Notes:

The ranking of a company's attributes is subjective in nature and is based on the broker's experience and knowledge of current market trends. General guidelines are as follows:

Revenue growth:

5% revenue growth is generally considered "average" growth. A business with declining revenues would receive a low ranking while a business with 20% plus growth for two years would generally receive a high ranking.

Profit Margin:

Both absolute profit margin and profit margin relative to industry averages is considered here. Generally, a high ranking company would have profit margins of 30% or greater and be above industry trends. A high profit margin increases the value of the business because there is more "room for error" in the business and it would still have the ability generate positive cash flow.

Earnings Growth:

A business with increasing earnings is worth more than a business with flat or declining profits. Additionally, earnings growth should be at the same rate or higher than any revenue growth; i.e. maintain profit margin. Declining profit margins can indicate pricing pressures or increased inefficiencies in the business.

Earnings Quality:

Buyers value the quality of the reported business earnings. The more add-backs and adjustments needed to justify earnings, the lower the perceived quality of the earnings. A business with no reported earnings on their tax returns yet a re-casted cash flow of $100,000 will be worth less than a similar business reporting $100,000 profit on their tax returns. Additionally, not all add-backs are treated equally. A non-essential car leased to the business but used for personal use has little effect on earnings quality but adjusting earnings for unreported income, such as $20,000 in cash sales, lowers earnings quality substantially.

Years in Business:

The longevity of the business is a sign of its stability. Generally, a business under two years old is worth less than a similar business with a 20 year operating history. In this model, ten years is considered an "average" tenure while twenty or more years would receive a high ranking.

Customer Diversification:

A company should have a well-diversified customer base both in number of customers and the amount of revenues from each customer. The number of customers need to justify good diversification will vary by industry. Additionally, no one customer should be responsible for over 10% of a company's revenues.

Ease of Operations:

The market value of a business increases in direct correlation to how easy it is to manage the business. A business that is easy to operate can be bought by more potential buyers versus a complex business that may require specialized training or certifications. A larger number of buyers increases the demand of the business and hence its market value.

Employee Turnover:

A business with high employee turnover is indicative of intrinsic problems within the business and hence it reduces its value. Also, a business with high turnover is a sign of instability and causes concerns for potential buyers. Conversely, a business with long tenured key employees is considered a less risky investment for buyers and thus increases the market value of the company.

Industry Growth Prospects:

All things being equal, companies in a growing industry are worth more than businesses in a declining industry.

Market Activity/Exit Opportunities:
This attribute ranks the general market conditions to the company. A business operating in a highly desirable geographic market or an industry experiencing a wave of acquisitions by multiple public companies (a "roll-up") are generally worth more. A niche business in a remote location will attract fewer buyers and thus have a lower market value.

Barriers to Entry:
Any barriers to entry increase the value of a business because it limits the potential number of competitors and helps protect the future earnings power of the business. Typical examples of barriers to entry are; product patents, franchise rights, intellectual property, high cost to enter, etc.

Competition:
The more competition a company has, the lower its market value due to the increased risk to the company's ability to grow and maintain its profit margin. Conversely, a company with few or weak competitors is generally worth more.

Definitions:

Discretionary Cash Flow (DCF)
DCF (also known as Sellers Discretionary Cash Flow) represents a recasting of the Company's earnings to reflect expenses associated with the current ownership which may or may not be incurred under new ownership. In this report, DCF is calculated as follows:

1. Net Operating Income (income before taxes and interest, also known as EBIT)
2. Plus reported compensation for a single working owner
3. Plus above-market rate reported compensation for any other working owners
4. Plus depreciation
5. Plus amortization
6. Plus any non-recurring expenses
7. Plus expenses not related to operating the business

Fair market value
The price, in cash or equivalent, that a willing buyer could reasonably be expected to pay, and a willing seller could reasonably be expected to accept, if the business were promoted for sale on the open market for a reasonable period of time, and both buyer and seller having full knowledge of pertinent facts of the business and neither under the compulsion to conclude a transaction.

Pre-Tax Income
Earnings before interest and taxes (also referred to as EBIT or Net Operating Income). It reflects the earnings of the business from operations exclusive of financing and taxes.