Enterprise Valuation for:

ABC Software, Inc.

PREPARED FOR: ABC Software, Inc.

Date of Report: April 09, 2023

Effective Date: February 28, 2023

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 2023-02-28. The client is ABC Software, Inc., the intended user of this report which is to be used for raising or borrowing capital. 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 no 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 when applicable, review the market selling multiples, the assets and liabilities to the extent possible and build out the Discount and Capitalization Rate which measures the 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 2023-02-28. The appraisal's estimated value for 100.00% of the company's shares or interest is $31,588,204 without any discounts and premiums. This valuation assumes a successful capital raise of $3,000,000.

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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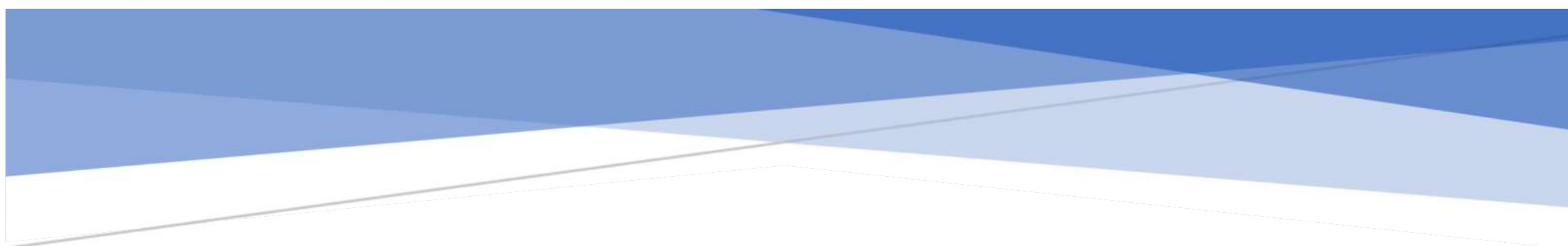

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COMPLIANCE AND PROCESSES

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.

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 100.00% of ownership interest which is defined as the enterprise value of the company which is the invested capital value (debt and equity) of the business. The Equity value is calculated by subtracting the term debt from the enterprise valuation.

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 no adjustment or Discount for a Lack of Marketability (DLOM) referred to as a 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 2023-02-28. The effective date of the valuation is 2023-02-28. 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 raising or borrowing capital.

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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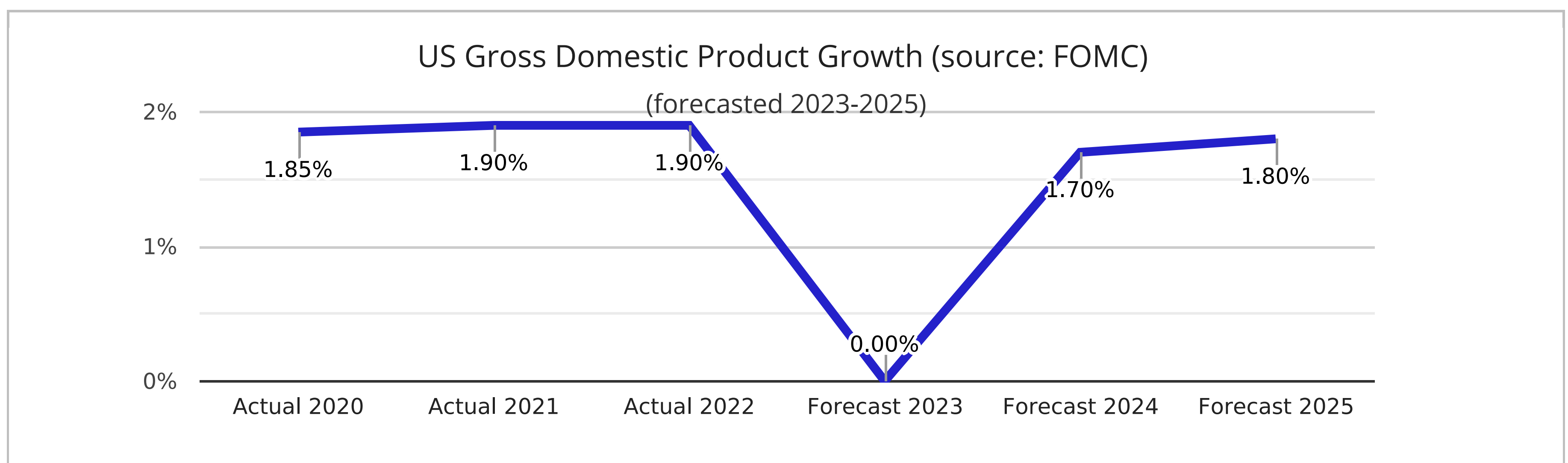
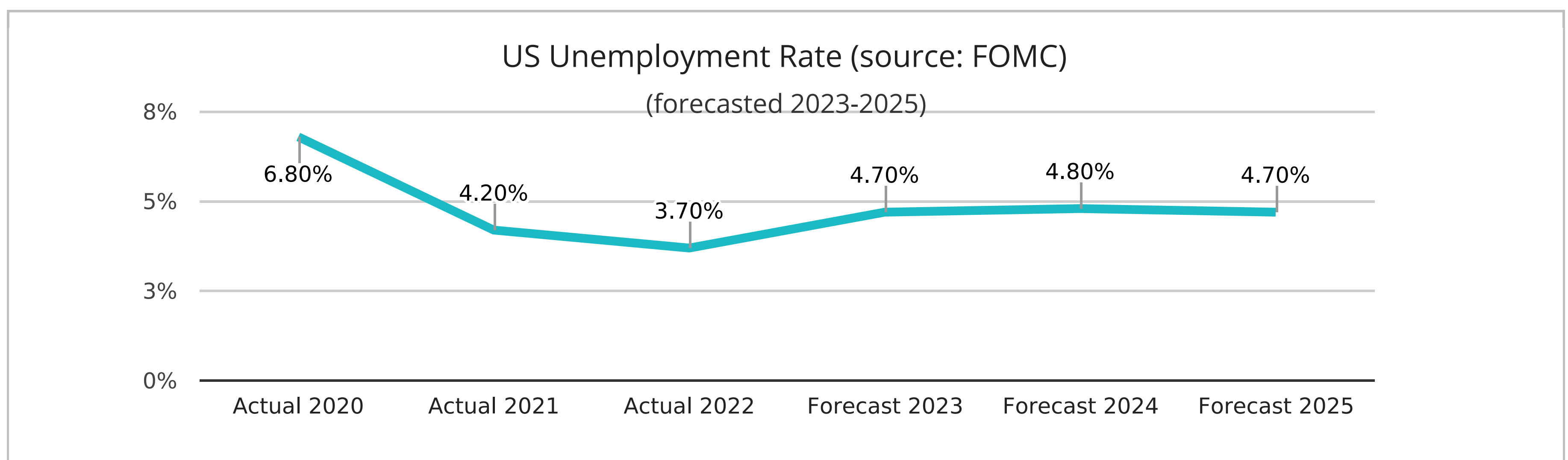
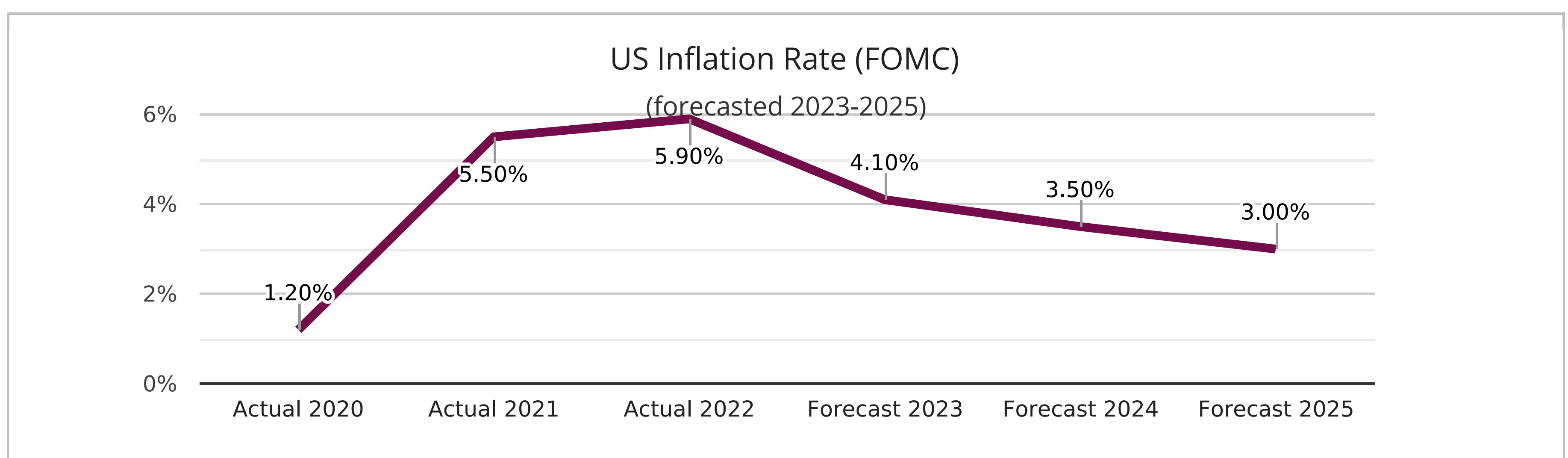
ECONOMIC ENVIRONMENT AND IMPACT

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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New version: Mobile computing devices will provide new platforms on which operators can compete

Operators in the Software Publishing industry design, develop and publish software. Industry revenue expanded rapidly over the five years to 2022, as businesses and consumers increased their investment in software, computers, smartphones and video games. Rising private investment in computers and software stimulated demand from businesses, while higher consumer spending encouraged consumers to spend on software as well. Moreover, new internet-based solutions and the increasing popularity of mobile devices have triggered an explosion of mobile software applications. Industry revenue is estimated to rise at an annualized rate of 7.1% to $442.5 billion over the past five years. Moreover, in 2020, the industry experienced strong revenue growth of 7.6%, as the COVID-19 (coronavirus) pandemic compelled businesses to increase spending on software for remote operations and consumers increased spending on social and entertainment software offerings. Revenue is anticipated to rise 0.8% in 2022.

Software publishers are often highly profitable despite the prevalence of software piracy, litigation and an expensive workforce. Publishers have focused on strategic acquisitions and product development in recent years, with large software publishers regularly acquiring smaller operators with specialties in high-growth, niche markets. Additionally, most operators have switched to the software-as-a-service (SaaS) model to stabilize cash flows. This model makes it more affordable to buy software products, enticing smaller and cash-strapped companies to subscribe while also facilitating easy scalability and frequent software updates.

Greater ubiquity of software in daily activities and the rise of predictive analytics and artificial intelligence software will benefit the industry over five years to 2027, expanding software publishers' product offerings and markets. For example, connected cars, smart appliances and automated logistics services are all expected to continue integrating with the daily activities of US consumers and businesses. Mobile computing devices are also providing new platforms on which operators can compete, while cloud computing is opening a wider array of software possibilities for smartphones and tablets that are no longer hampered by low storage capacities. Altogether, revenue is expected to rise at an annualized rate of 3.1% to $515.2 billion over the next five years.

The Software Publishing industry is engaged primarily in the dissemination of software licenses to customers for the right to execute software on their own computers and other devices.

Software publishers typically develop and distribute their own software, as well as support materials and services. Advancement in complementary industries, such as the Semiconductor and Circuit Manufacturing industry (IBISWorld report 33441a) and the Telecommunication Networking Equipment Manufacturing industry (33421), has presented new avenues for software publishers over the five years to 2022.

EXTERNAL INFLUENCES

The industry has demonstrated consistently strong revenue growth over the past five years, as total revenue is expected to increase at an annualized rate of 7.1% to $442.5 billion.

Expansive growth in both the capabilities of industry software and the markets available to developers has enabled the industry to expand, with rising consumer spending and private investment levels also bolstering demand. In 2022, industry revenue is expected to increase 0.8%. Falling per capita disposable income and a decline in the percentage of business conducted online are anticipated to decelerate revenue growth in 2022. Nonetheless, consistent demand from businesses, consumers and the government are estimated to result in revenue growth during the year.

In 2020, industry revenue grew robustly at a rate of 7.6%, as the COVID-19 (coronavirus) pandemic prompted businesses and consumers to increase spending on software. Amid government restrictions on businesses and social distancing mandates, businesses which had the ability to work from home shifted to fully remote work. Moreover, social distancing mandates and the temporary closure of many traditional entertainment options resulted in consumers spending an extraordinary quantity of time in their homes, boosting demand for social networking and entertainment software from the consumer market. Furthermore, as e-commerce replaced a large swath of in-person retail sales and services in 2020, demand from businesses rose as retailers increased their online capabilities.

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The Software Publishing industry is expected to expand over the five years to 2027.

Private investment in computers and software and the percentage of households with at least one computer are anticipated to rise during the period, which will stimulate industry demand. Moreover, faster mobile internet connections and smartphone ownership rates will also support industry growth as new markets emerge and mature.

Strong corporate profit among downstream users, such as the healthcare and finance industries, plus rising per capita disposable income among consumers, is anticipated to contribute to revenue growth over the next five years. Consequently, industry revenue is forecast to increase an annualized 3.1% to $515.2 billion over the next five years. Constantly improving technology and falling hardware prices will make computers, smartphones, video games and software more accessible. Businesses will continue to use IT to increase efficiency and security. For example, finance, insurance and healthcare companies are increasingly using security software, such as fraud detection, to protect vast amounts of data. Competence in software programs is expected to become a prerequisite for employment in a wider range of industries.

CLOUD COMPUTING AND AI

Improving technology and falling hardware prices continue to offer the digital world to the masses.

Nonetheless, the landscape of the Software Publishing industry will likely change over the next five years. Software publishers and technology companies anticipate the ongoing move toward cloud computing to accelerate. Cloud technology enables storage and computing tasks to be handled by networked machines that are often on servers in data centers owned by the service provider. This expands software capabilities on platforms previously limited by the nature of their hardware but not connection speeds, such as mobile phones. Moreover, cloud technology provides benefits of improved accessibility, scalability and flexibility and businesses are likely to use the cloud as an iterative process of optimization and security creation to match their goals. The rising utility of smartphones in daily life is a good example of this. As the hardware capabilities of smartphone devices rapidly improve, the potential for new software innovations will rise, too.

Businesses and consumers alike have already embraced cloud-computing services, such as Google's Gmail and Salesforce.com Inc.'s customer relationship management platform. Overall, this shift will likely favor the industry's major players, which have the resources to make the large-scale hardware purchases necessary to run cloud-computing services. This activity is expected to drive acquisition activity, as M&A activity remains a key strategy for growth among the industry's largest operators. The number of industry operators is expected to rise at an annualized rate of 7.6% to 23,696 companies over the next five years. Employment is anticipated to grow at a more moderate rate compared with the past five years, increasing an annualized 4.6% to more than 1.0 million workers during the same period.

The number of mobile internet connections will continue proliferating over the next five years. According to the latest Pew Research, more than 97.0% of US adults have a cell phone, while 85.0% have a smartphone, as of February 2021. In 2011, the percentage of US adults with a smartphone was estimated to be 35.0%, demonstrating a particularly high growth rate in smartphone ownership over the last 10 years. As smartphones continue to propel the mobile phone market and data plans become less expensive, the utility of the smartphone will likely proliferate over the next five years. For example, investment in smartphone-connected home technology is on the rise, with innovative new products enabling consumers to control their home directly from their phone, including light fixtures and thermostats. The complex software required for these products will help bolster both industry revenue and investment in research and development (R&D). Additionally, the widespread nature of these software products and the personal nature of the data they collect are also expected to stimulate demand for security software to protect that data.

Rapid technological change and new emerging threats are expected to give rise to predictive analysis and artificial intelligence (AI) software. Predictive analysis extracts information from historical data sets to determine patterns and forecasts future outcomes. Businesses are expected to use such software solutions to maximize the productivity of employees, forecast customers desires, detect and prevent threats and measure the influence of social media on their products. AI software is expected to further enhance productivity and security, processing natural language for virtual assistants and finding fraud patterns that users and vendors have not previously considered.

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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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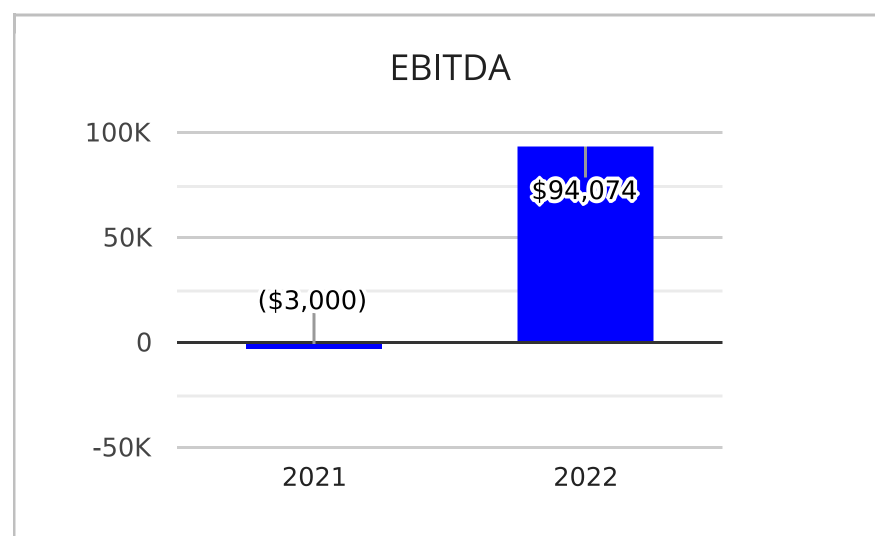
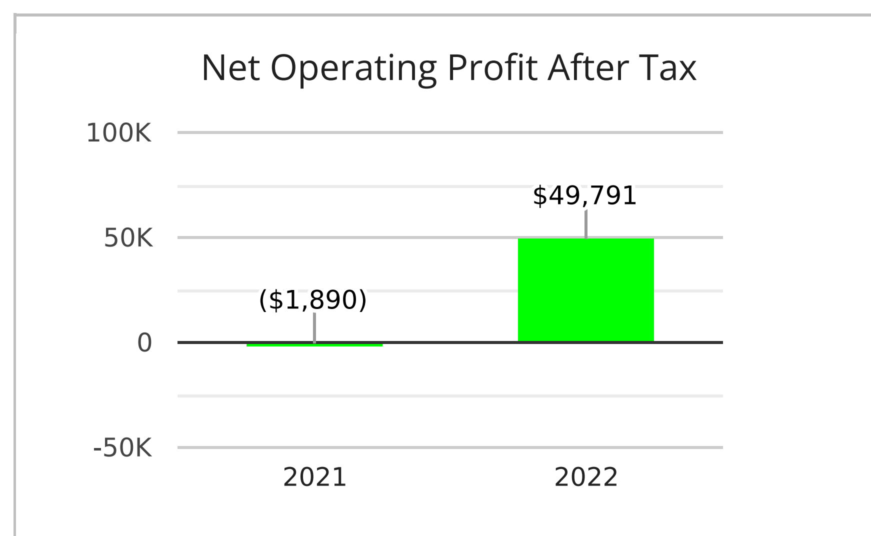
Income Statement	2021	2022
SALES		
Revenues	$129,000	$850,000
Revenue Growth Rate		558.91%
COST OF GOODS SOLD		
Other Cost of Goods Sold	$46,000	$135,000
Total Cost of Goods Sold	$46,000	$135,000
GROSS PROFIT	**$83,000**	**$715,000**
Gross Profit Margin	64.34%	84.12%
OPERATING EXPENSES		
Depreciation	$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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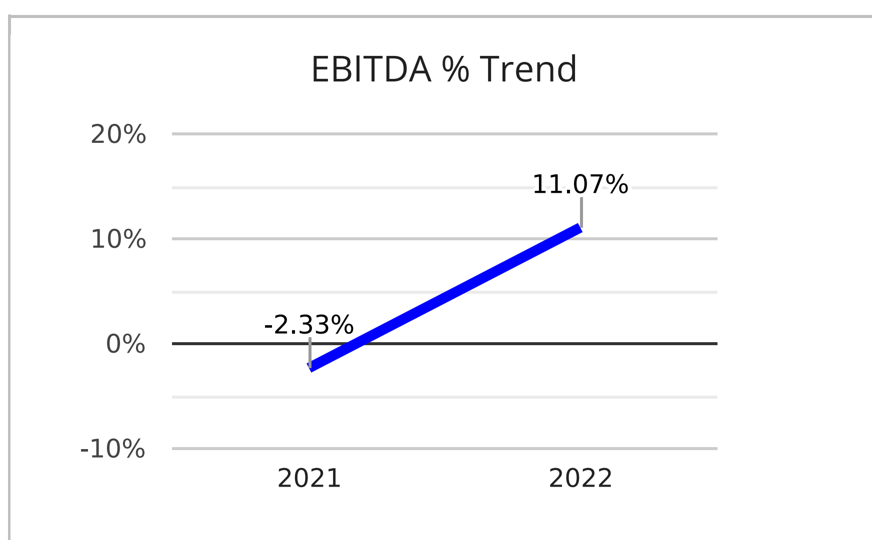
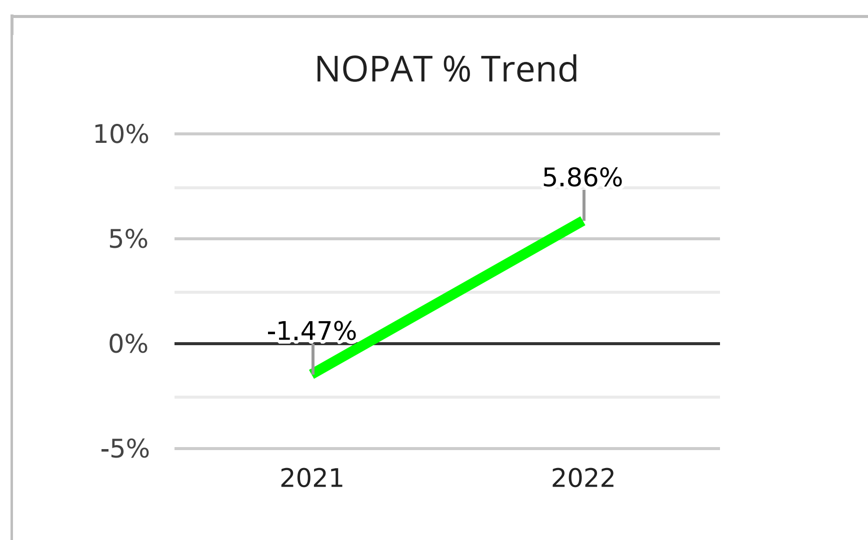
Income Statement Common-Sized	2021	2022
SALES		
Revenues	100.00%	100.00%
COST OF GOODS SOLD		
Other Cost of Goods Sold	35.66%	15.88%
Total Cost of Goods Sold	35.66%	15.88%
GROSS PROFIT	**64.34%**	**84.12%**
OPERATING EXPENSES		
Depreciation (Opex)	0.00%	1.77%
Other Expenses	66.67%	73.05%
Total Operating 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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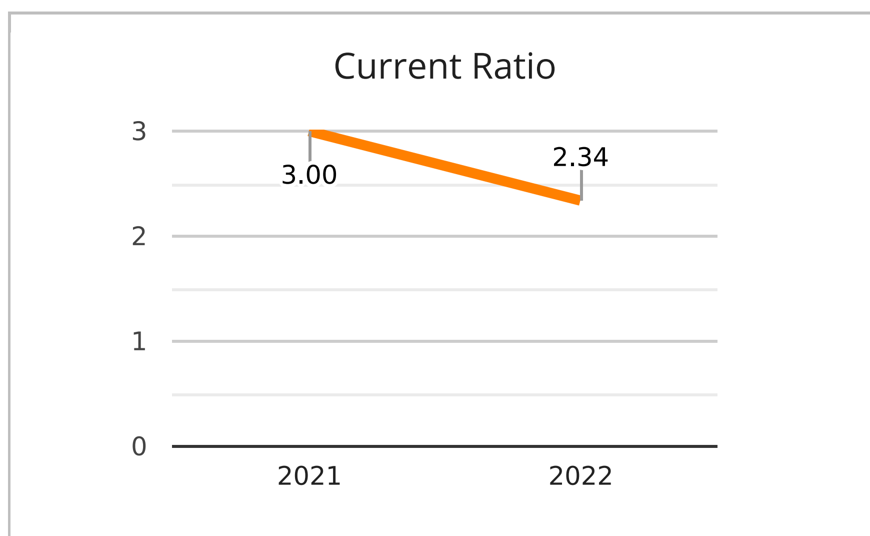
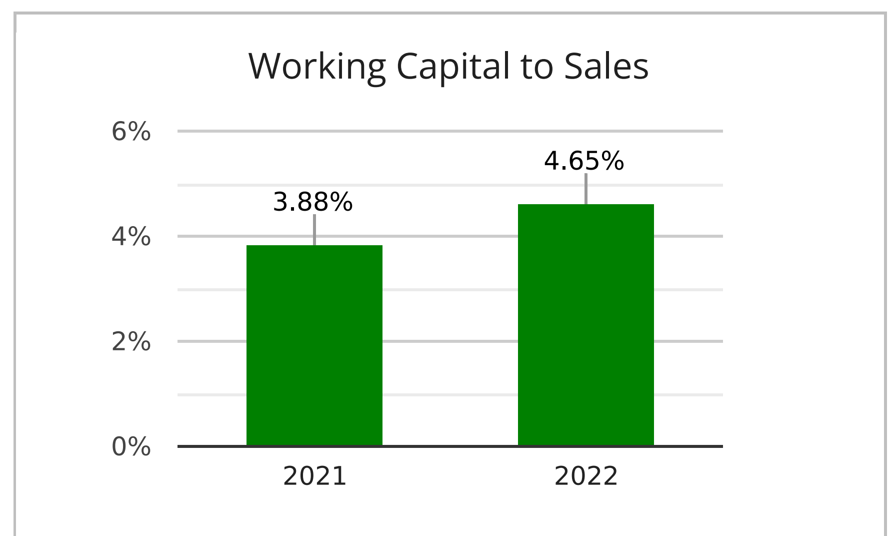
Balance Sheet	2021	2022
CURRENT ASSETS		
Cash & Marketable Securities	$7,500	$45,000
Accounts Receivable (Trade)	$0	$8,000
Inventory	$0	$15,000
Other Current Assets	$0	$1,000
Total Current Assets	**$7,500**	**$69,000**
LONG-TERM ASSETS		
Fixed Assets	$0	$9,000
Accumulated Depreciation	$0	$0
Net Fixed 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 $62,500.

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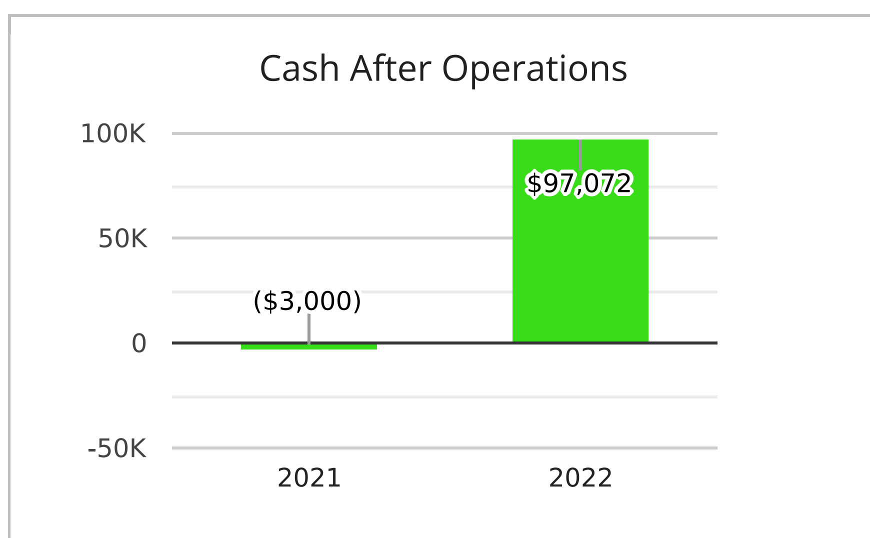
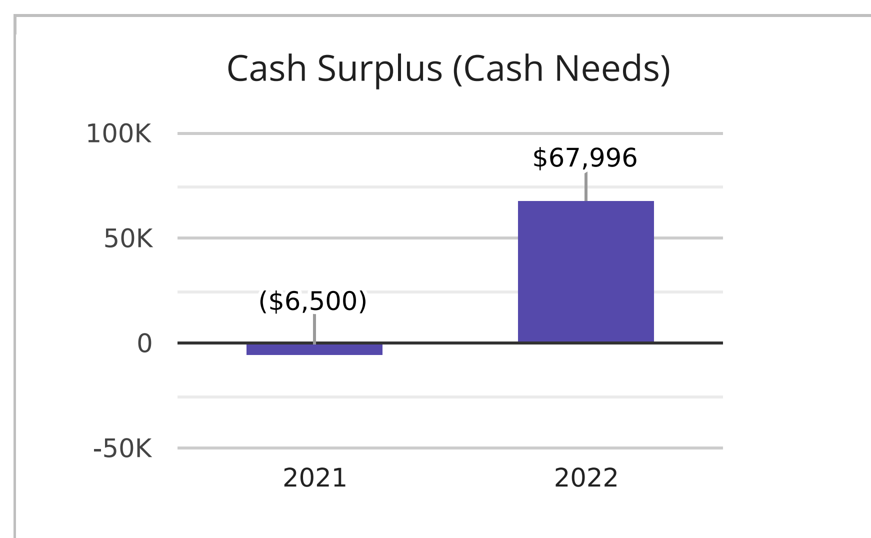
UCA Cash Flow Statement	2022
Revenues	$850,000
Change In Accounts Receivable	($8,000)
CASH FROM SALES	**$842,000**
Cost Of Goods Sold	($135,000)
Change In Inventory	($15,000)
Change In Accounts Payable	$650
Production Costs	($149,350)
CASH AFTER PRODUCTION	**$692,650**
Operating Expenses (non-cash items 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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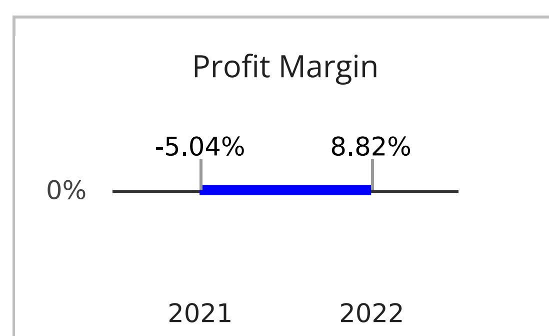
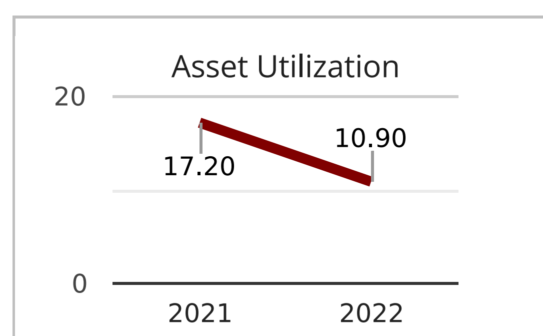
RATIO REVIEW	2021	2022
PROFITABILITY RATIOS		
Sales Growth (> is better)		558.91%
Gross Profit Growth (> is better)		761.45%
Operating Expense Growth (< is better)		639.50%
Operating Income Growth (> is better)		2734.43%
Cost Of Goods Sold	35.66%	15.88%
Operating Expense	66.67%	74.82%
Operating Income	(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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INTERIM INCOME STATEMENT AS OF 2023-02-28

Interim Income Statement	Interim
REVENUES	**$325,000**
Cost Of Goods Sold	$65,000
GROSS PROFIT	$260,000
Gross Profit Margin	80.00%
OPERATING EXPENSES	
Amortization	$0
Depreciation	$2,600
Wages & Salaries	$0
Officer Salaries & Wages	$0
Other Expenses	$224,900
Total Operating Expenses	$227,500
OPERATING INCOME	**$32,500**
Operating Income Margin	10.00%
Interest	$0
Other Expenses (Income)	($1,500)
NET PROFIT BEFORE TAX	**$34,000**
Addbacks	$0
Reported Profit (Loss)	**$34,000**

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INTERIM BALANCE SHEET AS OF 2023-02-28

Interim Balance Sheet	Interim
CURRENT ASSETS	
Cash & Equivalents	$37,000
Accounts Receivable (Trade)	$14,000
Inventory	$16,500
Other Current Assets	$500
Total Current Assets	**$68,000**
LONG-TERM ASSETS	
Net Fixed Assets	$12,000
Other Long Term Assets	$0
Total Assets	**$80,000**
CURRENT LIABILITIES	
Cur. Maturities of Long Term Debt	$0
Accounts Payable	$3,600
Notes Payable	$0
Other Current Liabilities	$1,900
Total Current Liabilities	**$5,500**
LONG_TERM LIABILITIES	
Term Debt	$60,000
Other Long Term Liabilities	$0
Total Liabilities	**$65,500**
STOCKHOLDERS' EQUITY	
Equity Interim	$14,500
Total Liabilities & Stockholders Equity	**$80,000**

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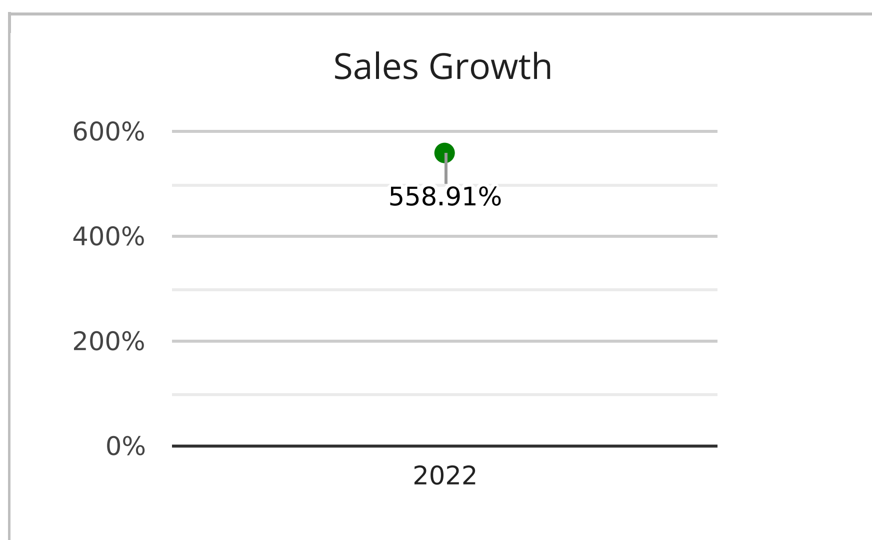
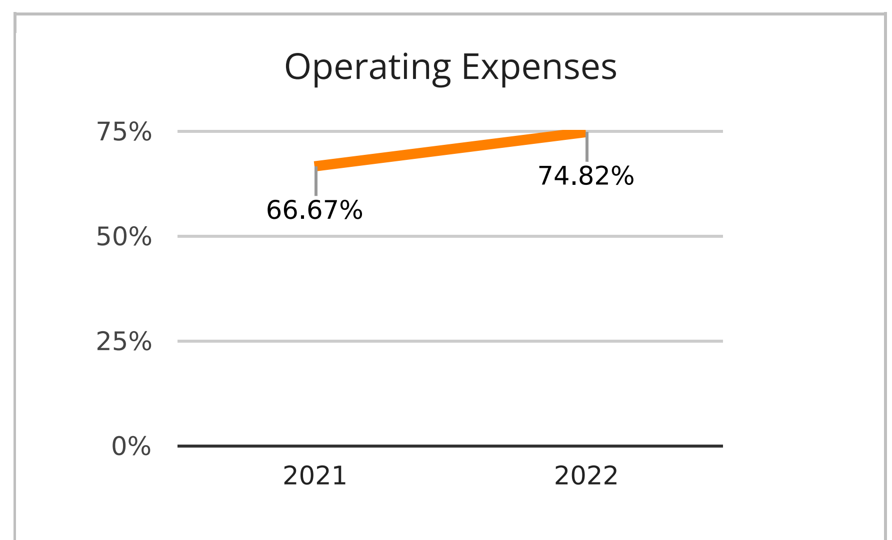
FORECASTING THE CASH DRIVERS

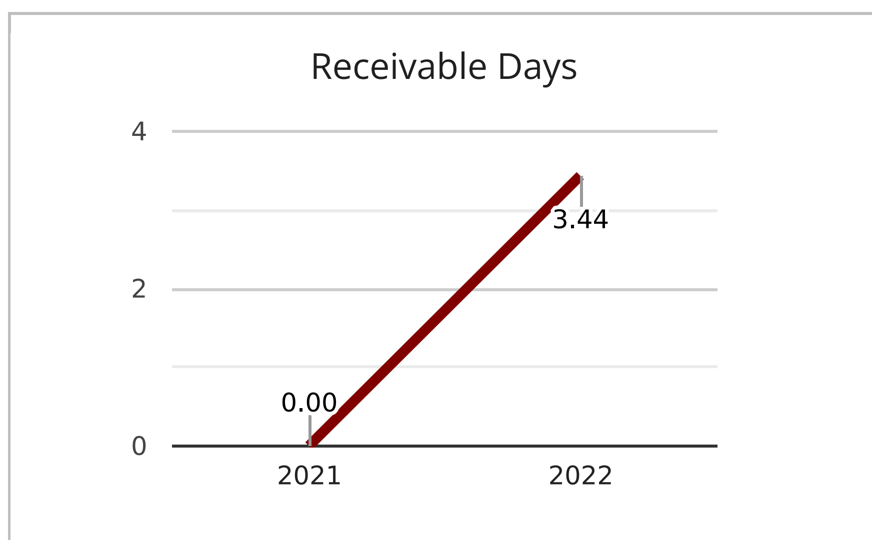
The historical ratios that drive a company's earnings and cash flow are called the Cash Drivers and are displayed on the table below called "Cash Drivers & Forecast". These cash drivers are the engine that generates and consumes cash for all businesses and optimizing these cash flows will improve a company's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

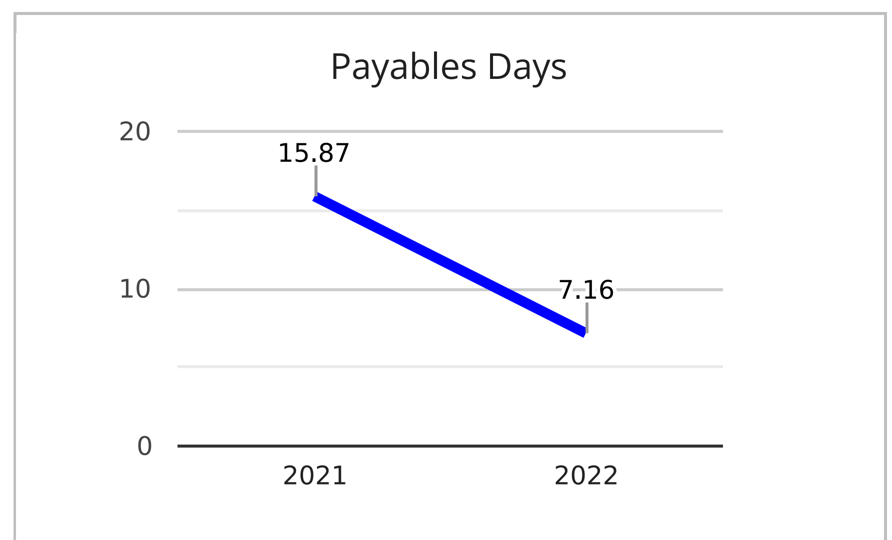
After talking to management and/or the client and reviewing the Company's financial operations, the forecasted ratios have been estimated and can be found in the last column labeled "Forecast". The estimated ratios and percentages are based on past performance and reasonable expectations. All cash drivers 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%	129.41%
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	$1,950,000	$3,900,000	$8,775,000	$15,795,000	$25,272,000
Sales Growth	129.41%	100.00%	125.00%	80.00%	60.00%
Cost of Goods Sold	$390,000	$780,000	$1,755,000	$3,159,000	$5,054,400
Gross Profit	$1,560,000	$3,120,000	$7,020,000	$12,636,000	$20,217,600
Gross Profit Margin	80.00%	80.00%	80.00%	80.00%	80.00%
OPERATING EXPENSES					
Depreciation	$34,515	$69,030	$155,317	$279,571	$447,314
Selling, General & Admin Expenses	$2,695,485	$4,610,970	$6,425,932	$7,617,928	$11,683,246
Total Operating Expenses	$2,730,000	$4,680,000	$6,581,250	$7,897,500	$12,130,560
Operating Income (EBIT)	($1,170,000)	($1,560,000)	$438,750	$4,738,500	$8,087,040
Operating Income %	(60.00%)	(40.00%)	5.00%	30.00%	32.00%
Operating EBITDA	**($1,135,485)**	**($1,490,970)**	**$594,068**	**$5,018,071**	**$8,534,354**
EBITDA %	(58.23%)	(38.23%)	6.77%	31.77%	33.77%
Net Operating Profit After Tax (NOPAT)	**($737,100)**	**($982,800)**	**$276,413**	**$2,985,255**	**$5,094,835**
NOPAT %	(37.80%)	(25.20%)	3.15%	18.90%	20.16%

Balance Sheet (Forecast)	2023	2024	2025	2026	2027
ASSETS					
Cash	$103,235	$206,471	$464,559	$836,206	$1,337,929
Accounts Receivables	$18,353	$36,706	$82,588	$148,659	$237,854
Inventory	$6,882	$13,765	$30,971	$55,747	$89,195
Other Current Assets	$2,294	$4,588	$10,324	$18,582	$29,732
Current Assets	**$130,765**	**$261,529**	**$588,441**	**$1,059,194**	**$1,694,711**
LONG-TERM ASSETS					
Net Fixed Assets	$20,647	$41,294	$92,912	$167,241	$267,586
Other Long Term Assets	$0	$0	$0	$0	$0
Total Assets	**$151,412**	**$302,824**	**$681,353**	**$1,226,435**	**$1,962,296**
LIABILITIES					
Accounts Payable	$1,216	$2,432	$5,471	$9,849	$15,758
Current Maturities of Long-Term Debt	$0	$0	$0	$0	$0
Notes Payable	$0	$0	$0	$0	$0
Other Current Liabilities	$61,592	$123,185	$277,166	$498,899	$798,238
Current Liabilities	**$62,808**	**$125,617**	**$282,638**	**$508,748**	**$813,996**
LONG-TERM LIABILITIES					
Term Debt	$60,000	$60,000	$60,000	$60,000	$60,000
Other Long Term Liabilities	$2,299	$4,597	$10,344	$18,620	$29,791
Total Liabilities	**$125,107**	**$190,214**	**$352,982**	**$587,367**	**$903,787**
LIABILITIES & EQUITY					
Shareholders' Equity	**$26,305**	**$112,609**	**$328,371**	**$639,068**	**$1,058,509**
Total Liabilities & Equity	**$151,412**	**$302,824**	**$681,353**	**$1,226,435**	**$1,962,296**
WORKING CAPITAL					
Working Capital	$67,956	$135,913	$305,804	$550,446	$880,714
Working Capital (No Debt)	($35,279)	($70,558)	($158,755)	($285,759)	($457,215)
Working Capital Change	$29,781	$35,279	$88,197	$127,004	$171,456

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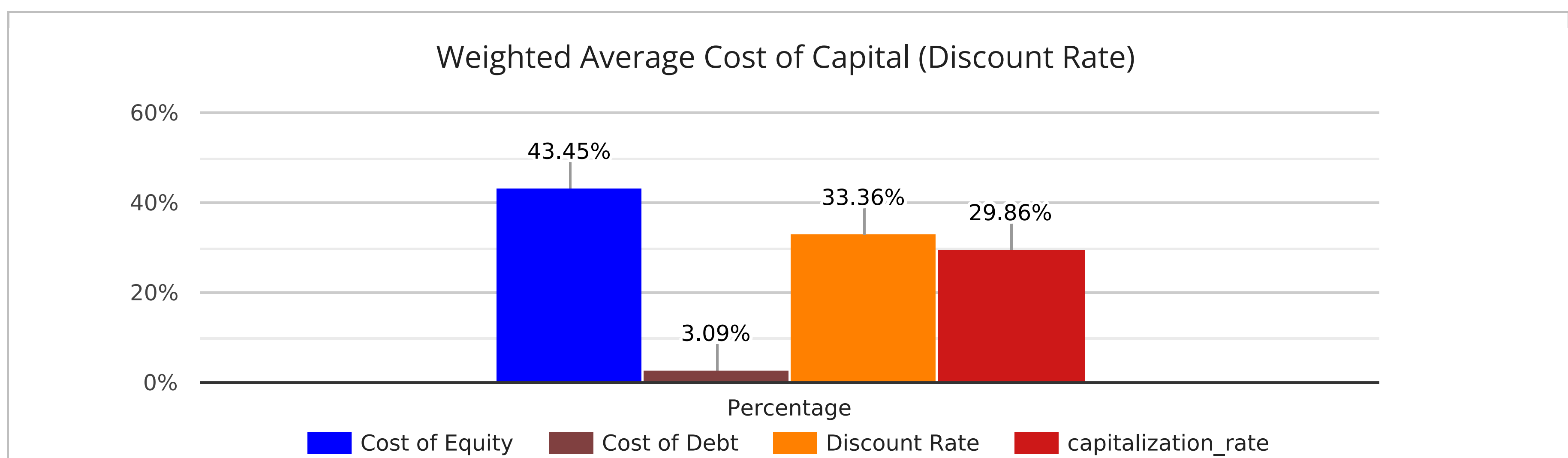
BUILD UP METHOD, DISCOUNT AND CAPITALIZATION RATE

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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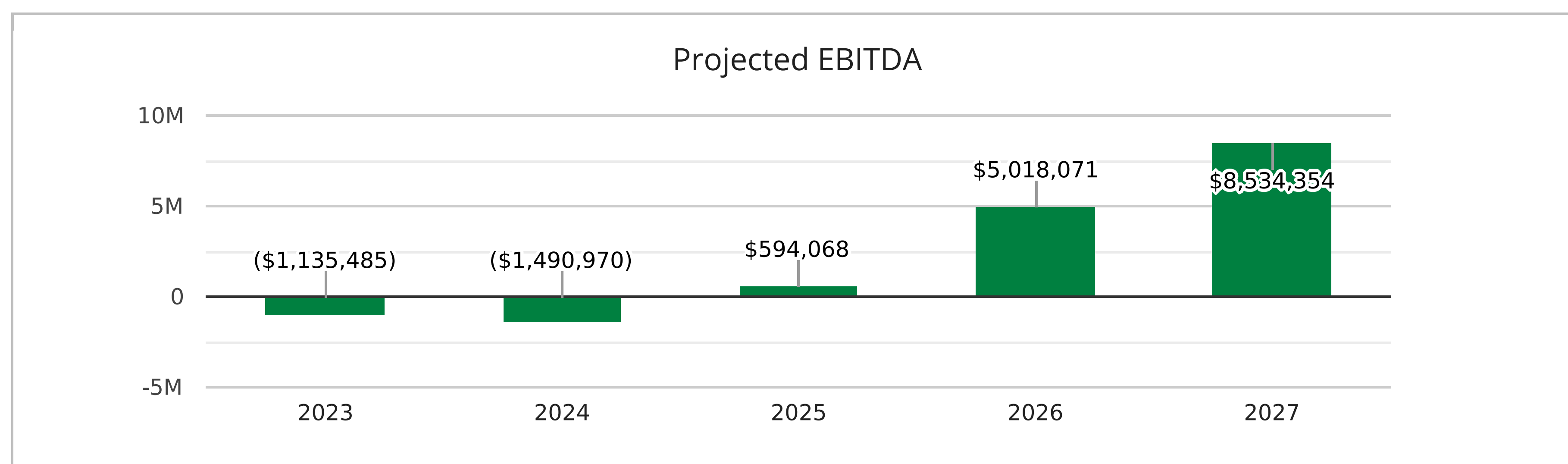
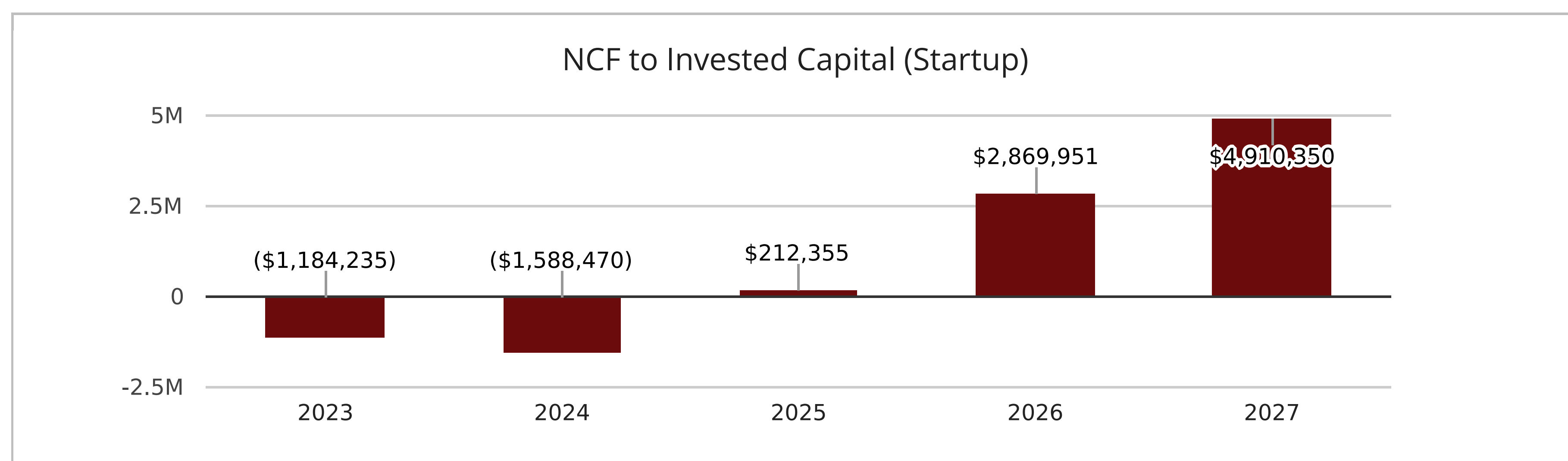
NET CASH FLOW (TO INVESTED CAPITAL)

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	$1,950,000	$3,900,000	$8,775,000	$15,795,000	$25,272,000
Growth Rate	129.41%	100.00%	125.00%	80.00%	60.00%
EBITDA	($1,135,485)	($1,490,970)	$594,068	$5,018,071	$8,534,354
EBITDA %	(58.23%)	(38.23%)	6.77%	31.77%	33.77%
Income Taxes (37% Marginal Rate)	$0	$0	($162,338)	($1,753,245)	($2,992,205)
Capital Expenditures	($39,000)	($78,000)	($175,500)	($315,900)	($505,440)
Working Capital Change	($9,750)	($19,500)	($43,875)	($78,975)	($126,360)
NCF to Invested Capital	**($1,184,235)**	**($1,588,470)**	**$212,355**	**$2,869,951**	**$4,910,350**





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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	$19,365,274
Discounted Cash Flow of Terminal Value	$11,848,024
Discounted Cash Flow Method (DCF)	**$31,213,298**

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	$87,148,090
EBITDA Multiple	11.10
EBITDA Applied Value	$967,343,801
Applied Discount Rate	33.36%
Present Value	$54,368,758

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	$80,000
Total Liabilities	$65,500
Net Asset Value	**$14,500**

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NET ASSET VALUE AS OF 2023-02-28

Net Asset Value	Historic	Adjustment	Adjusted
CURRENT ASSETS			
Cash & Equivalents	$37,000	$0	$37,000
Accounts Receivable	$14,000	$0	$14,000
Inventory	$16,500	$0	$16,500
Other Current Assets	$500	$0	$500
Total Current Assets	**$68,000**	**-**	**$68,000**
LONG-TERM ASSETS			
Net Fixed Assets	$12,000	$0	$12,000
Other Long-Term Assets	$0	$0	$0
Total Assets	**$80,000**	**-**	**$80,000**
CURRENT LIABILITIES			
Current Maturities of LT Debt	$0	$0	$0
Accounts Payable	$3,600	$0	$3,600
Notes Payable	$0	$0	$0
Other Current Liabilities	$1,900	$0	$1,900
Total Current Liabilities	**$5,500**	**-**	**$5,500**
LONG-TERM LIABILITIES			
Term Debt	$60,000	$0	$60,000
Other Long-Term Liabilities	$0	$0	$0
Total Liabilities	**$65,500**	**-**	**$65,500**
NET ASSET VALUE	**$14,500**	**-**	**$14,500**

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FUNDING MULTIPLE GUIDELINE METHOD

The Funding Multiple Guideline Method has been used as an indicator to value startups based on the capital contributions. Normally for every dollar of contributions the investors would expect to receive twenty percent (20%) of the shares, which is a five (5) times multiple on capital raised. When comparing a startup to a universe of startups and comparing margins, scalability, growth expectations, the quality of the offering, the opportunity size, product readiness and management capability, the multiple can often range between five and ten times the capital raised. To determine how the Company compares to other companies seeking capital, we offer the Scorecard Approach which is used to review specific criteria that is considered critical to the Company's success.

SCORECARD PREMIUM

Factors (premiums) are considered and weighted according to perceived importance and then totaled. If the total factor (premium) was 10%, the comparable peer funds raised would be multiplied by the 1.1 factor. While the Scorecard Approach is subjective, it is used to calculate the multiple premium on the Funding Multiple Guideline Method to arrive at an adjusted multiple when calculating the company value.

The primary factors considered in the Scorecard Approach are the founder and team quality, the size of the opportunity, the quality of the investment offering, the competitive challenges and positioning of the company, the marketing channels and success rates and the initial feedback on the company's services and products.

In this case ...

Scorecard	Score
Team Quality	5.00%
Opportunity Size	5.00%
Offering Quality	5.00%
Competitive Challenges	5.00%
Marketing Channels	5.00%
Proof Of Concept	5.00%
Premium	5.00%

Funding Method	Value
Funding Multiple	10
Funding Premium	5.00%
Adjusted Funding Multiple	10.50
Capital Raise	$3,000,000
Funding Method Value	$31,500,000

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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 49.00%; the Terminal Value was weighted 1.00%; the Net Asset Value was weighted 0.00%; the Prior Transaction Method was weighted 0.00% and the Funding Method was weighted 50.00%. This allocation best represents the Fair Market Value.

Allocation	Valuation	Weighting	Applied Value
Discounted Cash Flow Method	$31,213,298	49.00%	$15,294,516
Funding Method	$31,500,000	50.00%	$15,750,000
Net Asset Value	$14,500	0.00%	$0
Terminal Value Method	$54,368,758	1.00%	$543,688
FMV for 100% Interest		100.00%	$31,588,204

ALLOCATION CONCLUSION

ABC Software, Inc. is valued at approximately $31,588,204 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. This valuation assumes a successful capital raise of $3,000,000.

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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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