Enterprise Valuation for:

ABC Software, Inc.

PREPARED FOR: ABC Software, Inc.

Date of Report: April 09, 2023

Effective Date: December 31, 2022

STONEBRIDGE

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OPINION LETTER

2023-04-09
Sara James
ABC Software, Inc.
123 Software Way, Pasadena, CA

Dear Sara James,

At your request, we have been engaged to appraise ABC Software, Inc. as of 2022-12-31. The client is ABC Software, Inc., the intended user of this report which is to be used for 409 (A) IRS compliance purposes. The business was appraised using the fair market value as the standard of value for the company assuming no discount for a lack of control (DLOC) and an adjustment for lack of marketability (DLOM). ABC Software, Inc. is headquartered in the State of California. The Company is organized as a C Corporation.

The *Fair Market Value (FMV)* is defined as the value an asset or liability would exchange hands given a willing buyer and seller negotiate an "arms-length" transaction with neither party under duress and with the parties having access to all pertinent information.

There are no restrictive agreements that might impact value. We have reviewed information on ABC Software, Inc. as well as the assumptions based on client discussions that allowed us to forecast the future cash flow of the business, review the assets and liabilities to the extent possible and build out the Discount and Capitalization Rate, which is essentially an indicator of risk in the business investment.

All traditional approaches to value were considered in this valuation and the appropriate allocation of methods and calculations were weighted that best represent the Company's value. The effective date of this appraisal is 2022-12-31. The appraisal's estimated value for 5,000,000 of the company's shares with the appropriate discounts and premiums, is $2,202,625 of enterprise value. The 5,000,000 shares being valued are $0.29 per share.

This conclusion is subject to the Report's Limiting Conditions.

Daniel P. O'Connell, AM, BV, American Society of Appraisers

Ryan P. O'Connell, IRS Qualified Valuations

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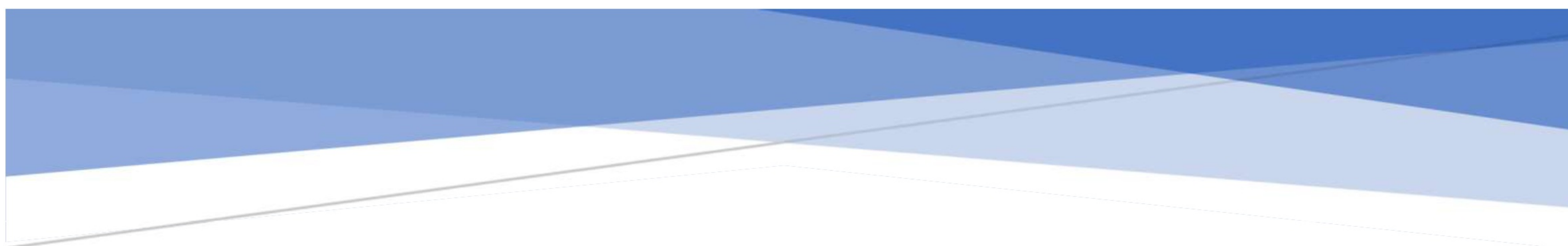

Table of Contents

1. Opinion Letter
2. Table of Contents
3. Compliance and Practices
4. Valuation Assignment
5. Valuation Assignment (Cont.)
6. Economic Outlook
7. Company Brief
8. The Valuation Approaches
9. Income Statement
10. Income Statement (Common-Sized)
11. Balance Sheet
12. UCA Cash Flow Statement
13. Ratio Analysis
14. Cash Drivers and Forecast
15. Financial Statement (Forecast)
16. Cost of Capital
17. Discount Rate Detail
18. Net Cash Flow
19. Value Methods & Calculations
20. Estimate of Intangible Assets
21. Asset Approach To Value
22. Value Allocations
23. Discounts and Restricted Stock
24. Value Conclusions
25. Qualifications
26. Terminology and Concepts In Report
27. Terminology (continued)
28. Report's Limiting Conditions

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COMPLIANCE AND PROCESSES

IRS REVENUE RULING 59-60 COMPLIANCE

When valuing closely held stock or ownership interest of companies, often market quotes are not available for privately-owned companies. IRS Revenue Ruling 59-60 outlines the proper procedures, approaches and qualifications for valuing these closely-held companies and in considering all relevant factors that impact the fair market value.

IRS Revenue Ruling 59-60 states that certain factors need to be considered in arriving at the Fair Market Value of an asset or liability. This valuation report addresses these requirements, specifically:

1. Define the nature of the business and the economic environment.
2. Research the book value and the company's financial condition.
3. Review the earnings capability and the dividend paying capacity if relevant.
4. Review whether the company has goodwill or intangible value.
5. Research pricing of similar companies and utilize the proper capitalization rates.
6. Discover if restrictive agreements impact value and weight the valuation conclusions logically.

409 (A) COMPLIANCE

The Internal Revenue Service introduced Section 409 (A) of the IRS Code which allows a method for private companies to attain a safe harbor status. This means that a 409 (A) valuation which is performed by a qualified "third party" and adheres to the traditional valuation guidelines that use the Income, Asset and Market Approach is presumed to be valid unless the IRS can demonstrate that the valuation is "grossly unreasonable". With a 409 (A) valuation the burden is on the IRS; without it the burden is on the company to validate that the valuation is reasonable. This valuation has been conducted by a qualified third party appraiser whose valuation methods comply with IRS Revenue Ruling 59-60, the Uniform Standards of Professional Appraisal Practice (USPAP) and uses the Asset, Income and Market Approach with the appropriate weighting. Section 409 (A) is presumed reasonable if the stock was valued within twelve months of the option grant date with no material change between the valuation date and the grant date.

UNIFORM STANDARDS OF PROFESSIONAL APPRAISAL PRACTICE

The Uniform Standards of Professional Appraisal Practice (USPAP) addresses ethical and performance obligations of appraisers. Ethics rules deal with integrity, impartiality, objectivity, independent judgement and ethical conduct. Other requirements consider the appraiser's knowledge, experience, competency and scope of work rules in identifying key issues, research and analysis. This appraisal adheres to the USPAP guidelines.

THE VALUATION PROCESS

Business value is derived from an economic benefit stream and a risk factor that relates to the business and its expected economic benefit stream. A valuation "normalizes" the income statement and balance sheet to represent the current status of a company. In order to arrive at a valuation opinion, this report will review the company's risk associated with a "proposed" investment and the historical and forecasted financial statements, key ratio reviews, the cost of capital and the future net cash flows. We will then be able to apply the cost of capital to the company's economic benefit stream (the Income Approach) and review the appropriate risk adjusted multiples to similar companies (the Market Approach) and an analysis of the assets (the Asset Approach). After various valuation methods and calculations have been estimated, the appropriate weighing to specific calculations will be made that best represent the company's enterprise value.

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THE VALUATION ASSIGNMENT

DEFINING THE VALUATION ASSIGNMENT

When defining the appraisal assignment, it is important to understand the concepts or directives that form the basis of this opinion of value and that these concepts meet your understanding of this assignment. If the appraisal assignment changes, some of the following valuation criteria might need to reflect the new intent and the appraisal assignment might need to be updated. "Company" used in this report covers any asset or liability being appraised.

DISCLAIMER

Stonebridge relies on the client, the Company and the management team for its financial reporting and projections of the company's financials. While this information is deemed reasonable for the purposes of this report, Stonebridge makes no representations or warranties to the accuracy or thoroughness of this valuation report (see scope of appraisal and the *engagement's limiting conditions*).

VALUATION CONCEPT OF BENEFIT STREAM AND RISK

Business value is derived from an economic benefit and is weighted by a risk factor that relates to the risk in the company's business model. The economic benefit usually refers to a monetary flow such as earnings before interest, taxes, depreciation and amortization (EBITDA), Net Operating Profit After Tax (NOPAT), Gross Profit, or Net Cash Flow (NCF), etc. The risk factor is the rate of return a potential investor requires given the risk of attaining the expected economic benefits stream. The greater this risk, the greater the investor's needed rate of return and the lesser the value of the interest being appraised. In the case of less risk, the less the needed investor's rate of return and the greater the value of the interest being appraised. The investor's needed rate of return is the Cost of Equity and the debt and equity return needed is the Discount Rate.

In order to arrive at a valuation opinion, this report will review the company's historical and forecasted financial statements and the associated business and industry risk. This report will develop the cost of capital and apply that to the economic benefit stream to arrive at the Discounted Cash Flow Method and the Capitalization of Earnings Method. In addition, this report will apply the Market Selling Multiples Method to specific company benefit streams. When the company is being valued as an on-going concern, the asset or cost approach to value might not be relevant in this report (see premise of value) and may not be used.

INTEREST BEING APPRAISED

ABC Software, Inc. ("the Company) is being appraised for 5,000,000 shares out of 5,000,000 shares outstanding. Shares are valued on an equity basis which is defined as the enterprise value less any term debt.

This appraisal assumes no Discount for Lack of Control (DLOC) which is referred to as a control interest. A control interest is defined as an equity interest greater than 50% or an equity position that is considered a swing vote, and therefore a controlling interest. A control interest means the shareholder has operating control to make decisions and can influence company performance.

This appraisal assumes an adjustment or Discount for a Lack of Marketability (DLOM) referred to as a non-marketable interest. An adjustment for lack of marketability is defined as the percentage value deducted from the value of an ownership interest to reflect the absence of marketability relating to the longer period (and risk) it takes to convert ownership to sale proceeds (liquidity).

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THE VALUATION ASSIGNMENT (cont.)

SCOPE OF APPRAISAL

This valuation is an Appraisal that addresses the Standard of Value, the Premise of Value, the Purpose of the Appraisal, the Effective Date of the Appraisal, and describes the business ownership interest and the process to be used in the valuation and the report deliverables. This appraisal will express the value in a single dollar amount, and will consider all relevant information available to the appraiser as of the appraisal date. The appraiser will review all relevant data material to the valuation and utilize all conceptual approaches deemed relevant by the appraiser.

STANDARD OF VALUE

The *Fair Market Value* standard is being used in this appraisal to render an opinion of value (or range of value). The Fair Market Value addresses the broadest spectrum of value that is reflected by the Company's operations, markets and potential buyers. The common definition of Fair Market Value is the price at which a property would change hands between a willing buyer and seller, when the buyer is not under any compulsion to purchase and the seller is not under any compulsion to sell. Fair Market Value also assumes both buyer and seller have reasonable knowledge of the relevant facts.

PREMISE OF VALUE

This appraisal is based on the Company as an on-going concern. The going concern premise of value assumes the Company has the financial resources to continue operating into the foreseeable future whereas a non-going concern does not have the resources to continue operating and is a liquidity event.

EFFECTIVE DATE OF APPRAISAL

The report date of the appraisal is 2023-04-09 and the latest reported financials are as of 2022-12-31. The effective date of the valuation is 2022-12-31. If material time has elapsed from these dates or events occurred subsequently that may impact value, we suggest an update to the report, depending on the significance of how this opinion of value will be used by the intended user of this report.

CLIENT AND PURPOSE OF APPRAISAL

The client is ABC Software, Inc., the only intended user for this report. The purpose of this appraisal is to estimate the selected Standard of Value of ABC Software, Inc. for 409 (A) IRS compliance purposes.

DATA SOURCES, VALUATION PROCESS & CONDITIONS

Financial (income statements and balance sheets) and operational information was furnished by the Company. The Company provided expectations regarding the Company's future performance. This report may utilize information from the industry standard RMA database, Duff & Phelps Cost of Capital, BVR Deal Stats, BV DataWorld, Pluris DLOM, Mergerstat Review Premiums & Discounts and IBISWorld. Stonebridge did not tour the company's facility or office in its process but is reasonably familiar with the type of facilities involved. There have been no extraordinary or hypothetical assumptions made (unless noted) nor any limiting conditions placed on Stonebridge.

THE VALUATION PROCESS

Value is derived from a risk adjusted economic benefit stream. In order to arrive at a valuation opinion, this report will review the Company's risk associated with a "proposed" investment, the historical and forecasted financial statements, key ratios, the cost of capital and the future net cash flows. The cost of capital will be applied to the Company's economic benefit stream and review risk adjusted market selling multiples. The appropriate weighing of specific approaches will be made that best represent the Company's value.

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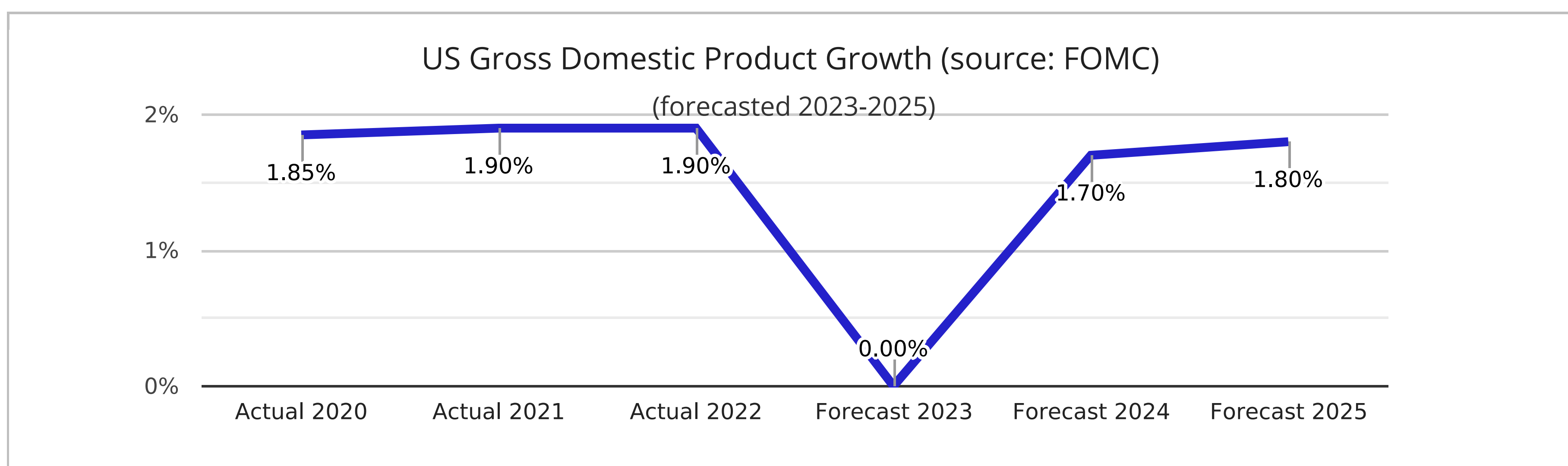
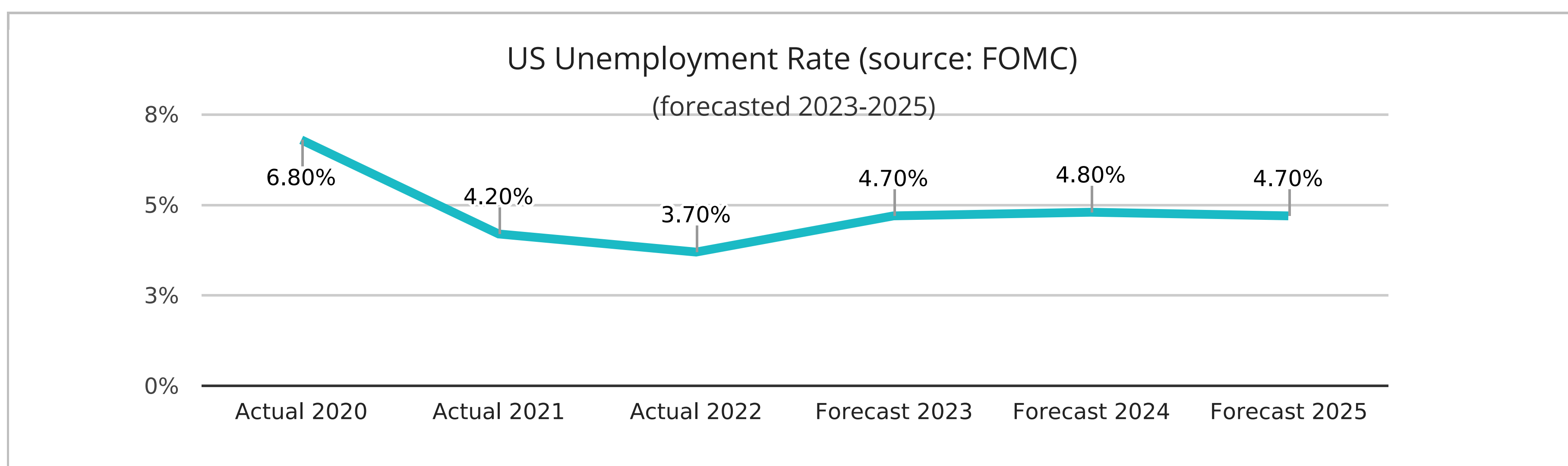
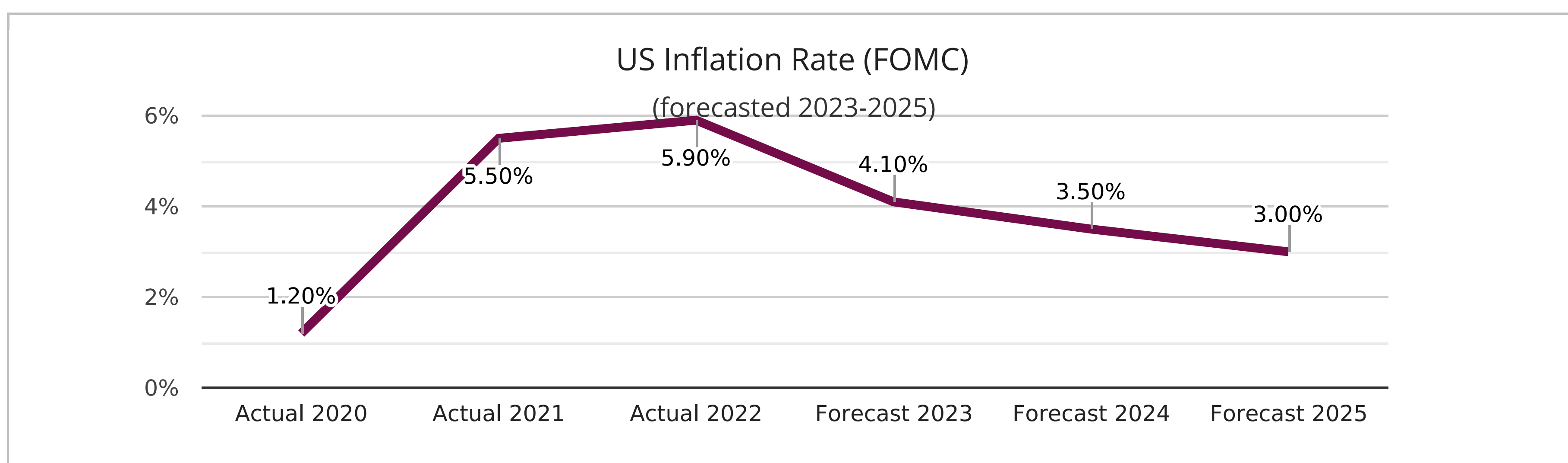
ECONOMIC ENVIRONMENT AND IMPACT

The economic outlook can be relevant and impact the Company and its industry. The economy continues to deal with global unrest, labor shortages, supply chain issues, inflation, federal reserve policies, trade issues, governmental policies and other economic considerations. A company's impact can vary from industry to industry. Economic growth, lower inflation and moderate unemployment generally supports the private sector.

The Federal Reserve is the U.S. central bank that promotes maximum employment, moderate interest rates and stable prices. The Federal Open Market Committee (FOMC) meets four times per year to issue an economic forecast and a high-level analysis of the U.S. economy. Key economic factors are the Gross Domestic Product growth, the Unemployment Rate, and the Inflation Rate. The FOMC last met on December 14, 2022. GDP growth is expected to decrease to 0% this year, the unemployment rate to increase and the inflation rate to increase which promotes instability and the private sectors ability to plan. Inflation has been stronger than expected and remains a challenge for the Federal Reserve. The Company might find the current economic environment challenging in some areas as labor and supply issues remain which can restrict sales growth and margins.







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COMPANY BRIEF

COMPANY HISTORY BRIEF

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COMPANY PRODUCTS OR SERVICES

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COMPANY MANAGEMENT TEAM

John Smith - C.E.O. - BIO HERE
John Smith - C.F.O. - BIO HERE
John Smith - C.O.O. - BIO HERE

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THE THREE APPROACHES TO VALUE

When valuing a company's common stock (or an asset or a transfer of a liability) we need to value the enterprise by utilizing the various approaches to value and then allocate the methods and calculations from each approach. The three Approaches to Value are the Income, Market and Asset Approach. These approaches, methods and calculations are summarized below.

THE INCOME APPROACH

The Income Approach estimates value by estimating the benefits stream (income) generated by the assets over a period of time. The value of the business is equal to the present value of the future benefits from owning the assets. The two common methods are the Discounted Cash Flow Method and the Capitalization of Earnings Method.

The Discounted Cash Flow Method

The Discounted Cash Flow (DCF) summarizes the company's cash flow for a period of time (usually five years but can be longer until the cash flows reach stability) as well as the cash flow from the Terminal Value (assumes a sale of the business in a future year). The future cash flows are brought to the present value by discounting the cash flows using the Discount Rate which measures the risk in achieving the expected cash flows. The DCF is a multi-year method and the advantages are that each year's sales, costs, receivables, inventory, payables and capital expenditures can be estimated. These cash flows should be estimated with reasonable caution. Because a "fictitious buyer" is purchasing the future cash flow of the business, the DCF model is a strong indication of value.

The Capitalization of Earnings Method

The Capitalization of Earnings Method is similar to the DCF except that it is a single year method that only applies the operating cash flow to the capitalization rate. The Capitalization of Earnings Method is applicable when the cash flow is stable or consistent (mature company).

THE MARKET APPROACH

The Market Approach compares the subject company to its industry peers. This comparison is accomplished by reviewing either private sale transactions or publicly traded companies. The benefit stream multiples are variations of income such as earnings before interest and taxes (EBIT) or EBITDA (depreciation & amortization), net operating profit after tax, gross profit, sales, etc. The industry multiples are applied to the subject company's benefit stream using the multiples from the Guideline Public Companies or the private company transactions. The Market Approach is applicable if the subject company is similar to its industry peers.

THE ASSET OR COST APPROACH

The Asset Approach normally results in the lowest value for an operating company (not a holding company) and measures the tangible assets. This approach can be based on the Net Asset Value or the Liquidation Value. The liquidation value assumes the company is not an on-going business. This report estimates the Net Asset Value which is defined as the market value of the assets less the market value of the liabilities. An asset-based holding company (eg: real estate or investment companies) would use the Asset Approach.

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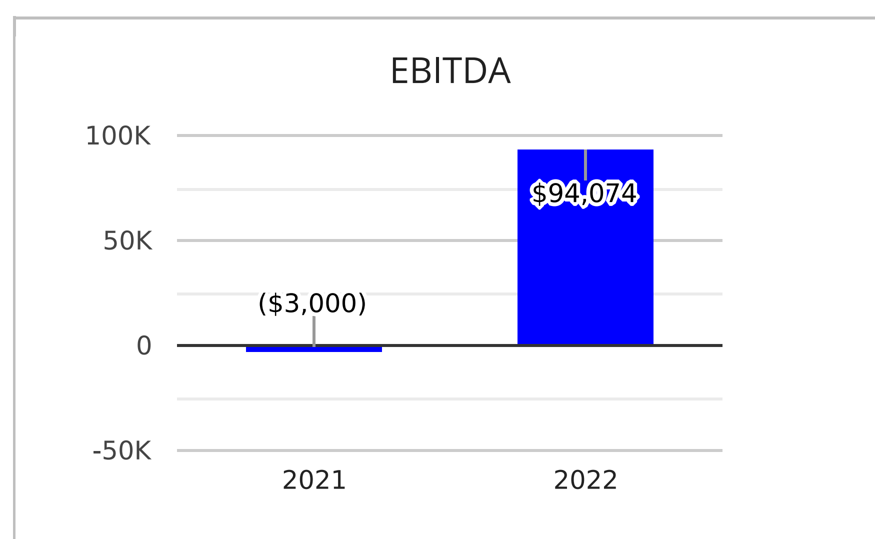
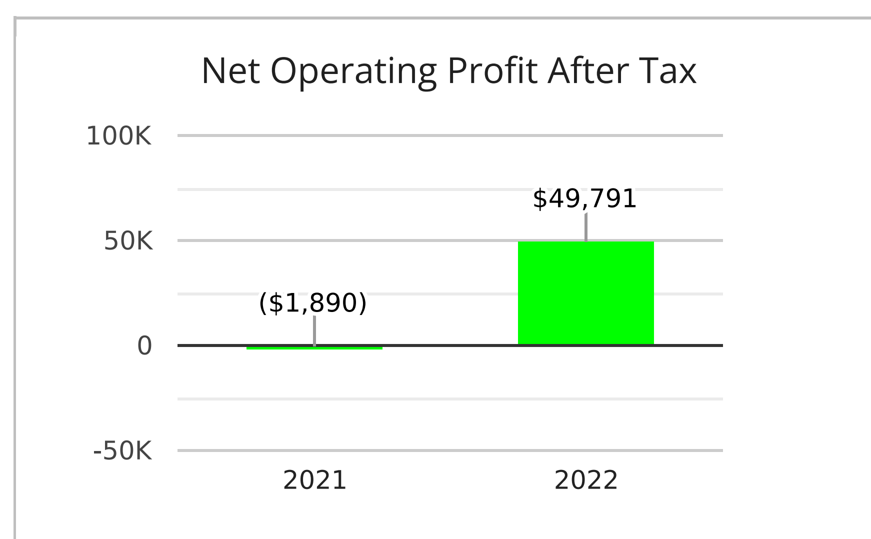
Income Statement	2021	2022
SALES		
Revenues	$129,000	$850,000
Revenue Growth Rate		558.91%
COST OF GOODS SOLD		
Other Cost of Goods Sold	$46,000	$135,000
Total Cost of Goods Sold	$46,000	$135,000
GROSS PROFIT	**$83,000**	**$715,000**
Gross Profit Margin	64.34%	84.12%
OPERATING EXPENSES		
Depreciation	$0	$15,041
Amortization & Depletion	$0	$0
Other Expenses	$86,000	$620,926
Total Operating Expenses	$86,000	$635,967
Operating Income (Op. EBIT)	($3,000)	$79,033
Operating Income %	(2.33%)	9.30%
NON-OPERATING EXPENSES		
Interest Expense	$0	$0
Adjustments (see table below)	$0	$0
Other Non-Operating Expenses	$3,500	$4,033
Total Non-Op. Exp, (income is neg)	$3,500	$4,033
Net Profit Before Tax	**($6,500)**	**$75,000**
OTHER KEY INCOME STREAMS		
Net Operating Profit After Tax (37% marginal rate)	($1,890)	$49,791
Operating EBITDA	($3,000)	$94,074
Operating EBITDA %	(2.33%)	11.07%
Seller's Discretionary Earnings	($3,000)	$94,074

Net Operating Profit After Tax (NOPAT) applies a 37% marginal tax rate to the Operating Income. NOPAT and EBITDA reflect a debt free company (no interest, no debt). The latest $49,791 of NOPAT, the $94,074 of EBITDA and the $94,074 of Seller's Discretionary Earnings are applied in the Market Approach Method.

Adjustments are non-operating expenses recorded as operating expenses but were not needed to operate the business. Adjustments might be compensation above or below market-based pay or discretionary expenses not expected to occur again. These adjustments 'normalize' the income stream.





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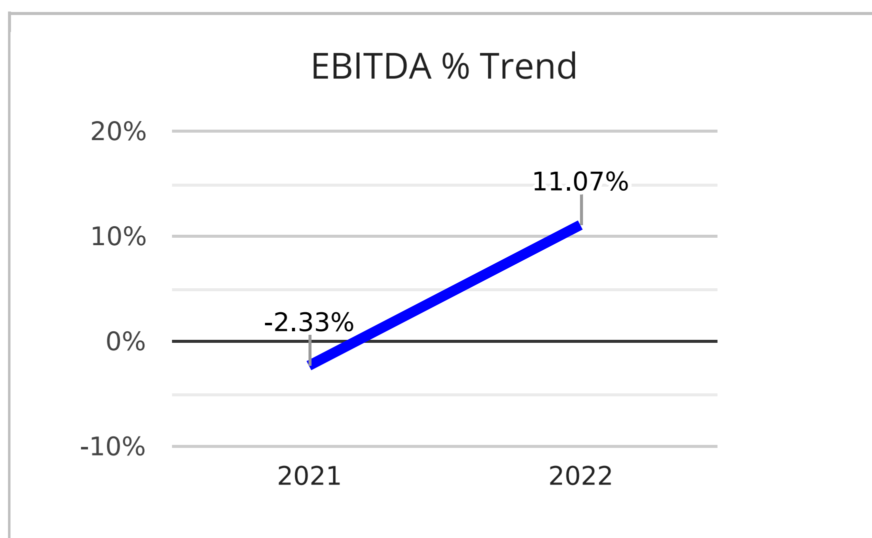
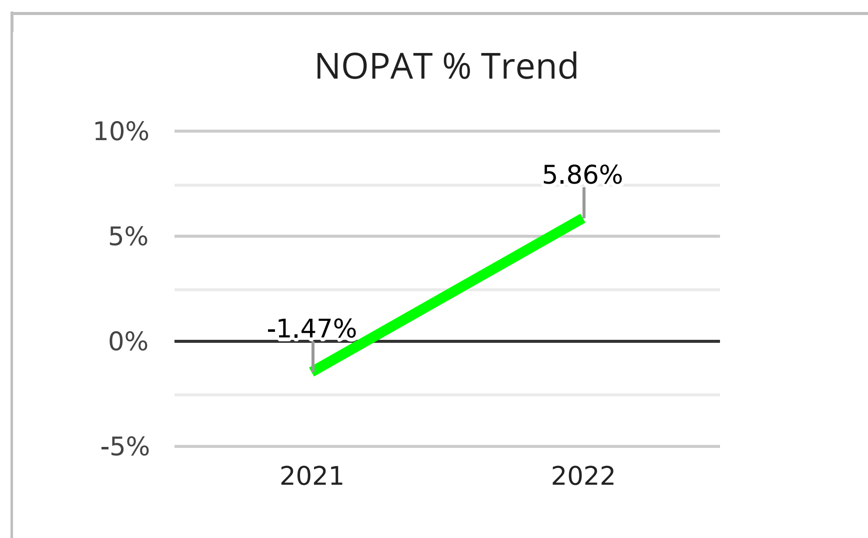
Income Statement Common-Sized	2021	2022
SALES		
Revenues	100.00%	100.00%
COST OF GOODS SOLD		
Other Cost of Goods Sold	35.66%	15.88%
Total Cost of Goods Sold	35.66%	15.88%
GROSS PROFIT	**64.34%**	**84.12%**
OPERATING EXPENSES		
Depreciation (Opex)	0.00%	1.77%
Other Expenses	66.67%	73.05%
Total Operating Expenses	66.67%	74.82%
Operating Income (Op. EBIT)	**(2.33%)**	**9.30%**
NON-OPERATING EXPENSES		
Interest Expense	0.00%	0.00%
Adjustments	0.00%	0.00%
Other Non-Operating Expenses	2.71%	0.47%
Net Profit Before Tax	**(5.04%)**	**8.82%**
OTHER KEY INCOME STREAMS		
Net Operating Profit After Tax (37% marginal rate)	(1.47%)	5.86%
Operating EBITDA	(2.33%)	11.07%

Adjustments	2021	2022
Left Empty	$0	$0
Left Empty	$0	$0
Left Empty	$0	$0
Left Empty	$0	$0
Left Empty	$0	$0
Total Adjustments	$0	$0





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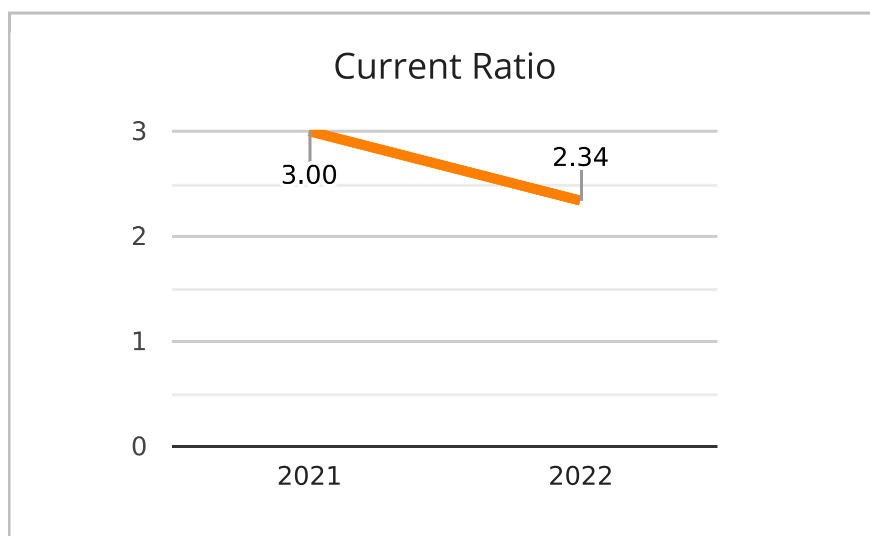
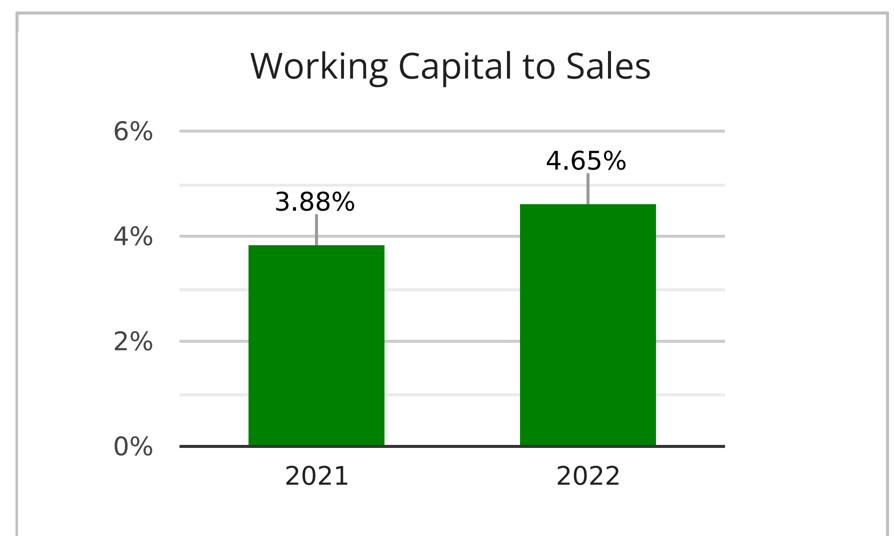
Balance Sheet	2021	2022
CURRENT ASSETS		
Cash & Marketable Securities	$7,500	$45,000
Accounts Receivable (Trade)	$0	$8,000
Inventory	$0	$15,000
Other Current Assets	$0	$1,000
Total Current Assets	**$7,500**	**$69,000**
LONG-TERM ASSETS		
Fixed Assets	$0	$9,000
Accumulated Depreciation	$0	$0
Net Fixed Assets	$0	$9,000
Other Long-term Assets	$0	$0
Total Long-term Assets	$0	$9,000
Total Assets	**$7,500**	**$78,000**
CURRENT LIABILITIES		
Cur. Maturities of LT Debt	$0	$0
Accounts Payable	$2,000	$2,650
Notes Payable	$0	$0
Other Current Liabilities	$500	$26,848
Total Current Liabilities	**$2,500**	**$29,498**
LT LIABILITIES & EQUITY		
Term Debt	$0	$60,000
Other Long-term Liabilities	$0	$1,002
Total Long-term Liabilities	$0	$61,002
Total Liabilities	**$2,500**	**$90,500**
EQUITY		
Capital Stock	$0	$0
Retained Earnings	$0	($12,500)
Other Stockholders' Equity	$5,000	$0
Total Stockholders Equity	**$5,000**	**($12,500)**
Total Liabilities & Equity	**$7,500**	**$78,000**





POINTS TO CONSIDER

Current Ratio: The Current Ratio is a liquidity measure of the short-term balance sheet (current assets/current liabilities). The latest current ratio of 2.34 is above the trend line. The latest working capital is above the average trend line of 4.26% in working capital percent to sales. The industry current ratio is 2.The Company has excess working capital of $39,502.

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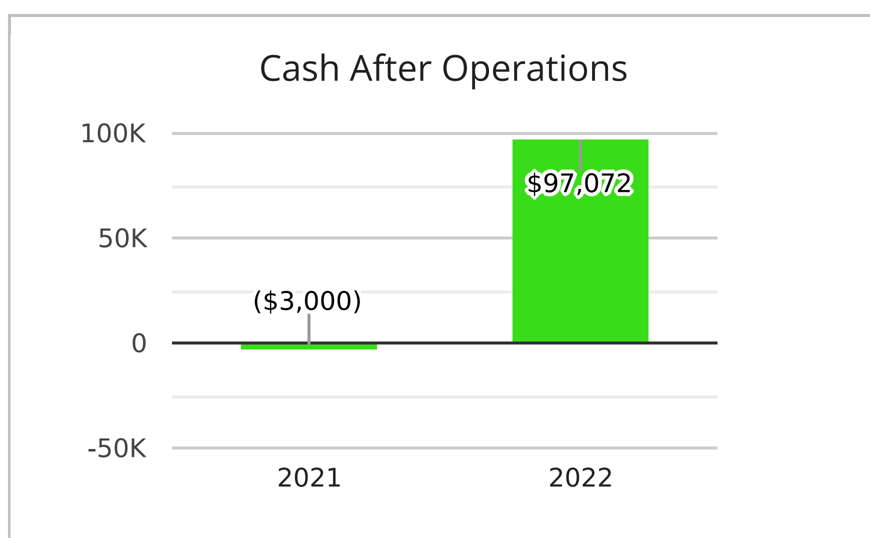
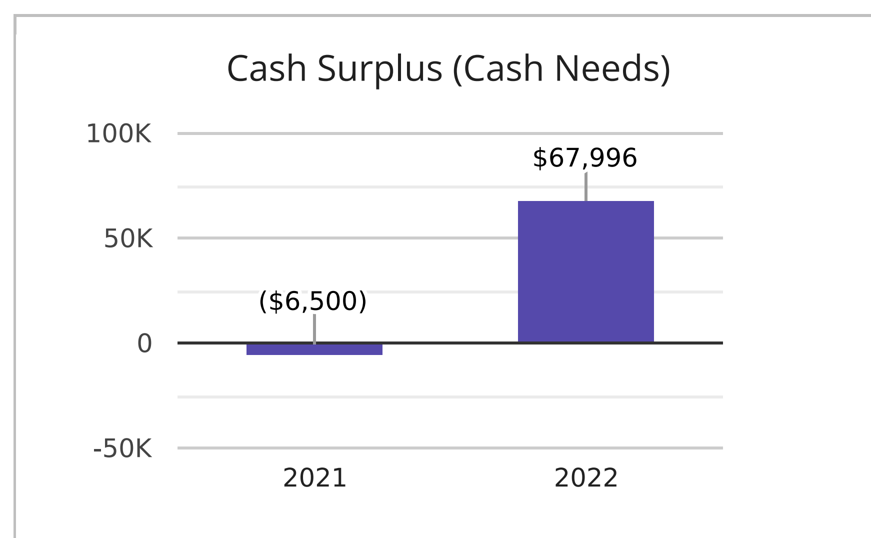
UCA Cash Flow Statement	2022
Revenues	$850,000
Change In Accounts Receivable	($8,000)
CASH FROM SALES	**$842,000**
Cost Of Goods Sold	($135,000)
Change In Inventory	($15,000)
Change In Accounts Payable	$650
Production Costs	($149,350)
CASH AFTER PRODUCTION	**$692,650**
Operating Expenses (non-cash items excluded)	($620,926)
Change In Other Current Assets	($1,000)
Change In Other Current Liabilities	$26,348
Total Operating Cost	($595,578)
CASH AFTER OPERATIONS	**$97,072**
Change In Other Long-term Liabilities	$1,002
Income Taxes Paid	$0
Other Non Op. Expenses (Income)	$4,033
Total Other Operating Expenses (Income)	$5,035
CASH AFTER ALL OPERATIONS	**$92,037**
Interest Paid	$0
CASH AFTER FINANCING COST	**$92,037**
Current Maturities of Long-term Debt	$0
CASH AFTER DEBT AMORTIZATION (CADA)	**$92,037**
Capital Expenditures	($24,041)
Intangibles	$0
Change In Other Long-term Assets	$0
Fixture & Investments	($24,041)
CASH AFTER INVESTMENTS - surplus or (needs)	**$67,996**
Change In Short Term Notes	$0
Change Long-term Debt	$60,000
Financing Activity	$60,000
Addbacks	$0
CHANGE IN CASH (before tax or distributions)	**$127,996**





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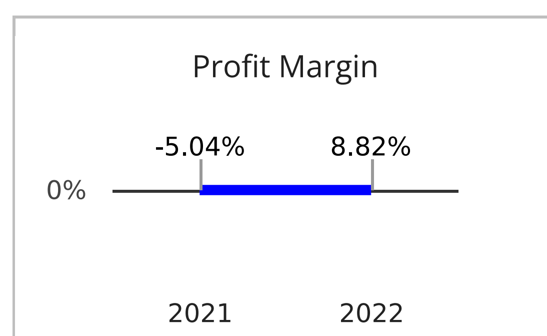
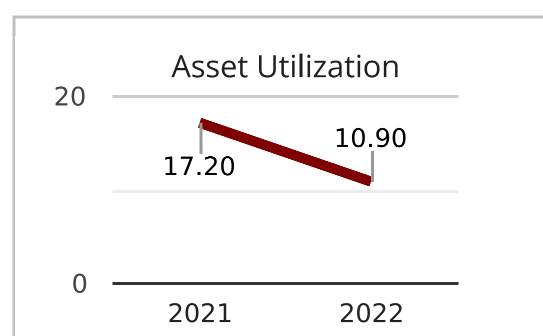
RATIO REVIEW	2021	2022
PROFITABILITY RATIOS		
Sales Growth (> is better)		558.91%
Gross Profit Growth (> is better)		761.45%
Operating Expense Growth (< is better)		639.50%
Operating Income Growth (> is better)		2734.43%
Cost Of Goods Sold	35.66%	15.88%
Operating Expense	66.67%	74.82%
Operating Income	(2.33%)	9.30%
Net Profit Before Tax	(5.04%)	8.82%
Operating EBITDA Margin	(2.33%)	11.07%
Return on Assets (> is better)	(86.67%)	96.15%
Return on Equity (> is better)	(260.00%)	(2000.00%)
Return on Capital Employed (> is better)	(130.00%)	157.89%
LIQUIDITY RATIOS		
Current Ratio (> is better)	3	2.34
Quick Ratio (> is better)	3	1.83
Near Term Cash (cash + AR - AP)	$5,500	$50,350
Working Capital (> is better)	$5,000	$39,502
Working Capital to Sales (< is better)	3.88%	4.65%
Working Capital Turnover (> is better)	25.80	21.52
ACTIVITY RATIOS		
Accounts Receivable Days (< is better)	0	3.44
Inventory Days (< is better)	0	40.56
Accounts Payable Days (> is better)	15.87	7.16
Working Capital Days (> is better)	14.15	16.96
Cash Conversion Cycle (< is better)	(15.87)	36.83
Asset Turnover (> is better)	17.20	10.90
Fixed Asset Turnover (> is better)	-	94.44
Sustainable Growth Rate (> is better)	(169.00%)	(1300.00%)
FINANCIAL RATIOS		
Term Debt to Net Worth	0	(4.80)
Debt To Net Worth (< 4:1 is better)	0.50	(7.24)
Debt to Assets (financing assets)	0.33	1.16
Capitalization Ratio (<30% is better)	0.00%	126.32%
Interest Coverage (>3 is better)	-	-
Debt Service Coverage Ratio (1.25 is better)	-	-





POINTS TO CONSIDER

In the latest period improved expense controls contributed to an increase in the Return on Assets (ROA) and the Asset Utilization negatively impacted the ROA. The ROA is one of the most important measures on overall company performance. Expense controls and driving the most sales from the assets are the key to building value.

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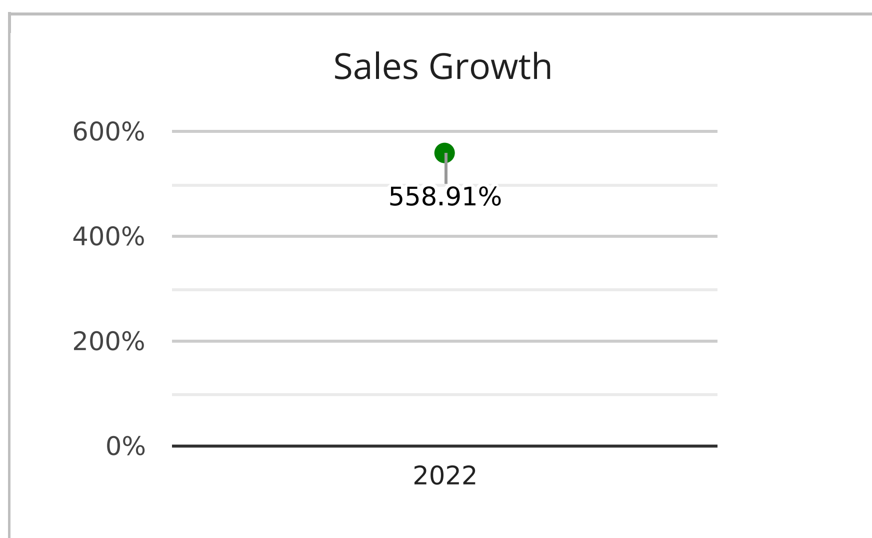
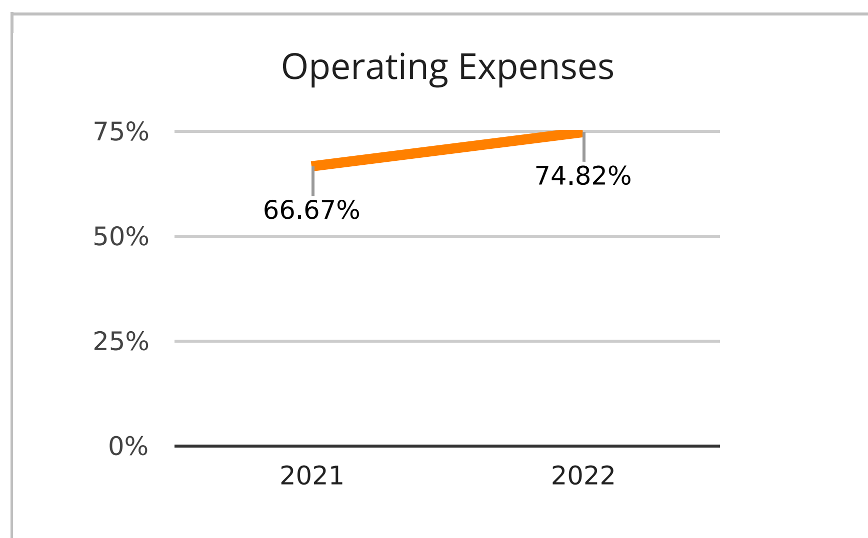
FORECASTING THE CASH DRIVERS

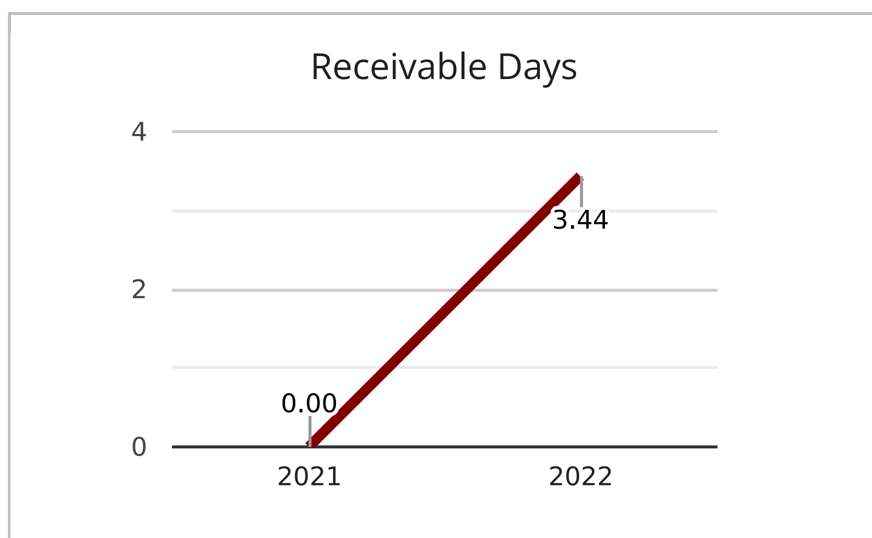
The historical ratios that drive a company's earnings and cash flow are called the Cash Drivers and are displayed on the table below called "Cash Drivers & Forecast". These cash drivers are the engine that generates and consumes cash for all businesses and optimizing these cash flows will improve a company's value. The industry in which the company participates will likely govern what cash drivers the company may or may not have.

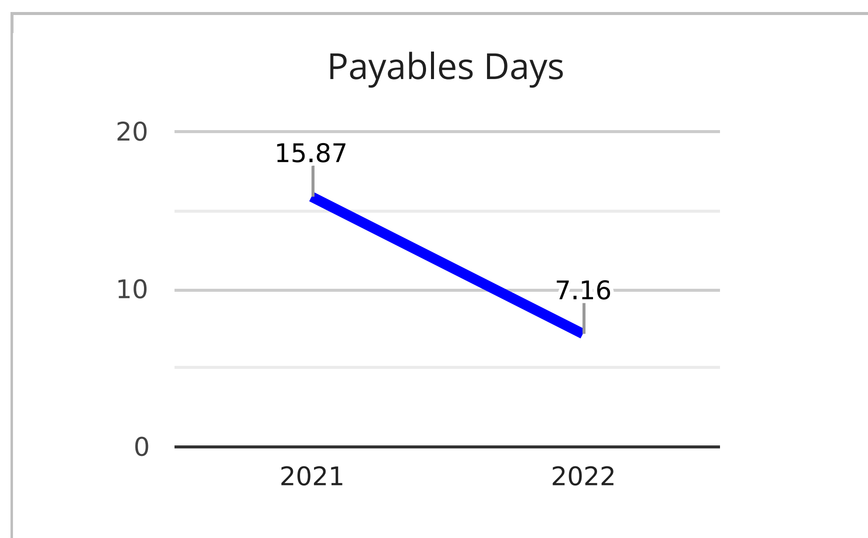
After talking to management and/or the client and reviewing the Company's financial operations, the forecasted ratios have been estimated and can be found in the last column labeled "Forecast". The estimated ratios and percentages are based on past performance and reasonable expectations. All cash drivers have been reviewed for trends and expectations for future performance.

The estimated cash drivers will impact the financials of the company (income statement and balance sheet) over the next several years. The resulting income statement forecast and corresponding balance sheets will be estimated on the next page of this report. The financial forecast is applied in the Income Approach.









Cash Drivers & Forecast	2021	2022	Forecast
Primary Cash Drivers			
Sales Growth		558.91%	10.00%
Cost Of Goods Sold	35.66%	15.88%	20.00%
Operating Expenses	66.67%	74.82%	0.00%
Secondary Cash Drivers			
Accounts Receivable Days	0	3.44	3.44
Inventory Days	0	40.56	6.44
Accounts Payable Days	23	50.94	1.14
Capital Expenditures	0.00%	1.06%	2.00%

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Income Statement (Forecast)	2023	2024	2025	2026	2027
INCOME STATEMENT BRIEF					
Sales	$935,000	$1,009,800	$1,090,584	$1,177,831	$1,272,057
Sales Growth	10.00%	8.00%	8.00%	8.00%	8.00%
Cost of Goods Sold	$187,000	$201,960	$218,117	$235,566	$254,411
Gross Profit	$748,000	$807,840	$872,467	$942,265	$1,017,646
Gross Profit Margin	80.00%	80.00%	80.00%	80.00%	80.00%
OPERATING EXPENSES					
Depreciation	$16,550	$17,873	$19,303	$20,848	$22,515
Selling, General & Admin Expenses	$656,651	$709,183	$765,917	$827,191	$893,366
Total Operating Expenses	$673,200	$727,056	$785,220	$848,038	$915,881
Operating Income (EBIT)	$74,800	$80,784	$87,247	$94,226	$101,765
Operating Income %	8.00%	8.00%	8.00%	8.00%	8.00%
Operating EBITDA	**$91,350**	**$98,657**	**$106,550**	**$115,074**	**$124,280**
EBITDA %	9.77%	9.77%	9.77%	9.77%	9.77%
Net Operating Profit After Tax (NOPAT)	**$47,124**	**$50,894**	**$54,965**	**$59,363**	**$64,112**
NOPAT %	5.04%	5.04%	5.04%	5.04%	5.04%

Balance Sheet (Forecast)	2023	2024	2025	2026	2027
ASSETS					
Cash	$49,500	$53,460	$57,737	$62,356	$67,344
Accounts Receivables	$8,800	$9,504	$10,264	$11,085	$11,972
Inventory	$3,300	$3,564	$3,849	$4,157	$4,490
Other Current Assets	$1,100	$1,188	$1,283	$1,386	$1,497
Current Assets	**$62,700**	**$67,716**	**$73,133**	**$78,984**	**$85,303**
LONG-TERM ASSETS					
Net Fixed Assets	$9,900	$10,692	$11,547	$12,471	$13,469
Other Long Term Assets	$0	$0	$0	$0	$0
Total Assets	**$72,600**	**$78,408**	**$84,681**	**$91,455**	**$98,771**
LIABILITIES					
Accounts Payable	$583	$630	$680	$734	$793
Current Maturities of Long-Term Debt	$0	$0	$0	$0	$0
Notes Payable	$0	$0	$0	$0	$0
Other Current Liabilities	$29,533	$31,895	$34,447	$37,203	$40,179
Current Liabilities	**$30,116**	**$32,525**	**$35,127**	**$37,937**	**$40,972**
LONG-TERM LIABILITIES					
Term Debt	$60,000	$60,000	$60,000	$60,000	$60,000
Other Long Term Liabilities	$1,102	$1,190	$1,286	$1,388	$1,500
Total Liabilities	**$91,218**	**$93,715**	**$96,413**	**$99,326**	**$102,472**
LIABILITIES & EQUITY					
Shareholders' Equity	**($18,618)**	**($15,307)**	**($11,732)**	**($7,871)**	**($3,700)**
Total Liabilities & Equity	**$72,600**	**$78,408**	**$84,681**	**$91,455**	**$98,771**
WORKING CAPITAL					
Working Capital	$32,584	$35,191	$38,006	$41,047	$44,330
Working Capital (No Debt)	($16,916)	($18,269)	($19,731)	($21,309)	($23,014)
Working Capital Change	$11,418	$1,353	$1,462	$1,578	$1,705

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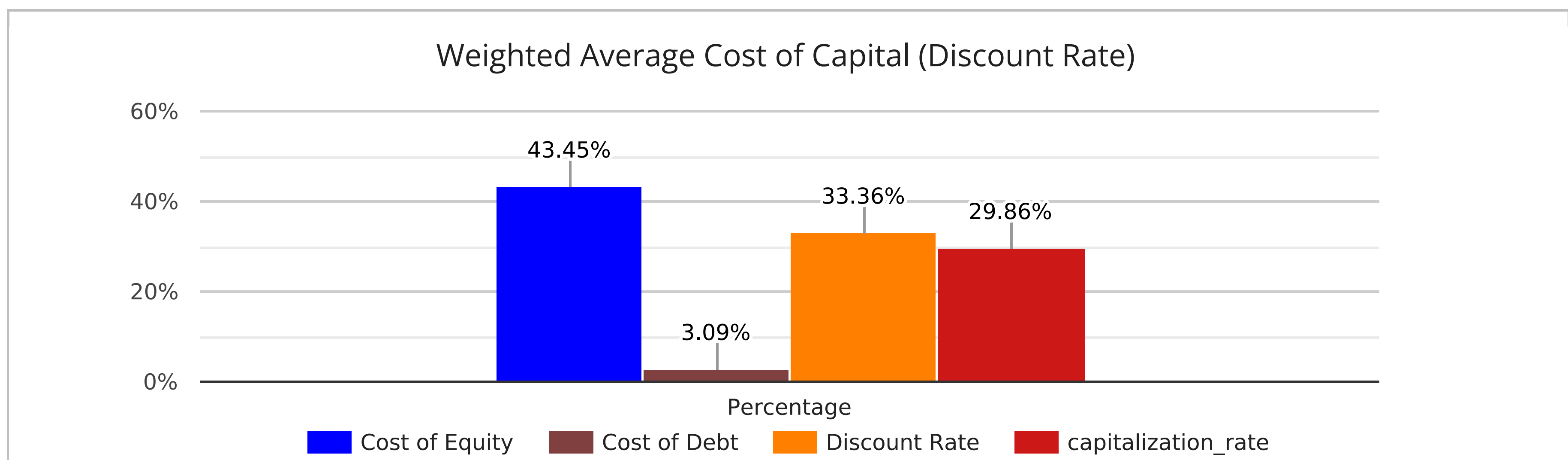
BUILD UP METHOD, DISCOUNT AND CAPITALIZATION RATE

The Build Up Method (BUM) applies risk factors to a proposed investment to arrive at the Discount Rate which is used in the Income Approach to Value. The BUM adds the Risk-Free Rate (assumes no risk on T Bills), the Equity Risk Premium (risk of equity above the T Bill), the Company Specific Risk Premium (CSRP) which is a non-diversified company risk, the Industry Risk (specific to the subject's industry) and Size Premium Risk (smaller companies have more risk). These risk factors total the Cost of Equity which is the rate of return an investor would seek on this type of investment in the subject company. The 20 year T-bill is a "normalized" rate that considers the Federal Reserves' policies to increase the money supply which drives interest rates lower.

The CSRP was given 28.00% points which adds to the investment risk which decreases value. The Cost of Equity and the Cost of Debt are weighted proportionately to determine the industry's capital structure and is called the Weighted Average Cost of Capital (WACC) and is commonly referred to as the Discount Rate (Cost of Capital). The Discount Rate is applied to the future cash flows in the Discounted Cash Flow Method on the next page. The long-term Growth Rate is deducted from the Discount Rate to arrive at the Capitalization Rate. The Capitalization Rate is applied to the Capitalization of Earnings method reviewed on the "Valuation Approaches" page.

Discount & Capitalization Rate	Percentage
Risk Free Rate	3.50%
Equity Risk Premium	6.00%
Industry Risk Premium	1.15%
Size Premium	4.80%
Company Specific Risk Premium	28.00%
Cost of Equity	**43.45%**
Cost of Debt (tax effected)	3.09%
Discount Rate (WACC)	**33.36%**
Growth Rate Terminal Year	3.50%
Capitalization Rate	**29.86%**



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THE WEIGHTED AVERAGE COST OF CAPITAL DETAIL

Calculating the Cost of Equity is the first part to estimate the weighted average cost of capital. ABC Software, Inc.'s Cost of Equity is 43.45%. The information source is the CRSP Deciles Size Study from Duff & Phelps Cost of Capital (online) and the formula is:

Ke = Rf + ERP + RPi + RPs + CSRP

Ke = Cost of equity

(Source: Duff & Phelps Cost of Capital, normalized 20-year treasury)

Rf = Risk free rate of return on security

(Source: Duff & Phelps Cost of Capital)

ERP= Equity risk premium

(Source: Duff & Phelps Cost of Capital)

RPi = Industry risk premium

(Source: Duff and Phelps Cost of Capital Full Beta)

RPs = Risk premium on small stocks

(Source: Duff and Phelps Cost of Capital CRSP Decile 10)

CSRP = Company specific risk premium

(The CSRP is added to account for risk above the financial markets)

The Weighted Average Cost of Capital (WAAC) or Discount Rate for ABC Software, Inc. is 33.36%. The WACC proportionately weights the capital structure with the industry's capitalization of equity and debt. To arrive at the WACC the Cost of Equity and the Cost of Debt need to be calculated. The formula is:

WACC = (Ke x's E) + (Kd x's D)

WACC = Weighted average cost of capital

Ke = Cost of equity

Kd = Cost of debt

E = Percentage of equity in the capital structure

D = Percentage of debt in the capital structure

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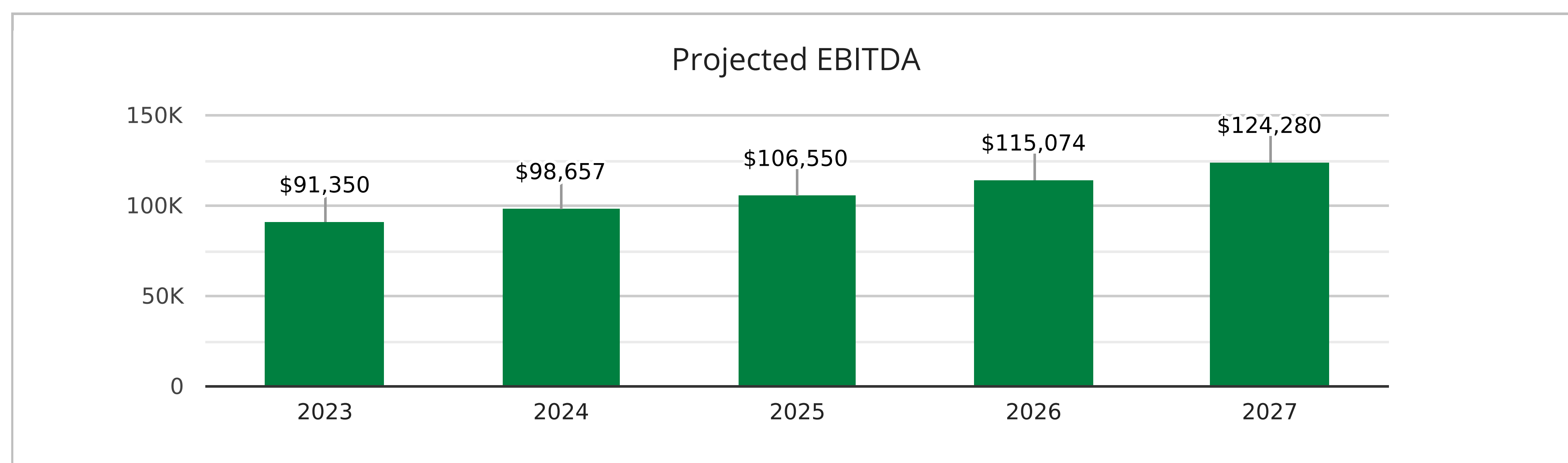
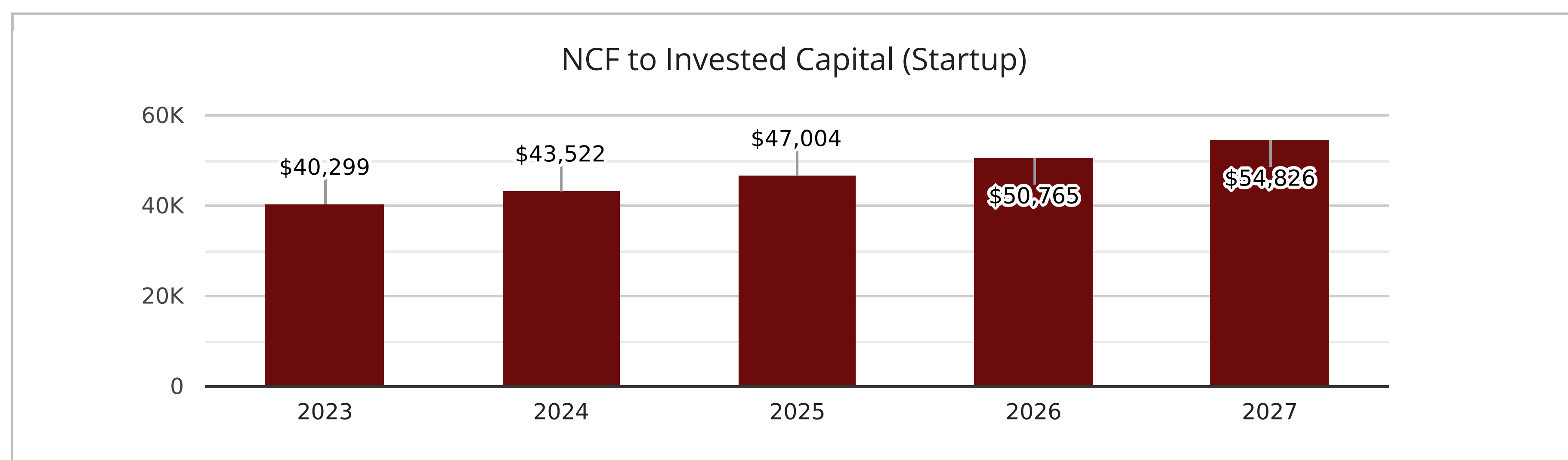
NET CASH FLOW (TO INVESTED CAPITAL)

The Net Cash Flow to Invested Capital is the cash available to debt and equity holders and is projected for a period of years (below). In the "termination" year after the last projected year, the shareholders theoretically recapitalize the business to total the sale proceeds along with the years of Operating Net Cash Flow. The Terminal Value is based on the month after the last projected year of net cash flow which is capitalized using the Capitalization Rate. The present value of the sum of the Operating Net Cash Flow plus the Terminal Value cash flow is presented on the next page under the Discounted Cash Flow Method.

Mid-Year or End-of-Year Convention Note: When applying the discount rate, it is typical to use either the end-of-year or mid-year in assuming the timing of the annual cash flows. Normally the mid-year best reflects the timing of the cash flows as the first half of cash flows will be overly discounted and the last half of the year will be under discounted. However the mid-year convention is best as the first and last half both cancel each other out and the middle of the year takes precedence. The end-of-year convention assumes the cash flows will come in at the very end of the year such as strong retail holiday sales. This report uses the mid-year convention.

Net Cash Flow to IC	2023	2024	2025	2026	2027
Revenue	$935,000	$1,009,800	$1,090,584	$1,177,831	$1,272,057
Growth Rate	10.00%	8.00%	8.00%	8.00%	8.00%
EBITDA	$91,350	$98,657	$106,550	$115,074	$124,280
EBITDA %	9.77%	9.77%	9.77%	9.77%	9.77%
Income Taxes (37% Marginal Rate)	($27,676)	($29,890)	($32,281)	($34,864)	($37,653)
Capital Expenditures	($18,700)	($20,196)	($21,812)	($23,557)	($25,441)
Working Capital Change	($4,675)	($5,049)	($5,453)	($5,889)	($6,360)
NCF to Invested Capital (Startup)	$40,299	$43,522	$47,004	$50,765	$54,826





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DISCOUNTED CASH FLOW METHOD (INCOME APPROACH)

The Net Cash Flow (NCF) is projected for 10 years. In the "termination" year after the tenth year, the shareholders theoretically recapitalize the business to total the sale proceeds and 10 years of operating net cash flow. The terminal value is based on the month after the tenth year's net cash flow which is capitalized using the Capitalization Rate. The DCF Method is the present value of the two cash flows. **This report uses a ten year cash flow review.**

Discounted Cash Flow Method (NCF to IC)	Present Value
Discounted Value of Operating Net Cash Flow	$1,072,252
Discounted Cash Flow of Terminal Value	$596,366
Discounted Cash Flow Method (DCF)	**$1,668,618**

THE TERMINAL VALUE METHOD

The mean of the selected Market Selling Multiples reflects public or private companies selling multiples of EBITDA. The Terminal Value Method is a variation of the Selling Multiples Method that is applied to startup businesses. Rather than applying the latest EBITDA to the applicable 'selling' multiple, the Terminal Value Method applies this multiple to the estimated EBITDA in the **tenth** year after the Company is achieving sales and earnings. That value is brought to the present value using the discount rate. For the purposes of this valuation report, the industry multiples apply the industry mean and not individual companies within the industry. We believe the industry mean is a broad and accurate number.

Terminal Value Method	Values
Latest Proj. EBITDA	$4,386,568
EBITDA Multiple	11.10
EBITDA Applied Value	$48,690,908
Applied Discount Rate	33.36%
Present Value	$2,736,632

NET ASSET VALUE METHOD (ASSET APPROACH)

The asset approach subtracts the market value of the liabilities from the market value of the assets to arrive at the Net Asset Value. If the asset and liabilities have been adjusted, this will be expanded on the next two pages.

Net Asset Value	Value
Total Assets	$378,321
Total Liabilities	$90,500
Net Asset Value	**$287,821**

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INTANGIBLE ASSET VALUE

Where tangible assets are visible or recorded assets, intangible assets typically only get recorded on the balance sheet if those assets are purchased. Intangible assets have no physical presence, however they do provide long-term value for the business. Intangible assets include items like copyrights, patents, processes, customer lists, trademarks, brand recognition, intellectual property, license agreements, etc. Intangible assets improve a company's long-term value and often increase the value of the tangible assets.

Startup businesses create intangible assets by investing in their business by expensing their investments. While tangible assets can be current or fixed assets, intangible assets are usually not recorded on the balance sheet. The Net Asset Value is sometimes used in a business valuation and the assets need to be adjusted to reflect the market value of those assets. Because startup businesses typically don't purchase their intangible assets, the cost approach to valuing these assets is normally used. A very detailed and expensive method to calculate the intangible assets is to break down all spending over the years by the hours and cost of creating and improving each specific asset and applying a needed rate of return on those assets.

This valuation estimates the market value of the intangible assets by totaling the historic operating expenses to date, and applying a needed rate of return that an investor would expect to receive on this investment. Because a startup business has a high risk associated with this investment, the Discount Rate in this report is used which reflects the return an investor would expect to receive on these assets.

COMPOUND ANNUAL RETURN

This report uses a compounded annual return on the investments made every year to improve the intangible assets. The first year applies the discount rate to the first year of operating expenses to arrive at the estimated intangible improved asset value for the first year. The second year adds the intangible asset value from the previous year with the second year of operating expenses for the running total investment and then applies the discount rate to arrive at the running improved intangible assets for first two years, and so on. After the total intangible asset improvement has been calculated, a percentage is applied to estimate the market value of the intangible assets.

Calculation for Intangible Asset Value

Total Operating Expenses To Date (including interim expenses)

Times: (1 + Discount Rate)

Equals: Gross Intangible Asset Calculation

Times: Expense % attributed to building the intangible assets

Equals: The Adjusted Intangible Asset Value

ANNUAL CONTRIBUTION TO INTANGIBLE ASSET VALUE SUMMARY

In this case the historic and any interim expenses have been totaled and multiplied by the 33.36% expected total annual Return on Investment (plus the investment) which totaled a gross intangible asset calculation of $1,001,069. This annual calculation was performed and totaled for each year. A 30.00% figure was applied to the gross calculation which estimates the investment contribution to the intangible asset improvement which was $300,321. This intangible asset adjustment and calculation can be found on the Net Asset Value table on the next page.

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NET ASSET VALUE AS OF 2022-12-31

Net Asset Value	Historic	Adjustment	Adjusted
CURRENT ASSETS			
Cash & Equivalents	$45,000	$0	$45,000
Accounts Receivable	$8,000	$0	$8,000
Inventory	$15,000	$0	$15,000
Other Current Assets	$1,000	$0	$1,000
Total Current Assets	**$69,000**	**-**	**$69,000**
LONG-TERM ASSETS			
Net Fixed Assets	$9,000	$0	$9,000
Other Long-Term Assets	$0	$300,321	$300,321
Total Assets	**$78,000**	**-**	**$378,321**
CURRENT LIABILITIES			
Current Maturities of LT Debt	$0	$0	$0
Accounts Payable	$2,650	$0	$2,650
Notes Payable	$0	$0	$0
Other Current Liabilities	$26,848	$0	$26,848
Total Current Liabilities	**$29,498**	**-**	**$29,498**
LONG-TERM LIABILITIES			
Term Debt	$60,000	$0	$60,000
Other Long-Term Liabilities	$1,002	$0	$1,002
Total Liabilities	**$90,500**	**-**	**$90,500**
NET ASSET VALUE	**($12,500)**	**-**	**$287,821**

Annual Intangible Calculation	Values
ANNUAL INTANGIBLE ASSET CALCULATION	
Total Investment Intangibles	$721,967
Return On Investment	$279,102
Gross Intangible Asset Build	$1,001,069
Applied Contribution % to Intangibles	30.00%
Adjusted Intangible Asset Improvement	**$300,321**

NOTE: The balance sheet has been adjusted to reflect current market values of applicable assets and liabilities.

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ALLOCATED VALUATION FOR FMV

Startup companies can review several methods and calculations to determine value. The Discounted Cash Flow (DCF) estimates several years of cash flows and is useful when the forecast has a reasonable confidence level.

The Terminal Value applies the last forecasted year of earnings to an industry selling multiple which is useful when the cash flow expectations has a reasonable confidence level and the cash flow comes in the latter forecasted years.

The Net Asset Value is the market value of the assets less the market value of the liabilities and is useful when companies are in the early stages and value is best represented by the assets and liabilities.

If companies are in the early stages and have raised capital at an agreed upon valuation, the Prior Transaction Method (Market Approach) can be useful. The Funding Method is a general rule that capitalizes the company based on a multiple of funds being raised.

The DCF was weighted 50.00%; the Terminal Value was weighted 50.00%; the Net Asset Value was weighted 0.00%; the Prior Transaction Method was weighted 0.00% and the Funding Method was weighted 0.00%. This allocation best represents the Fair Market Value.

Allocation	Valuation	Weighting	Applied Value
Discounted Cash Flow Method	$1,668,618	50.00%	$834,309
Net Asset Value	$287,821	0.00%	$0
Terminal Value Method	$2,736,632	50.00%	$1,368,316
FMV for 100% Interest		100.00%	$2,202,625

ALLOCATION CONCLUSION

ABC Software, Inc. is valued at approximately $2,202,625 for the enterprise value. Because the company is a startup, the Terminal Value Method was reviewed rather than the Selling Multiples Method that applies the latest income stream to an industry multiple. As a company that resembles a startup business (larger expected ramp up in revenues, margins or intangible assets) the Terminal Value Method, the Discounted Cash Flow Method, the Net Asset Value, and if available, the Prior Transaction Method have been reviewed to estimate enterprise value.

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DISCOUNTS ON NONCONTROLLING AND NONMARKETABLE INTEREST

This valuation estimates a noncontrolling and a nonmarketable ownership interest in a closely held business. The difference between a liquid investment and a non-liquid investment is called the Discount for Lack of Marketability (DLOM). In non-liquid events a valuation can apply the DLOM adjustment in order to arrive at the correct valuation for the noncontrolling and nonmarketable shares. Marketability refers to the time and ease it takes to transfer an asset to a buyer. Publicly traded stock that trades in large volumes with a lower transaction costs is generally liquid versus privately held equities that don't have a ready market and would involve a higher transaction cost. A noncontrolling interest is a fractional interest in a company (generally less than 50% of the shares). Liquidity references the speed and success factor in converting an asset or liability to a buyer.

The amount of buyers for a noncontrolling and nonmarketable assets or liabilities of a closely held company are a small percentage of the market when compared to publicly traded assets. In addition there are other costs involved in registering these restricted shares to sell on the open market and these shares generally don't offer strong collateral in the case of needed financing.

Valuation experts have conducted various empirical models (Restricted Stock Studies) to estimate the DLOM. The concept is that when publicly-traded companies issue restricted stock that is not registered, the restricted unregistered stock is sold at a discount to the registered stock which reflects the nonmarketable value of closely held equity interests.

These restricted stock studies review the investment holding periods, trading volume and other information. These studies that cover twenty studies average a 35% discount. The studies offered in the table below reference five of those twenty studies and average a 35% DLOM. This 35% discount will be applied to the subject interest in valuing the stock value.

Restricted Stock Studies (DLOM)	Mean %
1. Gelman (Jan 1969 to Dec 1969)	33.00%
2. Maher (Jan 1969 to Dec 1973)	35.40%
3. Moroney (Jan 1969 to Dec 1972)	35.60%
4. Silber (Jan 1981 to Dec 1988)	33.80%
5. Trout (Jan 1968 to Dec 1972)	33.50%
Average (rounded)	35.00%

SOURCE

1. Milton Gelman, An Economist Financial Analyst's Approach to Valuing Stock of a Closely Held Company, Journal of Taxation, June 1972.
2. Michael Maher, Discounts for Lack of Marketability for Closely Held Business Interest, Taxes, Sept 1976.
3. Robert Moroney, Most Courts Overvalue Closely Held Stocks, March 1993.
4. William Silber, Discounts on Restricted Stock – The Impact of Illiquidity on Stock Prices, Financial Analysts Journal, July 1991.
5. Robert Trout, Estimation of the Discount Associated with the Transfer of Restricted Securities, Taxes, June 1997.

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Shares Valued	Share Value
Shares Outstanding	5,000,000
Shares Being Valued	5,000,000
Value for 100% of Company	$2,202,625
Value For Lot	$2,202,625
Price Per Share $	**0.44**
Price Per Share After DLOM $	**0.29**

VALUATION CONCLUSION

The Company is being valued for 5,000,000 shares of the Company. The Fair Market Value (enterprise value) of ABC Software, Inc. is estimated at $834,309. The value is $0.44 per share. The DLOM was also applied in this valuation. **After adjusting for the 35% DLOM, the price per share is $0.29.**

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APPRAISER'S INDEPENDENCE

A business appraiser offers an objective and independent opinion of value of the business interest and does not act in an advisory function. In this valuation, the appraiser is offering an objective and independent opinion of value of the business interest. The appraiser is independent of the client and has no ownership interest, employee benefits or role in the company, is not an officer of the company and has no ongoing role in the future of the company. The consideration paid to an appraiser for an engagement should not be subject to meeting a client's expected concept of value. The appraisal fee for this valuation engagement is not dependent on any expectations of the client's perceived value of the asset being valued. Regarding this valuation engagement, we are not acting as an advisor, are not receiving any benefits other than the flat valuation fee paid and have retained total independence.

DANIEL P. O'CONNELL, AM, BV, AMERICAN SOCIETY OF APPRAISERS

Dan has been active in the appraisal business for over 30 years and has testified in Federal and State jurisdictions providing expert testimony regarding company valuations for business damages, marital resolution of assets and shareholder disagreements. Dan co-founded Stonebridge Advisory Inc., and has been active in the financial services industry with a strong background in corporate finance, investment banking, financial analysis and business strategies. Dan consulted with hundreds of companies with $2 million to $250 million in sales on how to build equity in the business and has been active in the mergers and acquisitions area representing privately-owned businesses with $5 million to $100 million in sales as well as representing buyers for strategic acquisitions, assisting business owners in recapitalizing their balance sheet, raising growth capital, business reorganizations and buyouts.

Dan has performed business valuations ranging from startup businesses to service and manufacturing firms, to distribution and retail companies. In a career as a financial analyst and as an appraiser, Dan offers clients a unique perspective and depth of knowledge in the service, distribution, manufacturing and retail sectors. Dan has provided business valuations for various purposes including buying or selling a business, partner buy-sell situations, company recapitalizations, business planning, a review of value creation, issuing stock options with a 409 (a) valuation, 83 (b) elections, shareholder disputes, fairness opinions, litigation, estate planning, estate valuations, gifting for tax purposes, succession planning, economic loss, divorce and valuing patents or other intangible assets. Dan graduated from St. John's University with a major in Business Administration and Management and is an Accredited Member, AM, BV, American Society of Appraisers and has USPAP Certification (Uniform Standards of Professional Appraisal Practice).

RYAN P. O'CONNELL, IRS QUALIFIED BUSINESS VALUATIONS

Ryan has a background in sales and business development having worked with large U.S. companies as well as small businesses. Ryan co-founded Stonebridge Advisory Inc. and incorporates IRS Revenue Ruling 59-60 guidelines that meet the IRS's *Qualified Valuation* status for business valuations. Ryan has produced hundreds of business valuations in the manufacturing, retail, distribution, professional, and service sectors and has a strong knowledge base in accounting, financial statements and business valuations.

Ryan has provided business valuations for various purposes including buying or selling a business, partner buy-sell situations, business planning and a review of value creation, gifting for tax or transfer purposes, succession planning, economic loss, issuing 409 (A) stock options, estate planning, litigation and marital asset dissolutions.

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ADJUSTMENTS TO THE FINANCIAL STATEMENTS

A valuation reviews the benefits stream (income measure such as EBITDA) where owner discretionary spending is adjusted or added back to earnings to 'restore' the financial statements to a normalized basis. These adjustments can be made on the income statement and would include items such as one-time charges not expected to occur again and any shareholder distributions beyond a normal salary or expenses not pertinent to the day-to-day operations of the business. The balance sheet can also be adjusted to separate non-operating assets from the operating assets. The value of the non-operating assets is added to the fair market value.

BUILD UP METHOD (BUM)

The BUM's purpose is to measure the totality of a company's business risk. The risk measure starts with a risk-free rate which is the expected return on 20 Year Treasury Bills backed by the U.S. government. These risk-free investments generally offer a low risk and therefore lower rates of return. A company does not have the backing of the U.S. government and as an equity risk, the risk is higher than the T Bill. This Equity Risk is the risk of the equity investment beyond that of the risk-free rate. The Company Specific Risk Premium considers the non-diversified risk or the fact that this risk can't be diversified or spread over several companies or industries. In this valuation, we are including a size risk premium due to the subject company being smaller than the Guideline Public Companies used in the comparisons.

CAPITALIZATION METHOD

The Capitalization Method converts a company's benefit stream to a present value of the business. The Capitalization Method can use alternative measures such as Cash Flow to Equity or Cash Flow to Invested Capital. The formula is Benefit stream / Cap Rate.

CAPITALIZATION RATE

The Capitalization Rate is a percentage number calculated by deducting a company's growth rate from the Discount Rate. The Capitalization Rate is used to convert a company's single period benefits (income stream) to a capitalized value of a business.

DISCOUNTED CASH FLOW METHOD

Discounted Cash Flow (DCF) is the present value of future income streams. The DCF Method calculates the present value of a company's benefits stream (cash flow) and termination value, to present value of the business value. DCF utilizes the discount rate in the calculation.

DISCOUNT RATE

The Discount Rate is the risk rate used in a valuation to convert multiple periods of future benefits (income stream) to a capitalization value (present value). The discount rate utilizes the weighted average cost of capital (WACC) debt and equity participants would require given the risk of the future income stream of a business. The smaller the discount rate, the larger the business value.

EXCESS WORKING CAPITAL

When companies sell, buyers expect sellers to deliver the appropriate working capital at the closing, that is consistent with the industry or the needed liquidity to maintain the business. This working capital variance can be positive (cash back to seller) or negative (credit to buyer). If working capital is insufficient, buyers will consider the variance as purchase price which means a reduction in value.

GUIDELINE PUBLIC COMPANIES METHOD

The Market Approach uses selling multiples from Guideline Public companies where stock is traded daily. Accessing private data on company transactions can be difficult and spotty. Publicly traded companies are typically larger than private companies, are better capitalized, have more transparency, and are openly traded. Therefore, private company multiples are normally discounted by 30% due to size and liquidity. Public companies traded in volume presents a strong valuation model.

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NET CASH FLOW TO INVESTED CAPITAL

The Net Cash Flow (NCF) to Invested Capital is a widely used measure in determining the cash flow that is available to debt holders and shareholders. The NCF begins with the earnings before interest, taxes, depreciation and amortization or EBITDA. Interest is added back to reflect a debt free company (no debt, no interest paid). Because taxes will be paid and capital expenditures may be needed, these costs are subtracted from the EBITDA numbers. This net cash flow is used in the Discounted Cash Flow and Capitalization of Earnings Method.

WEIGHTING THE METHODS OF VALUE

Some valuation methods might better reflect value for a specific company. Experts select which methods best fits with the subject company being appraised to arrive at the Fair Market Value. A weighted average best suits most companies for a market-based appraisal. This valuation weighs up to five different methods to arrive at Fair market Value.

WEIGHTED AVERAGE COST OF CAPITAL (WACC)

The weighted average cost of capital is the rate of a company's funding (debt and equity). WACC is the amount the debt and equity holders expect to receive and is the minimum return that is normally required by a company. If a company's ROIC is greater than the WACC, value is being created. If less, value is being diminished.

MARKET VALUE OF EQUITY (MVE)

The Market Value of Equity (MVE) is based on the income stream of a business including interest on debt and principal amounts. By deducting the interest payment from the Net Cash Flow and considering the change in the debt (principal), the company is valuing its equity. The Net Cash Flow to MVE is the cash available to the shareholders as the debt holders have been paid.

MARKET VALUE OF INVESTED CAPITAL (MVIC)

The Market Value of Invested Capital (MVIC) is based on the income stream of a business and does not include interest on debt or any principal amounts. By not deducting any interest payment from the Net Cash Flow and not considering the change in the debt (principal), the company is valuing the business based on the enterprise value of debt and equity. The Net Cash Flow to MVIC is the cash available to the shareholders and the debt holders.

SCOPE OF APPRAISAL

The scope of the appraisal defines the comprehensiveness of the process, the extent of the procedures used, and the detail of information collected and analyzed. The valuation scope ranges between a limited and a comprehensive valuation. A 'Calculated Value' such as this valuation, is a limited valuation. A calculated valuation provides an approximate indication of enterprise value or range of value based on limited procedures and information deemed to be relevant. The information collected is deemed to be accurate as presented by company management.

STANDARD OF VALUE

The standard of value refers to the type of value to be assessed. There are four types of values: Fair Market Value, Fair Value, Investment Value and Intrinsic Value. The Fair Market Value is the most common standard and is the value an asset would expect to sell for on the open market given broad assumptions. The Fair Value deals mostly with a fair value for legal purposes, and not the market or economic value. The Investment Value is based on what an asset would sell for given a specific buyer which is opportunistic in nature and is considered strategic. The Intrinsic Value considers all factors any prudent investor would see in the inherent value of a business and does not consider any extreme aspects of market conditions or behaviors.

GOODWILL (INTANGIBLE ASSETS)

Goodwill is the portion of the business value beyond the value of the identifiable tangible and intangible assets of the business. Goodwill is an intangible asset and is usually the result of an acquisition or purchase.

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ENGAGEMENT'S LIMITING CONDITIONS

1. This valuation is only valid for the stated purpose and as of the date listed in the Appraisal Assignment.

2. This valuation was performed with information from the Company and/or the Client. This information may include financials, ownership positions, business conditions, forecasted assumptions and other data and has been accepted and deemed to be accurate, but has not been verified. Stonebridge and the appraiser make no representations or warranties to the accuracy of this information.

3. This valuation relied upon industry information and has been accepted but not validated, but deemed accurate. Stonebridge makes no representations on the accuracy of this content.

4. Forecasted numbers are reliant on historical data and the Company or Clients vision and assumptions going forward. Because actual results can be different from forecasted results, sometimes significant variances can occur.

5. Forecasted numbers and the valuation conclusion both are predicated on continuous management execution and expertise and the company continuing to operate in such a manner as to not diminish the operations which may impact value. Because assumptions are based on client assumptions and Stonebridge has not performed an audit of the company or its financials, Stonebridge does not make any representations or warranties to the valuation conclusion as the forecast can differ from actual performance.

6. This valuation does not offer or imply any investment or accounting advice in any way. The value in this report is the product of both Company or Client information that was used in the valuation process to determine value. This report is only to be used by the intended user (the client) and only for the purpose listed in the Appraisal Assignment.

7. Any future work where the client is in need of testifying or expert witness testimony, will require a separate Expert Witness Agreement between the client and Stonebridge and the appraiser.

8. Stonebridge is not obligated to perform any future services that deal with any subject manner in this report including testimony or attendance in court, or conference calls or meetings of any type unless a separate agreement is made between the parties. Any separate agreement must agree on the services and pricing required.

9. Stonebridge is not responsible for any environmental conditions or governmental laws, codes or rulings in any event that relate to the subject company, it's shareholders or client's diminished value in the asset being appraised. Stonebridge has not conducted any compliance, analysis or review on property or general company compliance with any governmental organizations or authorities and Stonebridge makes no representations or warranties on these conditions.

10. Stonebridge recommends that the client further investigate or contact specific professionals who can provide guidance on any governmental, environmental, legal, operational or financial matters that may impact value.

11. No changes to this report can be made. Only Stonebridge is allowed to make changes.

12. This report does not present a fairness opinion as to an actual value for a proposed transaction, a solvency opinion or an investment opinion unless expressly stated in the Appraisal Assignment. Values of exchanged assets may be significantly different from the appraisal value on a specific date and between specific parties.

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