance Indicators (Relationship Breakdown)

1) Interest Coverage

EBIT to Interest Expense

Affected by pretax income plus interest expense divided by interest expense

2) Fixed Assets Turnover

Affected by total revenues divided by fixed assets (book value as entered into BS)

3) Receivables (Conversion)

Affected by accounts receivable and total revenues

4) Inventory Turnover

Affected by total revenues divided by inventory

5) Return on Equity

Affected by pretax income and total equity - and total equity is equal to total assets minus total liabilities

6) Debt-to-Equity

Affected by total liabilities divided by total equity - and total equity is equal to total assets minus total liabilities

7) Cash-to-Debt

Affected by cash divided by total liabilities

8) Income to Revenue (Pre-Tax)

Affected by pretax income divided by total revenues

9) Cash Flow to Revenue

Affected by “discretionary earnings” divided by total revenues – and discretionary earnings are equal to the sum of pretax income plus owner compensation plus interest plus depreciation and amortization expense OR EBITDA plus owner compensation

10) Receivables to Income (Pre-Tax)

Affected to total accounts receivable divided by pretax income

11) Inventory to Income (Pre-tax)

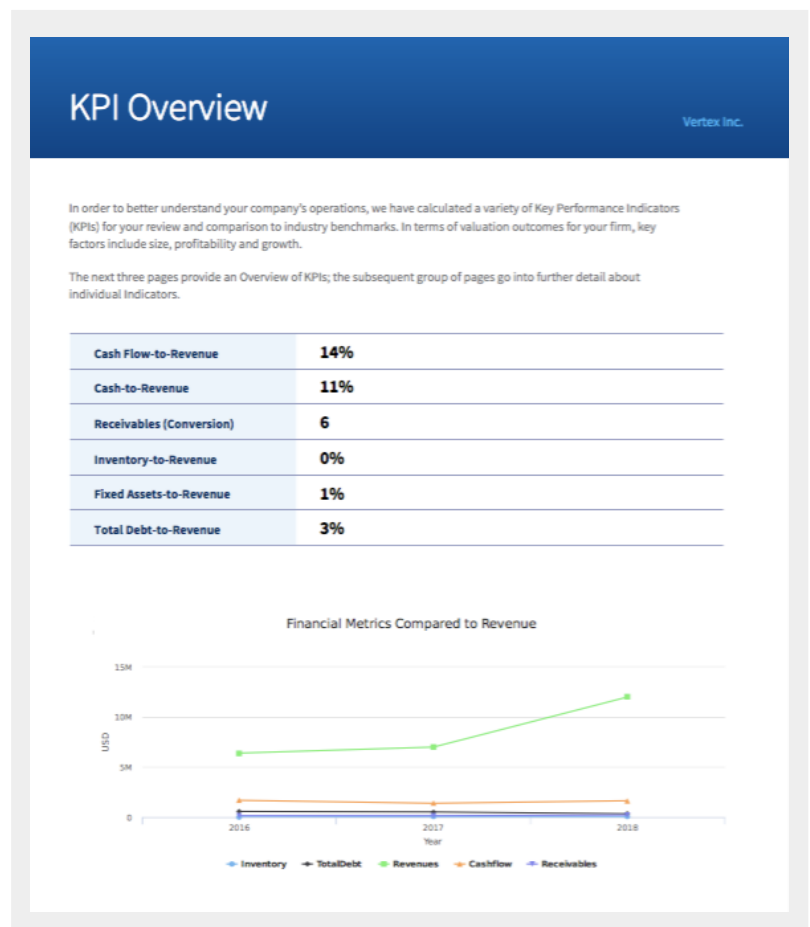
Affected by total inventory divided by pretax income

12) Fixed Assets to Income (Pre-tax)

Affected by total fixed assets (book value) divided by pretax profits

13) Total Debt to Income (Pre-tax)

Affected by total liabilities divided by pretax income



Which Business Value Conclusion is Most Important?

The answer to this question depends chiefly upon the purpose for the valuation engagement. If you are negotiating the sale/purchase of a business via an asset sale, then it is the asset value which is most relevant. If you are filing an estate/gift tax return, it is the equity value which is most important. When evaluating middle-market companies for M&A purposes, both equity and enterprise value will be useful. If your business is rapidly deteriorating and you are contemplating a reorganization, then liquidation value may be of most relevance.

Asset Sale Value

When valuing the entire company (100% control interest), it is typically necessary to distinguish between the value of “assets” (asset sale) and the value of “equity” (stock sale). In practice, owner-operated businesses are either sold on an “asset sale basis” or on a “stock sale” basis with the purchase agreement reflecting the unique aspects of each scenario. A variety of factors will determine the chosen mode of sale, with buyer and seller negotiating price and an array of other terms and conditions” including the type of sale. Other “value types” exist such as enterprise value and liquidation value, but it is the asset sale and equity sale framework which accompanies actual business transactions.

Calculation: Value of Inventory PLUS Value of F,F&E PLUS Value of Intangibles



Asset Sale

The seller keeps the cash and receivables but delivers the business free and clear of all debt.

Equity Sale

The buyer is acquiring ALL of the assets and liabilities, on and off the balance sheet.

Equity Sale Value

Involves the full transfer of the legal entity including current tax attributes. Buyer operates business from historical legal entity.

Calculation: Asset Sale Value PLUS Liquid Financial Assets LESS Liabilities

Enterprise Value

In middle-market transactions, it is also helpful to distinguish between equity value and enterprise value. Enterprise value is a reflection of the firm's value as a functioning entity and it is helpful in that it facilitates the comparison of companies with varying levels of debt.

Calculation: Equity Value PLUS Long Term Debt LESS Cash

Conclusion

We hope that you found this BizEquity Valuation Report Guide to be an instructive resource to help you navigate, breakdown, and better understand the different business value's and KPIs of the business that was conducted. With this report guide, we've helped you arm yourself with critical valuation knowledge and help you answer the most important question about a commercial entity: *What's it worth?*

If you have more specific questions about your valuation report, please feel free to contact us at: support@bizequity.com or **844.BIZ.EQTY**

