



October 16, 2018

Beta International, Inc

123 Main Street
Bellevue, WA 98005

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Purpose

This dynamically driven and customized report was generated to provide the business owner, and entrepreneur or his or her advisor with **general estimates of fair market value and liquidation value under relevant transaction** conditions assumed for the profiled business at a fair price and in real-time. The results presented on page 5 will provide the reader with estimates which reflect both the “*sale of assets*” and “*the sale of equity*” (on a going concern basis) as well as estimates which reflect the *liquidation value and the so-called “enterprise value”* of the subject company.

The four conclusions of value provided are as follows:

- ▶ **Asset Value**
- ▶ **Equity Value**
- ▶ **Enterprise Value**
- ▶ **Liquidation Value**

In understanding and interpreting the “value” of a business, **it is important to recognize that there are many different “types” and “levels” of value.** The most common scenario involves the estimation of “**fair market value on a going concern basis**” for the entire company, e.g. a 100% interest in the subject equity **or** assets/enterprise. As per the **International Glossary of Business Valuation Terms**, Fair Market Value is:

Fair Market Value - *the price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arms length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.*

Going Concern - *an ongoing operating business enterprise.*

Liquidation Value - *the net amount that would be realized if the business is terminated and the assets are sold piecemeal. Liquidation can be either “orderly” or “forced.”*

When valuing the entire company (100% control interest), it is **necessary to distinguish between the value of “assets” (asset deal) and the value of “equity” (stock deal).**

In practice, owner-operated businesses are either sold on an “asset sale basis” or on a “equity sale basis” with the purchase agreement reflecting the unique aspects of each scenario.

A variety of factors will determine the chosen mode of sale, with buyer and seller negotiating price and an array of other “terms and conditions” including the type of sale.

The **majority of small private firms are sold as asset sales while the majority of middle-market transactions involve the sale of equity.** The “asset sale” value will always differ from the “stock sale” value due to the specific group of assets and liabilities that are included or excluded in each format.

In determining **which estimations of value is of most relevance** to the business owner, the reason behind the valuation will typically address this question. Business brokers hired to assist buyers and owners most commonly value businesses under the “asset sale” scenario through multiples of discretionary earnings while valuations for divorce or estate taxes will be based primarily on the “equity sale” scenario.

Purpose *continued*

The general differences between the asset and equity transaction structure are:

Asset Sale (Asset Value)

Includes ONLY inventory/supplies, fixed assets and all intangible assets. Excludes all liquid financial assets and all liabilities. Buyer operates from newly formed legal entity.

Equity Sale (Equity Value)

Includes the assets listed above PLUS liquid financial assets LESS all liabilities (ST/LT). Involves the full transfer of the legal entity including all account balances and current tax attributes.

Naturally, the **“value” associated with these two distinct transactions can be substantially different.**

In practical terms,

“The seller keeps the cash and receivables but delivers the business free and clear of all debt” in the asset sale paradigm.”

“In an equity sale, the buyer is acquiring ALL of the assets and liabilities, on and off the balance sheet.”

In the “real world”, **there are many variations on these basic structures**, e.g. an asset sale might include accounts receivable or an equity sale might exclude long term debt, etc. The values provided in this report are stated in terms of the baseline case as defined above. *They are both “fair market value on a going concern basis” estimates, but one reflects the asset sale and one reflects the equity sale.*

Enterprise Value

In middle-market transactions, it is also helpful to **distinguish between “equity value” and “enterprise value”**. Enterprise value is a reflection of the firm’s value as a functioning entity and it is helpful in that it facilitates the comparison of companies with varying levels of debt

Which Business Value Conclusion is Most Important?

The answer to this question depends chiefly upon the purpose for the valuation engagement. If you are negotiating the sale/purchase of a business via an asset sale, then it is the asset value which is most relevant. If you are filing an estate/gift tax return, it is the equity value which is most important. When evaluating middle-market companies for M&A purposes, both equity and enterprise value will be useful. If your business is rapidly deteriorating and you are contemplating a reorganization, then liquidation value may be of most relevance.

Methodology

While this valuation was generated considering as many company-, industry-, and location-specific details as available, the value presented in this report is an automated estimation of the Fair Market Value of the business and its' assets and liabilities. Some events and circumstances that might impact the overall valuation of a specific business may not be taken into account for the purpose of this report.

Valuation methods from the income, market and asset approach have been utilized to reach the valuation results for the subject company. The opinion of value given in this report is based on information provided by the user and other sources. This information you input is assumed to be accurate and complete. However, neither Advantage Commercial Brokers nor BizEquity has not audited or attempted to confirm this information for accuracy or completeness. It's important to note that the estimates presented herein are not "final numbers". Instead, we are providing general estimates. As a result, the overall valuation should be considered a frame of reference and not an official appraisal.

Essentially, our focus is to try to provide a proprietary but real world oriented valuation approach for small, midsize, and emerging businesses. In doing so, we include methods from the following valuation approaches utilized by professional business appraisers today:

- ▶ **Market Approach:** This involves analyzing the recent sales of comparable businesses. In a way, this is similar to how residential real estate is valued, i.e. the firm is valued by way of "market comps".
- ▶ **Income Approach:** The income approach methods seek to transform measures of profits or cash flow into estimates of value by way of multiples, capitalization rates and discount rates.
- ▶ **Rules-of-Thumb:** These are simple but often powerful valuation methods that are utilized by market participants on a regular basis. Some business types are bought and sold almost exclusively by way of these "industry-specific" rules of thumb.

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Your Company Description

Beta International, Inc

Business Location:	123 Main Street Bellevue, WA 98005
Business Industry:	Pet And Pet Supplies Stores
Operational Period:	
Operations Assessment:	Vulnerable to departure of owner. Customer Concentration is low with 3 customers accounting for \$2,248,627 of Revenues or 20% of sales.

In analyzing your business, we have generated four distinct and useful estimates of value in addition to as many as 30 performance related metrics.

These metrics known as “**Key Performance Indicators**” or “**KPI’s**” were calculated based on the analysis of company-specific data which you input to various industry-specific averages linked to more than 17 million other businesses in the US.

These KPIs are useful measures of the overall financial and operational health and growth of your business and they should be checked regularly in order to identify meaningful trends or “red flags” which require corrective action. These same measures are commonly utilized by business coaches, financial professionals and potential business acquirers in a variety of real world settings.

BizEquity Valuation Scenarios

Based on your inputs, we have computed the following estimated valuations:

Asset Sale Value: **\$3,725,590**

This common transaction-oriented fair market value conclusion includes the firm's inventory, furniture, fixtures and equipment and all intangible assets ranging from customer base to goodwill.

Equity Sale Value: **\$34,261,204**

This fair market value conclusion is the value of the company available to its owners or shareholders and incorporates all of the assets included in the "asset value" plus the firm's liquid financial assets (cash, A/R, deposits, etc.) and minus its liabilities (ST and LT).

Enterprise Value: **\$15,054,104**

This fair market value estimate is equal to the "total value of the firm" or the value of the firm's equity plus its long term debt, i.e. it reflects the value of the entire capital structure (equityholders and debtholders) or "enterprise".

Liquidation Value: **\$27,079,797**

The liquidation value conclusion is based on the key assumption of insolvency and the immediate sale of all assets (on or off the balance sheet) at or near "fire sale" level coupled with the nearly simultaneous retirement of all liabilities. This figure does not include accounts receivable.

Neither BizEquity nor Advantage Commercial Brokers represents or endorses the accuracy or reliability of any advice, opinion, statement or any other information displayed or distributed through this report or its website.

The estimates and data contained herein are made using the information you provide, publicly available information and data, and rules of thumb for different industries. BizEquity has not audited or attempted to confirm this information for accuracy or completeness. This report should not be used to obtain credit or for any other commercial purposes. This report is the intellectual property of BizEquity and the information provided herein is provided for your internal use only and may not be copied or redistributed for any reason.

Business Financial Overview

Estimated fair market value for
Beta International, Inc

\$34,261,204

Estimated 2014 Discretionary Cash Flow	\$224,331
2014 Discretionary Cash Flow Margin	Below Industry Avg: 2%
Return on Equity (ROE)	Below Industry Avg: 0%
Debt-to-Equity Ratio	Above Industry Avg: 6%
Cash-to-Debt Ratio	Above Industry Avg: 949%
Receivables-to-Pretax-Income Ratio	Above Industry Avg: 5,740%

The above ratios provide a overview of your company as it relates to current levels of profitability, financial stability, operational efficiency and liquidity measures based on your specific industry performance.

Discretionary Cash Flow Margin: This key metric represents the amount of pretax, cash equivalent financial benefits generated by your business that are available to pay an owner salary, service debt, purchase new equipment, etc. This measure is used by business brokers, appraisers and bankers to evaluate the firm's profitability and debt-service capability.

Return on Equity (ROE): This measure of profitability illustrates the after-tax returns generated for each \$1 of capital provided by the shareholders/owners and retained in the business.

Debt to Equity: This ratio provides insight into the firm's capital structure (all assets are financed with either debt or equity) and helps to gauge the company's financial leverage. It shows the amount of debt a company has taken in proportion to its equity.

Cash to Debt: This ratio compares the company's cash flow to its debt.

Receivables to Pretax Income: This ratio shows the relationship between annual profits and the amount of credit being granted to consumers, thereby demonstrating the relative importance of the firm's credit and collection policies to its profitability.

Financial Statement Summary

In order to better understand your company's financial performance, we have prepared basic financial statements (income statement and balance sheet) for your review and comparison to industry benchmarks.

Note that your firm's "net worth" or "owner's equity" can be calculated by subtracting total liabilities from total assets. In terms of the valuation outcomes for your firm, key factors include size, profitability and growth - all of which can be gleaned from multiple years of financial data.

Income	2014	2013	2012
Revenue	\$11,243,134	\$8,000,000	\$6,000,000
Pretax Income	\$124,331	\$1,000,000	\$6,000
Interest Expense	\$20,000	\$15,000	\$30,000
Officer Compensation	\$20,000	\$100,000	\$80,000
Non-Cash Expenses	\$34,000	\$31,000	\$30,000
One-Time Expenses	\$45,000	\$43,000	\$10,000
One-Time Revenues	\$19,000	\$17,000	\$50,000

Assets	2014	2013	2012
Cash	\$21,341,314	\$100,000	\$80,000
Account Receivables	\$14,231,423	\$43,000	\$60,000
Inventory	\$2,143,134	\$200,000	\$100,000
Other Current Assets	\$67,500	\$32,000	\$10,000
Fixed Assets	\$4,444,422	\$39,000	\$31,000
Intangible Assets	\$12,000	\$10,000	\$9,000

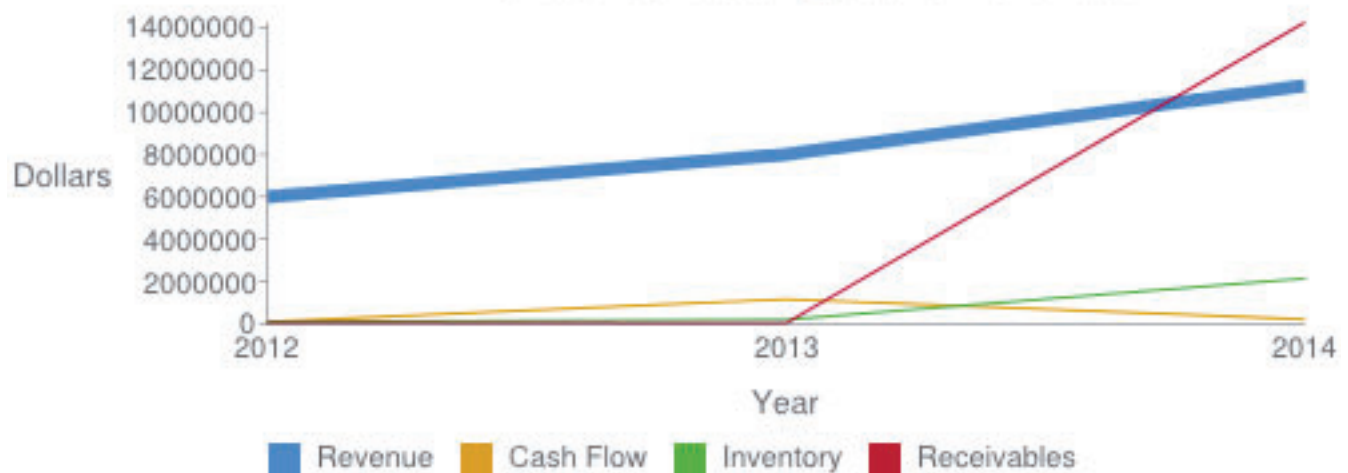
Liabilities	2014	2013	2012
Accounts Payables	\$100,000	\$80,000	\$70,000
Other Current Liabilities	\$14,124	\$10,000	\$10,000
Long-Term Debt	\$2,134,214	\$10,000	\$50,000
Contingent Liabilities	\$10,000	\$4,000	\$20,000

Key Performance Indicators

In order to better understand your company's operations, we have calculated a variety of Key Performance Indicators (KPI's) for your review and comparison to industry benchmarks. In terms of valuation outcomes for your firm, key factors include size, profitability and growth. The following chart and graph document trends in key metrics such as cash flow and total debt in comparison to annual revenues.

	Under-Performing	Average	Out-Performing
Cash Flow/Revenue	X		
Cash/Revenue			X
Receivables (Conversion)	X		
Inventory/Revenue			X
Fixed Assets/Revenue			X
Total Debt/Revenue	X		

Financial Metrics Compared to Revenues

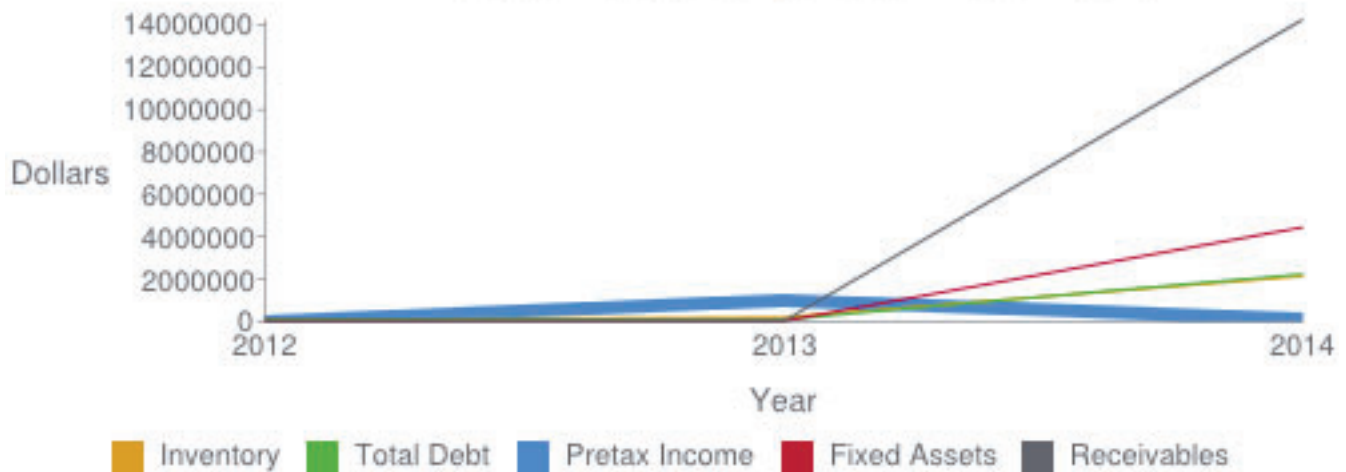


Key Performance Indicators *continued*

This chart shows you Pretax Income in comparison to Revenues to some key financial items.

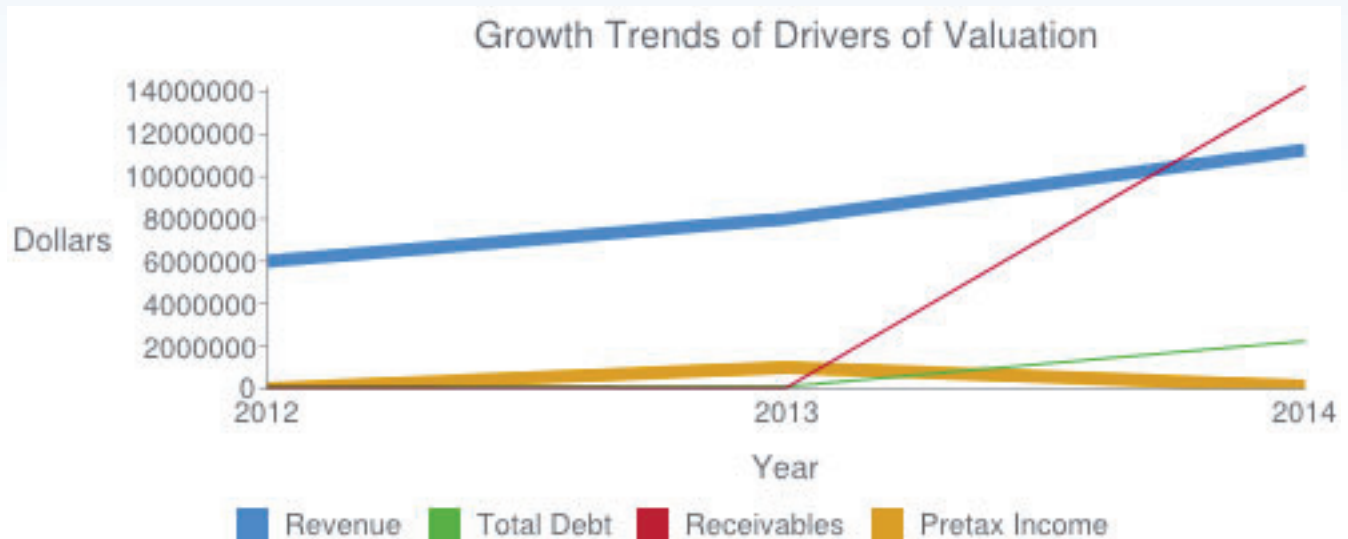
	Under-Performing	Average	Out-Performing
Receivables/Pretax Income	X		
Inventory/Pretax Income	X		
Fixed Assets/Pretax Income			X
Total Debt/Pretax Income	X		

Financial Metrics Compared to Pretax Income



Key Performance Indicators *continued*

With this chart, you can get an indication of the growth trends of the important drivers of the valuation of your business.



Key Performance Indicators (KPI's) and Industry ratios

In your customized BizEquity business valuation report, we have provided a series of key ratios and performance measures to compare your business to over 17 million other businesses across North America.

The following measures and ratios will help provide additional context and insight to your overall performance as related to your peers.

Operational Ratios

An operational ratio provides a quick look at how a key part of your business is performing compared to your peers.

Interest Coverage

What does it mean?

Also referred to as “times interest earned”, this solvency ratio is equal to earnings before interest and taxes (EBIT) divided by interest expense and it is used to determine the ease by which your company can pay interest on outstanding debt obligations.

Why should it Matter?

A lower ratio may cast doubt on the company’s ability to meet ongoing principal and interest burdens. The higher the ratio, the easier it is for the firm to repay its current debt and take on additional debt if necessary. Bankers, creditors and even investors often calculate and analyze this ratio to gauge the firm’s solvency position. Similar to most ratios, averages will differ by industry.

Give me an Example

If a software company has an interest coverage ratio over 2 times, this suggests that it has the ability to meet its interest payments two times over and may qualify for additional debt.

Interest Coverage		Shows how much cushion a company has in paying its interest expenses.		
Year	Ratio	Under-Performing	Average	Out-Performing
2014	7.2			X
2013	67.7			X
2012	1.2	X		

Key Performance Indicators (KPI's)

and Industry ratios *continued*

Inventory Turnover

What does it mean?

This activity or “turnover” ratio addresses how efficiently goods are sold by calculating how many times a company’s inventory is sold and replaced in a given time period.

Why should it Matter?

A lower ratio could mean poor sales and excessive inventory, possibly due to pricing policies. A higher ratio may indicate a too narrow selection of product and possibly lost sales. Companies selling perishable goods have a very high inventory turnover. Keeping inventory balances to a minimum will reduce costs but may reduce sales volume.

Give me an Example

If a soda manufacturer had an inventory turnover of 5.7, this means he sold all of its average inventory 5.7 times each year.

Inventory Turnover		How long it takes to sell inventory on hand.		
Year	Ratio	Under-Performing	Average	Out-Performing
2014	5.2	X		
2013	40			X
2012	60			X

Key Performance Indicators (KPI's) and Industry ratios *continued*

Fixed Assets Turnover

What does it mean?

This activity ratio shows the company's ability to generate net sales from their investments in fixed assets.

Why should it Matter?

A lower ratio may cast doubt on the company's ability to meet ongoing principal and interest burdens. The higher the ratio, the easier it is for the firm to repay its current debt and take on additional debt if necessary. Bankers, creditors and even investors often calculate and analyze this ratio to gauge the firm's solvency position. Similar to most ratios, averages will differ by industry.

Give me an Example

If a software company has an interest coverage ratio over 2 times, this suggests that it has the ability to meet its interest payments two times over and may qualify for additional debt.

Fixed Assets Turnover		Shows how productive a company's assets are.		
Year	Ratio	Under-Performing	Average	Out-Performing
2014	2.5	X		
2013	205.1			X
2012	193.5			X

Key Performance Indicators (KPI's) and Industry ratios *continued*

Receivables Conversion Period

What does it mean?

The time period shows the number of days it takes a company to collect its accounts receivables.

Why should it Matter?

A lower time period indicates that a company relies mainly on cash or is efficient in imparting credit and collecting its debts. On the other hand a higher time period could mean some inefficiency in collecting the account receivables and require a review of the current credit and collections policies of the company. The quicker that receivables are collected, the sooner cash is available to meet other business needs (thereby reducing the need to borrow funds).

Give me an Example

If a lumber wholesales has a receivables conversion of 24 days, it means it takes 24 days on average to collect its account receivables. If the firm's credit terms are "net 30 days", this would be considered a positive result.

Receivables (Conversion)		Increases over time could signal difficulty in collecting from customers.		
Year	Days	Under-Performing	Average	Out-Performing
2014	232	X		
2013	3			X
2012	4			X

Key Performance Indicators (KPI's) and Industry ratios *continued*

Return On Equity

What does it mean?

This is the amount of net income generated as a percentage of shareholder's equity. Return on Equity (ROE) measures a company's profitability by depicting how much profit a company generates with money shareholder's have invested.

Why should it Matter?

ROE is a universal and very useful measure to compare a company's profitability to that of its peers in the same industry. High growth companies tend to have a high ROE.

Give me an Example

If an E-Commerce company has an ROE of 0.48 this means, it generated 48 cents in net income for every \$1 the shareholder had invested.

ROE		Compares profitability to the equity value of a company. Indication of the strength of the business model.		
Year	Percentage	Under-Performing	Average	Out-Performing
2014	0%	X		
2013	309%			X
2012	4%	X		

Key Performance Indicators (KPI's) and Industry ratios *continued*

Debt/Equity

What does it mean?

This solvency ratio is a function of the firm's "capital structure" (all assets must be financed by either debt or equity) and provides a measure of the company's financial leverage. It often takes into account the total liabilities of the company while some versions include only long term debt. It indicates the proportion of equity (owner investments and retained profits) and liabilities the company is using to finance its asset base.

Why should it Matter?

A higher ratio generally means that the company has been aggressive to finance its growth with debt and the creditors are assuming a higher risk. A lower ratio generally indicates that the company is "safer" (better equipped to withstand an economic downturn) due to lower mandatory principal and interest payments, but it may also suggest an overly cautious ownership. Capital intensive industries tend to have a higher debt to equity ratio than others.

Give me an Example

If a machinery manufacturer has a ratio of 2.8 times, this means that for every \$1 invested by the shareholders the company owes \$2.8 to its creditors. If the firm's credit terms are "net 30 days", this would be considered a positive result.

Debt/Equity		Shows the extent of the debt load, in comparison to a company's equity value.		
Year	Percentage	Under-Performing	Average	Out-Performing
2014	6%			X
2013	31%			X
2012	81%		X	

Key Performance Indicators (KPI's) and Industry ratios *continued*

Cash/Debt Ratio

What does it mean?

This solvency ratio compares a company's operating cash balance to its total debt. This ratio provides an indication of the company's ability to cover total debt (ST and LT) with its operating cash holdings.

Why should it Matter?

A higher percentage ratio indicates that the company is better equipped to carry and service its total debt. A high ratio may also indicate "excess cash" or "excess net working capital" which could be returned to the shareholders or invested into new equipment or other avenues for expansion. A low ratio could signal future difficulties in servicing debt or even meeting payroll or vendor obligations.

Give me an Example

If a furniture store has a ratio of 74% this means that for every \$1 of debt, it has 74 cents in liquid holdings which could be used to service this debt.

Cash/Debt		Shows the ability to pay off existing debts.		
Year	Percentage	Under-Performing	Average	Out-Performing
2014	949%			X
2013	100%			X
2012	62%			X

Key Performance Indicators (KPI's) and Industry ratios *continued*

PreTax Income/Revenue

What does it mean?

This “pretax” profitability ratio known as “return on sales” indicates the relative profit margin of the company for each dollar of sales.

Why should it Matter?

Similar to the return on equity ratio, a higher percentage ratio indicates a higher rate of relative profitability. Unlike the return on equity ratio, this measure is “pretax” in nature and is not affected by the actual tax burden. Higher gross profits and lower operating expenses coupled with higher revenues will bolster this important metric, which can be compared both over time and against the industry peer group.

Give me an Example

If a convenience store has a percentage ratio of 17%, this means that for every \$1 of revenue it has a pretax income of 17 cents.

Pretax Income/Revenue		A rising percentage will often lead to a higher valuation.		
Year	Percentage	Under-Performing	Average	Out-Performing
2014	1%	X		
2013	12%			X
2012	0%	X		

Key Performance Indicators (KPI's) and Industry ratios *continued*

Cash Flow/Revenue

What does it mean?

This multi-purpose ratio is an indicator of the firm's ability to convert sales revenue into spendable cash for the ownership. Often times this is a key measure when analyzing a company's ability to grow without the assistance of outside capital.

Why should it Matter?

A higher percentage ratio indicates that company is able to turn a higher amount of revenues into cash flow.

Give me an Example

If a winery has a percentage ratio of 11%, it means for every 1\$ of revenue it is generating around 11 cents in discretionary cash flow.

Cash Flow/Revenue		A rising percentage will often lead to a higher valuation.		
Year	Percentage	Under-Performing	Average	Out-Performing
2014	2%	X		
2013	15%		X	
2012	2%	X		

Next Steps

Where are you in your journey?

We trust that you found the Advantage Commercial Brokers Business Valuation Analysis Report to be an informative resource. The aim of this report is to provide guidance for growing companies as they evolve and take steps to elevate their performance results.

If you have more specific questions and feel our experience and network may be of value, please feel free to contact us at (425) 766-3940 to start a dialogue with the Advantage Commercial Brokers team.

No matter where you may be today, this report can probably help you get closer to your vision:

- ▶ If you're in the early stages of your company's life, perhaps you need to expand your capabilities and reach via marketing, intellectual property advisory, benefits, and tax consulting.
- ▶ If your business is established and nearing a turning point, maybe you seek legal representation, strategic partners, and/or growth funding.
- ▶ If the company is already a substantial success with a critical mass of business, we can help you formulate and/or pursue a smart exit strategy.

This Business Valuation Analysis
Report was provided by



Corporate Headquarters

Advantage Commercial Brokers, Inc.

One Lake Bellevue Dr.

Suite 208

Bellevue, WA 98005

Tel: 425-766-3940

Fax: 206.260.0101