Document prepared
on XX/XX/XXXX

Business Value Gap Analysis
Sample Company

This document was prepared for

ContactName, on behalf

of CompanyName

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Multiples of Earnings Assumptions

Adjusted Earnings

Potential Value Gap (best case)	1,278,181

Multiple Range

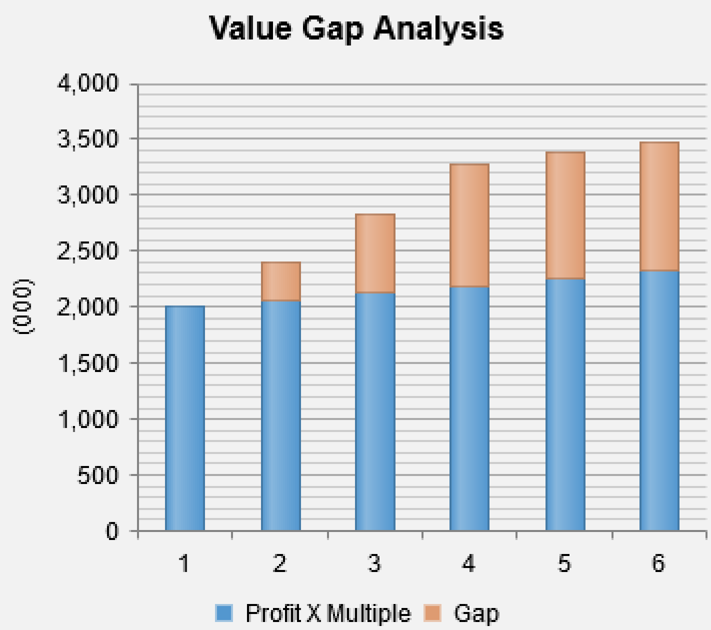
	Starting point	End Point
Multiple Range	2	3

Profit Range

	Starting point	End Point
Profit Range	1,000,000	1,092,727

Value Range

	Starting point	End Point
Value Range	2,000,000	3,278,181



Risk Analysis & Business Attractiveness

Not conducted at this stage. See below for the major areas of analysis that need to be conducted

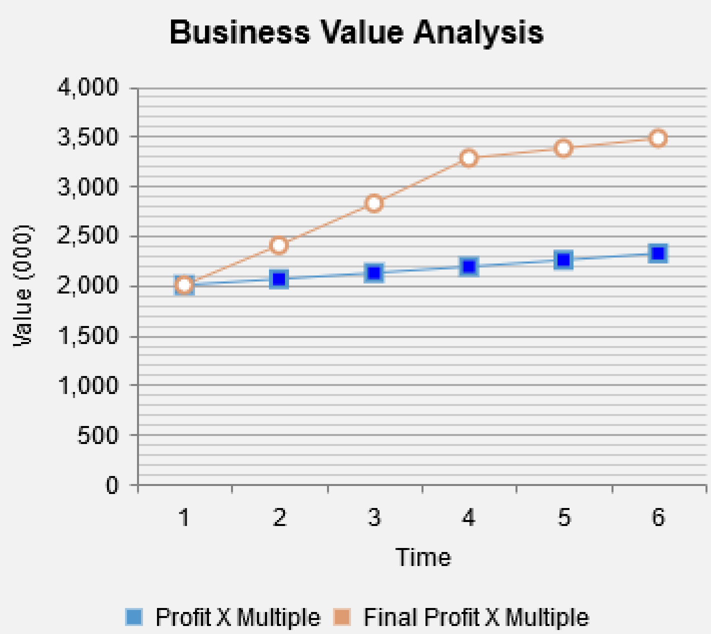
Non-Financial Factors
Customer loyalty, IP, products, marketability, owner reliance and others.

Financial Factors
Profitability past/present, growth, revenue and others.

Market Factors
Market growth & potential, industry barriers to entry, competitors and others.

Investor Consideration
Reason for selling, market conditions etc.

Gap Analysis 1,278,181



Scope of the Product

This report is a great tool to provide an indication of how much a business could be worth. It will also shed some light on a time driven value enhancement process and offers a tangible document that motivates the key stakeholders on the necessary steps to improve value.

In the beginning stages of the Exit Planning process a full valuation assessment would be generally considered an unnecessary expense. As the business moves closer to the goal of exit then it may become more of a priority to seek a professional valuation. This tool therefore offers an exceptional interim resource that enables a simple “what if” reporting function that instantly calculates different scenarios, crystallizes strategic thinking and completes the process with an impressive report that explains the results.

It provides a good starting point that will help the consultant get the client’s mind going in the right direction. This “push” in the right direction mentally helps with the exit planning process and leaves the door open for an “add-on” engagement of performing a deeper analysis of business risk, the net value of all assets and goodwill, a review of strategic direction, people management, comparative market sales and deal structures and a host of other elements to form a “complete valuation” model and exit planning strategy.

Value Gap Analysis Results

Possible Value Now	Potential Future Value
2,000,000	**3,278,181**

In this Valuation Gap analysis scenario we reviewed your business value now and your potential business value in the future if the underlying assumptions held true. Not this is not intended to be a valuation report but rather a simplified analysis that helps to educate business owners on simple valuation methodologies and how to drive business value:

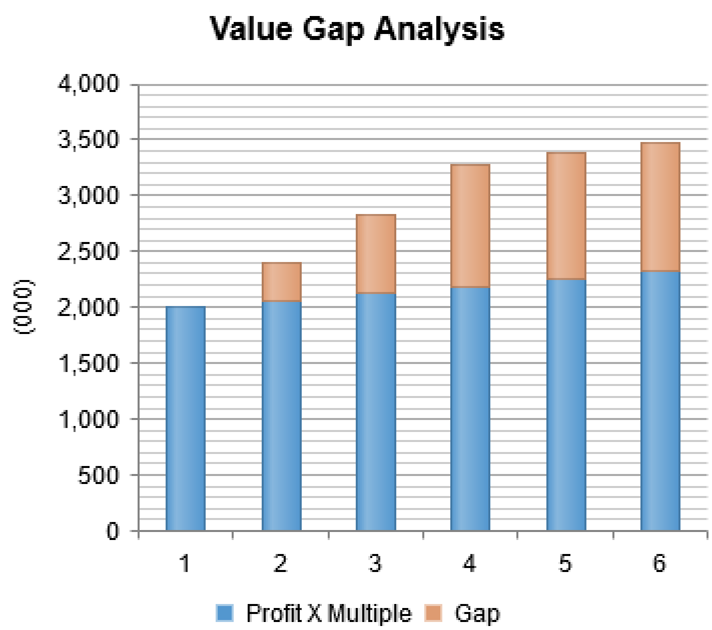
Business Goals Scenario	Now	Desired Future Level
Starting Profit	1000000	
Profit Growth	3%	8%
Possible Valuation Multiple Range	2	4
Timeframe	0	3
Estimated End Profit		1,092,727
Possible End Valuation		3,278,181
Possible Valuation Gap		1,278,181

When valuing a business there are a myriad of factors that should be taken into account, from tax to inventory, from marketing to human resources. Any business valuation therefore must take into account a much wider series of variables than what we have used in this report. The purpose of this report is to insert some high level financial numbers from your business into generally accepted valuation financial calculators.

This report should not be construed as a valuation report but as an educational tool that will demonstrate the impact of profit and risk mitigation on valuation expectations.

It does contain many assumptions about your business and the marketplace that would need to be verified and modelled by a business valuation professional.

When we inserted these high level numbers we calculated the results as outlined in the graph below and the data table.



	Before	Exit Before VE	Exit After VE
Profit	1,000,000	1,092,727	1,092,727
Value	2,000,000	2,185,454	3,278,181

The report over the following pages will highlight how we arrived at these figures.

Understanding Valuation Concepts

Risk and Valuation

The valuation of a business is extremely complex because of the diversity of companies, industries and individual business performance that need to be considered. The less certain that your business appears as a predictable maintainable future income, then the higher the penalty you will pay in risk factors. In essence this will result in a lower valuation of your business.

In the "Multiples of earnings" methodology, this would equate to a lower multiple or would result in the selection of an earnings figure based on historical performance rather than future performance.

In an alternate methodology such as the "Discounted cash flow" methodology the higher the risk the higher the weighted average cost of capital. This higher risk can literally strip hundreds of thousands of dollars of your business valuation.

Before you sell your business you should work on a planned program to review your operation in light of these risk factors. An investor or potential buyer will look particularly at these risk factors.

Examples of business factors that affect valuation

Most investments involving the acquisition of businesses are obviously motivated by the desire of the investor to make money. The three drivers that generally influence a valuation decision is:

- The amount of money that can be made from the investment;
- The level of risk in achieving those goals and;
- The type of work (industry) that the business operates in.

Some companies have developed intellectual property over years of research and development, packaged it and built it into a recognized brand name. In this case we need mechanism to not only value what sales are today but also to take into account the past development that will stimulate sales in future years. An investor that buys this company will reap the rewards of that R&D.

Even if we look at one particular industry and take two similar companies (in terms of their sales and profit performance for the last year) we might justifiably pay more money for one over the other.

Some typical examples that might lead to a marked difference in the valuation:

- One business appears to rely on the Directors and Owners and the other appears to rely on staff members. That means that when a potential buyer takes over the chance of success is much higher. I.e. relies on staff.
- One may be a new start company and the other may be an established company with a 5 year trading history.

- One of the companies may have spent a considerable amount on R&D (Research and Development) that will lift their profits in the future.
- One may have developed long term contracts that will ensure the profit for the next 24 months whereas the other will have to rely on winning contracts or work on a weekly basis.
- One may have an easily identifiable customer database that is very loyal and the other may have a high turnover database.
- One of the companies may have developed a product that is positioned in a growth market and the other may not.
- One may be in a better geographical segment.
- One may have a brand that is more recognizable.
- One of the companies may have developed a worldwide patent that locks the brand into immediate worldwide distribution.
- One of the companies may be a dominant player in a niche whereas the other is a smaller player with a less of a competitive advantage in a wider marketplace.
- One business may be a strategic fit to the other business and therefore the acquiring business may be able to generate more profit in the future as a result of this strategic fit.

Then of course there are the intangible reasons:

- One has better systems in place when the buyer arrives.
- One appears more professional than the other.
- One negotiates a better deal based on future profits rather than historical performance.

Your business valuation will generally be less if:

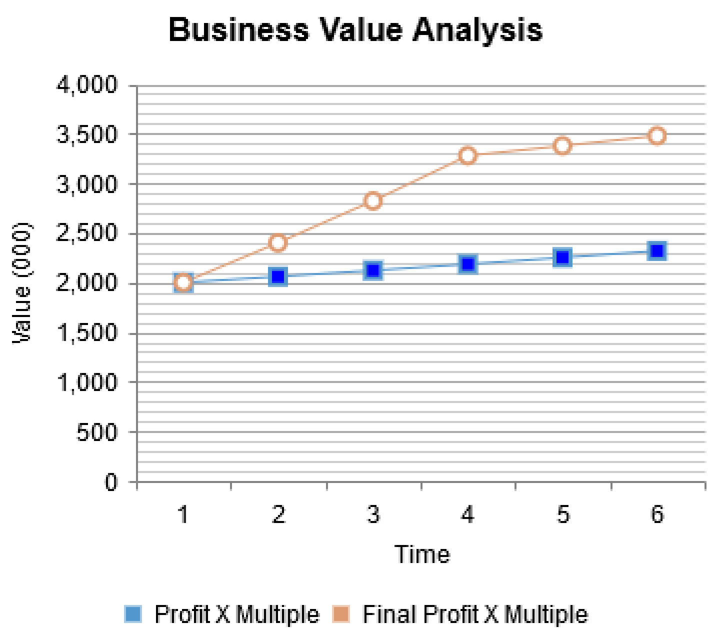
- Your sales and profit history is in a downward trend.
- You are a relatively new start company
- The market you are operating in is in decline
- Your products and services need considerable investment to continue on-going trading

- Your earnings are fluctuating
- There are competitive or industry trends that will make your business less profitable in the future.

The value of a business will also be assessed differently by different types of buyers. Consider that an investor's view of a business (maximum return on financial investment) will be different to a person buying a business for a hobby (maximum lifestyle) which will also differ from a strategic investor buying a competitor (synergistic view of the merging of enterprises.) Each of these buyers will interpret the financials and risk in a different light and their final assessment of value would vary significantly.

How do you improve the valuation of your business?

If you are a micro business i.e. revenue under $500,000 with no competitive advantage or long term contracts or systems and processes and essentially "just like everyone else" it is difficult to improve your business above the expected multiple for your particular industry. And as mentioned most micro businesses sell on a multiple of 1- 2. The best way in a situation such as this to improve your valuation is to improve your bottom-line profit position.



The above graph shows the valuation potential that would be possible given the range of multiples and an improved profit position.

Be warned that most businesses are sold at the bottom end of the scale on the above graph. However given proper planning and development and the right type of business to start off with you can escalate the value of your business quite substantially.

The two main “drivers of business value” are

1. De-risking the business. I.e. reducing the risk to a potential buyer by maintaining a high degree of future income potential
2. Improving profitability.

These two drivers will impact your future strategic and business plan and your exit and personal readiness plans.

Explanation the Multiples of Earnings methodology

This “multiples of earnings” methodology generally uses multiples of earnings before tax (adjusted). This method looks at your current earnings (adjusted) and multiplies this by a number usually ranging between 1 and 10.

The number that your adjusted net profit is multiplied by is based on an industry standard or perceived level of risk and investor "return on investment" criteria.

Note that the "adjusted" word means that you take your net profit and

- Add back items such as depreciation, abnormal expenses or one off payments and all salaries to the owner(s). You also add back any personal expenses including motor vehicle, telephone, travel and any other expenses of the owner that is not specifically related to the continuation of the business.
- You then need to subtract a nominal wage that would need to be paid to someone to manage your business if you were not there.

Based on our interview and given the limited information that we had on your company we looked at a multiple of 3. This when placed into our valuation model equates to an estimated potential appraisal or possible value of $3,477,822 as a best case scenario. This is based on your adjusted earnings of $1,159,274

Please note that this valuation potential is based simply by placing the numbers supplied to us into our valuation models. There are many oversimplified assumptions.

This methodology attempts to value your business by combining existing financial performance with a “multiple” to determine the maintainable profit level into the future. The multiple is calculated by assessing the factors that would determine future risks. Some of these factors are listed in the next section.

There are two factors that we have taken into account, the first is getting a representative profit and the second is agreeing on a multiple that represents the value of your business.

Moving forward to realize the potential of your business

We would suggest that there are three stages that you will encounter as you proceed to the possible sale or merger of your business.

Stage 1

Developing your business model, profitability and success history. At this stage we suggest that it is always best to work with an experienced business advisor or business broker to help you develop your business and implement systems.

Stage 2

Getting serious about selling the business. At this stage you will want to have a closer look at the proposed valuation of your business and moving toward a specific action plan to affect the transaction.

We would suggest at this stage that you contact a licenced business broker and sit down with specialists to explain the processes and talk to you about your specific situation. You would need to get a better understanding of the value of your business.

You will also need to develop:

- A set of due diligence checklists,
- An information memorandum,
- A tax and legal plan
- Other documentation and processes that will be needed to secure a transaction.

Stage 3

The final stage is contacting prospective buyers and negotiating the sale of your business.

When you believe you are at stage 2 it would be worthwhile to set up a meeting through your business advisor with one of our business broker agents.

VALUE GAP ANALYSIS

Value Enhancement Success

75%

Profit Growth | Multiple Ebit | Value Enhancement gap

Configure Automatically

0%

50%

Business Value

3,278,181

	P1	P2	P3	P4	P5
New Multiple	2.33	2.66	3	3	3
New Profit	1,030,000	1,060,900	1,092,727	1,125,509	1,159,274
Final Value Est	2,399,900	2,821,994	3,278,181	3,376,526	3,477,822

	Before	Exit Before VE	Exit After VE
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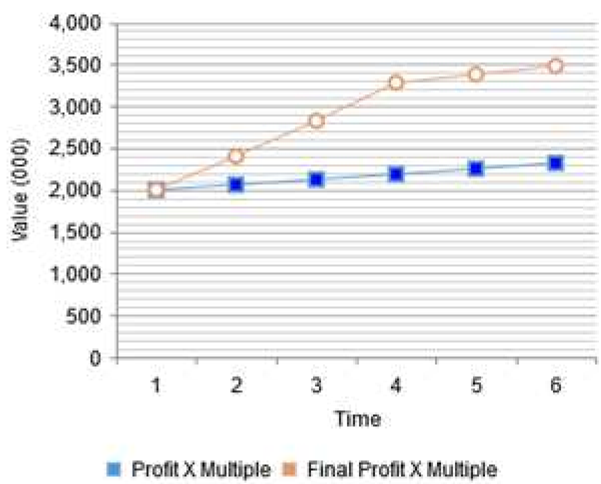
Value	2,000,000	2,185,454	3,278,181

Business Value Analysis



Value Gap Analysis