

# **BUSINESS ANALYSIS/VALUATION MARKET VALUE CALCULATION**

For

Johnson Mechanical Contractors  
2754 Grand Avenue  
Madison WI, 53714

Valuation as of: December 31 2011



PREPARED BY

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## BUSINESS VALUATION SUMMARY

The Profit Forecaster Team, has been asked by Mr. Alexander Johnson, to render the business valuation described below. The following information details our assignment:

Client Name:	Alexander Johnson
Business Name:	Johnson Mechanical Contractors
Business Address:	2754 Grand Avenue Madison, WI 53714
Type of Entity:	S Corporation
State/Province of Incorporation:	WI
In Business Since:	1988
Valuation Prepared by:	The Value Forecaster Team
Business Interest Valued:	100
Effective Date of Appraisal:	December 31 2011
Date of Valuation:	February 15 2012
Purpose of Evaluation:	Financial Planning
Standard of Value:	Fair Market Value
Calculated Business Value:	\$2,027,488
Down Payment Required:	\$506,872
Additional Investment Required:	\$36,100
Total Investment Anticipated:	\$542,972

### Summary of Value:

We have calculated that a 100% ownership interest of Johnson Mechanical Contractors is \$2,027,488.

An anticipated investment of \$506,872 would be required as a down payment to purchase this business. An additional investment will be required to cover the cash cost of deferred maintenance, and working capital, and other cash investments for a total other cash investment of \$36,100. Therefore, the market value of the business plus the additional cash outlays would total \$2,063,588.

The calculated valuation is based upon the variables listed above as of the date listed above only, and has been determined based upon a 100% marketable interest as noted above.

**Scope and Limitations:**

Johnson Mechanical Contractors. Any change in the information relied upon in determining the foregoing valuation could result in a revision of the estimated fair market value. **The determination of fair market value is subject to the Statement of Limiting Conditions set forth below, which should be reviewed carefully in their entirety.**

**Standard of Value:**

The fair market value is defined as follows: The fair market value of a business is the value at which the business would change hands between a willing seller and a willing buyer when neither is under a compulsion and when both have reasonable knowledge of the relevant facts.

A fair market transaction must be a “win-win” for all parties concerned. Consequently, a fair market value calculation will necessarily result in a value at which the normalized spendable income stream of the business can accomplish three critical criteria: 1) It must be able to support the structured market debt service that would be created from a hypothetical business sale in the business’ market area. 2) It must be able to pay the owner a market rate salary as determined by the size, type and location of the business to current industry standards of a similar business within the same market area. 3) It must be able to pay the owner a market rate of return on his/her investment as determined by the current market standards.

Sample from: www.TheValueForecaster.com

## MARKET VARIABLES USED IN ANALYSIS

### INVESTMENT CRITERIA

Down Payment (as a % of S/P):	25
Investor Required Rate of Return:	20
Subject Business NPBT (as % of Sales):	N/A
Investor Other Cash Investments:	
Deferred Maintenance	\$12,600
Working Capital	\$20,500
Other	\$3,000

### MARKET STANDARDS

Owner Market Salary in Dollars:	N/A
Owner Market Salary as % of Sales	1.8

### FINANCING

Number of Years to Analyze Income Statement	1
Beginning Year to Analyze	2011
Ending Month of Fiscal Year	December

#### LOANS:

Auto/Truck	
Market Value	\$683,223
Loan to Value Ratio (%)	60
Amount to Finance	\$409,934
Term Length (Years)	4
Interest Rate %	7.0
Inventory	
Market Value	\$474,000
Loan to Value Ratio (%)	50
Amount to Finance	\$237,000
Term Length (Years)	3
Interest Rate %	7.5

MARKET VARIABLES USED IN ANALYSIS (CONTINUED)

Machinery and Equipment

Market Value	\$754,371
Loan to Value Ratio (%)	70
Amount to Finance	\$528,060
Term Length (Years)	5
Interest Rate %	7.0

Office Furniture/Fixtures

Market Value	\$131,727
Loan to Value Ratio (%)	75
Amount to Finance	\$98,795
Term Length (Years)	3
Interest Rate %	7.50

Seller Financing

Assets Used as Collateral	To Be Determined
Term Length (Years)	5
Interest Rate %	7.0

Sample from: [www.TheValueForecaster.com](http://www.TheValueForecaster.com)

Year 1

INCOME STATEMENT ADJUSTMENTS SUMMARY

	%	Actual Year Ending 12-31-2011	Adjustment Year Ending 12-31-2011	%	Adjusted Year Ending 12-31-2011
<b>INCOME:</b>					
Sales	100	\$9,216,687		100	\$9,216,687
Total Income	100	\$9,216,687	\$0	100	\$9,216,687
<b>Cost of Goods Sold:</b>					
Direct Costs - Labor	23.20	\$2,138,590	\$0	23.20	\$2,138,590
Direct Costs - Materials	23.84	\$2,197,498	\$0	23.84	\$2,197,498
Direct Costs - Equipment	0.20	\$18,568	\$0	0.20	\$18,568
Direct Costs - Subcontractor	2.70	\$248,976	\$0	2.70	\$248,976
Direct Costs - Other	1.13	\$103,848	\$0	1.13	\$103,848
Total Cost of Goods Sold	51.08	\$4,707,480	\$0	51.08	\$4,707,480
<b>GROSS PROFIT</b>	<b>48.92</b>	<b>\$4,509,207</b>	<b>\$0</b>	<b>48.92</b>	<b>\$4,509,207</b>
<b>LESS: OPERATING COSTS</b>					
Total Variable Costs (See detail schedule on next page)	18.80	\$1,732,522	(\$28,500)	18.49	\$1,704,022
Fixed Costs					
Total Fixed Costs (See detail schedule on next page)	25.22	\$2,324,035	\$1,253	25.23	\$2,325,288
Total Operating Expenses (Fixed Costs plus Variable Costs)	44.01	\$4,056,557	(\$27,247)	43.72	\$4,029,310
Other Income (Expenses)					
Total Other Income (Expenses)	0.14	\$13,078	\$42,873	0.61	\$55,951
<b>NET OPERATING INCOME (NPBT) (Before Debt Service)</b>	<b>5.05</b>	<b>\$465,728</b>	<b>\$70,120</b>	<b>5.81</b>	<b>\$535,848</b>
<b>LESS: ANNUAL DEBT SERVICE</b>					<b>\$427,254</b>
<b>CASH FLOW AFTER DEBT SERVICE (Return on Investment ROI)</b>				<b>20.00</b>	<b>\$108,594</b>
Earnings Before Interest, Taxes, Depreciation, Amortization (EBITDA)				6.89	\$635,051
Debt Service Coverage Ratio (DSCR)					1.25

## INCOME STATEMENT ADJUSTMENTS DETAIL

	Actual Year Ending 12-31-2011	Adjustment Year Ending 12-31-2011	Adjusted Year Ending 2-31-2011
%	%	%	%
<b>Variable Costs</b>			
Advertising & Promotion	0.77	\$71,395	\$0
Auto & Truck Gas, Oil, Repairs	2.05	\$189,190	\$0
Bad Debt	0.30	\$27,710	\$0
Bank Charges	0.10	\$9,619	\$0
Employee Benefits	2.26	\$208,674	(\$28,500)
Freight	0.21	\$19,539	\$0
Insurance - W. C. Direct Labor	0.91	\$84,071	\$0
Laundry, Cleaning	0.09	\$8,646	\$0
License & Permits	0.06	\$5,735	\$0
Miscellaneous	0.00	\$418	\$0
Office Supplies	0.63	\$58,475	\$0
Other	0.09	\$8,014	\$0
Payroll Taxes (Direct Labor)	2.16	\$198,776	\$0
Shop Supplies & Small Tools	0.62	\$57,051	\$0
Travel, Lodging & Entertainment	0.02	\$2,104	\$0
U.P.S./FedEx	0.02	\$1,861	\$0
Union Benefits/Dues	7.71	\$710,512	\$0
Warranty Expense	0.77	\$70,732	\$0
<b>Total Variable Costs</b>	<b>18.80</b>	<b>\$1,732,522</b>	<b>(\$28,500)</b>
<b>Fixed Costs:</b>			
Contributions	0.03	\$2,434	\$0
Depreciation	1.32	\$121,985	(\$22,782)
Dues & Subscriptions	0.23	\$20,867	\$0
Insurance - Auto & Liability	3.97	\$366,043	\$0
Insurance - Group Health	0.17	\$15,248	\$0
Insurance - Officer	0.10	\$8,981	\$0
Other - Expenses	1.58	\$145,787	\$0
Payroll Tax - Office	0.88	\$81,028	\$3,135
Professional Fees	0.70	\$64,435	\$0
Property Taxes	0.21	\$19,584	\$0
Rent	0.76	\$69,665	\$0
Repairs & Maintenance	0.05	\$4,409	\$0
Salaries - Owner	1.57	\$145,000	\$20,900
Salaries - Office/Shop	13.40	\$1,234,609	\$0
Telephone	0.11	\$9,960	\$0
Utilities	0.15	\$14,000	\$0
<b>Total Fixed Costs</b>	<b>25.22</b>	<b>\$2,324,035</b>	<b>\$1,253</b>
<b>Total Operating Costs</b>	<b>44.01</b>	<b>\$4,056,557</b>	<b>(\$27,247)</b>

## COMMENTS – ADJUSTMENTS TO INCOME STATEMENT

### ADJUSTMENTS FOR YEAR: 2011

<u>Line Item Adjusted</u>	<u>Comments</u>
Employee Benefits	Employee benefits includes \$28,500 of employee bonuses that are added back for normalization purposes.
Depreciation	All accelerated cost recovery depreciation is added back for normalization purposes to better represent the actual amount of straight line depreciation.
Payroll Tax - Office	An adjustment was made to the office payroll taxes to compensate for the increase in owner's salary when adjusted to industry standard.
Salaries - Owner	The owner's salary is adjusted to the RMA industry standard for similar businesses of size and type in the same market.
Other Expense - Interest	All business interest is added back for normalization purposes.

Sample from: [www.TheValueForecaster.com](http://www.TheValueForecaster.com)



## STRUCTURED FINANCING SUMMARY

<u>Source of Purchase Funds</u>	<u>Amount</u>	<u>Terms (yrs)</u>	<u>Interest</u>	<u>Mo. Payment</u>
Financial Institution Financing:				
Auto / Truck	\$409,934	4	7.00	\$9,816
Inventory	\$237,000	3	7.50	\$7,372
Machinery/Equipment	\$528,060	5	7.00	\$10,456
Office Furniture/Fixtures	\$98,795	3	7.50	\$3,073
<u>Seller Financing</u>	<u>\$246,827</u>	<u>5</u>	<u>7.00</u>	<u>\$4,887</u>
Total	\$1,520,616			\$35,604

Sample from: [www.TheValueForecaster.com](http://www.TheValueForecaster.com)

## DEFINITION OF MARKET VALUE

The market value is the most probable price that a business should bring in a competitive and open market under all conditions necessary for a fair sale presuming the buyer and seller each act prudently, knowledgeably, and assuming the price is not affected by undue stimuli. Implicit in this definition are the consummation of a sale as of a specified date and the transfer of title from seller to buyer under the following conditions:

1. Buyer and seller are typically motivated.
2. Both parties are well informed or well advised and each of them is acting in what one considers one's own best interests.
3. A reasonable time is allowed for exposure in the open market.
4. Payment is made in terms of cash of the same currency which the business has adopted as their accounting standard or in terms of financial arrangements comparable thereto.
5. The price represents the normal consideration for the business sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

A fair market transaction must be a “win-win” for all parties concerned. Consequently, included within any fair market value determination of a going business, in its specific market, is the understanding that the normalized spendable income stream of the business will have to meet three criteria:

1. It must be able to support the structured debt service that is created from the business sale.
2. It must be able to pay the owner a fair salary as determined by the size, type and location of the business to current market standards.
3. It must be able to pay the owner a fair return on their investment as determined by current market standards.

## STATEMENT OF LIMITING CONDITIONS

1. The establishing of the fair market value of this business is not based in whole or in part upon: the race, color, sex or national origin of the prospective owners or occupants of the business evaluated; or upon the race, color, sex or national origin of the present owners or occupants of the businesses in the vicinity of the business evaluated.
2. This evaluation has been made in conformity with the use of good, common accepted business and accounting practices.
3. In preparing this evaluation the evaluator has relied upon the representations made to him/her by the owners and/or management of the subject business, as well as certain information that the evaluator has compiled from sources believed to be reliable. Although the evaluator has attempted to verify such information to the extent possible, there can be no guarantee that such information is true and correct. Any inaccuracies in information on which the evaluation is prepared could materially affect the valuation of the subject business.
4. The evaluator has used financial sources such as the business' tax forms to assure the accuracy of this report. These forms are signed by the owner and/or management of the business certifying to the government that it is a true and accurate representation of the financial condition of the business.
5. The evaluator has mathematically compiled the final opinion of value through the use of commonly accepted accounting practices. The evaluator assumes no liability in the determining of this value.

6. This analysis cannot be duplicated or otherwise copied in whole or in part without the permission of the evaluator.
7. It is understood that the evaluator is not required to give testimony or appear in court because of having made this evaluation with reference to the business in question, unless arrangements have been previously made.
8. This report is not an appraisal or a full fair market valuation, but rather a “calculation” of value only! Unlike a full fair market valuation, for the sake of time in its creation, certain valuation procedures were omitted that could affect its final accuracy. Only one valuation methodology, the optimization method, was used in its creation. This method is more specifically defined in the “Standard of Value” paragraph contained within the Business Valuation Summary section of this report.
9. During the recasting of the financial statement, depreciation, owner salary, employee bonuses, employee profit sharing, owner bonuses, interest and other line items disclosed by the subject company have been reviewed for adjustment during the data collection process. However, there may be line items that a full fair market valuation would adjust that this value calculation has not. Accordingly, there can be no assurance that all adjustments that would have a material impact on the calculation of value were in fact made
10. Only one financial year may have been used for this analysis. If profitability in the one year utilized resulted from factors that were unique to that year or otherwise unlikely to occur in the future, the calculated valuation may vary substantially from the valuation that would result from use of a more “typical” year. In addition, this valuation calculation was prepared based upon certain assumptions concerning the structure of a sale or other disposition of the subject

business. Differences between the assumed structure and that actually utilized could result in material differences in the value of the business.

11. Although we believe this value to be a solid representation of the fair market value because of its verifiable and objective methodology, the final calculated value may differ with the final opinion of value that would be determined had a full market valuation been performed. Moreover, fair market valuations are subject to many variables, including unanticipated future events, which could have a material impact on the ultimate value of a business. **There is no guarantee that the estimated fair market value will in fact be a value that could be realized upon sale or other disposition of the subject business.**

Sample from: [www.TheValueForecaster.com](http://www.TheValueForecaster.com)